

CITY OF OAKLAND, CALIFORNIA

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012



CITY OF OAKLAND

CALIFORNIA

SINGLE AUDIT REPORTS

FISCAL YEAR ENDED JUNE 30, 2012

PREPARED BY THE ADMINISTRATIVE SERVICE DEPARTMENT

SCOTT P. JOHNSON, ASSISTANT CITY ADMINISTRATOR/FINANCE DIRECTOR

OSBORN K. SOLITEL, CONTROLLER

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CITY OF OAKLAND

Single Audit Reports Year Ended June 30, 2012

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**CITY OF OAKLAND
SINGLE AUDIT REPORTS**

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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, 2012, 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 36%, 177% and 16%, 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, 2012. 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. The financial statements of OMERS and PFRS were not audited in accordance with *Government Auditing Standards*. 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 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, 2012, 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, the California State Legislature enacted legislation that dissolved redevelopment agencies in the State of California as of February 1, 2012. On February 1, 2012, the City, as the Successor Agency to the Redevelopment Agency of the City of Oakland, became responsible for overseeing the dissolution process and the wind down of redevelopment activity.

As discussed in Note 18 to the basic financial statements, in connection with uncertainties with the Redevelopment Dissolution Law, it is reasonably possible that a determination may be made at a later

date by an appropriate State or judicial authority that would resolve this matter unfavorably to the City. The ultimate outcome of these issues cannot presently be determined, accordingly, no provision for any liability that may result has been recorded in the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, 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 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 by us 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 21, 2012, except for our report on
the supplementary schedules, for which
the date is March 22, 2013

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited)
Year Ended June 30, 2012

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, 2012. 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 government-wide statement of net assets for the City's governmental and business-type activities indicates that as of June 30, 2012, the total assets exceeded its total liabilities by \$1,086.1 million compared to \$738.3 million at June 30, 2011. This represents a net increase of \$347.8 million or 47.1 percent compared to the previous year. The increase is primarily attributed to the extraordinary gain on the dissolution of the former Oakland Redevelopment Agency ("Agency") of \$273.0 million resulting from the transfer of liabilities in excess of its assets to the Oakland Redevelopment Successor Agency ("ORSA"), a private-purpose trust fund reported in the financial statements of the City. Excluding the extraordinary gain, net assets increased by \$74.8 million.
- In accordance with the decision of the California Supreme Court on December 29, 2011, all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. Prior to that date, the final seven months of activity of the former Agency was reported in the governmental funds and governmental activities of the City. After the date of dissolution, the assets, liabilities, and activities of the former Agency were reported in ORSA. The dissolution of all redevelopment agencies in the State of California qualifies as an extraordinary item since this state-wide dissolution was both unusual in nature and infrequent in occurrence. Accordingly, the movement of the liabilities in excess of its assets of the former Agency as of February 1, 2012 from governmental funds of the City to ORSA was recorded as an extraordinary loss in the governmental fund financial statements (\$275.0 million) and an extraordinary gain in the government-wide financial statements (\$273.0 million). In connection with the dissolution, the City also incurred extraordinary losses that offset some of this gain including the transfers-out of Low and Moderate Fund's cash to pay ORSA's enforceable obligations (\$103.5 million). The receipt of these liabilities in excess of assets as of February 1, 2012 was reported in the ORSA trust fund as an extraordinary loss (\$273.0 million). A reconciliation of the difference between the extraordinary gain in the governmental fund financial statements and the government-wide financial statements is shown on page 47 under Note 2.
- The City's governmental cumulative fund balances decreased by 31.0 percent or \$320.2 million to \$711.5 million compared to \$1,031.7 million for the prior fiscal year. This decrease is primarily attributed to dissolution of the former Agency (\$563.4 million) and Federal/State Grant fund (\$11.9 million). These decreases are partially offset by increases in fund balance including the General Fund (\$30.6 million), the Municipal Capital Improvement (\$196.2 million), the Low and Moderate Income Housing Asset Fund (\$10.6 million) and Other Governmental Fund Funds (\$17.7 million).

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

- As of June 30, 2012, the City had total long-term obligations outstanding of \$1.39 billion compared to \$1.99 billion outstanding for the prior fiscal year for a decrease of 30.9 percent or \$597.9 million. The decrease is primarily as a result of dissolution of the former Agency which resulted to the transfer of \$510.7 million debt of the former Agency debt to ORSA. Of the \$1.39 billion, \$326.6 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.02 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 2012.

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.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

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, Community Services, 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 the primary government of the City, the former Agency for a seven-month period, and 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 Port Financial Services Division, 530 Water Street, Oakland, CA 94607 or visit the website at www.portofoakland.com.

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.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

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, former Oakland Redevelopment Agency as a blended component unit of the City, LMIHF, 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.

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 funds 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.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

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.

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, 2012 by \$1,086.1 million compared to \$738.3 million as of June 30, 2011, an increase of \$347.8 million. The largest portion of the City's net assets, 72.4 percent, reflects its investment in capital assets of \$786.7 million for governmental and business-type activities net of related debt. Of the remaining balance, \$274.0 million are subject to external restrictions on how they may be used. The unrestricted net assets increased to \$25.4 million primarily attributed to the net effect of transfers of the former Agency capital related long-term debt to ORSA.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

Statement of Net Assets
June 30, 2012 and 2011
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 1,369,730	\$ 1,713,236	\$ 51,420	\$ 44,464	\$ 1,421,150	\$ 1,757,700
Capital assets	1,035,352	987,411	171,698	165,363	1,207,050	1,152,774
TOTAL ASSETS	<u>2,405,082</u>	<u>2,700,647</u>	<u>223,118</u>	<u>209,827</u>	<u>2,628,200</u>	<u>2,910,474</u>
Liabilities:						
Long-term liabilities	1,334,426	1,932,357	53,272	55,549	1,387,698	1,987,906
Other liabilities	151,488	181,683	2,874	2,552	154,362	184,235
TOTAL LIABILITIES	<u>1,485,914</u>	<u>2,114,040</u>	<u>56,146</u>	<u>58,101</u>	<u>1,542,060</u>	<u>2,172,141</u>
Net assets:						
Invested in capital assets, net of related debt	663,785	538,815	122,911	114,297	786,696	653,112
Restricted	274,004	382,563	-	-	274,004	382,563
Unrestricted (deficit)	(18,621)	(334,771)	44,061	37,429	25,440	(297,342)
TOTAL NET ASSETS	<u>\$ 919,168</u>	<u>\$ 586,607</u>	<u>\$ 166,972</u>	<u>\$ 151,726</u>	<u>\$ 1,086,140</u>	<u>\$ 738,333</u>

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

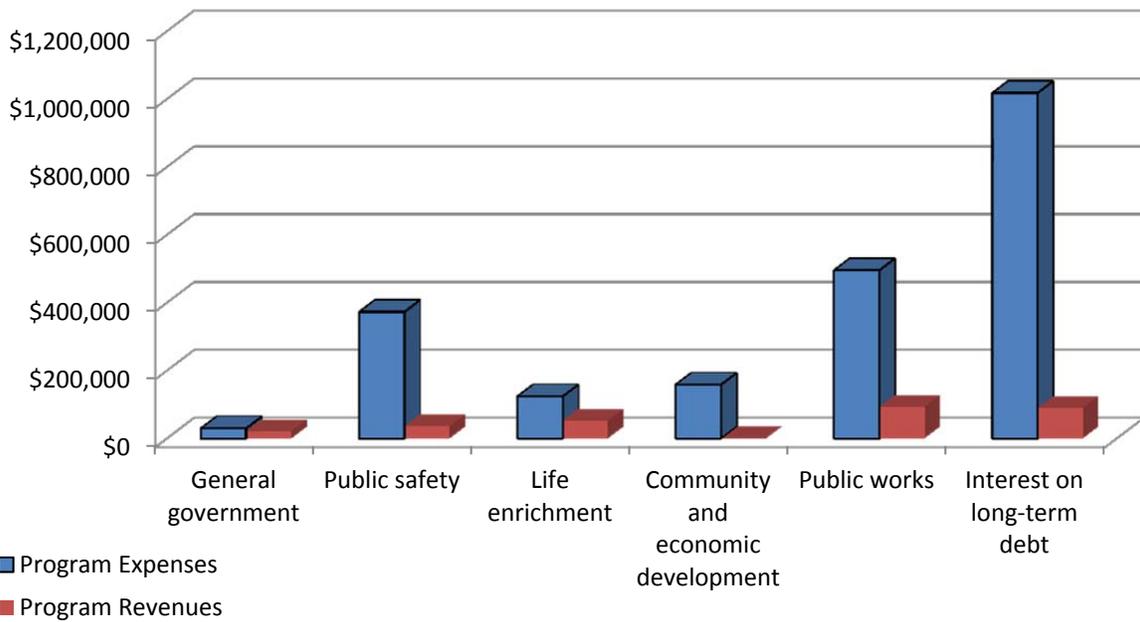
Governmental activities. The City's net assets in governmental activities increased by \$332.6 million, excluding the extraordinary gain of \$273.0 million from dissolution of the former Agency, the net increase is \$59.6 million for the year ended June 30, 2012. The following table indicates the changes in net assets for governmental and business-type activities:

Statement of Activities
For the Years Ended June 30, 2012 and 2011
(In Thousands)

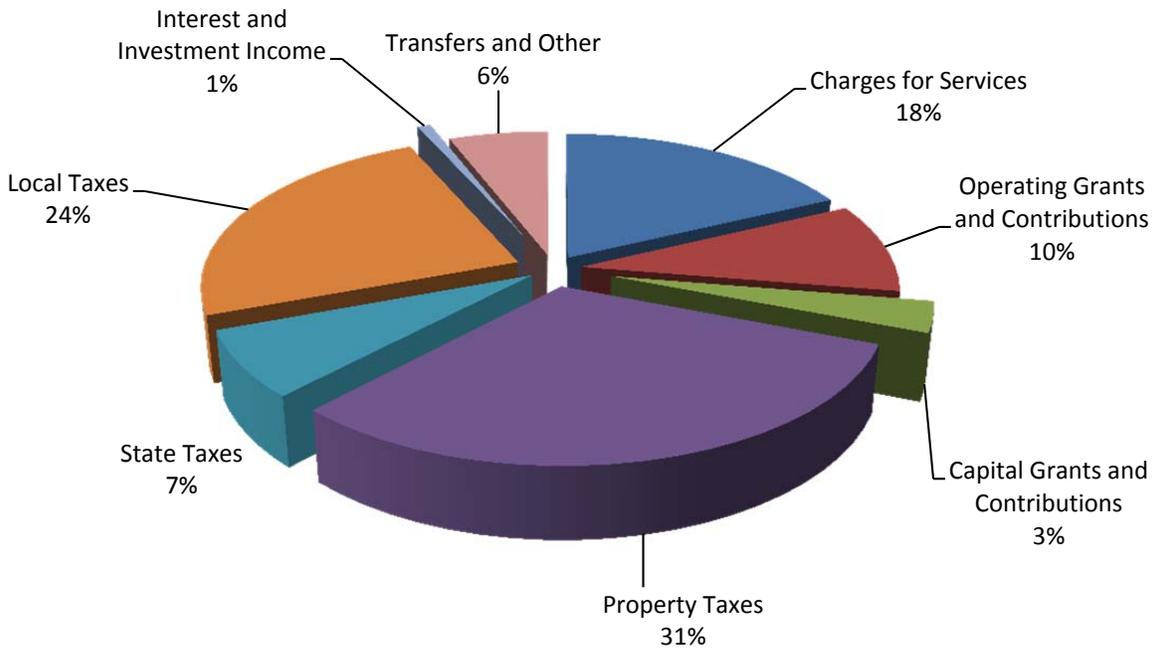
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 166,033	\$ 169,668	\$ 48,775	\$ 41,950	\$ 214,808	\$ 211,618
Operating grants and contributions	89,620	123,149	-	-	89,620	123,149
Capital grants and contributions	30,607	-	-	-	30,607	-
General revenues:						
Property taxes	288,923	324,516	-	-	288,923	324,516
State taxes:						
Sales and use taxes	55,659	51,910	-	-	55,659	51,910
Motor vehicles in-lieu tax	221	2,168	-	-	221	2,168
Gas tax	11,060	10,990	-	-	11,060	10,990
Local taxes:						
Business license	58,712	53,138	-	-	58,712	53,138
Utility consumption	51,434	53,440	-	-	51,434	53,440
Real estate transfer	30,653	31,608	-	-	30,653	31,608
Transient occupancy	13,822	12,484	-	-	13,822	12,484
Parking	15,975	13,460	-	-	15,975	13,460
Voter approved special tax	35,812	41,700	-	-	35,812	41,700
Franchise	15,829	14,854	-	-	15,829	14,854
Interest and investment income	7,078	8,592	83	119	7,161	8,711
Other	53,172	35,672	-	-	53,172	35,672
Total revenues	924,610	947,349	48,858	42,069	973,468	989,418
Expenses:						
General government	83,131	75,381	-	-	83,131	75,381
Public safety	351,566	372,587	-	-	351,566	372,587
Community services	122,829	123,538	-	-	122,829	123,538
Community & economic development	138,596	158,209	-	-	138,596	158,209
Public works	101,892	88,321	-	-	101,892	88,321
Interest on long-term debt	68,948	93,618	-	-	68,948	93,618
Sewer	-	-	31,227	27,971	31,227	27,971
Parks and recreation	-	-	492	740	492	740
Total expenses	866,962	911,654	31,719	28,711	898,681	940,365
Change in net assets before transfers and extraordinary items	57,648	35,695	17,139	13,358	74,787	49,053
Transfers	1,893	1,476	(1,893)	(1,476)	-	-
Extraordinary gain from dissolution of the former Redevelopment Agency	273,020	-	-	-	273,020	-
Change in net assets	332,561	37,171	15,246	11,882	347,807	49,053
Net assets at beginning of year	586,607	549,436	151,726	139,844	738,333	689,280
Net assets at end of year	\$ 919,168	\$ 586,607	\$ 166,972	\$ 151,726	\$ 1,086,140	\$ 738,333

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

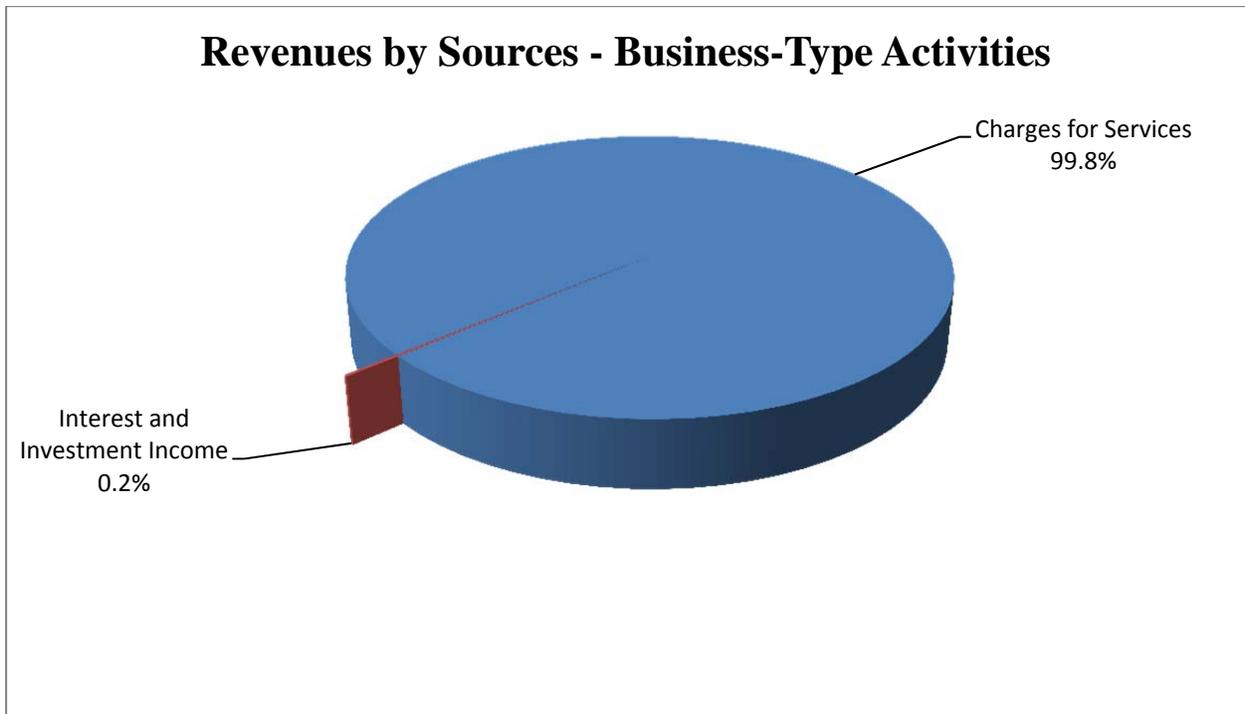
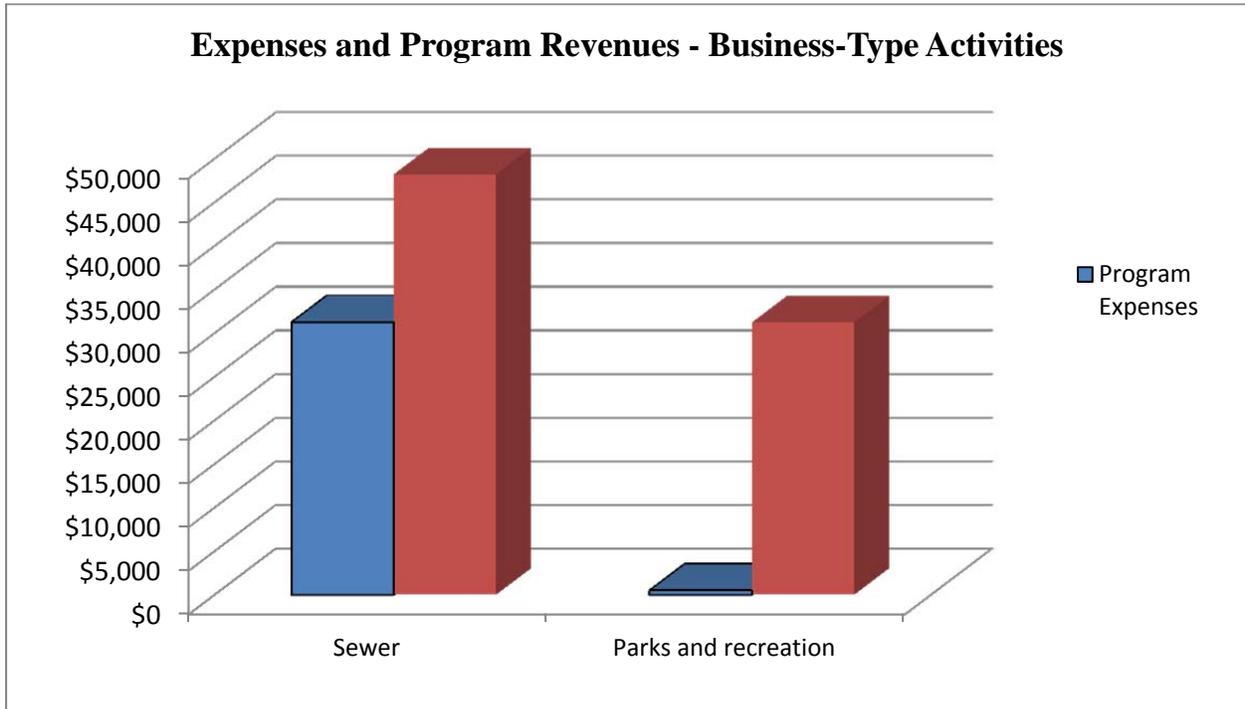
Expenses and Program Revenues - Governmental Activities



Revenues by Sources - Governmental Activities



CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012



CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

Governmental activities: Net assets for governmental activities, excluding extraordinary gain from dissolution of the former Agency, increased by \$59.6 million or 10.2 percent during 2011-12 from \$586.6 million to \$646.2 million. Total revenue decreased at rate of 2.4 percent compared to expenses decreased at a rate of 4.9 percent. During 2010-11, revenues increase at a rate of 2.7 percent and expenses decreased at rates of 6.7 percent, respectively.

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

- Contributing to the decrease in total revenue; property taxes \$35.6 million or 11.0 percent, this is mainly due to the distribution of the June 2012 former Agency's property tax revenues in the amount of \$36.5 million into the ORSA private-purpose trust fund. Utility consumption revenue decreased by \$2.0 million due to continued leakage due to consumer substitution toward non-taxable services (pre-paid cell phones, voice over internet protocol data plans) and also energy efficiency initiatives eroded some revenues. The voter approved special tax decreased by \$5.9 million or 14.1 percent due to Prop 1B funds received in the prior fiscal year, but not an allocation for the current year. The decrease is offset by an increase in sales and use taxes by \$3.7 million mainly due to one-time \$1.3 million adjustment received from Alameda County pool distribution, as well as high per gallon price of gasoline and opening of new high sales tax producing businesses including Target, One Source and new car dealership. Business License also increased by \$5.6 million due to one-time special audit of the Landlord Project Phase III and new business opened in the City. Other revenues increased by \$17.5 million due to sale of various properties by the City and the pension annuity contract market value increased by \$4.0 million from prior fiscal year.
- General government expenses increased by \$7.7 million or 10.3 percent when compared to previous year primarily due to organizational restructuring of the former community and economic development agency into the city administrator as divisions; Cultural Arts division, office of neighborhood investment, and office of economic development and the refunding of the Coliseum Arena Bonds in FY 2012 to a fixed-rate which decrease the long-term obligation of the bond by \$7.3 million.
- Public safety expenses decreased by \$21.0 million or 5.64 percent when compared to the previous year due primarily to union contract concessions that included Police sworn employees contributing 9 percent CalPERS and Fire sworn annual base salary decreased by 8.85 percent. During FY 2011-12, the public safety expenses have increased due to a one-time \$45.5 million contribution to the Police and Fire Retirement System (PFRS).
- Community and economic development expenses decreased by \$19.6 million or 12.4 percent is primarily attributed to the dissolution of the form Agency and the wind down of the former Agency.
- Public works expenses increased by \$13.6 million or 15.4 percent over the prior year is mainly attributed to \$12.3 million spending increase in capital assets acquisition and infrastructure improvements.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

- Interest on long-term debt decreased by \$24.7 million or 26.4 percent primarily due to obligations of the former Agency are now reported under ORSA private-purpose trust fund. Also the City refunding Measure G and Measure DD bonds.

Business-type activities: Business-type activities ended the fiscal year with a positive change in its net assets of \$15.2 million compared to \$11.9 million the previous fiscal year. The increase in net assets is primarily attributable to \$6.8 million or 16.3 percent increase in sewer revenues offset by \$3.2 million or 11.6 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.

