A large, leafy tree in the foreground with a modern building in the background. The tree has a thick trunk and many branches with green leaves. The building is a multi-story structure with many windows. The sky is blue with some light clouds.

CITY OF OAKLAND CALIFORNIA

**SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

CITY OF OAKLAND

CALIFORNIA

SINGLE AUDIT REPORTS

YEAR ENDED JUNE 30, 2018

PREPARED BY THE FINANCE DEPARTMENT

**KATANO KASAINÉ, FINANCE DIRECTOR/TREASURER
KIRSTEN LACASSE, CONTROLLER**

PRINTED ON RECYCLED PAPER

**CITY OF OAKLAND
SINGLE AUDIT REPORTS**

PROJECT TEAM

Katano Kasaine
Financial Director/Treasurer

Kirsten LaCasse
Controller

AUDIT/FINANCIAL STATEMENT COORDINATOR

Kirsten LaCasse, *Controller*

FINANCIAL STATEMENT PREPARATION

Helen Cherkis
Felipe Kiocho
Young Shin
Michelle Wong

Connie Chu
Rogelio Medalla
Donna Treglown
Theresa Woo

Lillian Falkin
Carla Reed
Stephen Walsh
Andy Yang

SPECIAL ASSISTANCE

Adam Benson

David Jones

Margaret O'Brien

SPECIAL ASSISTANCE - DEPARTMENTS & OFFICES

City Administrator's Office

City Attorney's Office

Human Resources Department

CITY OF OAKLAND

Single Audit Reports Year Ended June 30, 2018

Table of Contents

	Page
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis	
Required Supplementary Information (unaudited)	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	23
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	25
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position for Governmental Activities	26
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities of Governmental Activities	28
Statement of Fund Net Position – Proprietary Funds	29
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	30
Statement of Cash Flows – Proprietary Funds	31
Statement of Fiduciary Net Position – Fiduciary Funds.....	32
Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....	33
Notes to the Basic Financial Statements	35
Required Supplementary Information (unaudited):	
Schedule of Changes in Net Pension Liability and Related Ratios:	
Police and Fire Retirement System	117
CalPERS Miscellaneous Plan.....	118
CalPERS Safety Plan.....	119
Schedule of Employer Pension Contributions:	
Police and Fire Retirement System	120
CalPERS Plans	121
Schedule of Changes in Net OPEB Liability and Related Ratios:	
City Postretirement Health Plan	122
Post Retiree Health Plan.....	123

CITY OF OAKLAND

Single Audit Reports Year Ended June 30, 2018

Table of Contents (Continued)

	Page
Required Supplementary Information (unaudited) (Continued):	
Schedule of Employer OPEB Contributions:	
City Postretirement Health Plan	124
Post Retiree Health Plan.....	125
Budgetary Comparison Schedule – General Fund.....	126
Budgetary Comparison Schedule – Other Special Revenue Fund.....	127
Notes to Required Supplementary Information	128
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 <i>Government Auditing Standards</i>	131
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance	133
Schedule of Expenditures of Federal Awards	136
Notes to the Schedule of Expenditures of Federal Awards	140
Schedule of Findings and Questioned Costs	141
Supplementary Schedules:	
State of California Department of Community Services and Development Supplemental Schedules of Revenue and Expenditures.....	147
Supplemental Schedule of Expenditures of Alameda County Awards.....	149
Audit Findings Follow-Up:	
Summary Schedule of Prior Audit Findings	151
Corrective Action Plan.....	152

FINANCIAL SECTION



Independent Auditor's Report

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

Report on the Financial Statements

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Oakland Police and Fire Retirement System were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Effect of Adopting New Accounting Standard

As discussed in Note I Section E. to the basic financial statements, effective as of July 1, 2017, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The adoption of this standard resulted in a reduction of the City's and the Port of Oakland's July 1, 2017 net position in the amount of \$712.2 million and \$84.5 million, respectively. Our opinion is not modified with respect to this matter.

Uncertainties Regarding the Future Outcome of Litigation

As discussed in Note II Section H.5. to the basic financial statements, the City is the defendant in a lawsuit alleging that the City was aware of dangerous conditions at an Oakland warehouse that resulted in the deaths of 36 persons. The City sought review by the Supreme Court of the Court of Appeals Decision, which was denied on November 14, 2018. Trial is scheduled for October of 2019. While the City vigorously opposes the allegations, the City believes that it could have some loss exposure. Potential losses to the City are estimated to be up to \$100 million. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of employer pension contributions, the schedules of changes in net other postemployment benefits liability and related ratios, the schedules of employer other postemployment benefits contributions, and the budgetary comparison schedules of the General Fund and the Other Special Revenue 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 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.