General Fund: The General Fund is the chief operating fund of the City. At June 30, 2012, its unassigned fund balance is \$68.7 million or 26.8 percent of the \$255.9 million total General Fund balance. For the fiscal year ended June 30, 2012 and 2011, revenues for the General Fund by revenue source are distributed as follows (in thousands):

	<u>General Fund</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Taxes:		
Property taxes	\$ 198,192	\$ 189,237
State taxes:		
Sales and use taxes	44,741	41,235
Motor vehicles in-lieu tax	221	2,168
Local taxes:		
Business license	58,712	53,138
Utility consumption	51,434	53,440
Real estate transfer	30,653	31,608
Transient occupancy	10,830	9,634
Parking	8,617	8,513
Franchise	15,572	14,724
Licenses and permits	1,160	888
Fines and penalties	23,924	24,397
Interest and investment income	1,016	1,295
Charges for services	93,256	96,052
Federal & state grants and subventions	1,357	1,370
Annuity income	14,065	7,647
Other	9,560	10,661
Total revenues	<u>\$563,310</u>	<u>\$546,007</u>

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

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

- *Property taxes* increased by \$8.9 million or 4.7 percent primarily due to receiving of the “residual payment” of \$13.0 million from the Redevelopment Property Tax Trust Funds (RPTTF) distribution.
- *Sales and use tax* increased by \$3.5 million or 8.5 percent represents pickup in local economy and a one-time adjustment of \$1.3 million by the State.
- *Annuity income* increased by \$6.4 million or 83.9 percent mainly due to higher market value of the New York Life annuity contract.
- *Business License* increased by \$5.6 million or 10.5 percent mainly due to one-time special audits, such as the Landlord Audit Project Phase III and Landlord Audit project that identified 1,200 new residential rental business tax accounts and also new retail business like Target, One Source Supply Solutions, LLC and One Source Distributors, LLC opened in the City.
- *Charges for services* decreased by \$2.8 million or 2.9 percent primarily due dissolution of the former Agency.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

For the fiscal years ended June 30, 2012 and 2011, expenditures for the General Fund by function are distributed as follows (in thousands):

	<u>General Fund</u>	
	<u>2012</u>	<u>2011</u>
Expenditures:		
Current:		
Elected and Appointed Officials:		
Mayor	\$ 1,676	\$ 1,977
Council	3,698	3,870
City Administrator	22,321	9,150
City Attorney	10,060	12,079
City Auditor	1,333	1,456
City Clerk	2,223	2,986
Agencies/Departments:		
Administrative Services Department:		
Human Resource Management	4,645	4,231
Information Technology	7,199	8,219
Financial Services	21,056	24,007
Contracting and Purchasing	-	2,082
Public Safety:		
Police Services	196,096	188,384
Fire Services	111,067	96,871
Community Services Department:		
Parks and Recreation	15,934	15,948
Cultural Arts and Museum	-	6,008
Aging & Health and Human Services	5,322	5,968
Library	8,952	8,912
Community and Economic Development	9,216	17,266
Housing and Community Development	794	-
Planning, Building & Neighborhood Preservation	91	-
Public Works	30,526	35,312
Others	4,758	2,329
Capital outlay	4,996	5,899
Debt Service		
Principal repayment	1,954	1,860
Interest charges	881	633
Total expenditures	<u>\$ 464,798</u>	<u>\$ 455,447</u>

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

- *Public safety* increased by \$21.9 million or 7.7 percent due to annual required contribution (ARC) from the City to PFRS. The increase is offset by budget cuts and union contract concessions that included Police sworn employees to contribute 9 percent of their CalPERS retirement starting fiscal year 2012. Effective July 1, 2011, the annual base salary for each Fire sworn employee classification was decreased by 8.85 percent.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

- *City elected offices, agencies and departments* are reporting a total decrease of \$14.4 million in expenditures mainly due to budget cuts, layoffs, furlough days and other union contract concessions.

Federal and State Grant Fund: The Federal and State Grant Fund had fund balance of \$9.5 million as of June 30, 2012 that represents a decrease of \$11.9 million or 55.7 percent from the prior fiscal year. The decrease was primarily attributed to \$4.1 million in less expenditure from the “stimulus grants” or the American Recovery and Reinvestment Act of 2009. In the prior fiscal year the City received \$6.2 million from the State Prop 1B funds and no allocation for FY 2012.

Low and Moderate Income Housing Asset Fund (“LMIHF”): Upon the dissolution of the former Redevelopment Agency, the City retained the housing activities previously funded by the former Agency, the City created a new LMIHF and transferred the assets and affordable housing activities of the low and moderate income fund to the City. The ending fund balance as of June 30, 2012 was \$10.6 million.

Oakland Redevelopment Agency: As mentioned previously, the California Supreme Court upheld AB X1 26 and dissolved all redevelopment agencies in the State of California effective February 1, 2012. As such for fiscal year 2011-12, only seven months of revenues and expenditures of the former Agency were reported in the governmental funds. The remaining five month period (February 1 through June 30, 2012) of financial activity of the former Agency was reported in a private purpose trust fund under Oakland Redevelopment Successor Agency.

Municipal Capital Improvement Fund: The Municipal Capital Improvement Fund had a fund balance of \$263.5 million as of June 30, 2012 that represents an increase of \$196.4 million or 292.6 percent over the prior fiscal year. The increase is mainly due to \$227.0 million of former Agency properties purchased by the City pursuant to the “Purchase and Sale Agreement” entered between the City and the former Agency to purchase various redevelopment properties valued at \$133.4 million (Property Held for Resale) and a funding agreement between City and the Agency for \$103.9 million for redevelopment projects and programs.

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 \$122.9 million as of June 30, 2012, compared to \$114.3 million for the previous fiscal year. The \$8.6 million or 7.5 percent increase is related to proceeds spent from debt issued to finance sewer projects. During the fiscal year, the City capitalized \$6.6 million in sewer system completed projects, net of depreciation.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

General Fund Budgetary Highlights

During the fiscal year ended June 30, 2012, General Fund had a \$28.5 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 \$559.2 million were \$12.1 million higher than the final amended budget. The variance is due primarily to property tax revenue, sales tax, business license, charges for services and annuity income.

In addition, there was an \$85.0 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 \$464.8 million were \$34.5 million less than the amended budget. The net budget savings is attributed to (1) general budget cuts, (2) layoffs, and (3) furlough days, (4) project and encumbrance carryforwards for multi-year budgets.

Capital Assets

The City's capital assets, net of depreciation, totaled \$1.21 billion as of June 30, 2012 compared to \$1.15 billion as of June 30, 2011, an increase of \$54.2 million or 4.7 percent. Governmental activities additions of \$137.5 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 \$47.9 million in additions against capital assets for governmental activities. Business activities, primarily the sewer fund, increased its capital assets by \$6.3 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 \$225.4 million to a number of capital improvement projects for fiscal year 2013 through fiscal year 2014. 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.

CITY OF OAKLAND
Management’s Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

Debt Administration:

General Obligation Bonds and Other Bond Ratings

A credit rating is a value assigned by one or more of the recognized rating agencies that “grade” a jurisdiction’s credit, or financial trustworthiness. The three primary rating agencies are Moody’s Investors Service (“Moody’s”), Standard & Poor’s Rating Services (“S&P”), and Fitch Ratings (“Fitch”). These rating agencies serve as independent assessors of municipal and corporate credit strength. Rating agencies generally focus on four major areas when assigning credit ratings: finances, management, economy and outstanding debt. The City continues to maintain strong credit ratings on the City’s existing general obligation bonds from all three national rating agencies despite the difficult financial and economic conditions nationally and locally. The City of Oakland’s underlying ratings for its general obligation bonds as of June 30, 2012 were as follows:

<u>Type of Bond</u>	<u>Ratings</u>		
	<u>Moody's</u>	<u>S & P</u>	<u>Fitch</u>
General Obligation Bonds	Aa2/Stable	AA-/Stable	A+/Stable
Pension Obligation Bonds	Aa3:A1/Under Review	A+/Stable	A/Stable
Tax Allocation Bonds	Ba1/Under Review	A+:A-/Stable	N/A

On June 14, 2012, Moody’s downgraded all California tax allocation bonds to Ba1 that are rated Baa3 or higher. All California tax allocation bonds ratings remain on review for possible withdrawal. This action reflects sharply increased uncertainty of continued, timely cash-flow for service payments under the new legislation. Also, Fitch placed all California bonds secured by tax increment revenue on negative rating watch on January 24, 2012. Please note that these rating actions will not have any impact on the Agency’s debt service payments because the bonds are all fixed bonds.

On September 12, 2012, S&P removed the CreditWatch from the Redevelopment Agency’s underlying ratings on investment –grade tax allocation bonds and assigned Stable outlooks which were placed on CreditWatch with negative implications on July 5, 2012 after the passage of Assembly Bill 1484. The actions reflects the fact that the City reported sufficient cash to meet debt service and demonstrated sound cash flow management and prudence in addressing future cash flows issues.

On October 9, 2012, Moody’s placed under review for downgrade the lease-backed obligation ratings of 32 cities in California and downgraded the pension obligation bonds of eight cities due to economic pressure in California which include the effects of the recent economic and property market downturns, limitations of the cities’ ability to raise property taxes, rising fixed costs, and state laws and local precedents that make bankruptcy filings a potentially viable means to address these pressures. Therefore, the City’s pension bonds and pension related debt were all downgraded by one notch from Aa2 to Aa3 on the Series 2001 and Aa3 to A1 for the Series 2008 and Series 2012. These bonds are still under review for possible further downgrades.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

General Fund Bonded Debt Limit

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 \$1,110.3 million. The total amount of debt applicable to the debt limit was \$326.6 million. The resulting legal debt margin was \$783.4 million.

Outstanding Debt

As of June 30, 2012, the City had total long-term obligations outstanding of \$1.3 billion compared to \$2.0 billion outstanding for the prior fiscal year, a decrease of 30.9 percent. Of this amount, \$326.6 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.07 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, 2012
(In Thousands)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 326,609	\$ 349,431	\$ -	\$ -	\$ 326,609	\$ 349,431
Tax allocation, Housing and Other bonds	-	523,905	-	-	-	523,905
Certificate of participation	-	3,895	-	-	-	3,895
	210,530	242,800	-	-	210,530	242,800
Pension obligation bonds	174,777	195,637	-	-	174,777	195,637
Special assessment debt with government commitments	7,475	7,963	-	-	7,475	7,963
Accreted interest on appreciation bonds	157,211	172,121	-	-	157,211	172,121
Sewer-bonds and notes payable	-	-	51,268	53,428	51,268	53,428
Plus (less): deferred amounts						
Bond issuance premiums	23,176	22,203	2,003	2,121	25,179	24,324
Bond refunding loss	(18,546)	(23,481)	-	-	(18,546)	(23,481)
Total Bonds Payable	881,232	1,494,474	53,271	55,549	934,503	1,550,023
Notes & Leases payable	23,638	29,363	-	-	23,638	29,363
Other long-term liabilities	429,556	408,520	-	-	429,556	408,520
Total Outstanding Debt	<u>\$ 1,334,426</u>	<u>\$ 1,932,357</u>	<u>\$ 53,271</u>	<u>\$ 55,549</u>	<u>\$ 1,387,697</u>	<u>\$ 1,987,906</u>

The City's overall total long-term obligations decreased by \$597.9 million compared to fiscal year 2011. The net decrease is primarily attributable to the transfer of the former agency debt to the Oakland Redevelopment Successor Agency and reported as a private-purpose trust fund and the payment, refunding and retirement of certain long-term debt (Measure G and Measure DD bonds).

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

Summary of New Debt:

Current Year Long-Term Debt Financing

General Obligation Refunding Bonds Series 2012: On January 10, 2012, the City of Oakland issued \$83,775,000 of General Obligation Refunding Bonds Series 2012 (the Series 2012 Bonds). The Bonds were issued to refund the City of Oakland General Obligation Bonds Series 2002A, Measure G and a portion of the City of Oakland General Obligation Bonds Series 2003A, Measure DD. The 2012 Bonds were rated Aa2 and AA- from Moody's and S&P respectively. This refunding produced approximately \$6.43 million in net present value savings and reduced the annual ad valorem taxes assessed to the property owners in the City. The Series 2012 Bonds were issued with interest rates ranging from 2.00% to 5.00% with a final maturity of January 15, 2033

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 year 2012-13.

Oakland is emerging, along with the rest of the East Bay, from the recent Great Recession. Since the recent high of fiscal year 2008-09, the City's budget consistently declined through fiscal year 2011-12, increasing for the first time recently in fiscal year 2012-13. The City adopted a balanced budget for fiscal year 2012-13 without layoffs, for the first time in more than four years.

In October 2012, the City issued a Five-Year Financial Plan that forecasted revenues and expenditures. It projected modest revenue growth as the region's economy stabilizes, then beginning in 2015, forecasted that the City will experience revenue growth consistent with long-term trends, in the 4% annual nominal growth range. Property tax, sales tax, business license tax, and real estate transfer tax are all forecasted to grow faster than the rate of inflation

The City of Oakland's unemployment rate decreased to 14.3 percent in June 2012 compared to an average unemployment rate of 16.3 percent for June 2011.

The Bay Area's consumer price index for all urban consumers in June 2012 was 239.806 compared to 233.646 in June 2011 and to the U.S. city average consumer price index (CPI-U) for all urban consumers at 229.478 (Base period: 1982 - 84 = 100).

Estimated population for January 1, 2012 is 395,341 with an estimated total number of households of 157,381, an average household size of 2.5 persons, and a per capita personal income of \$28,572.

CITY OF OAKLAND
Management's Discussion and Analysis (unaudited) (continued)
Year Ended June 30, 2012

PERS pension rates, and health care costs have been factored into the City's Fiscal Years 2012-13 budget.

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 Administrative Service Department, 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, 2012
(In Thousands)

	Primary Government		Total	Component Unit
	Governmental Activities	Business-Type Activities		Port of Oakland
ASSETS				
Cash and investments	\$ 273,188	\$ 29,570	\$ 302,758	\$ 189,064
Receivables (net of allowance for uncollectibles of \$16,996 for City and \$2,392 for Port):				
Accrued interest	258	-	258	222
Property taxes	12,475	-	12,475	-
Accounts receivable	57,180	16,192	73,372	26,693
Grants receivable	31,142	-	31,142	-
Due from Port	7,875	-	7,875	-
Restricted assets:				
Cash and investments	327,767	5,151	332,918	92,141
Receivables	-	-	-	2,678
Property held for resale	133,383	-	133,383	-
Notes and loans receivable (net of allowance for uncollectibles of \$96,376 for the City)	363,808	-	363,808	-
Other	301	-	301	52,817
Unamortized bond issuance costs	4,959	507	5,466	-
Net pension asset	154,374	-	154,374	-
Capital assets:				
Land and other capital assets not being depreciated Facilities, infrastructures, and equipments, net of depreciation	180,829	15,483	196,312	719,384
	<u>854,523</u>	<u>156,215</u>	<u>1,010,738</u>	<u>1,466,359</u>
TOTAL ASSETS	<u>2,405,082</u>	<u>223,118</u>	<u>2,628,200</u>	<u>2,549,358</u>
LIABILITIES				
Accounts payable and other current liabilities	123,021	2,487	125,508	30,926
Accrued interest payable	9,610	118	9,728	10,755
Due to other governments	4,408	-	4,408	-
Due to primary government	-	-	-	7,875
Due to Successor Agency	1,690	-	1,690	-
Unearned revenue	4,160	263	4,423	115,425
Other	8,599	6	8,605	12,429
Non-current liabilities:				
Due within one year	162,965	2,386	165,351	57,778
Due in more than one year	<u>1,171,461</u>	<u>50,886</u>	<u>1,222,347</u>	<u>1,350,723</u>
TOTAL LIABILITIES	<u>1,485,914</u>	<u>56,146</u>	<u>1,542,060</u>	<u>1,585,911</u>
NET ASSETS				
Invested in capital assets, net of related deb	663,785	122,911	786,696	893,389
Restricted net assets:				
Debt service	13,968	-	13,968	-
Pension	110,708	-	110,708	-
Urban redevelopment and housing	143,972	-	143,972	-
Other purposes	5,356	-	5,356	20,553
Unrestricted net assets	<u>(18,621)</u>	<u>44,061</u>	<u>25,440</u>	<u>49,505</u>
TOTAL NET ASSETS	<u>\$ 919,168</u>	<u>\$ 166,972</u>	<u>\$1,086,140</u>	<u>\$ 963,447</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, 2012
(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			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 83,131	\$ 19,924	\$ 1,202	\$ -	\$ (62,005)	\$ -	\$ (62,005)	
Public safety	351,566	13,283	17,221	4,420	(316,642)	-	(316,642)	
Community services	122,829	8,302	43,274	8	(71,245)	-	(71,245)	
Community and economic development	138,596	41,507	25,248	-	(71,841)	-	(71,841)	
Public works	101,892	83,017	2,675	26,179	9,979	-	9,979	
Interest on long-term debt	68,948	-	-	-	(68,948)	-	(68,948)	
TOTAL GOVERNMENTAL ACTIVITIES	<u>866,962</u>	<u>166,033</u>	<u>89,620</u>	<u>30,607</u>	<u>(580,702)</u>	<u>-</u>	<u>(580,702)</u>	
Sewer	31,227	48,200	-	-	-	16,973	16,973	
Parks and recreation	492	575	-	-	-	83	83	
TOTAL BUSINESS-TYPE ACTIVITIES	<u>31,719</u>	<u>48,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,056</u>	<u>17,056</u>	
TOTAL PRIMARY GOVERNMENT	<u>\$ 898,681</u>	<u>\$ 214,808</u>	<u>\$ 89,620</u>	<u>\$ 30,607</u>	<u>(580,702)</u>	<u>17,056</u>	<u>(563,646)</u>	
Component unit:								
Port of Oakland	<u>\$ 318,605</u>	<u>\$ 306,138</u>	<u>\$ -</u>	<u>\$ 23,217</u>				<u>\$ 10,750</u>
General revenues:								
Property taxes					288,923	-	288,923	-
State taxes:								
Sales and use taxes					55,659	-	55,659	-
Motor vehicle in-lieu tax					221	-	221	-
Gas tax					11,060	-	11,060	-
Local taxes:								
Business license					58,712	-	58,712	-
Utility consumption					51,434	-	51,434	-
Real estate transfer					30,653	-	30,653	-
Transient occupancy					13,822	-	13,822	-
Parking					15,975	-	15,975	-
Voter approved special tax					35,812	-	35,812	-
Franchise					15,829	-	15,829	-
Interest and investment income					7,078	83	7,161	1,755
Other					53,172	-	53,172	24,942
Transfers					1,893	(1,893)	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					<u>640,243</u>	<u>(1,810)</u>	<u>638,433</u>	<u>26,697</u>
Extraordinary gain from dissolution of the former Redevelopment Agency					273,020	-	273,020	-
Changes in net assets					332,561	15,246	347,807	37,447
Net Assets - Beginning					586,607	151,726	738,333	926,000
NET ASSETS - ENDING					<u>\$ 919,168</u>	<u>\$ 166,972</u>	<u>\$ 1,086,140</u>	<u>\$ 963,447</u>

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

CITY OF OAKLAND
Balance Sheet
Governmental Funds
June 30, 2012
(In Thousands)

	General	Federal/State Grant Fund	Low and Moderate Income Housing Asset Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments	\$ 161,352	\$ -	\$ 872	\$ -	\$ 39,852	\$ 67,397	\$ 269,473
Receivables (net of allowance for uncollectibles of \$15,265):							
Accrued interest	153	2	-	-	40	63	258
Property taxes	5,053	-	-	-	-	7,422	12,475
Accounts receivable	43,270	2,784	1,923	-	1	9,099	57,077
Grants receivable	-	25,527	-	-	2,179	3,436	31,142
Due from component unit	7,507	-	-	-	-	368	7,875
Due from other funds	38,325	-	1,609	-	127	-	40,061
Notes and loans receivable (net of allowance for uncollectibles of \$96,376)	47,493	134,718	149,959	-	367	31,271	363,808
Restricted cash and investments	110,708	5,176	-	-	106,981	104,482	327,347
Property held for resale	-	-	9,137	-	124,246	-	133,383
Other	35	-	-	-	-	266	301
TOTAL ASSETS	\$ 413,896	\$ 168,207	\$ 163,500	\$ -	\$ 273,793	\$ 223,804	\$ 1,243,200
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable and accrued liabilities	\$ 94,319	\$ 12,529	\$ 1,373	\$ -	\$ 7,313	\$ 6,219	\$ 121,753
Due to other funds	819	1,772	-	-	140	1,765	4,496
Due to other governments	4,380	-	-	-	-	28	4,408
Deferred revenue	56,372	142,992	151,534	-	2,545	39,052	392,495
Other	2,077	1,436	4	-	322	4,753	8,592
TOTAL LIABILITIES	157,967	158,729	152,911	-	10,320	51,817	531,744
Fund balances							
Restricted	110,708	9,478	-	-	106,981	148,001	375,168
Committed	70,284	-	-	-	-	13,420	83,704
Assigned	6,256	-	10,589	-	156,492	11,982	185,319
Unassigned	68,681	-	-	-	-	(1,416)	67,265
TOTAL FUND BALANCES	255,929	9,478	10,589	-	263,473	171,987	711,456
TOTAL LIABILITIES AND FUND BALANCES	\$ 413,896	\$ 168,207	\$ 163,500	\$ -	\$ 273,793	\$ 223,804	\$ 1,243,200

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, 2012
(In Thousands)

Fund balances - total governmental funds		\$ 711,456
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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	\$ 1,035,352		
Less: internal service funds' capital assets, net of depreciation	<u>(8,890)</u>		1,026,462

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.

4,959

Net pension asset is recognized in the statement of net assets as an asset; however, it is not

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	\$ (9,610)		
Add: Interest payable on long-term debt for internal service fund	<u>38</u>		(9,572)

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.

388,335

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	\$(1,334,426)		
Less: long-term liabilities for internal service funds	<u>2,077</u>		(1,332,349)

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.

(24,497)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 919,168

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, 2012
(In Thousands)

	General	Federal/State Grant Fund	Low and Moderate Income Housing Asset Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes:							
Property	\$ 198,192	\$ -	\$ -	\$ 33,345	\$ -	\$ 57,386	\$ 288,923
State taxes:							
Sales and use tax	44,741	-	-	-	-	10,918	55,659
Motor vehicle in-lieu tax	221	-	-	-	-	-	221
Gas tax	-	-	-	-	-	11,060	11,060
Local taxes:							
Business license	58,712	-	-	-	-	-	58,712
Utility consumption	51,434	-	-	-	-	-	51,434
Real estate transfer	30,653	-	-	-	-	-	30,653
Transient occupancy	10,830	-	-	-	-	2,992	13,822
Parking	8,617	-	-	-	-	7,358	15,975
Voter approved special tax	-	-	-	-	-	35,812	35,812
Franchise	15,572	257	-	-	-	-	15,829
Licenses and permits	1,160	-	-	-	-	10,919	12,079
Fines and penalties	23,924	466	-	-	-	2,814	27,204
Interest and investment income	1,016	806	99	654	141	4,842	7,558
Charges for services	93,256	424	8,211	5,506	2,694	16,659	126,750
Federal and state grants and subventions	1,357	102,929	-	5,789	-	4,971	115,046
Annuity income	14,065	-	-	-	-	-	14,065
Other	9,560	1,579	647	1,207	3,116	4,253	20,362
TOTAL REVENUES	563,310	106,461	8,957	46,501	5,951	169,984	901,164
EXPENDITURES							
Current:							
Elected and Appointed Officials:							
Mayor	1,676	203	-	-	-	175	2,054
Council	3,698	-	-	-	-	-	3,698
City Administrator	22,321	4,786	-	-	2,125	1,593	30,825
City Attorney	10,060	46	-	-	-	753	10,859
City Auditor	1,333	-	-	-	-	-	1,333
City Clerk	2,223	-	-	-	-	-	2,223
Departments:							
Administrative Service Department:							
Human Resource Management	4,645	-	-	-	-	-	4,645
Information Technology	7,199	120	-	-	-	427	7,746
Financial Services	21,056	734	-	-	-	936	22,726
Public Safety:							
Police Services	196,096	11,396	-	-	-	12,623	220,115
Fire Services	111,067	3,849	-	-	-	10,669	125,585
Community Service Department:							
Parks and Recreation	15,934	136	-	-	1	4,394	20,465
Aging & Health and Human Services	5,322	37,810	136	-	-	18,583	61,851
Library	8,952	279	-	-	-	13,473	22,704
Planning, Building & Neighborhood Preservation	91	145	-	-	79	10,855	11,170
Community and Economic Development	9,216	10,184	-	60,947	104	15,956	96,407
Public Works	30,526	6,367	-	-	3,479	29,391	69,763
Housing & Community Development	794	10,006	7,555	-	-	777	19,132
Other	4,758	1	-	7,566	3,591	2,544	18,460
Capital outlay	4,996	28,960	6	-	27,993	9,748	71,703
Debt service:							
Principal repayment	1,954	2,155	-	14,440	-	107,021	125,570
Bond issuance costs	-	-	-	-	-	359	359
Interest charges	881	231	-	15,338	-	50,725	67,175
TOTAL EXPENDITURES	464,798	117,408	7,697	98,291	37,372	291,002	1,016,568
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	98,512	(10,947)	1,260	(51,790)	(31,421)	(121,018)	(115,404)
OTHER FINANCING SOURCES (USES)							
Proceeds from issuance of refunding bonds	-	-	-	-	-	83,775	83,775
Premiums on issuance of bonds	-	-	-	-	-	8,538	8,538
Payment to refund bond escrow agent	-	-	-	-	-	(57,998)	(57,998)
Property sale proceeds	31,395	-	12	-	806	-	32,213
Insurance claims and settlements	910	-	-	-	-	717	1,627
Transfers in	3,634	-	9,317	990	226,989	103,901	344,831
Transfers out	(103,883)	(990)	-	(237,619)	(153)	(198)	(342,843)
TOTAL OTHER FINANCING SOURCES (USES)	(67,944)	(990)	9,329	(236,629)	227,642	138,735	70,143
Extraordinary loss from dissolution of the Redevelopment Agency	-	-	-	(274,999)	-	-	(274,999)
NET CHANGE IN FUND BALANCES	30,568	(11,937)	10,589	(563,418)	196,221	17,717	(320,260)
Fund balances - beginning	225,361	21,415	-	563,418	67,252	154,270	1,031,716
FUND BALANCES - ENDING	\$ 255,929	\$ 9,478	\$ 10,589	\$ -	\$ 263,473	\$ 171,987	\$ 711,456

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, 2012
(In Thousands)

Net change in fund balances - total governmental funds \$ (320,260)

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 outlay and other capital transactions exceeds depreciation in the current period.