Other Information

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, the State of California Department of Community Services and Development supplemental schedules of revenue and expenditures, and the supplemental schedule of expenditures of Alameda County awards (collectively referred to as supplementary schedules), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the State of California Department of Community Services 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements

themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018, 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 solely 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 effectiveness of 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* in considering City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California

December 12, 2018, except for our report on the supplementary
schedules, for which the date is January 31, 2019

This page is intentionally left blank.

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

This section of the City of Oakland's (the City) Comprehensive Annual Financial Report provides an overview and analysis of the financial activities of the City for the year ended June 30, 2018. 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 position for the City's governmental and business-type activities indicates that as of June 30, 2018, total liabilities and deferred inflows of resources exceed the total assets and deferred outflows of resources by \$456.8 million compared to a positive net position of \$115.0 million at June 30, 2017:

- \$1.3 billion represents the City's investment in capital assets, less any related outstanding debt and related deferred outflows and inflows of resources used to acquire those assets (*net investment in capital assets*). These capital assets are used to provide services to citizens and are not available for future spending.
- \$648.6 million represents resources that are subject to restrictions on their use and are available to meet the City's ongoing obligations for programs, of which \$56.5 million pertains to Low and Moderate Income Housing Redevelopment.
- \$2.4 billion represents a deficit in unrestricted net position that has primarily resulted from the underfunding of the pension and other postemployment benefits (OPEB) liabilities, and other unfunded long-term liabilities (*unrestricted net position*). The net pension liability deficit is the biggest contributing factor at \$1.7 billion. The City's total net position decreased by \$571.8 million due to a restatement of \$712.2 million to the beginning net position to record the City's net OPEB liability and related deferred outflows of resources for OPEB contributions made during the prior year in accordance with *GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of *Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and *No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. This resulted in the recognition of a net OPEB liability in the amount of \$849.5 million, the deferred outflows of resources related to OPEB contributions made subsequent to the measurement date of June 30, 2017 in the amount of \$37.2 million, and the deferred inflows of resources, primarily due to changes in assumptions, in the amount of \$254.9 million. The remaining changes in net position are discussed below.
- \$125.8 million increase in the net position (before restatement) was derived from governmental activities predominantly from increases in property tax, sales and use tax, sugar sweetened beverage distribution tax, business license, program revenues, and other revenues. These increases were offset by increases in expenses of \$34.5 million primarily in Public Works and Transportation and Community and Economic Development.
- \$14.6 million increase in the net position (before restatement) was derived from the Business-type activities, mainly the sewer-related activities.

The City's cumulative governmental fund balances increased by 24.0 percent or \$184.1 million to \$952.2 million compared to \$768.1 million for the prior fiscal year. This increase is primarily attributed to the increase in property tax revenues, sales and use tax, sugar sweetened beverage distribution tax, business license, and the issuance of General Obligation Bonds (Series 2017 A-1 and A-2, Measure KK).

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

The City's 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 2017-18 (See Note I, part F).

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 Supplementary 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 position* presents information on all the City's assets, deferred outflows and inflows of resources, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both 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 and transportation. The business-type activities of the City include the sewer service system and the parks and recreation operations. The government-wide financial statements do not include the fiduciary funds, which comprise the private purpose trust funds and pension trust fund. Resources in the fiduciary funds are not available to support the City's own programs.

The government-wide financial statements include the primary government of the City 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.portoakland.com.

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

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 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 funds financial statements focus on the near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, capital projects, debt service, and general fund). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, the federal and state grant fund, the low and moderate income housing asset fund (LMIHF), the municipal capital improvement fund, and the other special revenue 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 governmental funds. A budgetary comparison schedule has been provided for the general fund and the other special revenue fund in the required supplementary information to demonstrate compliance with this budget.

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

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

The City maintains the following two types of proprietary funds:

- (1) **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.

- (2) **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, purchasing, and information technology. 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 funds 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 Police and Fire Retirement System (PFRS) Fund is reported as a pension trust fund. 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.

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 the other special revenue fund, schedules of changes in the net pension liability and related ratios and pension plan contributions, and schedules of changes in the net OPEB liability and related ratios and OPEB plan contributions.

Other Information

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

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of the City's financial condition. As of June 30, 2018, total liabilities and deferred inflows of resources exceed the total assets and deferred outflows of resources by \$456.8 million compared to a positive net position of \$115.0 million at June 30, 2017, which represents a decrease in net position of \$571.8 million. Current and other assets are higher by \$225.1 million primarily due to higher property tax and license and permit revenues, as well as the cash proceeds from the issuance of bonds. Additionally, capital assets increased by \$2.4 million. These amounts were offset by the net increases in the net pension liability and net OPEB liability. The City's net position reflects the net investment in capital assets of \$1.3 billion for governmental and business-type activities. Of the remaining balance, \$648.6 million are subject to external restrictions on how they may be used. The unrestricted net position of negative \$2.4 billion is comprised of a deficit balance of \$2.4 billion for governmental activities, and a positive balance of \$11.1 million for business-type activities.

Condensed Statement of Net Position
June 30, 2018 and 2017 (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 1,619,488	\$ 1,395,418	\$ 64,179	\$ 63,157	\$ 1,683,667	\$ 1,458,575
Capital assets	1,406,930	1,415,433	236,254	225,348	1,643,184	1,640,781
Total assets	3,026,418	2,810,851	300,433	288,505	3,326,851	3,099,356
Deferred outflows of resources						
Loss on refunding of debt	16,003	17,314	-	-	16,003	17,314
Related to pensions	383,063	283,417	10,874	10,335	393,937	293,752
Related to OPEB	36,654	-	571	-	37,225	-
Total deferred outflows of resources	435,720	300,731	11,445	10,335	447,165	311,066
Liabilities						
Long-term liabilities	1,126,021	1,079,286	34,267	36,735	1,160,288	1,116,021
Other liabilities	233,035	234,850	3,329	4,419	236,364	239,269
Net pension liability	1,660,253	1,503,250	43,672	39,011	1,703,925	1,542,261
Net OPEB liability/ Net OPEB obligations	836,431	353,583	13,040	6,402	849,471	359,985
Total liabilities	3,855,740	3,170,969	94,308	86,567	3,950,048	3,257,536
Deferred inflows of resources						
Gain on refunding of debt	-	-	434	474	434	474
Related to pensions	24,856	33,658	620	3,780	25,476	37,438
Resources related to OPEB	250,952	-	3,912	-	254,864	-
Total deferred inflows of resources	275,808	33,658	4,966	4,254	280,774	37,912
Net position						
Net investment in capital assets	1,126,892	1,141,058	201,553	188,139	1,328,445	1,329,197
Restricted	648,566	599,324	-	-	648,566	599,324
Unrestricted	(2,444,868)	(1,833,427)	11,051	19,880	(2,433,817)	(1,813,547)
Total net position	\$ (669,410)	\$ (93,045)	\$ 212,604	\$ 208,019	\$ (456,806)	\$ 114,974

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

Governmental activities: The City's net position in governmental activities decreased by \$576.4 million.

Total assets increased by \$215.6 million, or 7.7 percent, to \$3.0 billion. The significant changes in assets occurred in the following areas:

- *Current and Other Assets* increased by \$224.1 million mainly due to changes in cash and investments from the issuance of Measure KK general obligation bonds for infrastructure and affordable housing, as well as an increase in the affordable housing trust fund.

Total liabilities increased by \$684.8 million, or 21.6 percent to \$3.9 billion. The significant changes in liabilities occurred in the following areas:

- *Long-term liabilities* increased by \$46.7 million primarily attributed to the increase in long-term debt with \$101.0 million in general obligation bonds (Measure KK), offset by reduction in pension obligation bonds of \$38.8 million.
- *Net pension liability* increased by \$157.0 million compared to the balance at June 30, 2017 mainly due to changes in actuarial assumptions.
- *Net OPEB liability* increased by \$482.8 million compared to the OPEB obligation balance recorded in accordance with GASB Statement No. 45 at June 30, 2017. The increase resulted from the implementation of GASB Statement No. 75 and the restatement of the beginning balance.

The net position decreased by \$576.4 million to a deficit \$669.4 million as of June 30, 2018. The City net position can be divided into three categories: net investment in capital assets, restricted, and unrestricted.