Primary government:

Capital asset acquisition	\$ 137,023	
Transfer property held for resale (public facilities) into capital assets	(39,383)	
The net effect of various miscellaneous transactions involving capital assets such as retirements and sales of assets	(36,682)	
Depreciation	(49,821)	
Less: net changes of capital assets within internal service funds	(2,579)	8,558

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. 10,104

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. (3,693)

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. (1,727)

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	\$ (1,974)	
Cost of issuance of bonds	359	(1,615)

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

Debt and capital lease principal payments	\$ 122,006	
Issuance of bonds and notes	(83,775)	
Transferred to escrow	57,998	
Premium on bonds	(8,538)	87,691

Amortization of bond premiums and discounts 7,565

Amortization of refunding loss (4,935)

Net changes in accrued and accreted interest on bonds and notes payable 14,910

Net changes in Coliseum Authority pledge obligation 11,042

Net changes in mandated environmental remediation obligation 1,273

Net changes on postemployment benefits other than pension benefits (OPEB) (29,605)

Net changes on fair market value of interest swap agreements (53)

Net changes of extraordinary gain from the dissolution of former Redevelopment Agency

Tax Allocation and Housing Set-Aside Bonds	\$ 510,667	
Unamortized cost of issuance	(7,975)	
Public facilities from former Redevelopment Agency	39,383	
Accrue interest of the former Redevelopment Agency	12,612	
Transfer out deferred loans and Others liabilities	(6,670)	548,019

The net income of activities of internal service funds is reported with governmental activities 5,287

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 332,561

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, 2012
(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	\$ 28,455	\$ 1,115	\$ 29,570	\$ 3,715
Accounts receivables (net of uncollectibles of \$1,449 and \$282 for the enterprise funds and internal service funds, respectively)	16,190	2	16,192	103
Inventories	-	-	-	220
Restricted cash and investments	4,485	666	5,151	420
Total Current Assets	49,130	1,783	50,913	4,458
Non-current Assets:				
Capital assets:				
Land and other assets not being depreciated	15,265	218	15,483	310
Facilities, equipment and infrastructure, net of depreciation	153,535	2,680	156,215	8,580
Total capital assets	168,800	2,898	171,698	8,890
Unamortized bond issuance costs	507	-	507	-
Total Non-current Assets	169,307	2,898	172,205	8,890
TOTAL ASSETS	218,437	4,681	223,118	13,348
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	2,487	-	2,487	1,268
Accrued interest payable	118	-	118	38
Due to other funds	-	-	-	34,455
Unearned revenue	263	-	263	-
Other liabilities	6	-	6	7
Bonds, notes payable, and capital leases	2,386	-	2,386	-
Total Current Liabilities	5,260	-	5,260	35,768
Non-current Liabilities:				
Bonds, notes payable, and capital leases	50,886	-	50,886	2,077
Total Non-current Liabilities	50,886	-	50,886	2,077
TOTAL LIABILITIES	56,146	-	56,146	37,845
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	120,013	2,898	122,911	9,140
Unrestricted (deficit)	42,278	1,783	44,061	(33,637)
TOTAL NET ASSETS (DEFICIT)	\$ 162,291	\$ 4,681	\$ 166,972	\$ (24,497)

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, 2012
(In Thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
OPERATING REVENUES				
Rental	\$ -	\$ 575	\$ 575	\$ -
Sewer services	48,200	-	48,200	-
Charges for services	-	-	-	47,721
Other	-	-	-	318
TOTAL OPERATING REVENUES	48,200	575	48,775	48,039
OPERATING EXPENSES				
Personnel	12,073	80	12,153	16,695
Supplies	975	89	1,064	6,244
Depreciation and amortization	5,081	290	5,371	3,031
Contractual services and supplies	2,226	-	2,226	676
Repairs and maintenance	67	-	67	3,592
General and administrative	4,157	19	4,176	5,195
Rental	1,071	14	1,085	1,639
Other	3,048	-	3,048	5,920
TOTAL OPERATING EXPENSES	28,698	492	29,190	42,992
OPERATING INCOME (LOSS)	19,502	83	19,585	5,047
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment income (loss)	80	3	83	(71)
Interest expense	(2,529)	-	(2,529)	(128)
Federal and State grants	-	-	-	56
Other (settlements, rental), net	-	-	-	478
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,449)	3	(2,446)	335
INCOME BEFORE TRANSFERS	17,053	86	17,139	5,382
Transfers in	-	-	-	134
Transfers out	(1,493)	(400)	(1,893)	(229)
TOTAL TRANSFERS	(1,493)	(400)	(1,893)	(95)
Change in net assets (deficit)	15,560	(314)	15,246	5,287
Net Assets (deficit) - Beginning	146,731	4,995	151,726	(29,784)
NET ASSETS (DEFICIT) - ENDING	\$ 162,291	\$ 4,681	\$ 166,972	\$ (24,497)

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, 2012
(In Thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers and users	\$ 41,489	\$ -	\$ 41,489	\$ 48,151
Cash received from tenants for rents	-	575	575	-
Cash from other sources	-	-	-	852
Cash paid to employees	(12,073)	(80)	(12,153)	(16,695)
Cash paid to suppliers	(11,222)	(122)	(11,344)	(23,378)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,194	373	18,567	8,930
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from interfund loans	-	-	-	374
Repayment of interfund loans	-	-	-	(5,722)
Transfers in	-	-	-	134
Transfers out	(1,493)	(400)	(1,893)	(229)
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(1,493)	(400)	(1,893)	(5,443)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(11,706)	-	(11,706)	(452)
Long-term debt:				
Repayment of long-term debt	(2,159)	-	(2,159)	(1,615)
Interest paid on long-term debt	(2,617)	-	(2,617)	(128)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(16,482)	-	(16,482)	(2,195)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	80	3	83	(71)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	80	3	83	(71)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	299	(24)	275	1,221
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	32,641	1,805	34,446	2,914
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 32,940	\$ 1,781	\$ 34,721	\$ 4,135
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 19,502	\$ 83	\$ 19,585	\$ 5,047
OTHER RECEIPTS	-	-	-	534
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Depreciation and amortization	5,081	290	5,371	3,031
Changes in assets and liabilities:				
Receivables	(6,711)	-	(6,711)	(16)
Inventories	-	-	-	390
Due from other funds	-	-	-	56
Accounts payable and accrued liabilities	323	-	323	(112)
Other liabilities	(1)	-	(1)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 18,194	\$ 373	\$ 18,567	\$ 8,930
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS				
Cash and investments	\$ 28,455	\$ 1,115	\$ 29,570	\$ 3,715
Restricted cash and investments	4,485	666	5,151	420
TOTAL CASH AND CASH EQUIVALENTS	\$ 32,940	\$ 1,781	\$ 34,721	\$ 4,135
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, 2012
(In Thousands)

	Pension Trust Funds	Oakland Redevelopment Successor Agency Trust Fund	Other Private Purpose Trust Funds
ASSETS			
Cash and investments	\$ 8,380	\$ 108,068	\$ 7,197
Receivables:			
Accrued interest and dividends	804	218	4
Accounts receivable	-	-	5
Investments and others	4,248	154	-
Due from other funds	-	1,690	-
Restricted:			
Cash and investments:			
Short-term investments	4,361	104,008	-
U.S. government bonds	-	4,600	-
U.S. corporate bonds and mutual funds	78,746	-	-
Domestic equities and mutual funds	145,429	-	-
International equities and mutual funds	40,959	-	-
Real estate mortgage loans	33	-	-
Total restricted cash and investments	269,528	108,608	-
Securities lending collateral	14,126	-	-
Loans receivable, net	-	6,375	-
Deferred charges	-	38,957	-
Property held for resale	-	7,732	-
TOTAL ASSETS	297,086	271,802	7,206
LIABILITIES			
Accounts payable and accrued liabilities	10,038	12,698	14
Due to other funds	-	2,800	-
Securities lending liabilities	14,126	-	-
Payable to the County of Alameda	-	29,985	-
Other	-	97	-
Long-term liabilities:			
Due within one year	-	23,132	-
Due in more than one year	-	481,349	-
TOTAL LIABILITIES	24,164	550,061	14
NET ASSETS			
Net assets (deficit) held in trust	\$ 272,922	\$ (278,259)	\$ 7,192

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, 2012
(In Thousands)

	Pension Trust Funds	Oakland Redevelopment Successor Agency Trust Fund	Other Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Member	\$ 7	\$ -	\$ -
Other contributions	45,508	-	-
Total contributions	45,515	-	-
Trust receipts	-	36,597	1,557
Investment income:			
Net appreciation (depreciation) in fair value of investments	(2,483)	84	-
Interest	2,727	614	8
Dividends	3,617	-	-
Securities lending	149	-	-
TOTAL INVESTMENT INCOME	4,010	698	8
Less investment expenses:			
Investment expenses	(1,492)	-	-
Borrowers rebates and other agent fees on securities lending transactions	(37)	-	-
Total investment expenses	(1,529)	-	-
NET INVESTMENT INCOME	2,481	698	8
Federal and state grants	-	1,575	-
Other income	67	151	7
TOTAL ADDITIONS	48,063	39,021	1,572
DEDUCTIONS:			
Benefits to members and beneficiaries:			
Retirement	38,651	-	-
Disability	23,158	-	-
Death	1,898	-	-
TOTAL BENEFITS TO MEMBERS AND BENEFICIARIES	63,707	-	-
Administrative expenses	1,189	2,099	89
Community and Economic Development	-	29,787	-
Public works	-	-	506
Police services	-	-	807
Other	-	-	146
Capital outlay	-	-	1,770
Interest on debt	-	12,374	-
TOTAL DEDUCTIONS	64,896	44,260	3,318
Extraordinary loss from Redevelopment Agency Dissolution	-	(273,020)	-
Change in net assets	(16,833)	(278,259)	(1,746)
Net assets - beginning	289,755	-	8,938
NET ASSETS (DEFICIT) - ENDING	\$ 272,922	\$ (278,259)	\$ 7,192

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, 2012

(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:

a) Redevelopment Agency of the City of Oakland (Agency)

The 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.

On June 28, 2011, Assembly Bill X1 26 ("AB X1 26") was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26, and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and wind down of redevelopment activity. At the City's meeting on January 10, 2012, the City Council affirmed its decision as part of resolution number 83679 C.M.S. to serve as the Oakland Redevelopment Successor Agency ("ORSA"), effective February 1, 2012, and as such is a component unit of the City. Also, on the same meeting, the City Council elected as part of resolution number 83680 C.M.S. to retain the housing assets, functions and powers previously performed by the former Agency.

b) Oakland Redevelopment Successor Agency (ORSA)

The ORSA was created to serve as a custodian for the assets and to wind down the affairs of the former Agency. The ORSA is a separate public entity from the City, subject to the direction of an Oversight Board. The Oversight Board is comprised of seven-member representatives from local government bodies: two City representatives appointed by the Mayor; two County of Alameda (County)

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

representatives; the County Superintendent of Education; the Chancellor of California Community Colleges; and a representative of the largest special district from the taxing entities.

In general, the ORSA's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, the ORSA will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency until all enforceable obligations of the former Agency have been paid in full and all assets have been liquidated. Based upon the nature of the ORSA's custodial role, the ORSA is reported in a fiduciary fund (private-purpose trust fund).

c) Oakland Joint Powers Financing Authority (JPFA)

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 former 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. AB X1 26 was enacted and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012 and therefore, the JPFA was also dissolved effective February 1, 2012.

Discretely Presented Component Unit – Port of Oakland

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

City of Oakland,
Controller's Office
150 Frank H. Ogawa Plaza, 6th Floor, Suite 6353
Oakland, CA 94612-2093

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(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 are 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.

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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.

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.

The ***Low and Moderate Income Housing Asset Fund ("LMIHF")*** is a special revenue fund that was created to administer the housing assets and functions related to the Low and Moderate Income Housing program retained by the City following the dissolution of the former Agency. Prior to the dissolution of redevelopment agencies, the LMIHF accounted for the Agency's affordable housing activities, including the 20% and 5% redevelopment property tax revenue (i.e. former tax increment) set-aside for low and moderate income housing and related expenditures. Upon dissolution of the former Agency and the City Council's election to retain the housing activities previously funded by the former Agency, the City created LMIHF and transferred the assets and affordable housing activities.

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 California Supreme Court upheld AB X1 26 and dissolved all redevelopment agencies in the State of California effective February 1, 2012. As such, for 2011-2012, only seven months of revenues and expenditures of the former Agency were reported in

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

the governmental funds. The remaining five month period (February 1 through June 30) of financial activity of the former Agency was reported in a private purpose trust fund under Oakland Redevelopment Successor Agency.

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 Oakland Redevelopment Successor Agency Trust Fund, which accounts for the custodial responsibilities that are assigned to the Oakland Redevelopment Successor Agency with passage of AB X1 26 (b) the Private Purpose Trust Fund, which accounts for assets and liabilities from the former Oakland Redevelopment Agency and 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 (c) 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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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.

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 former Oakland Redevelopment Agency Fund, the Oakland Redevelopment Successor Agency, Pension Trust Funds, 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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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.

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 on January 1. 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, 2012.

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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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 and ORSA private-purpose trust fund. 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.

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 OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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

Property Held for Resale

Property held for resale is acquired as part of the former Agency's redevelopment program. These properties are both residential and commercial. Costs of administering the projects are charged to the municipal capital improvement fund as expenditures are 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

During the period it is held by the City, property held for resale may generate rental or operating income. This income is recognized as it is earned in the City's statement of activities and generally is recognized in the City's governmental funds in the same period depending on when the income becomes available on a modified accrual basis of accounting. The City does not depreciate property held for resale, as it is the intention of the City 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, 2012

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. 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 18 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

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, 2012, 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 (such as City Council resolution or ordinance) 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, 2012

- *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, 2012, were distributed as follows (in thousands):

	General	Federal/ State Grant Fund	LMIHF¹	Municipal Capital Improvement	Other Governmental Funds	Total
Restricted for:						
Capital projects	\$ -	\$ 9,478	\$ -	\$ 106,981	\$ 24,809	\$ 141,268
Pension obligations	110,708	-	-	-	-	110,708
Debt service	-	-	-	-	123,192	123,192
Subtotal	<u>110,708</u>	<u>9,478</u>	<u>-</u>	<u>106,981</u>	<u>148,001</u>	<u>375,168</u>
Committed for:						
Pension obligations						
PFRS	70,284	-	-	-	-	70,284
Library and museum trust	-	-	-	-	13,420	13,420
Subtotal	<u>70,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,420</u>	<u>83,704</u>
Assigned for:						
Property held for resale	-	-	9,137	124,246	-	133,383
Capital projects	6,256	-	-	32,246	11,982	50,484
Housing projects	-	-	1,452	-	-	1,452
Subtotal	<u>6,256</u>	<u>-</u>	<u>10,589</u>	<u>156,492</u>	<u>11,982</u>	<u>185,319</u>
Unassigned	<u>68,681</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,416)</u>	<u>67,265</u>
Total	<u><u>\$ 255,929</u></u>	<u><u>\$ 9,478</u></u>	<u><u>\$ 10,589</u></u>	<u><u>\$ 263,473</u></u>	<u><u>\$ 171,987</u></u>	<u><u>\$ 711,456</u></u>

¹ Low and Moderate Income Housing Asset Fund

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Extraordinary Items:

Extraordinary items are both 1) unusual in nature (possessing a high degree of abnormality and clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity) and 2) infrequent in occurrence (not reasonably expected to recur in the foreseeable future, taking into account the environment in which the entity operates). The dissolution of all redevelopment agencies in the State of California qualifies as an extraordinary item since this state-wide dissolution was both unusual and infrequent. Accordingly, the transfer of the former Agency's liabilities in excess of its assets as of February 1, 2012 from the City's governmental activities to the ORSA fiduciary fund was recorded as an extraordinary gain in the City's government-wide financial statements and as an extraordinary loss in the governmental funds. The receipt of these liabilities in excess of assets was reported in the ORSA fiduciary fund financial statements as an extraordinary loss. In addition to the transfer of the former Agency's assets and liabilities, the transfer of cash out of the Low and Moderate Income Housing Program to pay enforceable obligations of ORSA in the amount of \$103.5 million was also recorded as an extraordinary loss.

AB X1 26 specifically invalidates existing agreements between the former Agency and the City, except for 1) those entered into at the time of issuance of debt, for the purpose of securing repayment of such debt; and 2) loans or advances from the Low and Moderate Income Housing Fund. On February 1, 2012, the City did not have any long-term loans or receivables with the former Agency.

The components of the extraordinary gains and losses recorded in the financial statements are as follows (in thousands):

Governmental Funds:

Former Agency's transfers of net assets at January 31, 2012		
Transfers out of former Agency Funds assets		\$ (425,729)
Transfers out of former Agency Funds liabilities		180,796
		(244,933)
Fund balances reported on former Agency fund statement		(244,933)
Add: transfers of housing related assets into Housing Successor Agency	\$ 9,317	
Less: transfer of public facilities into capital asset funds	(39,383)	(30,066)
Extraordinary loss reported in the former Oakland Redevelopment Agency Fund		(274,999)

Governmental Activities:

Transfers out of the former Agency's long-term debt	\$ 510,667	
Transfers out of the former Agency's deferred cost of issuance	(7,975)	
Transfer public facilities into capital asset funds	39,383	
Transfer former Agency's accrue interest payable on bonds	12,614	
Transfer of deferred loans and other liabilities	(6,670)	548,019
Extraordinary gain reported on Statement of Activities from transfers of the former Agencies liabilities in excess of assets		\$ 273,020

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012, the government-wide statement of net assets reported restricted net assets of \$274.0 million in governmental activities, none of which was restricted by enabling legislation.

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 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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 Principles 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 position, rather than net assets. Application of this statement is effective for the City's fiscal year ending June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Application of this statement is effective for the City's fiscal year ending June 30, 2014.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012-an amendment of GASB Statements No. 10 and No. 62*, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. Application of this statement is effective for the City's fiscal year ending June 30, 2014.

In June 2012, the GASB issued two new standards, GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* to improve the guidance for accounting and reporting on the pensions that governments provide to their employees.

Key changes include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.
- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in their government-wide, proprietary and fiduciary fund financial statements.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the interest rate on a tax-exempt 20-year AA/Aa or higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The statements relate to accounting and financial reporting and do not apply to how governments approach the funding of their pension plans. At present, there generally is a close connection between the ways many governments fund pensions and how they account for and report information about them in audited financial reports. The statements would separate how the accounting and financial reporting is determined from how pensions are funded. Application of Statement 67 is effective for financial statements for the City's fiscal year ending June 30, 2014. Application of Statement 68 is effective for the City's fiscal year ending June 30, 2015.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Use of Estimates

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

(3) CASH AND INVESTMENTS AND RESTRICTED CASH AND INVESTMENTS

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

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

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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

	<u>Primary Government</u>			<u>Total</u>	<u>Component</u>
	<u>Governmental</u>	<u>Business-type</u>	<u>Fiduciary</u>		<u>Unit</u>
	<u>Activities</u>	<u>Activities</u>	<u>Funds</u>		<u>Port</u>
Cash and investments	\$ 273,188	\$ 29,570	\$ 123,645	\$ 426,403	\$ 189,064
Restricted cash and investments	327,767	5,151	378,136	711,054	92,141
Securities lending collateral	-	-	14,126	14,126	-
TOTAL	<u>\$ 600,955</u>	<u>\$ 34,721</u>	<u>\$ 515,907</u>	<u>\$ 1,151,583</u>	<u>\$ 281,205</u>
Deposits				\$ 26,136	\$ 2,072
Investments				1,125,447	279,133
TOTAL				<u>\$ 1,151,583</u>	<u>\$ 281,205</u>

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, 2012, the carrying amount of the City's deposits was \$26.1 million. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, \$0.5 million was insured by the Federal Deposit Insurance Corporation (FDIC) and \$25.6 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, 2012

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 securities. 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 at the time security is purchased. Long-term debt shall be rated at least A by Standard and Poor's, Moody's Investors Service or Fitch Ratings. Since these securities are permitted by State law, investing in them is also the most effective way to maintain legal compliance. Per the California Debt and Management Advisory Commission ("CDIAC"), it is recommended that the portfolio be monitored, as practical, for subsequent changes in credit rating of existing securities. As of June 30, 2012, approximately 84% of the pooled investments was invested in "AAA" and "AA" quality securities.