- \$1.1 billion of the net position reflects its *investment in capital assets* (e.g., land, buildings, infrastructure, facilities, and equipment), net of any related outstanding debt and debt-related deferred outflows and inflows of resources that was used to acquire those assets. The City uses these capital assets to provide a variety of services to citizens. These assets, therefore, are not available for future spending.
- \$648.6 million of the net position represents resources that are subject to restrictions on how they may be used and therefore restricted.
- \$2.4 billion represents a deficit in unrestricted net position that has primarily resulted from the underfunding of pension and OPEB liabilities, as well as liabilities for pension obligation bonds.

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

The following table indicates the changes in net position for governmental and business-type activities:

Condensed Statement of Activities
Years Ended June 30, 2018 and 2017
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	221,719	203,153	66,168	60,820	287,887	263,973
Operating grants and contributions	124,238	95,032	-	-	124,238	95,032
Capital grants and contributions	750	34,911	-	-	750	34,911
Total program revenues	346,707	333,096	66,168	60,820	412,875	393,916
General revenues:						
Property taxes	340,573	312,078	-	-	340,573	312,078
State taxes:						
Sales and use taxes	85,500	79,866	-	-	85,500	79,866
Gas tax and motor vehicle in-lieu	11,091	8,163	-	-	11,091	8,163
Local taxes:						
Business license	86,107	75,840	-	-	86,107	75,840
Utility consumption	52,047	52,618	-	-	52,047	52,618
Real estate transfer	77,663	79,070	-	-	77,663	79,070
Transient occupancy	30,039	29,049	-	-	30,039	29,049
Parking	21,137	20,886	-	-	21,137	20,886
Voter approved special tax	50,469	37,962	-	-	50,469	37,962
Franchise	19,124	18,763	-	-	19,124	18,763
Interest and investment income	11,762	3,046	727	164	12,489	3,210
Other	42,362	19,935	-	-	42,362	19,935
Total revenues	1,174,581	1,070,372	66,895	60,984	1,241,476	1,131,356
Expenses:						
General government	110,486	127,344	-	-	110,486	127,344
Public safety	471,378	470,798	-	-	471,378	470,798
Community Services	144,763	146,398	-	-	144,763	146,398
Community & economic development	103,328	92,048	-	-	103,328	92,048
Public works	158,610	122,540	-	-	158,610	122,540
Interest on long-term debt	61,505	56,471	-	-	61,505	56,471
Sewer	-	-	49,645	44,391	49,645	44,391
Parks and recreation	-	-	1,317	730	1,317	730
Total expenses	1,050,070	1,015,599	50,962	45,121	1,101,032	1,060,720
Change in net position before transfers	124,511	54,773	15,933	15,863	140,444	70,636
Transfers	1,292	7,644	(1,292)	(7,644)	-	-
Change in net position	125,803	62,417	14,641	8,219	140,444	70,636
Net position						
Beginning of year, as previously reported	(93,045)	(155,462)	208,019	199,800	114,974	44,338
Change in accounting principle	(702,168)	-	(10,056)	-	(712,224)	-
Beginning of year, as restated	(795,213)	(155,462)	197,963	199,800	(597,250)	44,338
End of year	\$ (669,410)	\$ (93,045)	\$ 212,604	\$ 208,019	\$ (456,806)	\$ 114,974

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

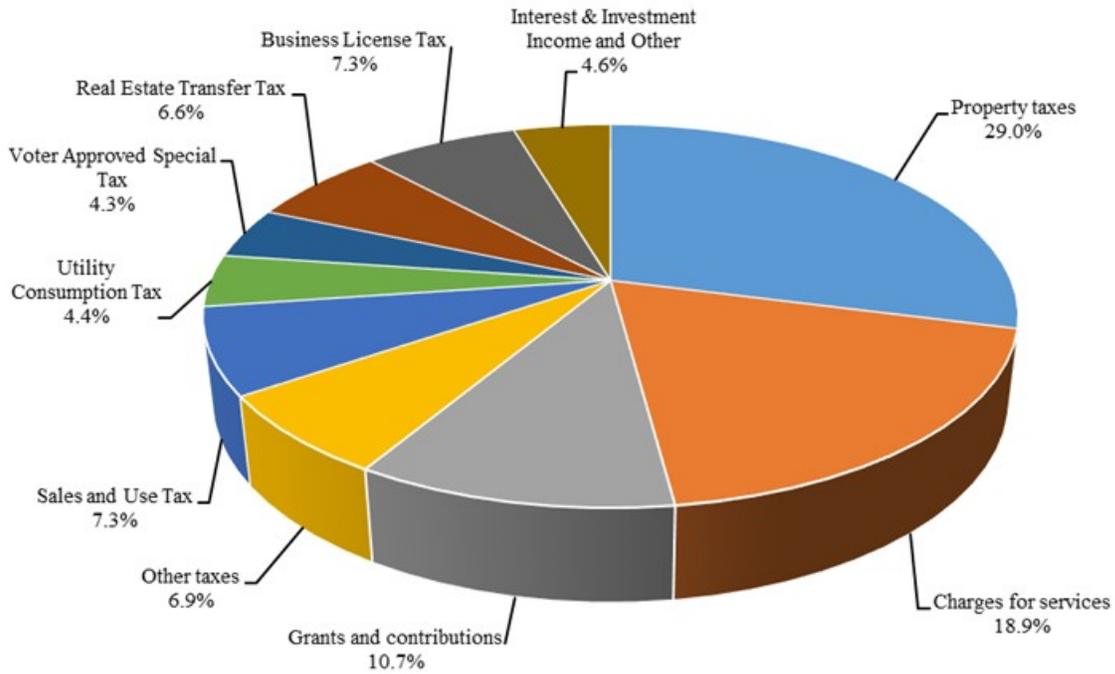
Governmental activities: Net position for governmental activities decreased by \$576.4 million during fiscal year 2017-18. Total revenue increased by 9.7 percent and expenses increased by 3.4 percent. During fiscal year 2016-17, revenues increased at a rate of 3.6 percent and expenses increased by 10.3 percent.

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

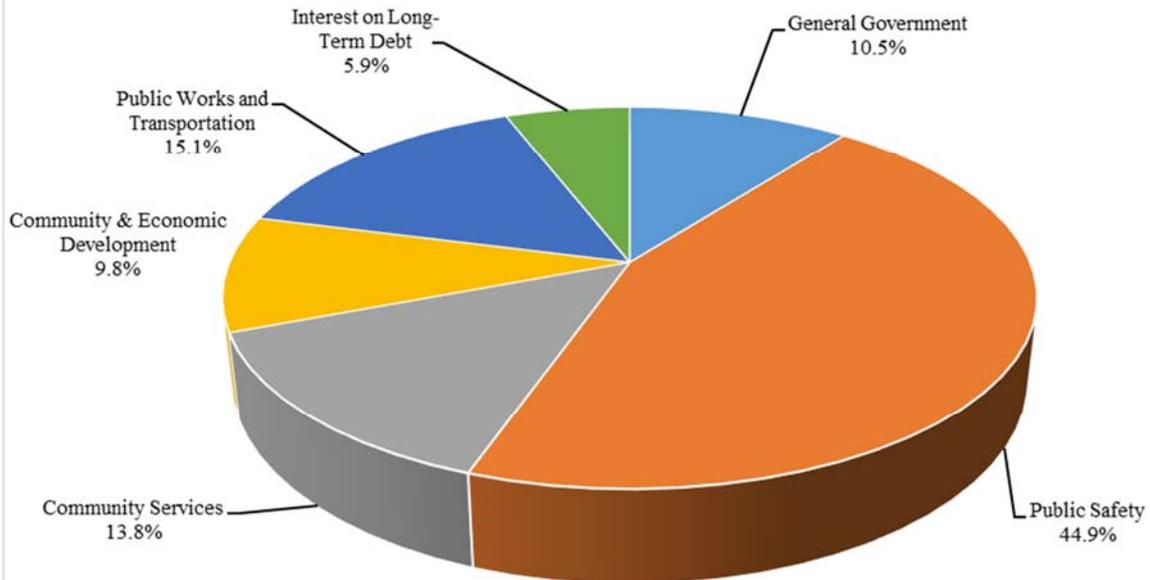
- Contributing factors resulting in an increase in certain revenue categories are as follows: property tax increased by \$28.5 million due to increases in assessed values from change in ownership reassessments amidst a continued strong property market, inflationary assessed value adjustments, and increases from voter approved measures. Operating grants and contributions increased by \$29.2 million, or 30.7 percent, due to additional grant activity across several funding sources. Voter approved special taxes increased by \$12.5 million or 32.9 percent due to the sugar sweetened beverage distribution tax, which was approved by voters in November 2016. Contributing factors resulting in a decrease in revenues included a real estate transfer tax decrease of \$1.4 million or 1.8 percent primarily due to the decrease in large property transactions. Real estate transfer tax is highly volatile and revenues can increase and decrease rapidly with changing market conditions with sales of high value properties.
- *General government* expenses decreased by \$16.9 million or 13.2 percent when compared to the previous year primarily due to the decrease in costs from vacancies, as well as the reorganization of the former Citizens Police Review Board to the Police Commission. The City Clerk's Office expenses decreased by \$1.5 million primarily in election costs when compared to the prior year. The Information Technology Department completed several projects which reduced expenses from fiscal year 2016-17.
- *Community and economic development* expenses increased by \$11.3 million or 12.3 percent primarily due to increased expenses for development services.
- *Public works and transportation* expenses increased by \$36.1 million or 29.4 percent from the prior year primarily due to increased grant expenditures and staffing costs associated with the creation of the Department of Transportation.
- *Interest on long-term debt* increased by \$5.0 million or 8.9 percent primarily due to an increase in outstanding debt.