The following tables show the City's credit risk for the Pool and Restricted portfolios as of June 30, 2012 (in thousands):

Pooled Investments

	Ratings as of June 30, 2012				
	Fair Value	AAA/Aaa	AA/Aaa	A1/P1/F1	Not Rated
U.S. Government Agency Securities	\$ 103,770	\$ -	\$ 103,770	\$ -	\$ -
U.S. Government Agency Securities (Discount)	231,312	-	231,312	-	-
Money Market Mutual Funds	85,110	85,110	-	-	-
Local Agency Investment Fund (LAIF)	49,634	-	-	-	49,634
Negotiable Certificates of Deposit	17,991	-	-	17,991	-
Commercial Papers (Discounts)	9,992	-	-	9,992	-
Total Pooled Investments	\$ 497,809	\$ 85,110	\$ 335,082	\$ 27,983	\$ 49,634

Restricted Investments

	Ratings as of June 30, 2012					
	Fair Value	AAA/Aaa	AA/Aaa	A1/P1/F1	Ba1	Not Rated
U.S. Government Agency Securities	\$ 33,883	\$ -	\$ 33,883	\$ -	\$ -	\$ -
U.S. Government Agency Securities (Discount)	12,996	-	12,996	-	-	-
U.S. Treasury Securities (Discount)	1,000	-	1,000	-	-	-
Money Market Mutual Funds	98,725	98,725	-	-	-	-
Commercial Papers (Discount)	558	-	-	558	-	-
Corporate Bonds	2,325	-	-	-	2,325	-
Local Government Bonds	81,168	-	-	-	-	81,168
Annuity Contract	101,000	-	-	-	-	101,000
Total Restricted Investments	\$ 331,655	\$ 98,725	\$ 47,879	\$ 558	\$ 2,325	\$ 182,168

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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. 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, 2012 are as follows (in thousands):

Investment Type / Issuer	Amount	Percent of City's Investment Portfolio
U.S. Government Agency Securities:		
Federal National Mortgage Association (Fannie Mae)	\$ 52,824	6.37%
Federal Home Loan Bank	163,831	19.75%
Federal Home Loan Mortgage Corporation (Freddie Mac)	126,426	15.24%
Local Government Bond:		
Oakland Joint Powers Financing Authority	81,168	9.79%
Annuity Contract:		
New York Life Insurance Company	101,000	12.18%

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

Pooled Investments

Investment Type	Fair Value	Percent (%) of Portfolio
U.S. Government Agency Securities	\$ 103,770	20.85%
U.S. Government Agency Securities (Discount)	231,312	46.47%
Money Market Mutual Funds	85,110	17.10%
Local Agency Investment Fund (LAIF)	49,634	9.96%
Negotiable Certificates of Deposit	17,991	3.61%
Commercial Paper (Discount)	9,992	2.01%
Total Pooled Investments	\$ 497,809	100.00%

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Restricted Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent (%) of Portfolio</u>
U.S. Government Agency Securities	\$ 33,883	10.22%
U.S. Government Agency Securities (Discount)	12,996	3.92%
U.S. Treasury Securities (Discount)	1,000	0.30%
Money Market Mutual Funds	98,725	29.77%
Commercial Papers (Discount)	558	0.17%
Corporate Bonds	2,325	0.70%
Local Government Bond	81,168	24.47%
Annuity Contract	101,000	30.45%
Total Restricted Investments	\$ 331,655	100.00%

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 limited 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 short-term and long-term investments to minimize such risks.

The City uses the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2012, the City had the following investments and original maturities (in thousands):

Pooled Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>		
			<u>12 Months or Less</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>
U.S. Government Agency Securities	\$ 103,770	0.18 - 1.18	\$ 28,086	\$ 63,640	\$ 12,044
U.S. Government Agency Securities (Discount)	231,312	0.02 - 0.19	231,312	-	-
Money Market Mutual Funds*	85,110	0.16	85,110	-	-
Local Agency Investment Fund (LAIF)*	49,634	0.36	49,634	-	-
Negotiable Certificates of Deposit	17,991	0.55 - 0.78	17,991	-	-
Commercial Paper (Discount)	9,992	0.25	9,992	-	-
Total Pooled Investments	\$ 497,809		\$ 422,125	\$ 63,640	\$ 12,044

* weighted average maturity used.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Restricted Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Interest Rates (%)</u>	<u>Maturity</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	\$ 33,883	0.19 - 0.41	\$ 11,997	\$ 21,886	\$ -	\$ -
U.S. Government Agency						
Securities (Discount)	12,996	0.11 - 0.17	12,996	-	-	-
U.S. Treasuries (Discount)	1,000	0.20 - 0.26	1,000	-	-	-
Money Market Mutual Funds ¹	98,725	0.06 - 0.13	98,725	-	-	-
Commercial Papers (Discount)	558	18.86	558	-	-	-
Corporate Bonds	2,325	10.62	-	-	-	2,325
Local Government Bond	81,168	4.86	7,211	15,617	15,225	43,115
Annuity Contract	101,000	1.80	-	-	-	101,000
Total Restricted Investments	<u>\$ 331,655</u>		<u>\$ 132,487</u>	<u>\$ 37,503</u>	<u>\$ 15,225</u>	<u>\$ 146,440</u>

¹ 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, 2012, the City's investment in LAIF is \$49.6 million. A total amount invested by all public agencies in LAIF at that date is approximately \$21.9 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately \$60.5 billion, 96.53% is invested in non-derivative financial products and 3.47% in structured notes and asset-backed securities. As of June 30, 2012, LAIF has an average life-month end of 268 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Investments - Oakland Redevelopment Successor Agency (“ORSA”)

Cash and Investments held by ORSA

ORSA follows the investment policy of the City, which is governed by provisions of the California Government Code 53600 and the City’s Municipal Code. The Agency also has investments subject to provisions of the bond indentures of the former Agency’s various bond issues. According to the investment policy and bond indentures, the Agency is permitted to invest in the City’s cash and investment pool, LAIF, obligations of the U.S. Treasury or U.S. Government agencies, time deposits, money market mutual funds invested in U.S. Government securities, along with various other permitted investments. The Agency’s cash and investments consist of the following at June 30, 2012:

Cash and Investments	Amount
Cash and investments (unrestricted)	\$ 108,068
Restricted cash and investments	108,608
Total cash and investments	\$ 216,676

As of June 30, 2012, ORSA invested a total amount of \$91.4 million with U.S. Government Agency Securities, which is comprised of \$86.8 million from its unrestricted accounts, \$4.6 from the Tax Allocation Bonds and the Housing Set-Aside Bonds reserve and capitalized interest. The remaining balance is invested in Money Market Funds and Negotiable CD’s, which comprised of \$14.0 in Money Market Funds and \$3 million in Negotiable CD’s for its unrestricted accounts, and \$104.0 million in Money Market Funds from the Tax Allocation Bonds and the Housing Set-Aside Bonds reserve and capitalized interest.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, ORSA will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, ORSA will not be able to recover the value of the investment or collateral securities that are in the possession of another party.

The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of ORSA’s deposits, respectively. The collateral is held by the pledging financial institution’s trust department and is considered held in the ORSA’s name.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

As of June 30, 2012, the carrying amount of the ORSA's deposits was \$4.2 million. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit of \$250, and the bank balance of \$4.0 million are collateralized with securities held by the pledging financial institutions as required by Section 53652 of the California Government Code.

ORSA invests in individual investments. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the ORSA employs the trust department of a bank or trustee as the custodian of certain ORSA investments, regardless of their form.

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market rates. ORSA investment policy has mitigated interest rate risk by establishing policies over liquidity. As of June 30, 2012, ORSA had the following investments and original maturities (in thousands):

Pooled Cash and Investments

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Interest Rates (%)</u>	<u>Maturities</u>	
			<u>12 Months of Less</u>	<u>1 - 3 Years</u>
U.S. Govt. Agency Securities	\$ 18,832	0.28 - 0.37	\$ 3,085	\$ 15,747
U.S. Govt. Agency Securities (Discount)	67,990	0.02 - 0.10	67,990	-
Money Market Mutual Funds	14,000	0.15 - 0.16	14,000	-
Negotiable CD's	3,000	0.50	3,000	-
Total	103,822		\$ 88,075	\$ 15,747
Deposits	4,246			
	<u>\$ 108,068</u>			

Restricted Cash and Investments

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Interest Rates (%)</u>	<u>Maturities</u>	
			<u>12 Months of Less</u>	<u>1 - 3 Years</u>
U.S. Govt. Agency Securities (Discount)	\$ 4,600	0.55	\$ 4,600	-
Money Market Mutual Funds	104,008	0.06 - 0.10	104,008	-
Total	\$ 108,608		\$ 108,608	-

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. ORSA's investment policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures. The following tables show ORSA's credit risk as rated by Standard & Poor's and Moody's for the Pooled and Restricted portfolios as of June 30, 2012 (in thousands):

Pooled Cash and Investments

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Ratings as of June 30, 2012</u>		
		<u>Aaa/AAA</u>	<u>Aaa/AA</u>	<u>A1/P1</u>
U.S. Government Agency Securities	\$ 18,832	-	\$ 18,832	\$ -
U.S. Government Agency Securities (Discount)	67,990	-	67,990	-
Money Market Mutual Funds	14,000	14,000	-	-
Negotiable CD's	3,000	-	-	3,000
Total Cash and Investments	\$ 103,822	\$ 14,000	\$ 86,822	\$ 3,000

Restricted Cash and Investments

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Ratings as of June 30, 2012</u>	
		<u>Aaa/AAA</u>	<u>Aaa/AA</u>
U.S. Government Agency Securities (Discount)	\$ 4,600	\$ -	\$ 4,600
Money Market Mutual Funds	104,008	104,008	-
Total Cash and Investments	\$ 108,608	\$ 104,008	\$ 4,600

Concentration of Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on ORSA. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. The following table shows the diversification of the ORSA's portfolio as of June 30, 2012 (in thousands):

Pooled Cash and Investments

<u>Type of Investment</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Govt. Agency Securities	\$ 18,832	18.14%
U.S. Govt. Agency Securities (Discount)	67,990	65.49%
Money Market Mutual Funds	14,000	13.48%
Commercial Paper	-	0%
Negotiable CD's	3,000	2.89%
Total	\$ 103,822	100%

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Restricted Cash and Investments

<u>Type of Investment</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Govt. Agency Securities (Discount)	\$ 4,600	4.24%
Money Market Mutual Funds	104,008	95.76%
Total	\$ 108,608	100%

The following table show's ORSA's investments in one issuer that exceed 5% of ORSA's investment portfolio at June 30, 2012 (in thousands):

<u>Investment Type / Issuer</u>	<u>Amount</u>	<u>Percent of ORSA's Investment Portfolio</u>
U.S. Government Agency Securities:		
Federal National Mortgage Association (Fannie Mae)	\$ 29,831	14.04%
Federal Home Loan Bank	29,998	14.12%
Federal Home Loan Mortgage Corporation (Freddie Mac)	26,994	12.71%

Restricted Cash and Investments with Fiscal Agents

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and temporary investments for unexpended bond proceeds. As of June 30, 2012, the amounts held by the trustees aggregated \$108.6 million. All restricted investments held by trustees as of June 30, 2012 were invested in U.S. treasury notes, and money market mutual funds, and were in compliance with the bond indentures.

Investments – Retirement Plans

The Retirement Plans' investment policies authorize investment in 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, 2012, 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, 2012

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, 2012, OMERS' share of the City's investment pool totaled \$60,124.

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, 2012, OMERS' investment portfolio consists of shares of two investment funds (Funds). OMERS invests in the American Century Equity Mutual 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, 2012 (in thousands):

<u>Investments</u>	<u>Fair Value</u>	<u>Yield</u>	<u>Weighted Average Maturity</u>
Short-Term Investments	\$ 47	-	*
Equity Investments			
American Century Equity Mutual Fund	3,105	-	
Fixed Income Investments			
HighMark Employee Benefit Flexible Bond Commingled Fund	1,271	3.0%	4.6 Years
Total Equity & Fixed Income Investment	<u>4,376</u>		
Total Investments	<u>\$ 4,423</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)) in fair market value. As of June 30, 2012, 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, 2012

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.

Oakland Police and Fire Retirement System (PFRS)

Deposits in the City's Investment Pool

As of June 30, 2012, 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, 2012, PFRS' share of the City's investment pool totaled \$7,336,560.

PFRS has a money market account with Torrey Pines Bank (formerly Alta Alliance Bank) in the amount of \$983,442. Of the total cash and cash deposits not held in the City's investment pool, \$250,000 was FDIC insured and \$733,442 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, 2012, the number of external investment managers was eleven.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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 income 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 4.89 years as of June 30, 2012.

As of June 30, 2012, 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>
Short-Term Investment Funds	\$ 4,314	n/a

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Long-Term Investment Duration:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration (Year)</u>
Government Bonds:		
U.S. Treasuries	\$ 11,878	6.009
U.S. Government Agency Securities	26,112	4.335
Total Government Bonds	37,990	
U.S. Corporate and Other Bonds		
Corporate Bonds	31,131	4.928
TIPS Bond Fund (iShares)	7,149	4.840
Other Government Bonds	1,205	5.402
Total U.S. Corporate and Other Bonds	39,485	
Total Fixed Income Investments	\$ 77,475	4.893
Securities Lending Collateral	\$ 14,126	0.005

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, 2012 concerning credit risk of fixed income securities (in thousands):

<u>Investment Type</u>	<u>S&P/Moody's Rating</u>	<u>Fair Value</u>
Short-Term Investment Funds	Not Rated	4,314

The following tables provide information as of June 30, 2012 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	\$ 34,649	44.72%
AA /Aa	4,106	5.30%
A/A	9,432	12.17%
BBB/Baa	11,332	14.63%
B/B	440	0.57%
Not Rated	17,516	22.61%
Total Fixed Income Investments	\$ 77,475	100.0%

The following tables provide information as of June 30, 2012 concerning credit risk of securities lending collateral ratings (in thousands):

<u>S & P/Moody's Rating</u>	<u>Fair Value</u>
Not Rated	\$ 14,126

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012, no investment in any single insurer exceeded 5% of PFRS' net assets.

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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012 (in thousands):

<u>Foreign Currency</u>	<u>Total</u>
Australian Dollar	\$ 1,095
Brazilian Real	693
Canadian Dollar	363
Chinese Yuan Renminbi	11
Danish Krone	526
Euro	6,197
Hong Kong Dollar	3,096
Indonesian Rupian	225
Japanese Yen	3,128
Malaysian Ringgit	136
Mexican Peso	414
Norwegian Kroner	418
Singapore Dollar	333
South African Rand	153
South Korean Won	779
Swedish Krona	520
Swiss Franc	2,199
Taiwan Dollar	499
Turkish	184
United Kingdom Pound	4,801
Total Foreign Currency	<u>\$ 25,770</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, 2012

As of June 30, 2012, 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, 2012 (in thousands):

Securities Lending	
Investments and Collateral Received (At Fair Value)	
Securities on loan:	
U.S. Corporate Bonds	\$ 176
U.S. Equity	12,151
Non-U.S. Equity	1,624
Total Securities on Loan	\$ 13,951
Invested Cash Collateral Received:	
Repurchase Agreements	\$ 14,126
Total Invested Cash Collateral Received	\$ 14,126

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, 2012 (in thousands):

Security	Weighted Average Coupon Rate	Weighted Average Maturity	Fair Value	Percent of Total Investment Fair Value
Commercial Mortgage Pass-Through	3.41%	3/6/2029	\$ 461	0.17%

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Discretely Presented Component Unit – Port of Oakland

The Port's cash, investments and deposits consisted of the following at June 30, 2012 (in thousands):

Cash on hand	\$	626
Bank Deposits and Deposits in Escrow		1,446
Investments		279,133
Total Cash and Investments	\$	281,205

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, 2012 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	\$ 69,906	Aaa ¹	\$ 60,412	\$ 9,494
Government Securities Money				
Market Mutual Funds	2,914	Aaa ¹	2,914	-
City Investment Pool	206,313	Not Rated	206,313	-
Total Investments	\$ 279,133		\$ 269,639	\$ 9,494

¹ Per Moody's

Investments Authorized by Debt Agreements

The following are the types of investments generally allowed under the Senior Trust Indenture and the Intermediate Lien Master Trust Indenture dated as of October 1, 2007 and the applicable Supplemental Indentures (Intermediate Trust Indenture, together with the Senior Trust Indenture, the Trust Indentures): U.S. Government Securities, U.S. Agency Obligations, Obligations of any State in the U.S., Prime Commercial Paper, FDIC Insured Deposits, Certificates of Deposit/Banker's Acceptance, Money Market Mutual Funds, State-sponsored Investment Pools, Investment Contracts, and Forward Delivery Agreements.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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 department, acting as an agent for the Port under the terms of the Restated Trust Indenture. The Port had investments held by a third party bank trust department in the amount of \$72,820,000 at June 30, 2012. The carrying amount of Port deposits in escrow was \$1,446,000 at June 30, 2012. Bank balances and escrow deposits of \$250,000 at June 30, 2012 are insured or collateralized with securities held by the pledging financial institution's trust department in the Port's name. The remaining balance of \$1,196,000 as of June 30, 2012, was exposed to custodial credit risk by not being insured or collateralized.

Cash and Investments with the City of Oakland

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(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 Successor Agency are related to advances and interfund loans made by the City for projects, loans, and services. The receivable amounts of ORSA relate to project advances made by ORSA 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, 2012, 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 Successor Agency	\$ 1,242
	Other Governmental Funds	1,765
	Federal/State Grant Fund	782
	Municipal Capital Improvement	81
	Internal Service Funds	34,455
	Subtotal General Fund	<u>38,325</u>
Low and Moderate Income		
Housing Asset Fund	Oakland Redevelopment Successor Agency	1,431
	General Fund	178
	Subtotal Low and Moderate Income Housing Asset Fund	<u>1,609</u>
Municipal Capital Improvement	Oakland Redevelopment Successor Agency	127
	Subtotal Governmental Funds	<u>40,061</u>
Oakland Redevelopment		
Successor Agency	General Fund	641
	Federal/State Grant Fund	990
	Municipal Capital Improvement	59
	Subtotal Oakland Redevelopment Successor Agency	<u>1,690</u>
	Total	<u>\$ 41,751</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Interfund Transfers:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	
General Fund	Other Governmental Funds	\$ 103,749	(1)
	Internal Service Funds	134	(2)
Municipal Capital Improvement	General Fund	1	(3)
	Other Governmental Funds	152	(4)
Federal/State Grant Fund	Oakland Redevelopment Agency	990	(5)
Oakland Redevelopment Agency	General Fund	1,313	(6)
	Municipal Capital Improvement	226,989	(7)
	Low and Moderate Income Housing Asset Fund	9,317	(8)
Other Governmental Funds	General Fund	198	(9)
Sewer Service Fund	General Fund	1,493	(10)
Nonmajor Parks & Recreation Fund	General Fund	400	(11)
Internal Service Funds	General Fund	229	(12)
Total		<u>\$ 344,965</u>	

- (1) The \$103.7 million transferred from the General Fund consists of transfers made to provide funding for the following:
- \$10.9 million for the Kids' First Children's Program.
 - \$90.7 million for debt service payments.
 - \$0.2 million for City-owned parcels of land in the Wildfire Prevention Assessment District.
 - \$1.9 million to set up the Rent Adjustment Program as a special revenue fund.
- (2) The \$0.1 million transfer from General Fund to Internal Service Fund for replacement of fire damaged equipments.
- (3) The one thousand dollar transferred from Municipal Capital Improvement Fund to General Fund for closing projects.
- (4) The \$0.1 million transfer from Municipal Capital Improvement Fund to Other Governmental Funds for combining the Nonmajor capital project fund with Municipal Capital Improvement Fund.
- (5) The \$1.0 million transfer from Federal/State Grant Fund to the former Agency for the Tiger II grant.
- (6) The \$1.3 million transfer from the former Agency to General Fund for commercial loans repayment after the City was assigned all the commercial loans from the Agency.
- (7) The \$227.0 million transfer from the Agency to Municipal Capital Improvement for various properties that the City purchased from the Agency pursuant to the purchase and sale agreement between the City and the Agency and the transfer of assets pursuant to the funding agreement between the City and the Agency.
- (8) The \$9.3 million transfer from the former Agency to Low and Moderate Income Asset Fund represents assets transferred to the housing fund after the dissolution of the former Agency pursuant to AB X1 26 and the City resolution number 83680 to retain housing assets, functions and powers previously performed by the former Agency.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

- (9) The \$0.1 million transferred from Other Governmental Funds to General Fund for claims liability payments and closing projects.
- (10) The \$1.5 million transfer from the Sewer Service Fund to the General Fund is to provide funding for \$0.6 million for City-wide lease payments and \$0.9 million for City's claims and liability payments.
- (11) The \$0.4 million transfer from the Parks and Recreation Fund to the General Fund as a one-time contribution for general fund purposes as approved in the Budget.
- (12) 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.

(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 and Aircraft Rescue & Fire Fighters (ARFF)

Payments for special services and ARFF 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 and ARFF totaled \$6,704,000 and are included in Operating Expenses. At June 30, 2012, \$5,719,000 was accrued as a current liability by the Port and as a receivable by the City.

General Services and Lake Merritt Trust Services

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, 2012, the Port accrued approximately \$1,196,000 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 \$960,000 to reimburse the City for General Services for net City expenditures for Lake Merritt Tideland Trust properties in 2012. 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, 2012

Golf Course 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 \$270,000 payable in twelve installments of \$22,500 per month, which is then split 50/50 between the Port and the City.

(6) NOTES AND LOANS RECEIVABLE

Primary Government

The composition of the City's notes and loans receivable as of June 30, 2012, is as follows (in thousands):

Type of Loan	General Fund	Federal/ State Grant Fund	LMIHF ¹	Municipal Capital Improvement	Other Governmental Funds	Total
Pass-through Loans	\$ -	\$ 1,145	\$ -	\$ -	\$ -	\$ 1,145
HUD Loans	-	135,068	-	-	-	135,068
Economic Development						
Loans and Other	47,493	5,250	237,080	367	33,781	323,971
Less: Allowance for						
Uncollectable Accounts	-	(6,745)	(87,121)	-	(2,510)	(96,376)
Total Notes and Loans						
Receivable, Net	<u>\$ 47,493</u>	<u>\$ 134,718</u>	<u>\$ 149,959</u>	<u>\$ 367</u>	<u>\$ 31,271</u>	<u>\$ 363,808</u>

¹ Low and Moderate Income Housing Asset Fund

As of June 30, 2012, the City has a total of \$363.8 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, 2012

Prior to effective date of the Redevelopment Dissolution Law, California Community Redevelopment Law required that at least 20% of the incremental tax revenues generated from certain redevelopment project areas be used to increase, improve, and preserve the affordable housing stock for families and individuals with very low, low, and moderate incomes. In response to this former requirement, the City established its 20% Housing Program and an additional 5% of the former tax increment to offer financial assistance to qualified developers, families, and individuals by providing loans at “below market” rates. Upon dissolution of the former Agency, the City assumed the housing activity function of the former Agency. All loans receivable relating to the Low and Moderate Income Housing Program have been transferred from the former Agency to the LMIHF, which was established as of February 1, 2012 pursuant to City Council resolution no. 83680 C.M.S. As of June 30, 2012, loans receivable relating to the LMIHF program totaled approximately \$150.0 million, net of allowance for uncollectible accounts.