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

Revenues By Source - Governmental Activities



Expenses - Governmental Activities



Business-type activities: Business-type activities ended the fiscal year with a positive change in its net position of \$4.6 million compared to \$8.2 million the previous fiscal year.

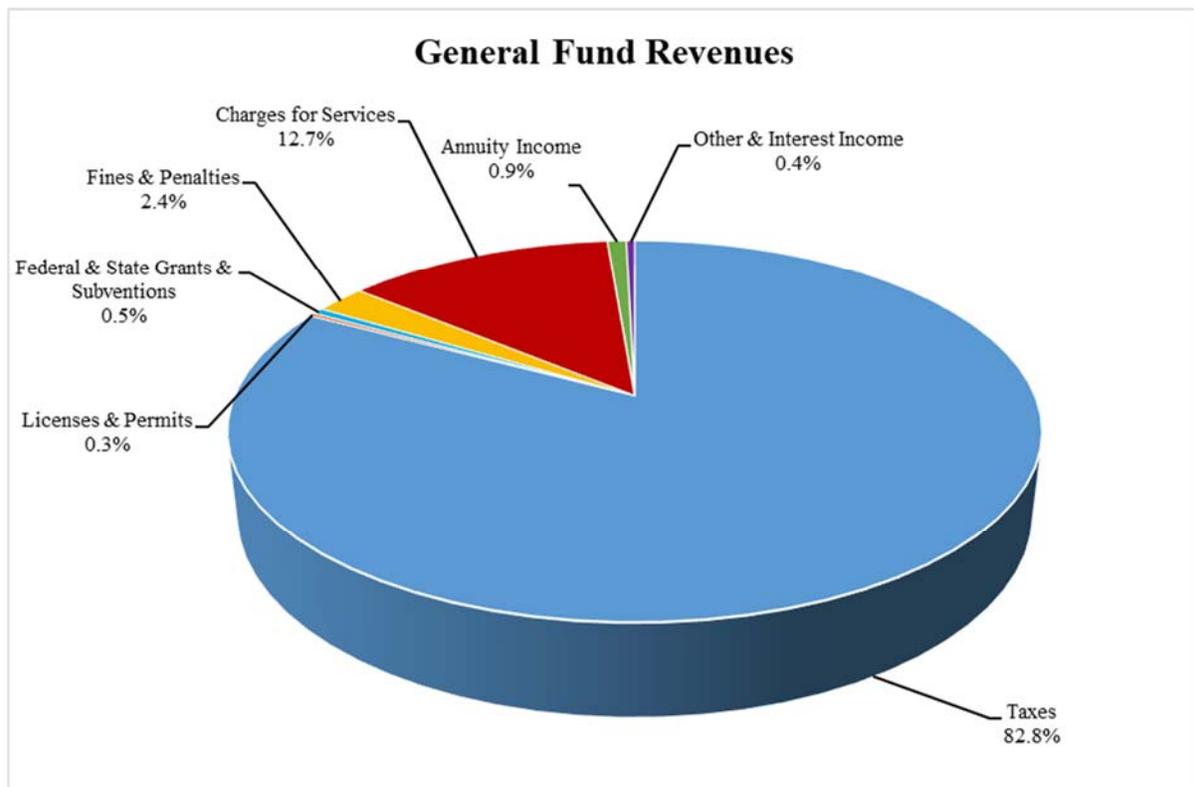
CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

Financial Analysis of the Governmental Funds

Governmental funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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, 2018, its unassigned fund balance is \$93.8 million or 24.4 percent of the \$385.2 million total General Fund balance.

For the years ended June 30, 2018 and 2017, revenues for the General Fund are distributed as follows:



CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

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

- *Property taxes* increased by \$23.2 million or 8.5 percent. This is mainly due to increases in assessed values.

	General Fund		Increase/ (Decrease)	
	2018	2017	Amount	%
Revenues:				
Taxes				
Property taxes	\$ 295,216	\$ 271,985	\$ 23,231	8.5%
State taxes:				
Sales and use taxes	57,465	53,702	3,763	7.0%
Moter vehicles in lieu tax	224	189	35	18.5%
Local taxes:				
Business license	86,107	75,840	10,267	13.5%
Utility consumption	52,047	52,618	(571)	-1.1%
Real estate transfer	77,663	79,070	(1,407)	-1.8%
Transient occupancy	23,583	23,165	418	1.8%
Parking	10,803	10,637	166	1.6%
Voter approved special tax	11,878	-	11,878	n/a
Franchise	18,858	18,480	378	2.0%
Licenses and permits	2,384	1,802	582	32.3%
Fines and penalties	18,267	21,738	(3,471)	-16.0%
Charges for services	97,371	85,886	11,485	13.4%
Federal and state grant	3,813	2,751	1,062	38.6%
Annuity income	6,952	4,376	2,576	58.9%
Other	3,251	2,487	764	30.7%
Total revenues	\$ 765,882	\$ 704,726	\$ 61,156	8.7%

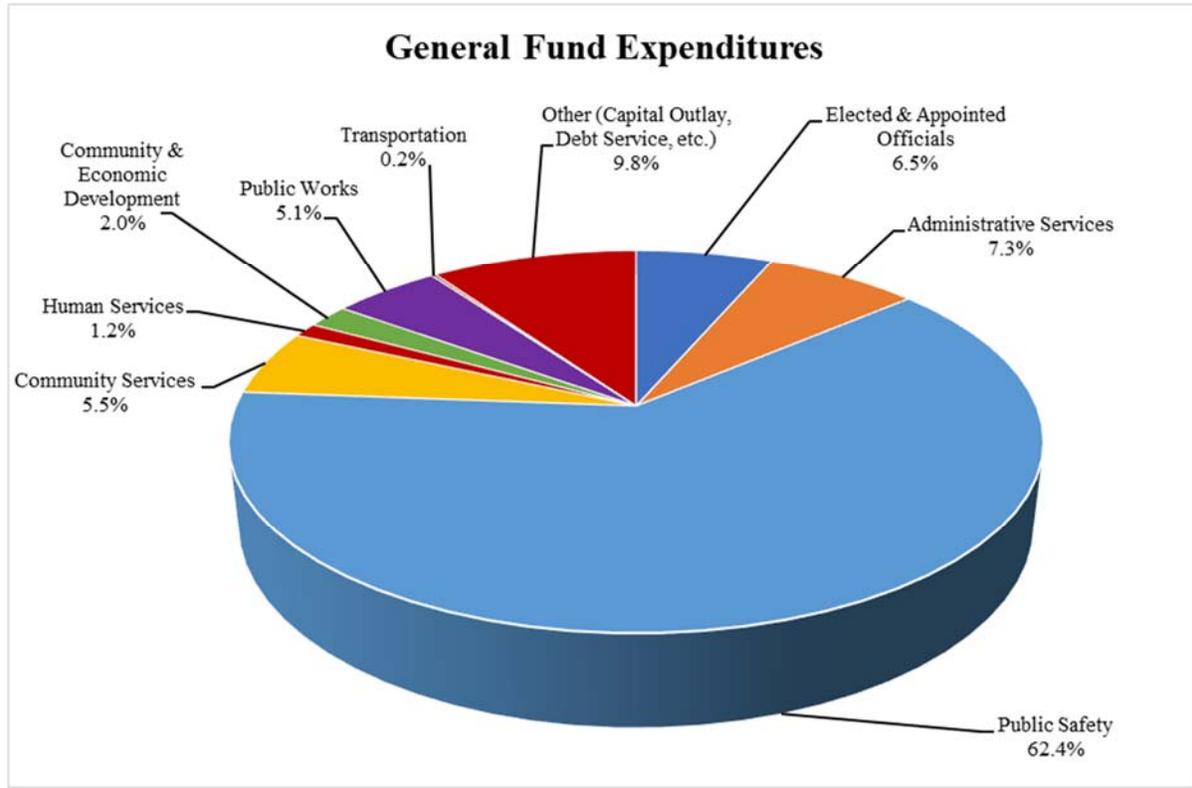
- *Real estate transfer tax* decreased by \$1.4 million or 1.8 percent primarily due to a decrease in large property sales.
- *Business license tax* increased by \$10.3 million due to gains in cannabis taxes and one-time audit recoveries.
- *Voter approved special tax* increased by \$11.9 million due to new sugar-sweetened beverage distribution tax revenues.
- *Charges for services* increased by \$11.5 million primarily due to development-related charges.