Notes and Loans Receivables Held by ORSA

Composition of loans receivable as of June 30, 2012 is as follows:

	Housing Development Loans	Economic Development Loans	Gross Notes & Loans receivable	Allowance for uncollectible accounts	Total Notes & Loans receivable, Net
Notes and Loans Receivable	\$ 1,463	\$ 18,082	\$ 19,545	\$ (13,170)	\$ 6,375

As of June 30, 2012, ORSA has a total of \$6.4 million net notes and loans receivable, which is not expected to be received in the next twelve months.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(7) CAPITAL ASSETS AND LEASES

Primary Government

Capital assets activity of the primary government for the year ended June 30, 2012, is as follows (in thousands):

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
GOVERNMENTAL ACTIVITIES					
Capital assets, not being depreciated:					
Land	\$ 80,829	\$ 4,184	\$ 4,025	\$ 301	\$ 81,289
Intangibles (easements)	2,607	-	-	-	2,607
Museum collections	736	25	-	-	761
Construction in progress	57,205	83,645	-	(44,678)	96,172
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>141,377</u>	<u>87,854</u>	<u>4,025</u>	<u>(44,377)</u>	<u>180,829</u>
Capital assets, being depreciated:					
Facilities and improvements ¹	805,818	44,305	79,575	9,540	780,088
Furniture, machinery and equipment	181,346	5,346	3,178	1,489	185,003
Infrastructure	576,921	-	-	33,348	610,269
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>1,564,085</u>	<u>49,651</u>	<u>82,753</u>	<u>44,377</u>	<u>1,575,360</u>
Less accumulated depreciation:					
Facilities and improvements	353,184	23,106	46,920	-	329,370
Furniture, machinery and equipment	150,767	9,033	3,146	-	156,654
Infrastructure	214,100	20,713	-	-	234,813
TOTAL ACCUMULATED DEPRECIATION	<u>718,051</u>	<u>52,852</u>	<u>50,066</u>	<u>-</u>	<u>720,837</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>846,034</u>	<u>(3,201)</u>	<u>32,687</u>	<u>44,377</u>	<u>854,523</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 987,411</u>	<u>\$ 84,653</u>	<u>\$ 36,712</u>	<u>\$ -</u>	<u>\$ 1,035,352</u>

¹ The \$79.6 million deletion or retirement include the book value of Kaiser Convention Center retired after the sale of the asset to the Agency

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
BUSINESS-TYPE ACTIVITIES:					
Sewer Service Fund:					
Capital assets, not being depreciated:					
Land	\$ 4	\$ -	\$ -	\$ -	\$ 4
Construction in progress	12,476	9,808	-	(7,023)	15,261
Total capital assets, not being depreciated	<u>12,480</u>	<u>9,808</u>	<u>-</u>	<u>(7,023)</u>	<u>15,265</u>
Capital assets, being depreciated:					
Facilities and improvements	306	5	-	-	311
Furniture, machinery and equipment	1,041	1,893	-	-	2,934
Sewer and storm drains	236,234	-	-	7,023	243,257
Total capital assets, being depreciated	<u>237,581</u>	<u>1,898</u>	<u>-</u>	<u>7,023</u>	<u>246,502</u>
Less accumulated depreciation:					
Facilities and improvements	174	21	-	-	195
Furniture, machinery and equipment	789	265	-	-	1,054
Sewer and storm drains	86,923	4,795	-	-	91,718
Total accumulated depreciation	<u>87,886</u>	<u>5,081</u>	<u>-</u>	<u>-</u>	<u>92,967</u>
Total capital assets, being depreciated, net	<u>149,695</u>	<u>(3,183)</u>	<u>-</u>	<u>7,023</u>	<u>153,535</u>
SEWER SERVICE FUND					
CAPITAL ASSETS, NET	<u>\$ 162,175</u>	<u>\$ 6,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 168,800</u>
Parks and Recreation Fund:					
Capital assets, not being depreciated:					
Land	\$ 218	\$ -	\$ -	\$ -	\$ 218
Total capital assets, not being depreciated	<u>218</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>218</u>
Capital assets, being depreciated:					
Facilities and improvements	4,391	-	-	-	4,391
Furniture, machinery and equipment	369	-	-	-	369
Infrastructure	85	-	-	-	85
Total capital assets, being depreciated	<u>4,845</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,845</u>
Less accumulated depreciation:					
Facilities and improvements	1,530	277	-	-	1,807
Furniture, machinery and equipment	325	7	-	-	332
Infrastructure	20	6	-	-	26
Total accumulated depreciation	<u>1,875</u>	<u>290</u>	<u>-</u>	<u>-</u>	<u>2,165</u>
Total capital assets, being depreciated, net	<u>2,970</u>	<u>(290)</u>	<u>-</u>	<u>-</u>	<u>2,680</u>
PARKS AND RECREATION FUND					
CAPITAL ASSETS, NET	<u>\$ 3,188</u>	<u>\$ (290)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,898</u>
BUSINESS-TYPE ACTIVITIES					
CAPITAL ASSETS, NET	<u>\$ 165,363</u>	<u>\$ 6,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,698</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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

Governmental Activities:

General Government	\$ 4,308
Public Safety	5,951
Community Service Department	11,705
Community and Economic Development	3,716
Planning, Building & Neighborhood Preservation	1,345
Housing & Community Development	38
Public Works	22,758
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	<u>3,031</u>
Total	<u><u>\$ 52,852</u></u>

Business-Type Activities:

Sewer	\$ 5,081
Parks and Recreation	<u>290</u>
Total	<u><u>\$ 5,371</u></u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Discretely Presented Component Unit – Port of Oakland

Capital assets activity for the Port for the year ended June 30, 2012, is as follows (in thousands):

	Balance				Balance
	July 1, 2011	Additions	Deletions	Transfers	June 30, 2012
Capital assets, not being depreciated:					
Land	\$ 520,130	\$ 512	\$ 163	\$ -	\$ 520,805
Intangibles (noise easements and air rights)	12,642	-	-	10,851	23,493
Construction in progress	122,528	68,688	(2,292)	(13,838)	175,086
Total capital assets, not being depreciated	<u>655,300</u>	<u>69,200</u>	<u>(2,129)</u>	<u>(2,987)</u>	<u>719,384</u>
Capital assets, being depreciated:					
Building and improvements	851,384	-	65	272	851,721
Container cranes	153,775	-	-	-	153,775
Systems and structures	1,574,958	-	(1,401)	1,224	1,574,781
Intangibles (software)	11,069	-	(17)	-	11,052
Other equipment	74,742	51	(311)	1,491	75,973
Total capital assets, being depreciated	<u>2,665,928</u>	<u>51</u>	<u>(1,664)</u>	<u>2,987</u>	<u>2,667,302</u>
Less accumulated depreciation:					
Building and improvements	441,390	32,431	1,160	-	472,661
Container cranes	78,395	5,422	-	-	83,817
Systems and structures	538,714	54,144	-	-	592,858
Intangibles (software)	553	1,105	-	-	1,658
Other equipment	45,376	4,930	357	-	49,949
Total accumulated depreciation	<u>1,104,428</u>	<u>98,032</u>	<u>1,517</u>	<u>-</u>	<u>1,200,943</u>
Total capital assets, being depreciated, net	<u>1,561,500</u>	<u>97,981</u>	<u>(147)</u>	<u>2,987</u>	<u>1,466,359</u>
CAPITAL ASSETS, NET	<u><u>\$ 2,216,800</u></u>	<u><u>\$ (28,781)</u></u>	<u><u>\$ (2,276)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,185,743</u></u>

Capital Leases

The capital assets leased to others at June 30, 2012, consist of the following (in thousands):

Land	\$ 389,387
Container cranes	153,775
Building and other facilities	1,142,969
Subtotal	<u>1,686,131</u>
Less accumulated depreciation	<u>(520,756)</u>
Net capital assets, on lease	<u><u>\$ 1,165,375</u></u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012, is as follows (in thousands):

Minimum non-cancelable rentals, including preferential assignments	\$	170,943
Contingent rentals in excess of minimums		18,695
Secondary use of facilities leased under preferential assignments		216
Total	\$	189,854

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 is approximately \$51 million at June 30, 2012 is classified as unearned revenue.

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, 2012

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
2013	\$ 176,034
2014	164,823
2015	164,412
2016	163,084
2017	131,884
2018 - 2022	337,216
2023 - 2027	296,001
2028 - 2032	258,557
2033 - 2037	224,111
2038 - 2042	246,492
2043 - 2047	268,413
Thereafter	813,566
Total	<u>\$ 3,244,593</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
2013	\$ 378
2014	390
2015	401
2016	413
2017	426
2018 - 2022	2,328
2023 - 2027	2,698
2028 - 2032	3,128
2033 - 2037	3,627
2038 - 2042	4,204
2043 - 2047	4,874
Thereafter	7,939
Total	<u>\$ 30,806</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(8) PROPERTY HELD FOR RESALE

Primary Government

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Property held for resale	\$ 179,240	\$ -	\$ 45,857	\$ 133,383

On March 3, 2011, the City and the Agency entered into a purchase and sale agreement of various Agency properties to the City. The City recorded the Property Held for Resale from the former Agency as an asset at the lower of cost or net realizable value.

Oakland Redevelopment Successor Agency

During the five-month period ended June 30, 2012, ORSA has a total of \$38.9 million for property held for resale transferred from the former redevelopment agency and booked at the lower of cost or net realizable value. The property held for resale will be included in ORSA's Long-Range Management Plan, which will be forwarded to the Oversight Board and California State Department of Finance (DOF) for approval upon the receipt of a Finding of Completion from the DOF.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2012, 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	\$ 19,505	\$ 74,814	\$ 94,319
Federal/State Grant Fund	12,529	-	12,529
Low and Moderate Income Housing Asset Fund	1,373	-	1,373
Municipal Capital Improvement Fund	7,313	-	7,313
Other governmental funds	6,219	-	6,219
Subtotal	46,939	74,814	121,753
Internal service funds	1,268	-	1,268
TOTAL	\$ 48,207	\$ 74,814	\$ 123,021
Business-type Activities:			
Sewer Service Fund	\$ 2,487	\$ -	\$ 2,487
TOTAL	\$ 2,487	\$ -	\$ 2,487

Accounts payable and accrued liabilities for the pension trust funds and private purpose trust funds at June 30, 2012, are as follows (in thousands):

Pension Trust Funds:	
Accounts payable	\$ 2
Investments payable	4,528
Accrued investment management fees	396
Member benefits payable	5,112
Total	10,038
Oakland Redevelopment Successor Agency Trust Fund	
Accounts payable and accrued liabilities	12,698
Private Purpose Trust Fund	
Accounts payable and accrued liabilities	14
TOTAL	\$ 22,750

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(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, 2012, the various components of deferred revenue and unearned revenue reported were as follows (in thousands):

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Governmental Activities:			
General Fund	\$ 52,212	\$ 4,160	\$ 56,372
Federal/State Grant Fund	142,992	-	142,992
Low and Moderate Income Housing Asset Fund	151,534		151,534
Municipal Capital Improvement	2,545	-	2,545
Other Governmental Funds	39,052	-	39,052
TOTAL GOVERNMENTAL FUNDS	<u>\$ 388,335</u>	<u>\$ 4,160</u>	<u>\$ 392,495</u>
Business-type activities:			
Sewer Service	<u>\$ -</u>	<u>\$ 263</u>	<u>\$ 263</u>

(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, 2012.

The short-term debt activity for the year ended June 30, 2012, is as follows (in thousands):

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
2010 - 2011 Tax & Revenue Anticipation Notes	\$ -	\$ 81,200	\$ (81,200)	\$ -

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(12) LONG-TERM OBLIGATIONS

Primary Government

The following is a summary of long-term obligations as of June 30, 2012 (in thousands):

Governmental Activities			
Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Bonds Payable:			
General obligation bonds (A)	2039	2.00 - 6.25%	\$ 326,609
Lease revenue bonds (B)	2027	2.85 - 5.50%	210,530
Pension obligation bonds (C)	2023	6.24 - 6.89%	174,777
Accreted interest (B) and (C)			157,211
City guaranteed special assessment district bonds (C)	2039	2.00 - 6.70%	7,475
Plus (less) Deferred Amounts:			
Bond issuance premiums			23,176
Bond refunding loss			(18,546)
Total			881,232
Notes Payable and Capital Leases:			
Notes payable (B) and (D)	2017	1.00 - 8.27%	10,140
Capital leases (B) and (D)	2022	2.56 - 5.40%	13,498
Total			23,638
Other Long-Term Liabilities			
Accrued vacation and sick leave (E)			41,438
Self-insurance liability - workers' compensation (B)			85,558
Self-insurance liability - general liability (B)			33,971
Estimated environmental cost (B)			4,433
Pledge obligation for Coliseum Authority debt (B)			61,408
Net OPEB obligation (B)			186,583
Interest rate swap agreement (B)			16,165
Total			429,556
Total Governmental Activities Long-Term Obligations, Net			\$ 1,334,426

Debt service payments are made from the following sources:

- (A) Property tax recorded in the debt service funds
- (B) Revenues recorded in the general fund
- (C) Property tax voter approved debt
- (D) Revenues recorded in the special revenue funds
- (E) 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, 2012

Business-Type Activities

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Sewer fund - Notes payable	2014	3.00 - 3.50%	\$ 574
Sewer fund - Bonds	2029	3.00 - 5.25%	50,695
Unamortized Bond Premium			2,003
Total Business-Type Activities Long-Term Obligations, Net			<u>\$ 53,272</u>

Component Unit - Port of Oakland

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Senior and intermediate lien bonds	2033	1.50 - 5.88%	\$ 1,262,965
Notes and loans	2030	0.12 - 5.00%	92,832
Plus (less) Deferred Amounts:			
Unamortized bond discounts and premiums, net			19,773
Deferred loss on refunding			(20,677)
Total bonds, notes, and loans payable			<u>1,354,893</u>
Self-insurance liability - workers' compensation			8,190
Self-insurance liability - general liability			5,663
Accrued vacation, sick leave and compensatory time			6,023
Environmental remediation and other liabilities			23,222
Net OPEB obligation			<u>10,510</u>
Total other long-term obligation			<u>53,608</u>
Total Component Unit Long-Term Obligation, Net			<u>\$ 1,408,501</u>

Oakland Redevelopment Successor Agency

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Tax Allocation Bonds	2041	2.50 - 8.50%	\$ 377,665
Housing Set-Aside Bonds	2042	3.25 - 9.25%	125,875
Plus (less) Deferred Amounts:			
Issuance premiums			6,675
Issuance discounts			(2,523)
Refunding loss			(3,211)
Total ORSA Long-Term Obligation, Net			<u>\$ 504,481</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Revenues Pledged for the Repayment of Debt Service - ORSA

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 issued primarily to finance redevelopment projects and are all secured by pledge of redevelopment property tax revenues (i.e. former tax increment), consisting of a portion of taxes levied upon all taxable properties within each the tax increment generating redevelopment project areas, and are equally and ratably secured on a parity with each TAB series.

As of June 30, 2012, assuming no growth in assessed valuation throughout the term of each project area, the total projected accumulated redevelopment property tax revenue through the period of the bonds would be estimated at \$2,949,756,000. These revenues have been pledged until the year 2041, the final maturity date of the bonds. The total principal and interest remaining on these TABs as of June 30, 2012 is estimated at \$599,700,000, which is 20.3 percent of the total projected redevelopment property tax revenues. The pledged redevelopment property tax revenues recognized during the reporting period February 1, 2012 through June 30, 2012 was \$36,597,000 of which \$16,782,730 (principal and interest) was used to pay debt service.

Historically, upon receipt of property tax increment, the Agency calculated the 80 percent and 20 percent and the voluntary 5 percent amount of tax increment and would then transfer the 20 percent and 5 percent portion to the Low and Moderate Income Housing Fund, as required by the California Health and Safety Code and the Agency board resolution. The previous requirement to bifurcate the tax increment into 80 percent and 20 percent portions was eliminated in AB X1 26. However, in order to maintain compliance with bond indentures secured by the 80 percent and 20 percent tax increment, the Oakland Redevelopment Successor Agency plans to request the funds through the Recognized Obligation Payment Schedule (ROPS) from the Redevelopment Property Tax Trust Fund ("RPTTF") pursuant to Health and Safety Code 34183 (a)(2)(A), and segregate the funds in the debt service funds accordingly until the debt obligations have been satisfied.

Housing Set-Aside Bonds

The Housing set-aside bonds, which is comprised of Series 2006A, Series 2006A-T and Series 2011T are issued to finance affordable housing projects and are secured by a pledge and lien upon the 20% redevelopment property tax revenue (i.e. former tax increment) set-aside for the low and moderate income housing fund.

As of June, 30, 2012, assuming no growth in assessed valuation throughout the term of each project area, the total projected accumulated redevelopment property tax

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

revenue through the period of the bonds would be estimated at \$779,962,000. These revenues have been pledged until the year 2042, the final maturity date of the bonds. The total principal and interest remaining on these Housing Set-Aside Bonds as of June 30, 2012 is estimated at \$252,046,000, which is 32.3 percent of the total projected tax increment revenues. The pledged redevelopment property tax revenues recognized during the reporting period February 1, 2012 through June 30, 2012 was zero. The total interest debt service payment for the reporting period was \$4,174,793. The Agency used restricted fund balance on the Low and Moderate Housing Fund to pay the debt service for the subject reporting period.

In the future, in order to maintain compliance with bond indentures secured by the 20 percent tax increment, the Oakland Redevelopment Successor Agency plans to request the funds through the Recognized Obligation Payment Schedule (ROPS) from the RPTTF pursuant to Health and Safety Code 34183 (a)(2)(A), and segregate the funds in the debt service funds accordingly until the debt obligations have been satisfied. See Note 2 for additional information.

Revenues Pledged for the Repayment of Debt Service – Port

The Port's long-term debt consists primarily of tax-exempt bonds. The majority of the Port's outstanding bonds are revenue bonds which are secured by Pledged Revenues of the Port. Pledged Revenues are substantially all revenues and other cash receipts of the Port, including, without limitation, amounts held in the Port Revenue Fund with the City, but excluding amounts received from certain taxes, certain insurance proceeds, special facilities revenues, and certain other gifts, fees, and grants that are restricted by their terms to purposes inconsistent with the payment of debt service.

Pledged Revenues do not include cash received from Passenger Facility Charges (PFC) or Customer Facility Charges (CFC) unless projects included in a financing are determined to be PFC or CFC eligible and bond proceeds are expended on such eligible projects and the Port elects to pledge PFCs or CFCs as supplemental security to such applicable bonds. Currently, the Port has no bonds for which PFCs or CFCs are pledged. As of June 30, 2012, the Port has \$161.2 million of net pledge revenues.

For additional disclosures on revenues pledged for repayment of Port debt, see the separately issued financial statements of the Port.

Debt Compliance

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Legal Debt Limit and Legal Debt Margin

As of June 30, 2012, the City's debt limit (3.75% of valuation subject to taxation) was \$1,110,343,736. The total amount of debt applicable to the debt limit was \$326,608,202. The resulting legal debt margin was \$783,735,534.

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.

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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

The amortization schedule is as follows as of June 30, 2012:

Calculation period (July 31)	Notional Amount	Fixed Rate To Counterparty	65% of LIBOR ¹	Net Rate
2012	\$ 68,900,000	5.6775%	0.1597% ²	5.5178%
2013	61,200,000	5.6775%	0.1597% ²	5.5178%
2014	53,700,000	5.6775%	0.1597% ³	5.5178%
2015	46,400,000	5.6775%	0.1597% ⁴	5.5178%
2016	39,300,000	5.6775%	0.1597% ⁵	5.5178%
2017	32,500,000	5.6775%	0.1597% ⁶	5.5178%
2018	25,800,000	5.6775%	0.1597% ⁷	5.5178%
2019	19,300,000	5.6775%	0.1597% ⁸	5.5178%
2020	12,800,000	5.6775%	0.1597% ⁹	5.5178%
2021	6,400,000	5.6775%	0.1597% ¹⁰	5.5178%

¹ Rate is as of 1-month LIBOR on June 30, 2012

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, 2012 of \$68,900,000. The notional amount of the swap declines through 2021. Under the Swap, the City pays the counterparty a fixed payment of 5.6775% and receives a variable payment computed at 65% of LIBOR rate (total rate not to exceed 12%). The City's payments to the counterparty under the Swap agreement are insured by the third party bond insurer.

Fair Value: Because interest rates have declined since the execution of the Swap, the Swap had a negative fair value of \$16,164,548 as of June 30, 2012. 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 Aa2 by Moody's Investors Service, and AAA by Standard and Poor's as of June 30, 2012. 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012

Changes in Long-term Obligations

Primary Government

The changes in long-term obligations for the year ended June 30, 2012, are as follows (in thousands):

Governmental Activities

	Balance at July 1, 2011	Additional obligations, interest accretion and net increases (decreases)	Current maturities, retirements and net decreases (increases)	Balance at June 30, 2012	Amounts due within one year
Bonds Payable:					
General obligation bonds	\$ 349,431	\$ 83,775	\$ 106,597	\$ 326,609	\$ 16,816
Tax allocation, housing and other bonds ¹	523,905	-	523,905	-	-
Certificates of participation	3,895	-	3,895	-	-
Lease revenue bonds	242,800	-	32,270	210,530	33,680
Pension obligation bonds	195,637	-	20,860	174,777	19,923
City guaranteed special assessment district bonds	7,963	-	488	7,475	305
Accreted interest on appreciation bonds	172,121	-	14,910	157,211	16,946
Plus (less) deferred amounts:					
Bond issuance premiums	22,203	8,538	7,565	23,176	1,912
Bond refunding loss	(23,481)	-	(4,935)	(18,546)	(1,458)
Total	1,494,474	92,313	705,555	881,232	88,124
Notes Payable and Capital Leases:					
Notes payable	12,295	-	2,155	10,140	2,325
Capital Leases	17,068	-	3,570	13,498	2,270
Total	29,363	-	5,725	23,638	4,595
Other Long-Term Liabilities:					
Accrued vacation and sick leave	38,542	52,342	49,446	41,438	30,666
Pledge obligation for Coliseum Authority debt ²	72,450	61,408	72,450	61,408	4,513
Estimated environmental cost	5,706	33	1,306	4,433	1,300
Self -insurance liability - workers' compensation	82,045	29,810	26,297	85,558	20,367
Self -insurance liability - general liability	36,687	12,414	15,130	33,971	13,400
Net OPEB obligation	156,978	46,401	16,796	186,583	-
Interest rate swap agreement	16,112	53	-	16,165	-
Total	408,520	202,461	181,425	429,556	70,246
Total Governmental Activities Long-Term Obligations	\$ 1,932,357	\$ 294,774	\$ 892,705	\$ 1,334,426	\$ 162,965

¹ Former Redevelopment Agency debt was transferred to ORSA as part of the Redevelopment Dissolution Law (AB X1 26) (See page 47 for discussion).

² The City and Alameda County issued \$122.8 million refunding bonds for the Coliseum Authority at a fixed-rate mode.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012, \$2,077,277, of capital leases and notes payable related to the internal service funds are included in the above amounts. Compensated absences obligations are financed and recorded in the appropriate governmental and proprietary funds when due.

Business-Type Activities

	Balance at July 1, 2011	Current maturities, retirements and net decreases	Balance at June 30, 2012	Amounts due within one year
Sewer fund - Notes payable	\$ 848	\$ 274	\$ 574	\$ 283
Sewer fund - Bonds	52,580	1,885	50,695	1,985
Unamortized bond premium	2,121	118	2,003	118
Total	\$ 55,549	\$ 2,277	\$ 53,272	\$ 2,386

Component Unit - Port of Oakland

	Balance at July 1, 2011	Additional obligations, interest accretion and net increases	Current maturities, retirements and net decreases	Balance at June 30, 2012	Amounts due within one year
Senior and intermediate lien bonds	\$ 1,314,080	\$ 345,730	\$ 396,845	\$ 1,262,965	\$ 45,605
Notes and loans	93,030	-	198	92,832	215
Plus (less) deferred amounts:					
Unamortized bond discount and premium, net	12,684	10,906	3,817	19,773	4,280
Deferred loss on refunding	(16,938)	(5,961)	(2,222)	(20,677)	(2,483)
Total	1,402,856	350,675	398,638	1,354,893	47,617
Accrued vacation, sick leave, and compensatory time	6,595	1,653	2,225	6,023	4,370
Environmental remediation and other liabilities	22,560	5,969	5,307	23,222	4,291
Self-insurance liability - workers' compensation	6,900	2,593	1,303	8,190	1,500
Self-insurance liability - general liability	3,918	4,685	2,940	5,663	-
Net OPEB obligation	10,461	10,983	10,934	10,510	-
Total	50,434	25,883	22,709	53,608	10,161
Total Component Unit Long- Term Obligations	\$ 1,453,290	\$ 376,558	\$ 421,347	\$ 1,408,501	\$ 57,778

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

A summary of the Oakland Redevelopment Successor Agency changes in long-term debt during the period from inception (February 1, 2012 through June 30, 2012 are as follows (in thousands):

Oakland Redevelopment Successor Agency					
	February 1, 2012	Additions	Deductions	Balance June 30, 2012	Due within One Year
Bonds Payable:					
Tax allocation bonds	\$ 383,590	\$ -	\$ (5,925)	\$ 377,665	18,685
Housing set-aside revenue bonds	125,875	-	-	125,875	3,860
Plus (less) deferred amounts:					
Issuance premiums	7,104	-	(429)	6,675	980
Issuance discount	(2,580)	-	57	(2,523)	(136)
Refunding loss	(3,322)	-	111	(3,211)	(257)
Total	\$ 510,667	\$ -	\$ (6,186)	\$ 504,481	23,132

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Repayment Schedule:

Primary Government

The annual repayment schedules for all long-term debt as of June 30, 2012, are as follows (in thousands):

Year Ending June 30	Governmental Activities ¹					
	General Obligation Bonds		Lease Revenue Bonds		Pension Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013.....	\$ 16,816	\$ 16,471	\$ 33,680	\$ 9,728	\$ 19,923	\$ 19,632
2014.....	19,344	15,637	35,295	8,155	18,881	21,884
2015.....	20,394	14,685	31,600	6,465	18,079	23,931
2016.....	19,350	13,700	18,845	5,290	17,210	26,075
2017.....	20,425	12,748	19,775	4,382	16,370	28,220
2018-2022.....	111,642	47,986	31,255	14,042	71,643	172,037
2023-2027.....	38,323	27,464	40,080	5,210	12,671	40,459
2028-2032.....	45,920	17,134	-	-	-	-
2033-2037.....	25,970	6,665	-	-	-	-
2038-2039.....	8,425	798	-	-	-	-
Total	\$ 326,609	\$ 173,288	\$ 210,530	\$ 53,272	\$ 174,777	\$ 332,238

Year Ending June 30	Special Assessment					
	District Bonds		Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2013.....	\$ 305	\$ 407	\$ 2,325	\$ 278	\$ 2,271	\$ 586
2014.....	315	391	2,485	216	2,372	483
2015.....	340	375	2,180	157	2,104	376
2016.....	340	357	1,090	121	1,824	286
2017.....	365	339	2,060	53	1,431	199
2018-2022.....	2,120	1,373	-	-	3,496	368
2023-2027.....	1,700	782	-	-	-	-
2028-2032.....	595	529	-	-	-	-
2033-2037.....	800	319	-	-	-	-
2038-2040.....	595	58	-	-	-	-
Total	\$ 7,475	\$ 4,930	\$ 10,140	\$ 825	\$ 13,498	\$ 2,298

Year Ending June 30	Accreted Interest on Appreciation bonds		Year Ending June 30	Total	
	Principal	Interest		Principal	Interest
	2013.....	\$ 16,946		\$ -	2013.....
2014.....	16,858	-	2014.....	95,550	46,766
2015.....	24,037	-	2015.....	98,734	45,989
2016.....	24,411	-	2016.....	83,070	45,829
2017.....	27,397	-	2017.....	87,823	45,941
2018-2022.....	47,562	-	2018-2022.....	267,718	235,806
2023-2027.....	-	-	2023-2027.....	92,774	73,915
2028-2032.....	-	-	2028-2032.....	46,515	17,663
2033-2037.....	-	-	2033-2037.....	26,770	6,984
2038-2040.....	-	-	2038-2040.....	9,020	856
Total	\$ 157,211	\$ -	Total	\$ 900,240	\$ 566,851

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, 2012

Year Ending June 30	Business-Type Activities					
	Sewer Revenue Bonds		Sewer Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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.....	2,400	2,083	-	-	2,400	2,083
2018-2022.....	13,815	8,598	-	-	13,815	8,598
2023-2027.....	17,610	4,812	-	-	17,610	4,812
2028-2029.....	8,335	630	-	-	8,335	630
Total	\$ 50,695	\$ 25,520	\$ 574	\$ 26	\$ 51,269	\$ 25,546

Oakland Redevelopment Successor Agency

The debt service requirements for all debt are based upon a fixed rate of interest. The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding as of June 30, 2012, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30:	Principal	Interest	Total
2013.....	\$ 22,545	\$ 29,313	\$ 51,858
2014.....	24,870	28,053	52,923
2015.....	19,865	26,651	46,516
2016.....	27,140	25,334	52,474
2017.....	29,760	23,670	53,430
2018-2022.....	165,425	89,791	255,216
2023-2028.....	56,270	55,591	111,861
2028-2032.....	56,195	40,591	96,786
2033-2037.....	73,315	22,767	96,082
2038-2042.....	28,155	6,446	34,601
TOTAL	\$ 503,540	\$ 348,207	\$ 851,747

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012, are as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
2013.....	\$ 45,812 ⁽¹⁾	\$ 62,327	\$ 108,139
2014.....	58,568	62,277	120,845
2015.....	75,407	61,004	136,411
2016.....	81,701	57,426	139,127
2017.....	74,860	53,252	128,112
2018-2022.....	305,816	219,869	525,685
2023-2028.....	357,480	140,306	497,786
2028-2032.....	318,348	48,094	366,442
2033.....	37,805	945	38,750
TOTAL	\$ 1,355,797	\$ 705,500	\$ 2,061,297

(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 2014-2018 pursuant to the terms of the Commercial Paper Reimbursement Agreements.

On August 16, 2011, the Port issued \$345.7 million of Refunding Revenue Bonds, 2011 Series O to refund and retire Revenue Bonds, 2000 Series K Senior Lien Bonds. The gross debt service savings through fiscal year 2033 is \$28 million with a present value savings of \$29.2 million. In addition, the Port recorded a deferred loss on refunding of \$6.0 million.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Current Year Long-Term Debt Financings

General Obligation Refunding Bonds Series 2012

On January 10, 2012, the City of Oakland issued \$83,775,000 of General Obligation Refunding Bonds Series 2012 (the "Series 2012 Bonds"). The Bonds were issued to refund the City of Oakland General Obligation Bonds Series 2002A, Measure G and a portion of the City of Oakland General Obligation Bonds Series 2003A, Measure DD. The 2012 Bonds were rated Aa2 and AA- from Moody's and S&P respectively. This refunding produced approximately \$6.43 million in net present value savings and reduced the annual ad valorem taxes assessed to the property owners in the City.

The Series 2012 Bonds were issued with interest rates ranging from 2.00% to 5.00% which yielded a rate of 0.61% to 4.45% and a final maturity of January 15, 2033.

The refunding resulted in a positive cash flow in the amount of \$8,277,171. In addition, the City obtained a net economic gain on this financing of \$6,433,026.

Prior Year's Debt Defeasance

In prior years, the City has defeased various bond issues by creating separate irrevocable escrow funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the escrow funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and is therefore removed as a liability from the City's government-wide financial statements. As of June 30, 2012, defeased debt outstanding amounted to \$57.1 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012 (in thousands):

	<u>Authorized and Issued</u>	<u>Maturity</u>	<u>Outstanding at June 30, 2012</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	<u>160,000</u>	10/01/50	<u>160,000</u>
TOTAL	<u>\$ 185,600</u>		<u>\$ 181,005</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(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 reserve 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, 2012, \$20.1 million of the reserves is in assigned fund balance and \$62.8 million is in unassigned fund balances.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(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.

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 \$85,557,956 in claims liabilities as of June 30, 2012, approximately \$20,366,550 is estimated to be due within one year.

Changes in workers' compensation claims liabilities for the years ended June 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Self-insurance liability -		
workers' compensation, beginning of year	\$ 82,045	\$ 75,695
Current year claims and changes in estimates	29,810	29,508
Claims payments	(26,297)	(23,158)
Self-insurance liability -		
workers' compensation, end of year	\$ 85,558	\$ 82,045

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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

General Liability

Numerous lawsuits are pending or threatened against the City. The City estimates that as of June 30, 2012, the amount of liability determined to be probable of occurrence is approximately \$33,971,224. Of this amount, claims and litigation approximating \$13,399,775 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 ORSA are involved in various claims and litigation arising in the ordinary course of its activities. In the opinion of the ORSA'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 ORSA. The City has not accumulated or segregated assets or set aside fund balances for the payment of estimated claims and judgments.

Changes in general claims liabilities for the years ended June 30, 2012 and 2011 are as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Self-insurance liability - general liability, beginning of year	\$ 36,687	\$ 40,067
Current year claims and changes in estimates	12,414	20,575
Claims payments	(15,130)	(23,955)
Self-insurance liability - general liability, end of year	<u>\$ 33,971</u>	<u>\$ 36,687</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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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 Workers' Compensation liability at June 30, 2012 is based on an actuarial valuation performed as of June 30, 2012. Changes in the reported liability resulted from the following (in thousands):

	<u>2012</u>	<u>2011</u>
Self-insurance liability - workers' compensation, beginning of year	\$ 6,900	\$ 6,900
Current year claims and changes in estimates	2,593	863
Claims payments	<u>(1,303)</u>	<u>(863)</u>
Self-insurance liability - workers' compensation, end of year	<u>\$ 8,190</u>	<u>\$ 6,900</u>

General Liability

The Port purchases insurance on certain risk exposures including but not limited to property, crane and rail, automobiles, airport liability, fidelity, fiduciary liability, and public officials liability. Port deductibles for the various insured programs range from \$10,000 to \$1,000,000 each claim. The Port is, however, self-insured for other general liability and liability/litigation-type claims, workers' compensation of the Port's employees and most first party earthquake exposures. However, during fiscal years 2012, the Port carried excess insurance over \$1,000,000 for the self insured

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

general liability and \$750,000 for workers compensation exposures. There have been no settlements related to these programs that exceeded insurance coverage in the last three years.

As of June 30, 2012, 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.

The Port is currently in litigation with one of its maritime tenants in connection with such tenant's complaint before the Federal Maritime Commission ("FMC") alleging the Port has violated the Federal Shipping Act of 1984 by entering into a long-term concession and lease agreement with another maritime tenant, with allegedly more favorable lease terms. A separate, related declaratory relief action filed by the Port is pending in federal court, as are counterclaims filed by the maritime tenant. The FMC proceedings and federal court case are both still in early stages. Although the Port cannot predict the final outcome of either of these actions, the Port believes in the merits of the Port's position and is vigorously contesting the tenant's claims. A conclusion adverse to the Port could materially adversely affect the Port's revenue and financial position. For additional information, contact the Port of Oakland, 530 Water Street, Oakland, California 94607.

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

	<u>2012</u>	<u>2011</u>
Self-insurance liability - general liability, beginning of year	\$ 3,918	\$ 3,079
Current year claims and changes in estimates	4,685	4,983
Claims payments	<u>(2,940)</u>	<u>(4,144)</u>
Self-insurance liability - general liability, end of year	<u>\$ 5,663</u>	<u>\$ 3,918</u>

Capital Improvement Projects

The Port maintains an Owner Controlled Insurance Program (OCIP) and Professional Liability Insurance Program (PLIP) for contractors and consultants working on Port Capital Improvement Projects (CIP).

The OCIP provides general liability insurance and workers' compensation insurance for contractors working on CIP projects. The Port is responsible for payment of the deductible/self-insured retention, which is currently \$100,000 for each general liability and workers' compensation claim. The Port's OCIP insurance broker has provided an actuarial forecast for this program that projects losses within the deductible/self-insured retention, which have not yet been accrued, will be approximately \$507,000 through program expiration, which is July 2014.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

The PLIP provides professional liability insurance for consultants working on Port CIP projects. Subject to this program, the consultants separately are responsible for paying the deductible/self-insured retentions, which are \$50,000 for consultants with annual revenues under \$20,000,000 and \$1,000,000 for consultants with annual revenues over \$20,000,000. The Port's deductible/self-insured retention is \$1,000,000. There is no actuarial forecast for this coverage.

(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 the 1995 Series B-1 and B-2 Variable Rate Lease Revenue Stadium Bonds. The balance was reduced to \$137,434,050 as of May 31, 2012 through annual principal payments and optional calls.

On May 31, 2012, the Authority issued \$122,815,000 in Refunding Bonds Series 2012 A with coupons of 2% to 5% to refund and defease all outstanding variable rate 2000 Series C Refunding Bonds. The bonds were priced at a premium, bringing total proceeds to \$138,166,073.

These funds coupled with \$13,000,625 in the 2000 Series C reserve fund generated a total available fund of \$151,166,698, which was used to refund the 2000 C Refunding Bonds of \$137,434,050, fund a reserve fund of \$12,809,500 and to pay underwriter's

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

discount and issuance cost of \$923,147. The all-in-interest cost of the 2012A refunding bonds was 3.04%.

There was an economic loss of \$23,021,101 (difference between the present value of the old and the new debt service payments) due to the low variable interest rates on the old bonds and the higher fixed rates on the new bonds. The Authority was unable to maintain the bonds at a variable rate because it was not able to renew the letters of credit as required due to the tightening of the credit markets since 2008. However, the Authority was able to take advantage of the fixed rate market with historically low interest rates and issued fixed rate bonds that generated a premium of \$15,351,073. There was a deferred loss of \$805,732, equal to the amount of unamortized issuance costs of the 2000 C and D Refunding 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 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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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 expired in June 2012. In July 2012, AEG Management of Oakland, LLC took over management of the Coliseum complex after signing a five year agreement.

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	Principal	Interest ⁽¹⁾
2013	\$ 9,025	\$ 5,572	\$ 4,400	\$ 219
2014	7,340	5,375	4,700	208
2015	7,560	5,121	5,100	198
2016	7,865	4,781	5,400	186
2017	8,255	4,379	5,800	174
2018-2022	47,895	15,138	35,600	650
2023-2026	34,875	2,817	34,435	189
Total	<u>\$ 122,815</u>	<u>\$ 43,183</u>	<u>\$ 95,435</u>	<u>\$ 1,824</u>

⁽¹⁾ As of June 30, 2012, the variable interest rate for the Arena Bonds include Lease Revenue Bonds Series A-1 and Series A-2 are 0.22 and 0.236, respectively and the term for the resets in the separate Commercial Paper Segment range from 14 and 60 days.

Complete financial statements for the Authority can be obtained from the County Auditor-Controller's office at 1221 Oak Street, Room 249. 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, 2012, the City made contributions of \$9,980,000 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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

agreements, it is estimated that the City may have to contribute \$10,000,000 for the 2012-13 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 \$61,400,000. 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 the California Public Employees' Retirement System (PERS) Public Safety Retirement Plan and Miscellaneous Retirement Plan. PFRS and OMERS are closed plans that cover employees hired prior to July 1976 and September 1970, respectively. These two plans are considered part of the City's reporting entity and are included in the City's basic financial statements as pension trust funds. City employees hired subsequent to the 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.

	<u>PFRS</u>	<u>OMERS</u>	<u>PERS</u>
Type of plan	Single employer	Single employer	Agent multiple employer
Reporting entity	City	City	State
Most recent actuarial study	July 1, 2011	July 1, 2010	June 30, 2011

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, 2012 stand alone financial statements are available by contacting the City Administrator's Office, One Frank Ogawa Plaza, Oakland, CA 94612.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012, 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 March 1997 to fund PFRS through June 2011. Bond proceeds in the amount of \$417,173,300 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.

In November 2007, City voters passed Measure M to modify the City Charter to allow PFRS to invest in non-dividend paying stocks and to switch the asset allocation structure from 50% equities and 50% fixed income to the Prudent Person Standard.

Effective July 1, 2011, the City resumed contributing to PFRS pension obligations. The City contributed a total of \$45,507,996 to PFRS for the year ended June 30, 2012.

As of July 1, 2011 (the date of the last PFRS actuarial valuation), the unfunded actuarial accrued liability is approximately \$426,800,000.

In July 2012, the City issued additional Pension Obligation Bonds (Series 2012) and contributed \$210,000,000 to PFRS, which lowered the unfunded actuarial accrued liability from the \$426,800,000 amount. As a result of a funding agreement entered into between the PFRS Board and the City, no additional contributions are required until July 1, 2017. See Note 21 for additional information.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012, were as follows:

Annual Required Contribution (ARC)	\$ (45,100,000)
Interest on pension asset	12,488,101
Adjustment to the annual required contribution	<u>(14,623,376)</u>
Annual Pension Cost	(47,235,275)
Pension contribution	45,507,996
Net pension assets, beginning of year	<u>156,101,262</u>
Net pension assets, end of year	<u><u>\$ 154,373,983</u></u>

The following table shows the City's annual pension cost and the percentage contributed for the fiscal year 2012 and each of the two preceding years:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual Pension</u> <u>Cost</u>	<u>Pension</u> <u>Contribution</u>	<u>Percentage (%)</u> <u>Contributed</u>	<u>Net Pension Asset</u>
2010	\$ 43,790,973	\$ -	0%	\$ 200,002,721
2011	43,901,459	-	0%	156,101,262
2012	47,235,275	45,507,996	96%	154,373,983

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).

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u> <u>(a)</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(a-b)</u>	<u>Funded</u> <u>Ratio</u> <u>(b/a)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage of</u> <u>Covered</u> <u>Payroll</u> <u>((a-b)/c)</u>
7/1/2011	\$ 683.2	\$ 256.4	\$ 426.8	37.5%	\$ 0.1	426800%

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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012 are as follows:

<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Valuation Date	July 1, 2011 ¹	July 1, 2010 ²
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Investment Rate of Return	6.75%	7.00%
Inflation Rate, U.S.	3.25%	3.25%
Inflation Rate, Bay Area	3.375%	3.50%
Long-term General Pay Increases	3.98%	4.50%
Long-term Postretirement Benefit Increases	3.975%	4.50%
Amortization Method	Level Dollar	Level Dollar
Amortization Period	25 years closed as of July 1, 2011	26 years closed as of July 1, 2010
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, 2011 valuation was used to determine the funded status

² The July 1, 2010 valuation was used to determine the annual required contribution for fiscal year 2012

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012 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, 2012, 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, 2012

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, 2012 are as follows:

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

¹ The July 1, 2010 valuation was used to determine the funded status and determines the annual required contribution for fiscal year 2012

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.

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 23.604% for non-safety employees and 30.368% 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Annual Pension Cost

For 2010-12, the City's annual pension costs of \$46.8 million for the Safety Plan and \$42.2 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, 2009, 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 millions):

Safety Plan			
Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 54.2	100%	\$ -
2011	51.1	100%	-
2012	46.8	100%	-

Miscellaneous Plan			
Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 40.1	100%	\$ -
2011	33.1	100%	-
2012	42.2	100%	-

Funded Status and Funding Progress for Retirement Plans

Safety Plan

As of June 30, 2011, the most recent actuarial valuation date, the Public Safety plan was 75.4% funded. The actuarial accrued liability for benefits was \$1,357,816,142 and the actuarial value of Plan assets was \$1,023,866,075 resulting in an unfunded actuarial accrued liability (UAAL) of \$333,950,067. The annual covered payroll was \$130,530,316, and the ratio of the UAAL to the annual covered payroll was 255.8%.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, 2012 are as follows:

<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Valuation Date	June 30, 2011 ¹	June 30, 2009 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	32 years closed as of the Valuation Date	31 years closed as of the Valuation Date
Asset Valuation Method	15 Years Smoothed Market	15 Years Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.50% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, service, and type of employment	3.55% to 13.15% depending on Age, service, and type of employment
Inflation	2.75%	3.00%
Payroll Growth	3.00%	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% 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, 2011 valuation was used to determine the funded status

² The June 30, 2009 valuation was used to determine contribution requirements for fiscal year 2012

Miscellaneous Plan

As of June 30, 2011, the most recent actuarial valuation date, the Miscellaneous Plan was 79.8% funded. The actuarial accrued liability for benefits was \$2,025,140,791, and the actuarial value of plan assets was \$1,615,939,765, resulting in an unfunded actuarial accrued liability (UAAL) of \$409,201,026. The annual covered payroll was \$194,123,413, and the ratio of the UAAL to the annual covered payroll was 210.8%. 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, 2012

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, 2012 are as follows:

Description	Method/Assumption	Method/Assumption
Valuation Date	June 30, 2011 ¹	June 30, 2009 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	19 years closed as of the Valuation Date	20 years closed as of the Valuation Date
Asset Valuation Method	15 Years Smoothed Market	15 Years Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.50% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment	3.55% to 14.45% depending on age, service, and type of employment
Inflation	2.75%	3.00%
Payroll Growth	3.00%	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% 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, 2011 valuation was used to determine the funded status

² The June 30, 2009 valuation was used to determine contribution requirements for 2012

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, 2012

(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 \$16,795,999 for retirees under this program for the year ended June 30, 2012.

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, 2012 using a 4.00% interest rate scenario, were as follows (in thousands):

Annual Required Contribution (ARC)	\$	46,657
Interest on net OPEB obligation		6,279
Adjustment to ARC		(6,535)
Annual OPEB cost		46,401
Employer Contribution		(16,796)
Increase in net OPEB obligation		29,605
Net OPEB obligation, beginning of year		156,978
Net OPEB obligation, end of year	\$	186,583

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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
2010	\$ 54,495	26%	\$ 126,237
2011	46,451	34%	156,978
2012	46,401	36%	186,583

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, 2012

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, 2012 and the funded status as of July 1, 2010 are as follows:

<u>Description</u>	<u>Method/Assumption</u>
Valuation Date	July 1, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	30 years open as of the Valuation Date
Asset Valuation Method	5 Years Smoothed Market
Actuarial Assumptions:	
Discount Rate ¹	4.00%
Projected Salary Increases	2.5% per year growth
Inflation	3.00%
Demographic Rate	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.

¹ 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, 2012

Discretely Presented Component Unit – Port of Oakland

Plan Description

The Port contributes to the California Employer’s Retiree Benefit Trust (CERBT), an agent multiple-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 CalPERS. The employer paid medical insurance is not to exceed the Kaiser Bay Family rate. The Retiree Health Plan also includes dental, and vision benefits and reimbursement of Medicare Part B monthly insurance premium.

On July 21, 2011, the Port adopted Resolutions 11-82 and 11-83 which established a Health Benefit Vesting Requirement for employees who are members of Western Council of Engineers (WCE) and the International Federation of Professional and Technical Engineers Local 21 and Unrepresented employees. With respect to employees hired by the Port on or after September 1, 2011, the Port shall pay a percentage of employer contributions for retiree medical coverage for a retiree and his or her eligible dependents based on the provisions of Section 22893 of the California Government Code. Under these rules, a retiree must have at least 10 years of credited service with a CalPERS agency, at least five of which are with the City/Port. Except as otherwise required by Section 22893(b) of the California Government Code (providing for 100% of employer contributions for a retiree who retired for disability or retired for service with 20 or more years of service credit), the Port will pay a percentage of employer contributions for the Retiree based upon the following:

<u>Years of Credited Service (at least 5 of which are with the City/Port)</u>	<u>% of Employer Contributions</u>
10	50
11	55
12	60
13	65
14	70
15	75
16	80
17	85
18	90
19	95
20	100

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

The employer contribution will be adjusted by the Port each year but cannot be less than the amount required by California Government Code Sections 22893 plus administrative fees and contingency reserve fund assessments.

Employees hired on or after October 1, 2009, with the exception of members of Service Employees International Union (Local 1021) and members of the International Brotherhood of Electrical Workers (Local 1245), no longer qualify for dental, vision or employee assistance program benefits upon ceasing to be an eligible employee of the Port except to the extent required under the Consolidated Omnibus Budget Reconciliation Act (“COBRA”).

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, 2012, there were approximately 564 employees who had retired from the Port and were in the Port’s retiree benefit plan. During the fiscal year ended June 30, 2012, the Port contributed \$4,500,000 on behalf of OPEB eligible retirees to third parties outside of CERBT and made a payment of \$6,434,000 on behalf of eligible retirees to third parties outside of the CERBT fund.

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.

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, 2012 (in thousands):

Annual Required Contribution (ARC)	\$	10,783
Interest on net OPEB obligation		796
Adjustment to ARC		(596)
Annual OPEB cost		10,983
Employer Contribution		(10,934)
Increase in net OPEB obligation		49
Net OPEB obligation, beginning of year		10,461
Net OPEB obligation, end of year	\$	10,510

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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

Fiscal Year Ended	Percentage of Annual		
June 30,	Annual OPEB Cost	OPEB Cost	Net OPEB
		Contributed	Obligation
2010	\$ 10,019	50.63%	\$ 10,389
2011	11,193	99.36%	10,461
2012	10,983	99.55%	10,510

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	Actuarial	Unfunded	UAAL as a			
Valuation	Accrued	Value of	AAL	Funded	Covered	Percentage of
Date	Liability	Assets	(UAAL)	Ratio	Payroll	Covered
	(AAL)	(b)	(a-b)	(b/a)	(c)	((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, 2012 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.

For the year ended June 30, 2012, the Port funded its annual OPEB cost at 99.55 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, 2012 actuarial valuation would increase by approximately \$79.2 million and its ARC would increase by \$4.4 million

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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, inflation rate of 3.00 percent and an annual health cost trend rate of 4.50 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.

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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(18) COMMITMENTS AND CONTINGENT LIABILITIES

Construction Commitments

The City has committed to funding in the amount of \$225.4 million to a number of capital improvement projects for fiscal year 2013 through fiscal year 2014. As of June 30, 2012, the City had construction commitments for the acquisition and construction of assets as follows (in thousands):

Building, facilities and infrastructure	\$ 30,558
Parks and open space	33,179
Sewers and storm drains	23,494
Streets and sidewalks	116,067
Technology enhancements	1,013
Traffic improvements	21,129
Total	<u>\$ 225,440</u>

Other Commitments and Contingencies

Redevelopment Dissolution Law

Under ABx1 26, adopted on June 28, 2011, as amended by AB 1484 adopted on June 27, 2012, all new redevelopment activities were suspended, with limited exceptions, and redevelopment agencies were dissolved on February 1, 2012. Under this legislation, the California Department of Finance and the California State Controller's Office have varying degrees of responsibility and oversight. The ultimate outcome of issues raised by State authorities, such as the rejection of using ORSA assets to pay obligations or the return of asset transfers to the ORSA, cannot presently be determined and, accordingly, no provision for any liability that may result has been recorded in the financial statements.

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, 2012, 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, 2012

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. As part of the City and Agency properties purchase and sale agreement of March 3, 2011, the Oakland Army Base operations and remediation liabilities have been transferred to the City.

Discretely Presented Component Unit – Port of Oakland

As of June 30, 2012, the Port had construction commitments for the acquisition and construction of assets as follows (in thousands):

Aviation	\$ 11,308
Maritime	45,677
Commercial real estate	10,178
Total	<u>\$ 67,163</u>

The most significant projects for which the Port has contractual commitments for construction are airport terminal renovation projects of \$4.7 million, Taxiways W & U of \$3.7 million, shore power of \$23.8 million, maritime wharves and terminals projects of \$6.4 million, safety projects of \$5.9 million and dredging of \$3.9 million.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

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 forecasted, the Port enters into power purchase agreements and make forward contract commitments.

The Port currently has two long-term power purchase agreements with the Western Area Power Administration (“WAPA”) and SunEdison, LLC (“SunEdison”). The WAPA take or pay contract expires in 2024 and the SunEdison take and pay contract expires in 2027. With the SunEdison contract, the Port only pays if energy is generated while the Port pays WAPA regardless of the amount of energy generated.

<u>Counterparty</u>	<u>Contract Ending Year</u>	<u>Contract Structure</u>	<u>Estimated Output</u>	<u>Estimated Annual Cost</u>
WAPA	2024	Take or Pay - (Pay contract price without regard to energy received)	17,000 MWH	Approx. \$800,000 (Changes annually depending on revenue requirement for power generation projects)
SunEdison	2027	Take or Pay - (Pay contract price only if energy received)	1,200 MWH	Approx. \$200,000 with annual escalator

In addition, the Port had outstanding, as of June 30, 2012, approximately \$3.7 million in forward power purchases contracts with Powerex Corporation and Shell Energy North America through fiscal year 2015.

Environmental

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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

The Port anticipates spending approximately \$2.5 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.

A summary of the environmental liability accounts, included within the financial statements at June 30, 2012, is as follows (in thousands):

Obligating Event	Liability	Estimated Recovery
Pollution poses an imminent danger to the public or environment Identified as responsible to clean up pollution	\$ 763 17,092	\$ - 619
Named in a lawsuit to compel to clean up	31	-
Begins or legally obligates to clean up or post-clean up activities	3,341	60
Total by Obligating Event	\$ 21,227	\$ 679

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

\$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.

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, 2012, the following funds reported deficits in fund balance/net assets (in thousands):

Special Revenue:	
Landscape and Lighting Assessment District.....	\$ (1,416)
Internal Service Funds:	
Facilities.....	\$ (23,182)
Reproduction.....	(794)
Central Stores.....	(4,150)
Purchasing.....	(526)

The Landscape and Lighting Assessment District fund deficit will be cleared by future revenues. The City's facilities, reproduction, central stores, and purchasing 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, 2012, the following funds reported expenditures in excess of budgets (in thousands):

Debt Service Fund:	
General Obligations Bonds.....	\$ (32,159)
Other Assessment Bonds.....	(4)

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 General Obligation Bonds is the refunding of Series 2002A, Measure G bonds.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

(21) SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On July 10, 2012, the City closed the 2012-13 Tax and Revenue Anticipation Notes (the “Notes”) in the principal amount of \$83,125,000 with a final maturity of June 28, 2013. The Notes were successfully sold on a competitive basis and were priced with an interest rate of 1.00% to yield 0.21% at 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.

Taxable Pension Obligation Bonds Series 2012

On July 30, 2012, the City issued its \$212,540,000 Taxable Pension Obligation Bonds Series 2012 (the “POB Series 2012. The POB Series 2012 were issued to refund a debenture evidencing a portion of the City’s unfunded actuarial accrued liability for retirement benefits to members of the Retirement System.

The issuance of the POBs Series 2012 is part of the plan of finance undertaken by the City to continue to permit annual debt service to be paid from the annual Tax Override Revenues anticipated by the City to be received and to minimize the need for the City to use other revenues to pay such debt service.

The interest rates on the POB Series 2012 ranged from 2.37% to 4.67% which produced a yield of 2.37% to 4.67% and the final maturity is on December 15, 2025.

**2012 Limited Obligation Refunding Improvement Bonds
Reassessment District No. 99-1**

On August 30, 2012, the City issued its \$3,545,000 Limited Obligation Refunding Improvement Bonds, Reassessment District No. 99-1 (the “Bonds”). The proceeds were used to refund all of the City’s outstanding Oakland Joint Powers Financing Authority’s Reassessment Revenue Bonds, Series 1999. The issuance of the Bonds produced approximately \$425,000 in net present value savings and an annual per parcel savings of \$41 for the property owners in the district.

The Bonds were issued with interest rates ranging from 2.00% to 3.50% which yielded a rate of 0.80% to 3.64% with a final maturity on September 2, 2024.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

Recent Changes in Legislation Affecting California Redevelopment Agencies:

a) Invalidation of Loans with the City

AB X1 26 specifically invalidates existing agreements between the former Agency and the City, except for 1) those entered into at the time of issuance of debt, for the purpose of securing repayment of such debt, and 2) loans or advances from the Low and Moderate Income Housing Fund. On February 1, 2012, the City did not have any long-term loans or receivables with the former Agency. Subsequent legislation adopted on June 28, 2012 provides that loans between the City and ORSA may be re-established when the Successor Agency receives a “finding of completion” from the State Department of Finance and approval of the Oversight Board.

b) Dissolution Legislation “True up” Process

The provisions of AB1484, which was a trailer bill to the FY 2012-13 State Budget, required that the County Auditor Controller determine if the tax revenues received by the Agency in January 2012 (before dissolution) were in excess of the amount spent by the former Agency and ORSA on enforceable obligations as defined by the Redevelopment Dissolution Law during the period from January 1 through June 30, 2012. If there was an excess, ORSA must remit the residual amounts to the County by July 12, 2012, for allocation to the taxing entities. This is referred to as the “true up” process. Due to the manner in which some of the former Agency’s bond obligations were categorized on the Recognized Obligation Payment Schedule (ROPS) during this period, the County Auditor-Controller's calculations indicated a \$21.5 million "overpayment" of tax revenues to the Successor Agency. On July 12, 2012, the Successor Agency issued a payment of \$21.5 million of residual amount to the County-auditor controller to be deposited into the Redevelopment Property Tax Trust Fund ("Trust Fund") for distribution to the taxing entities.

c) Findings of the Agreed-Upon Procedures Report

Pursuant to the California Health and Safety Code section 34182, the County Auditor-Controller was responsible to cause the performance of procedures to establish the former Agency’s assets and liabilities, to document pass-through obligations, and to document the amount and terms of indebtedness incurred by the former Agency. The County issued its Agreed-Upon Procedures Report (AUP) on October 5, 2012 and submitted it to the State Controller’s Office (SCO) and the State Department of Finance (DOF). Other than as a reference for the DOF and the SCO, the AUP has no consequence in the dissolution process.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2012

d) Low and Moderate Income Housing Fund Due Diligence Review

The provisions of AB1484, which was a trailer bill to the FY 2012-13 State Budget, required that the Successor Agency must provide Finance an Oversight Board approved Due Diligence Review (DDR) that has been prepared by a licensed accountant. The DDR will list all encumbered and unencumbered low and moderate income housing fund (LMIHF) assets, and will state whether or not those assets are encumbered by Enforceable Obligations. On November 5, 2012, ORSA submitted DOF an approved Oversight Board DDR with no cash and cash equivalents available for distribution to the affected taxing entities. In a letter dated November 30, 2012, DOF completed its review of ORSA DDR and adjusted \$4.3 million in non-cash and cash equivalent assets and \$8.5 million in cash and cash equivalent. Therefore, the balance of LMIHF available for distribution to the affected taxing entities is \$8.5 million. ORSA has issued a payment of \$8.5 million to the County-auditor controller to be deposited into the trust fund for distribution to the taxing entities.

**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. On September 7, 2012, judgment was entered in the matter granting the City's request for a writ of mandate. On October 9, 2012, Retired Oakland Police Officers Association (Intervenors) filed a notice to appeal the entire writ of mandate and judgment. At the closed session meeting of the PFRS Board on October 16, 2012, the Board directed staff to provide calculations necessary for the Board to prospectively adjust benefits effective December 1, 2012. The Board also directed staff to provide overpayment calculation at the January 2013 meeting. Finally, the Board voted to appeal a portion of the judgment regarding the use of hearings. The Board is not appealing any other aspects of the judge's decision.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Year Ended June 30, 2012

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)	Actuarial Value of Assets	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
	(a)	(b)	(a-b)	(b)/(a)	(c)	((a-b) / c)
6/30/2009	\$ 1,194,359,091	\$ 888,250,432	\$ 306,108,659	74.4%	\$ 150,306,150	203.7%
6/30/2010	1,262,845,446	951,508,815	311,336,631	75.3%	145,619,032	213.8%
6/30/2011	1,357,816,142	1,023,866,075	333,950,067	75.4%	130,530,316	255.8%

Miscellaneous Retirement Plan

Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
	(a)	(b)	(a-b)	(b)/(a)	(c)	((a-b) / c)
6/30/2009	\$ 1,876,286,272	\$ 1,505,314,108	\$ 370,972,164	80.2%	\$ 224,759,546	165.1%
6/30/2010	1,914,725,522	1,565,521,601	349,203,921	81.8%	195,788,222	178.4%
6/30/2011	2,025,140,791	1,615,939,765	409,201,026	79.8%	194,123,413	210.8%

City Other PostEmployment Benefits (OPEB)

Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
	(a)	(b)	(a-b)	(b)/(a)	(c)	((a-b) / c)
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)	Actuarial Value of Assets	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
	(a)	(b)	(a-b)	(b)/(a)	(c)	((a-b) / c)
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, 2012

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 (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2009 ¹	\$ 782,500,000	\$ 347,200,000	\$ 435,300,000	44.4%	\$ 100,000	435300%
7/1/2010 ¹	792,200,000	297,800,000	494,400,000	37.6%	100,000	494400%
7/1/2011 ¹	683,200,000	256,400,000	426,800,000	37.5%	100,000	426800%

¹ Factors influencing the decline in funded ratio in FY 2008-09 include investment performance, the contribution holiday associated with the 1997 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 (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2007	\$ 7,516,000	\$ 9,371,000	\$ (1,855,000)	124.7%	\$ -	N/A
7/1/2009 ¹	5,499,000	4,981,000	518,000	90.6%	-	N/A
7/1/2010 ¹	5,471,000	4,728,000	743,000	86.4%	-	N/A

¹ 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 with the July 1, 2009 valuation.

CITY OF OAKLAND
Budgetary Comparison Schedule (unaudited)
General Fund
For the Year Ended June 30, 2012
(In Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Taxes:				
Property	\$182,828	\$ 182,828	\$ 198,192	\$ 15,364
State taxes:				
Sales and use tax	38,794	38,794	44,741	5,947
Motor vehicle in-lieu tax	-	-	221	221
Local taxes:				
Business license	50,869	50,869	58,712	7,843
Utility consumption	51,177	51,177	51,434	257
Real estate transfer	28,490	28,490	30,653	2,163
Transient occupancy	8,873	8,873	10,830	1,957
Parking	7,669	7,669	8,617	948
Franchise	15,040	15,040	15,572	532
Licenses and permits	948	948	1,160	212
Fines and penalties	24,697	24,697	23,924	(773)
Interest and investment income	785	785	607	(178)
Charges for services	85,824	114,331	89,591	(24,740)
Federal and state grants and subventions	1,250	1,260	1,357	97
Annuity income	10,186	10,186	14,065	3,879
Other	11,168	11,168	9,560	(1,608)
TOTAL REVENUES	<u>518,598</u>	<u>547,115</u>	<u>559,236</u>	<u>12,121</u>
EXPENDITURES				
Current:				
Elected and Appointed Officials:				
Mayor	1,757	1,645	1,676	(31)
Council	3,579	3,698	3,698	-
City Administrator	14,473	22,691	22,321	370
City Attorney	10,725	10,428	10,060	368
City Auditor	886	886	1,333	(447)
City Clerk	1,834	2,925	2,223	702
Administrative Service Department:				
Human Resource Management	3,978	4,660	4,645	15
Information Technology	7,620	7,393	7,199	194
Financial Services	25,459	19,387	21,056	(1,669)
Public Safety Department:				
Police Services	165,881	167,583	196,096	(28,513)
Fire Services	94,077	94,517	111,067	(16,550)
Community Service Department:				
Parks and Recreation	16,115	17,416	15,934	1,482
Aging & Health and Human Services	5,063	5,806	5,322	484
Library	9,061	9,060	8,952	108
Planning, Building & Neighborhood Preservation	-	-	91	(91)
Community and Economic Development	15,037	8,352	9,216	(864)
Housing & Community Development	-	578	30,526	(29,948)
Public Works	29,722	37,283	794	36,489
Other	6,169	7,232	4,758	2,474
Capital outlay	268	75,201	4,996	70,205
Debt service:				
Principal repayment	2,022	1,955	1,954	1
Interest charges	526	593	881	(288)
TOTAL EXPENDITURES	<u>414,252</u>	<u>499,289</u>	<u>464,798</u>	<u>34,491</u>
EXCESS OF REVENUES OVER EXPENDITURES	104,346	47,826	94,438	46,612
OTHER FINANCING SOURCES (USES)				
Property sale proceeds	28,311	28,311	31,395	3,084
Insurance claims and settlements	3	10	910	900
Transfers in	26,578	29,344	3,634	(25,710)
Transfers out	(126,287)	(173,735)	(103,883)	69,852
TOTAL OTHER FINANCING USES, NET	<u>(71,395)</u>	<u>(116,070)</u>	<u>(67,944)</u>	<u>48,126</u>
NET CHANGE IN FUND BALANCE	32,951	(68,244)	26,494	94,738
Fund balances - beginning	233,595	233,595	233,595	-
FUND BALANCES - ENDING	<u>\$266,546</u>	<u>\$ 165,351</u>	<u>\$ 260,089</u>	<u>\$ 94,738</u>

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

CITY OF OAKLAND
Notes to Required Supplementary Information (unaudited)
June 30, 2012

(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 2011, the City Council approved the City's two-year budget for fiscal years 2012 and 2013. 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 2011-12 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, 2012

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
- Low and Moderate Housing Asset Fund
- 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, 2012

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, 2012, was \$408,765.

On June 28, 2011, Assembly Bill X1 26 (“AB X1 26”) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The City recognized the remaining unamortized balance of the sublease agreement the Agency as revenue in the amount of \$3,664,522 on a budgetary basis.

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	\$ 30,568
Amortization of Scotlan sublease agreement	(3,665)
Amortization of debt service deposit agreement	(409)
Net change in fund balance - Budgetary basis	\$ 26,494

The General Fund’s fund balance on a GAAP Basis is reconciled to a Budgetary Basis as of June 30, 2012, which is as follows (in thousands):

	General Fund
Fund balance as of June 30, 2012 - GAAP basis	\$ 255,929
Unamortized debt service deposit agreement	4,160
Fund balance as of June 30, 2012 - Budgetary basis	\$ 260,089

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 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, 2012, and have issued our report thereon dated December 21, 2012. Our report includes a reference to other auditors. Our report also contained explanatory paragraphs describing legislation regarding the dissolution of redevelopment agencies in the State of California and uncertainties with the Redevelopment Dissolution Law. 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 36%, 177% and 16%, 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, 2012, 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*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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*.

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 21, 2012

**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, 2012. 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 \$17,108,069 in federal awards, and which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2012. 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.

As described in item 2012-2 in the accompanying schedule of findings and questioned costs, the City did not comply with performance reporting requirements that are applicable to the Home Investment Partnerships Program (CFDA number 14.239). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-3 and 2012-4.

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 and another deficiency that we consider to be a significant deficiency.

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 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 items 2012-1, 2012-2, and 2012-3 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-4 to be a significant deficiency.

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 & Connell LLP

Oakland, California
March 22, 2013

CITY OF OAKLAND
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

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				
Child and Adult Care Food Program	10.558	04008-CACFP-01-GM-CS	\$ 621,139	\$ -
Summer Food Service Program for Children	10.559	E116-01	248,308	59,802
TOTAL U.S. DEPARTMENT OF AGRICULTURE			869,447	59,802
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-06-0013	8,504,510	3,075,823
Community Development Block Grants/Entitlement Grants	14.218	B-08-MN-06-0005	1,296,926	-
Subtotal CDBG/Entitlement Grants			9,801,436	3,075,823
ARRA-Community Development Block Grant ARRA				
Entitlement Grants (CDBG-R)(Recovery Act Funded)	14.253	B-09-MY-06-0013	982,270	206,903
Subtotal CDBG - Entitlement Grants Cluster			10,783,706	3,282,726
Emergency Shelter Grants Program	14.231	S05-MC-06-0013	4,632	4,632
Emergency Shelter Grants Program	14.231	S06-MC-06-0013	16,651	16,651
Emergency Shelter Grants Program	14.231	S07-MC-06-0013	22,098	22,074
Emergency Shelter Grants Program	14.231	S08-MC-06-0013	48,262	48,262
Emergency Shelter Grants Program	14.231	S09-MC-06-0013	423,731	411,129
Subtotal Emergency Shelter Grants Program			515,374	502,748
Supportive Housing Program	14.235	CA0106B9T020802	37,094	29,695
Supportive Housing Program	14.235	CA0103B9T020802	58,166	58,166
Supportive Housing Program	14.235	CA0096B9T020802	944	-
Supportive Housing Program	14.235	CA0093B9T021003	228,603	602,012
Supportive Housing Program	14.235	CA0106B9T021003	635,175	222,918
Supportive Housing Program	14.235	CA0096B9T021003	1,413,042	1,267,157
Supportive Housing Program	14.235	CA0096B9T021104	502,162	501,752
Supportive Housing Program	14.235	CA0103B9T021003	139,354	126,587
Subtotal Supportive Housing Program			3,014,540	2,808,287
Home Investment Partnerships Program	14.239	M11-MC060208	4,802,170	-
Home Investment Partnerships Program	14.239	Prior Year Loans (Note 5)	64,870,719	-
Subtotal Home Investment Partnerships Program			69,672,889	-
Housing Opportunities for Persons with AIDS	14.241	CA-H06-F001	221,064	221,064
Housing Opportunities for Persons with AIDS	14.241	CA-H08-F001	321,332	321,332
Housing Opportunities for Persons with AIDS	14.241	CA-H09-F001	556,887	524,857
Housing Opportunities for Persons with AIDS	14.241	CA-H11-F001	715,582	641,629
Subtotal Housing Opportunities for Persons with AIDS			1,814,865	1,708,882
Community Development Block Grants/Brownfields				
Economic Development Initiative	14.246	E-95-EZ-06-0001	392,903	95,800
Community Development Block Grants - Section 108				
Loan Guarantees	14.248	B94-MC-06-0013-A	2,139,787	-
Economic Development Initiative-Special Project,				
Neighborhood Initiative and Miscellaneous Grants	14.251	B-06-SP-CA-0098	24,389	24,389
Economic Development Initiative-Special Project,				
Neighborhood Initiative and Miscellaneous Grants	14.251	B-08-SP-CA-0547	331	-
Subtotal Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants			24,720	24,389

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, 2012

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	\$ 958,268	\$ 901,222
Subtotal direct programs			<u>89,317,052</u>	<u>9,324,054</u>
Passed Through Oakland Housing Authority Moving To Work Demonstration Program	14.881	C-47-10-007	357,778	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>89,674,830</u>	<u>9,324,054</u>
U.S. DEPARTMENT OF JUSTICE				
Direct Programs				
Services for Trafficking Victims	16.320	2005-VT-BX0009	25,392	-
Services for Trafficking Victims	16.320	2010-VT-BX-0026	9,731	-
Subtotal Services for Trafficking Victims			<u>35,123</u>	<u>-</u>
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	2010-CZ-BX-0050	170,054	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	2010-PB-FX-K011	741,749	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	2010-CZ-BX-0066	569,347	-
Subtotal Juvenile Justice and Delinquency Prevention - Allocation to States			<u>1,481,150</u>	<u>-</u>
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2007-DN-BX-K019	206,195	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2010-CD-BX-0060	51,860	-
Subtotal National Institute of Justice Research, Evaluation, and Development Project Grants			<u>258,055</u>	<u>-</u>
Federal Surplus Property Transfer Program	16.578	CA0010900	1,436,224	-
Community Capacity Development Office	16.595	2009-WS-Q7-0057	11,895	-
ARRA-Public Safety Partnership and Community Policing Grants	16.710	2009RJWX0009	5,247,179	-
ARRA-Public Safety Partnership and Community Policing Grants	16.710	2011ULWX0002	1,263,831	-
Public Safety Partnership and Community Policing Grants	16.710	2007-CK-WX-0028	149,864	-
Public Safety Partnership and Community Policing Grants	16.710	2009CD-WX-0332	125,545	-
Public Safety Partnership and Community Policing Grants	16.710	2008-CK-WX-0633	557,974	-
Public Safety Partnership and Community Policing Grants	16.710	2010-CK-WX-0332	97,500	-
Subtotal Public Safety Partnership and Community Policing Grants			<u>7,441,893</u>	<u>-</u>
Forensic Casework DNA Backlog Reduction Program	16.743	2009-DB-BX-K112	5,810	-
Forensic Casework DNA Backlog Reduction Program	16.743	2010-DN-BX-K068	189,669	-
Forensic Casework DNA Backlog Reduction Program	16.743	2010-DN-BX-K182	76,835	-
Forensic Casework DNA Backlog Reduction Program	16.743	2011-DN-BX-K484	22,878	-
Forensic Casework DNA Backlog Reduction Program	16.743	2011-MU-BX-K572	38,241	-
Subtotal Forensic Casework DNA Backlog Reduction Program			<u>333,433</u>	<u>-</u>
Edward Byrne Memorial Competitive Grant Program	16.751	2009-DJ-BX-0128	183,047	-
Edward Byrne Memorial Competitive Grant Program	16.751	2010-DJ-BX-0128	740,456	-
Subtotal Edward Byrne Memorial Competitive Grant Program			<u>923,503</u>	<u>-</u>
Subtotal direct programs			<u>11,921,276</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	767,788	-
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>12,689,064</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, 2012

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	\$ 1,084,091	\$ -
Senior Community Service Employment Program	17.235	CAA-DII-SN233	271,016	-
Subtotal Senior Community Service Employment Program			<u>1,355,107</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	1,064	-
WIA Adult Program	17.258	K178676	1,351,694	623,733
WIA Adult Program	17.258	K282491	856,329	973,847
Subtotal WIA Adult Program			<u>2,209,087</u>	<u>1,597,580</u>
WIA Youth Activities	17.259	K074157	62,250	62,250
WIA Youth Activities	17.259	K178676	1,156,982	780,306
WIA Youth Activities	17.259	K282491	194,612	194,612
Subtotal WIA Youth Activities			<u>1,413,844</u>	<u>1,037,168</u>
WIA Dislocated Worker Formula Grants	17.278	K178676	1,405,008	1,287,038
WIA Dislocated Worker Formula Grants	17.278	K282491	535,281	375,784
Subtotal WIA Dislocated Worker Formula Grants			<u>1,940,289</u>	<u>1,662,822</u>
Subtotal WIA Cluster			<u>5,563,220</u>	<u>4,297,570</u>
WIA Pilots, Demonstrations, and Research Projects	17.261	EA-21356-11-60-A-6	54,426	-
WIA Pilots, Demonstrations, and Research Projects	17.261	EA-20459-10-60-A-6	314,621	310,626
Subtotal WIA Pilots, Demonstrations, and Research Projects			<u>369,047</u>	<u>310,626</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>7,287,374</u>	<u>4,608,196</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Direct Program				
National Infrastructure Investments	20.933	DTH61-11-H-0001	1,720,549	-
Pass through State of California, Department of Transportation				
Highway Planning and Construction Cluster				
ARRA-Highway Planning and Construction	20.205	ESPL-5012 (098)	335,920	-
ARRA-Highway Planning and Construction	20.205	ESPL-5012 (099)	2,342,862	-
ARRA-Highway Planning and Construction	20.205	ESPL-5012 (101)	328,026	-
ARRA-Highway Planning and Construction	20.205	ESPL-5012 (104)	1,054	-
Highway Planning and Construction	20.205	SR2SL - 5012-102	10,786	-
Highway Planning and Construction	20.205	BRLS - 5012-085	2,606,210	-
Highway Planning and Construction	20.205	STPL - 5012 (037)	42,944	-
Highway Planning and Construction	20.205	STPL - 5012 (093)	347,998	-
Highway Planning and Construction	20.205	STPL - 5012 (094)	36,944	-
Highway Planning and Construction	20.205	STPL 5012 (090)	1,808,413	-
Highway Planning and Construction	20.205	CML-5012(106)	640,130	-
Highway Planning and Construction	20.205	BPMP-5012(083)	341,368	-
Highway Planning and Construction	20.205	STPLZ-5012 (075)	13,287	-
Highway Planning and Construction	20.205	STPL - 5012(089)	494,622	-
Highway Planning and Construction	20.205	STPLZ -5012 (025)	53,085	-
Highway Planning and Construction	20.205	STPLZ -5012 (027)	356,543	-
Highway Planning and Construction	20.205	STPLZ -5012 (028)	209,654	-
Highway Planning and Construction	20.205	STPLZ -5012 (108-112)	226,836	-
Subtotal Highway Planning and Construction Cluster			<u>10,196,682</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>11,917,231</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, 2012

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	\$ 208,307	\$ -
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	C06-6199-110	375,385	-
Subtotal ARRA-Capitalization Grants for Clean Water State Revolving Funds			<u>583,692</u>	<u>-</u>
ARRA-Brownfields Assessment and Cleanup Cooperative Agreements	66.818	2B-OOT18101-O	154,475	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-96990101-0	29,255	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-00T29101-0	41,285	-
Subtotal Brownfields Assessment and Cleanup Cooperative Agreements			<u>225,015</u>	<u>-</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>808,707</u>	<u>-</u>
U.S. DEPARTMENT OF ENERGY				
Direct Programs				
ARRA-Energy Efficiency and Conservation Block Grant Program	81.128	DE-EE0000870	2,237,235	-
Pass through State of California, Department of Community Services and Development				
ARRA-Weatherization Assistance for Low-Income Persons	81.042	09C-1852	3,306,349	3,073,537
TOTAL U.S. DEPARTMENT OF ENERGY			<u>5,543,584</u>	<u>3,073,537</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs				
Medical Reserve Corps Small Grant Program	93.008	MRC091176	5,178	-
Head Start Cluster				
Head Start	93.600	09CH9006/37	259	-
Head Start	93.600	09CH9006/39	308,034	-
Head Start	93.600	09CH9006/40	1,072,071	191,549
Head Start	93.600	09CH9006/41	15,920,586	4,958,779
Subtotal Head Start			<u>17,300,950</u>	<u>5,150,328</u>
ARRA-Early Head Start	93.709	09SA9006/02	1,233,056	229,776
Subtotal Head Start Cluster			<u>18,534,006</u>	<u>5,380,104</u>
Assets for Independence Demonstration Program	93.602	90E10470/01	57,723	-
Health Care and Other Facilities	93.887	C76HF10928	230,704	-
Subtotal direct programs			<u>18,827,611</u>	<u>5,380,104</u>
Pass through State of California, Department of Community Services and Development				
Community Services Block Grant	93.569	11F-4203	537,211	231,734
Community Services Block Grant	93.569	12F-4203	276,649	117,534
Subtotal Community Services Block Grant			<u>813,860</u>	<u>349,268</u>
Pass through State of California, Department of Aging				
Medical Assistance Program	93.778	MS-1011-01	6,262	-
Medical Assistance Program	93.778	MS-1112-01	1,449,115	-
Subtotal Medical Assistance Program			<u>1,455,377</u>	<u>-</u>
Subtotal pass-through programs			<u>2,269,237</u>	<u>349,268</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>21,096,848</u>	<u>5,729,372</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, 2012

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	\$ 37,444	\$ -
Foster Grandparent Program	94.011	09SCPCA010	299,324	-
TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>336,768</u>	<u>-</u>
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Programs				
National Urban Search and Rescue Response System	97.025	2010-SR-24-K046	982,738	-
Hazard Mitigation Grant	97.039	EMW-97-GR-0521	51,744	-
Assistance to Firefighters Grant	97.044	EMW-2011-FV-04232	169,419	-
Port Security Grant Program	97.056	Agreement-PSGP 2008	338,657	-
Port Security Grant Program	97.056	Agreement-PSGP 2009	12	-
Port Security Grant Program	97.056	Agreement-PSGP 2010	682,690	-
Subtotal Port Security Grant Program			<u>1,021,359</u>	<u>-</u>
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2009-FH-01272	545,646	-
Regional Catastrophic Preparedness Grant Program	97.111	Agreement	99,446	-
Subtotal direct programs			<u>2,870,352</u>	<u>-</u>
Pass through City and County of San Francisco				
Homeland Security Grant Program	97.067	2009 SUASI	3,530,332	-
Homeland Security Grant Program	97.067	2010 SUASI	285,826	-
Pass through County of San Mateo				
Homeland Security Grant Program	97.067	2009 NCRIC	178,732	-
Subtotal Homeland Security Grant Program			<u>3,994,890</u>	<u>-</u>
Pass through Port of Oakland				
ARRA-Port Security Grant Program	97.116	2009-PU-RI-0189	15,109	-
Subtotal pass-through programs			<u>4,009,999</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>6,880,351</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$157,104,204</u>	<u>\$ 22,794,961</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, 2012

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, 2012, 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, 2012. 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	\$ 6,771,273
ARRA-Discretionary Grants for Capital Investments - TIGER Grants	20.932	<u>6,742,056</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>13,513,329</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
Port Security Grant Program	97.056	<u>3,594,740</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		<u>3,594,740</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 17,108,069</u></u>

CITY OF OAKLAND
Notes to the Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2012

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, 2012:

Balance, Gross			Balance, Gross	Allowance for	Balance, Net
<u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>	<u>Doubtful</u>	<u>June 30, 2012</u>
				<u>Accounts</u>	
\$ 69,184,471	\$ 5,609,299	\$ (5,484,955)	\$ 69,308,815	\$ (163,610)	\$ 69,145,205

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, 2012.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

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?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified for all major programs except for the reporting requirement of the Home Investment Partnerships Program (CFDA number 14.239), which was qualified.
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

Program Title	CFDA Number
• ARRA-CDBG - Entitlement Grants Cluster	14.218, 14.253
• Supportive Housing Program	14.235
• Home Investment Partnerships Program	14.239
• ARRA-Public Safety Partnership and Community Policing Grants	16.710
• ARRA-Workforce Investment Act Cluster	17.258, 17.259, 17.278
• ARRA-Highway Planning and Construction Program	20.205
• ARRA-Weatherization Assistance for Low-Income Persons	81.042
• ARRA-Head Start Cluster	93.600, 93.709
• 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?	Yes

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

Finding 2012-1 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): M11-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 Department of Housing and Community Development (HCD), we selected 60 certified payrolls for testing. Our testing found that in 43 of the 60 samples, the required certified payrolls were not collected before payments using federal awards were paid to the contractors.

For the Highway Planning and Construction Program administered by the Public Works Agency, 47 of 60 certified payrolls selected for testing were collected after payments were made to the contractors.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Finding 2012-1 (continued)

Cause:

The Office of the City Administrator's Contracts and Compliance Division monitors 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 practice prior to June 22, 2012 allowed progress payments to be made to the contractors by the administering departments.

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:

Effective June 22, 2012, the City implemented new procedures that strictly withheld progress payments to contractors until all required certified payrolls have been submitted to the City and prevailing wage compliance has been determined. We recommend the City adhere to the new procedures to ensure compliance with the Davis-Bacon Act going forward.

Management Response and Corrective Action:

On June 22, 2012, the City issued a corrective action memo implementing new procedures to strictly withhold progress payments to contractors until submittal of all required certified payrolls to the City and prevailing wage compliance is determined. The corrective actions include:

1. Requiring contractors to submit to the using department, certified payroll summary reports with progress payments. The payroll summary report reflects payroll submittal dates and periods;
2. The department reviews the progress payment for accuracy of deliverables and must then submit the progress payment and certified payroll summary report to the Office of the City Administrator, Contracts and Compliance Division (C&C);
3. C&C verifies certified payroll submittals, collects missing payrolls if needed, determines compliance with prevailing wages, approves and returns the approved progress payment to the department, and
4. The department releases the payment.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Finding 2012-1 (continued)

Management Response and Corrective Action: (continued)

Every invoice and certified payroll summary received by C&C, in light of the June 22, 2012 corrective memo, was evaluated for certified payroll submittals and compliance with prevailing wages.

Payments made before payroll records and prevailing wages were checked were made prior to the June 22, 2012 corrective action memo. However, the City withholds 10% of progress payments as retention to be released upon project completion and final acceptance. For both programs, no questioned costs were noted and the City subsequently collected the certified payrolls and determined that prevailing wage rates were indeed paid for those invoices for which payments were released. The City will continue to adhere to the new procedures to ensure compliance with the Davis-Bacon Act.

Finding 2012-2 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): M11-MC060208

Criteria:

Pursuant to Title 24, section 135.90 of the Code of Federal Regulations, 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 Department of Housing and Community Development, we noted that the City did not submit the required HUD 60002 reports for the period July 1, 2011 to June 30, 2012. This is a repeated finding from the City's single audit for the year ended 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).

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Finding 2012-2 (continued)

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.

Management Response and Corrective Action:

The Department of Housing and Community Development (HCD) and the Office of Contract Compliance have been working together to ensure the HUD Form 60002 is completed as required.

The city uses Labor Compliance Software (LCP) tracker, a web-based certified payroll reporting system to monitor the payment of prevailing wages and employment workforce participation on City-funded construction projects. LCP tracker now offers a Section 3 module that works as a companion to the certified payroll module.

Moving forward, contractors will be asked to submit additional information relative to section 3 requirements such as non-prevailing wage workers and their classifications, if the worker meets the poverty level standards and if workers are within the project's geographic location. The city must perform a complete set up of the project which will include funding sources and accounts and ensure that the project is appropriately identified and ensure that the Section 3 data submitted. City staff will then be able to pull down the 60002 report to submit to HUD as required.

This new process will be implemented on the very next project using HUD funds requiring Section 3 reporting and then HCD will file Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* in October 2013 as part of the submission of the *Consolidated Annual Performance and Evaluation Report (CAPER)*. HCD staff will work with HUD to determine the appropriate procedure to provide information of the past due reports

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Finding 2012-3 Federal Funding Accountability and Transparency Act Reporting

Federal Program Title: Community Development Block Grants/Entitlement Grants
Federal Catalog Number(s): 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: N/A – direct award.
Federal Award Number(s): B-08-MN-06-0005 and B-11-MC-06-0013

Federal Program Title: Supportive Housing Program
Federal Catalog Number(s): 14.235
Federal Agency: U.S. Department of Housing and Urban Development
Pass-Through Entity: N/A – direct award.
Federal Award Number(s): All. See SEFA for listing of grant numbers.

Federal Program Title: Head Start
Federal Catalog Number(s): 93.600
Federal Agency: U.S. Department of Health and Human Services
Pass-Through Entity: N/A – direct award.
Federal Award Number(s): All. See SEFA for listing of grant numbers.

Criteria:

The Federal Funding Accountability and Transparency Act (FFATA) was signed on September 26, 2006. The FFATA legislation requires information on federal awards (federal financial assistance and expenditures) be made available to the public via a single, searchable website www.USASpending.gov. The FFATA Subaward Reporting System (FSRS) is the reporting tool Federal prime grantees use to capture and report subaward and executive compensation data regarding their first-tier subawards to meet the FFATA reporting requirements. The FFATA reporting requirements do not apply to awards funded by the American Recovery and Reinvestment Act.

Prime grantees are required to report each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in federal funds by the end of the month following the month in which the subcontract award or modification occurs. Due to the newness of the FFATA reporting requirements and implementation challenges that prime grantees have had with the FFATA reporting process, the federal government has issued a waiver of reporting delays provided that the prime grantee could demonstrate a “good faith” effort to comply. Demonstration of a “good faith” effort by a recipient should be evidenced by proper documentation such as: emails or phone logs of communication between a recipient and the awarding agency or the General Services Administration; or computer screen shots that illustrate recipient attempts to upload information into the FSRS.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Finding 2012-3 (continued)

Condition:

The City is a prime grantee of federal awards under the Community Development Block Grants/Entitlement Grants (CDBG Program), the Supportive Housing Program, and the Head Start Program. The City's Department of Housing and Community Development administers the CDBG Program, and the Department of Human Services administers the Supportive Housing Program and the Head Start Program. These departments did not submit subaward data in the FSRS and was not able to provide proper documentation to demonstrate any good faith efforts made.

Cause:

The departments were unaware the programs were subject to the Federal Funding Accountability and Transparency Act subaward reporting requirements.

Effect:

The City is not in compliance with the FFATA reporting requirement.

Questioned Costs:

None noted. The FFATA report captures subaward information and does not affect program expenditures.

Recommendation:

We recommend the Department of Housing and Community Development and the Department of Human Services report all subawards made to date in the FSRS. If technical or other difficulties prevent compliance with the reporting requirements by the specified due dates, the departments should retain proper documentation to demonstrate good faith efforts.

Management Response and Corrective Action:

The Federal Funding Accountability and Transparency Act (FFATA) legislation requires information on federal awards (federal financial assistance and expenditures) be made available to the public. As a form of public transparency the City has made available all City annual financial reports on the City website, <http://www.oaklandnet.com/government/fwawebsite/accounting/CAFR.htm>. These financial reports include the Single Audit Report that reports federal expenditures by dollar value and Catalog of Federal Domestic Assistance (CFDA) Number on its Schedule of Expenditure of Federal Awards (SEFA).

The City also made available on the website, the Community Development Block Grant (CDBG) funds Annual Action Plan. The Annual Action Plan provides in detail the names of sub-recipient, the dollar amount and the project description of all projects funded. Also, the City enters the sub-recipient name, dollar amount, project description of all CDBG funded project into the Integrated Database and Information System (IDIS), HUD database.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Finding 2012-3 (continued)

Management Response and Corrective Action: (continued)

The City believe that it has demonstrated a “good faith” effort to comply with the FFATA legislation and in the future, the Department of Housing and Community Development (HCD) and the Department of Human Services (DHS) will report all subawards to date in the Federal Subaward Reporting System (FSRS). If technical or other difficulties prevent compliance with the reporting requirements by the specified due dates, the departments should retain proper documentation to demonstrate good faith efforts.

Finding 2012-4 Procurement History

Federal Program Title: ARRA-Early Head Start
Federal Catalog Number(s): 93.709
Federal Agency: U.S. Department of Health and Human Services
Pass-Through Entity: N/A – direct award.
Federal Award Number(s): 09SA9006/02

Criteria:

Pursuant to Title 45, section 92.36 of the Code of Federal Regulations, a grantee is responsible for maintaining sufficient documentation on the significant history of procurements using federal funds, including information on the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract price.

Condition:

During our testing of 10 samples from a population of 33 contractors totaling \$1.4 million in expenditures for the year ended June 30, 2012, the City was unable to locate the procurement files for one of the samples.

Cause:

This appears to be a record filing and retention issue.

Effect:

We were not able to perform audit procedures to determine whether the selected sample was in compliance with procurement requirements.

Questioned Costs:

The City made \$33,055 of payments under the contract in question during the fiscal year. The City’s general ledger indicates payments were funded entirely by ARRA awards.

Recommendation:

We recommend the City strengthen its monitoring controls over retention of procurement files, and communicate the importance of proper record filing and retention to all staff involved in the procurement process.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Management Response and Corrective Action:

Given the volume of payment and documents the City has to retain, a few items can be missed or misplaced. The City acknowledges the auditor's recommendation and will continue to improve and strengthen its monitoring controls over retention of procurement files, and will communicate the importance of proper record filing and retention to all staff involved in the procurement process.

CITY OF OAKLAND
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Reference Number: **Federal Award Finding 2011-1**

CFDA number(s)/
Program Name(s): 14.239 – Home Investment Partnerships Program
20.205 – Highway Planning and Construction Program

Audit Finding: 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 found that 30 of the 40 certified payrolls selected for testing were collected after the City made disbursed federal awards to the contractors.

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

Status of Corrective Action: The City implemented new procedures on June 22, 2012. Please refer to finding number 2012-1.

Reference Number: **Federal Award Finding 2011-2**

CFDA number(s)/
Program Name(s): 14.239 – Home Investment Partnerships Program

Audit Finding: The City did not submit the required Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, for the period July 1, 2010 to June 30, 2011. 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.

Status of Corrective Action: Not implemented. Please refer to finding number 2012-2.

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. 11F-4203, Project No. G421610-21
For the Period January 1, 2011 to June 30, 2012

	Jan. 1, 2011 through June 30, 2011	July 1, 2011 through Dec. 31, 2011	Jan. 1, 2012 through June 30, 2012	Total Actual	Total Reported ¹	Total Budget
Revenue:						
Grant Amount	\$ 403,776	\$ 95,759	\$ 363,972	\$ 863,507	\$ 706,254	\$ 1,228,508
Total Revenue	<u>\$ 403,776</u>	<u>\$ 95,759</u>	<u>\$ 363,972</u>	<u>\$ 863,507</u>	<u>\$ 706,254</u>	<u>\$ 1,228,508</u>
Expenditures:						
Personnel Costs:						
Salaries and Wages	\$ 96,847	\$ 91,161	\$ 35,041	\$ 223,049	\$ 205,833	\$ 235,115
Fringe Benefits	56,583	51,777	19,956	128,316	121,084	139,971
Subtotal Personnel Costs	<u>153,430</u>	<u>142,938</u>	<u>54,997</u>	<u>351,365</u>	<u>326,917</u>	<u>375,086</u>
Non-Personnel Costs:						
Travel	1,522	7,509	(2,505)	6,526	13,659	11,309
Consumable Supplies	2,160	1,970	7,400	11,531	4,503	4,530
Equipment Lease/Purchase	-	-	-	-	-	4,089
Sub-Contractors	156,556	113,560	133,174	403,290	440,876	788,041
Other Costs	17,410	37,011	41,159	95,580	37,290	45,455
Subtotal Non-Personnel Costs	<u>177,648</u>	<u>160,050</u>	<u>179,228</u>	<u>516,927</u>	<u>496,328</u>	<u>853,424</u>
Total Expenditures	<u>\$ 331,078</u>	<u>\$ 302,988</u>	<u>\$ 234,225</u>	<u>\$ 868,292</u>	<u>\$ 823,245</u>	<u>\$ 1,228,510</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, 2012.

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. 12F-4402, Project No. G421710/21
For the Period January 1, 2012 to June 30, 2012

	<u>Total</u> <u>Actual</u>	<u>Total</u> <u>Reported ¹</u>	<u>Total</u> <u>Budget</u>
Revenue:			
Grant Amount	\$ 116,725	\$ 116,725	\$ 1,253,958
Total Revenue	<u>\$ 116,725</u>	<u>\$ 116,725</u>	<u>\$ 1,253,958</u>
Expenditures:			
Personnel Costs:			
Salaries and Wages	\$ 77,343	\$ 89,541	\$ 232,195
Fringe Benefits	<u>42,872</u>	<u>47,320</u>	<u>138,679</u>
Subtotal Personnel Costs	<u>120,215</u>	<u>136,861</u>	<u>370,874</u>
Non-Personnel Costs:			
Travel	14,559	10,230	22,756
Consumable Supplies	6,061	4,150	5,000
Equipment Lease/Purchase	2,407	-	-
Sub-Contractors	117,534	11,135	797,906
Other Costs	<u>15,873</u>	<u>9,575</u>	<u>57,422</u>
Subtotal Non-Personnel Costs	<u>156,434</u>	<u>35,090</u>	<u>883,084</u>
Total Expenditures	<u>\$ 276,649</u>	<u>\$ 171,951</u>	<u>\$ 1,253,958</u>

¹ The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2012 to June 30, 2012.

CITY OF OAKLAND
Supplemental Schedule of Expenditures of
Alameda County Awards
Year Ended June 30, 2012

<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	10073	\$ 42,019
Total Department of Adult and Aging Services			<u>42,019</u>
Housing and Community Development Department			
Winter Shelter Program	C-6995	2012005640	125,000
Winter Shelter Program	C-3621	20095992	24,479
Winter Shelter Program	C-2335	OABTWS	<u>9,155</u>
Total Housing and Community Development Department			<u>158,634</u>
Department of Workforce and Benefits Administration			
Henry J. Robinson Multi-Service Center	SOCSA-900163	9P64	287,844
Winter Shelter Program	C-5910	2012005640	<u>14,243</u>
Total Department of Workforce and Benefits Administration			<u>302,087</u>
Total Alameda County Awards			<u><u>\$ 502,740</u></u>

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