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

For the years ended June 30, 2018 and 2017, expenditures for the General Fund by function are distributed as follows (in thousands):

	<u>General Fund</u>		<u>Increase/ (Decrease)</u>	
	<u>2018</u>	<u>2017</u>	<u>Amount</u>	<u>%</u>
Expenditures:				
Current:				
Elected and Appointed Officials:				
Mayor	\$ 2,768	\$ 2,456	\$ 312	12.7%
Council	4,625	4,587	38	0.8%
City Administrator	13,155	16,588	(3,433)	-20.7%
City Attorney	14,204	13,574	630	4.6%
City Auditor	1,994	1,800	194	10.8%
City Clerk	3,608	5,029	(1,421)	-28.3%
Public Ethics Commission	1,038	917	121	13.2%
Departments:				
Administrative Service Department:				
Human Resource Management	7,642	6,428	1,214	18.9%
Financial Services	27,546	24,385	3,161	13.0%
Information Technology	11,200	11,771	(571)	-4.9%
Race and Equity Department	448	210	238	113.3%
Public Safety:				
Oakland Police Department	260,564	256,972	3,592	1.4%
Oakland Fire Department	135,443	133,005	2,438	1.8%
Police Commission	2,098	-	2,098	n/a
Community Service Department:				
Parks and Recreation	22,402	22,745	(343)	-1.5%
Library	12,396	11,901	495	4.2%
Department of Violence Prevention	211	-	211	n/a
Human Services Department	7,540	7,776	(236)	-3.0%
Community and Economic Development:				
Planning and Building	-	355	(355)	-100.0%
Economic & Workforce Development	7,607	9,476	(1,869)	-19.7%
Housing & Community Development	4,899	4,092	807	19.7%
Oakland Public Works	32,918	31,804	1,114	3.5%
Department of Transportation	1,189	-	1,189	n/a
Other	54,908	11,607	43,301	373.1%
Capital outlay	1,827	2,320	(493)	-21.3%
Debt service:				
Principal repayment	4,744	5,100	(356)	-7.0%
Bond issuance cost	167	-	167	n/a
Interest charges	941	375	566	150.9%
Total expenditures	<u>\$ 638,082</u>	<u>\$ 585,273</u>	<u>\$ 52,809</u>	<u>9.0%</u>

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018



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

- *Public safety* increased by \$8.1 million or 2.1 percent due to the negotiated cost of living adjustment and overtime for sworn employees as a result of targeted crime reduction, coverage of vacancies, and fire academies.
- *City elected offices and departments*, excluding public safety, capital outlay, and debt service, are reporting a total increase of \$44.3 million or 23.3 percent in expenditures mainly due to the resumption of pension contributions to PFRS of \$44.9 million.

Federal and State Grant Fund: The Federal and State Grant Fund had a fund balance of \$6.9 million as of June 30, 2018, which represents an increase of \$22.1 million from the prior fiscal year due to increased grant activity in several programs.

Low and Moderate Income Housing Asset Fund (LMIHF): Upon the dissolution of the Former Agency, the City retained the housing activities previously funded by the Former Agency, created 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, 2018 was \$56.5 million and the fund's net loan receivable balance was \$233.7 million.

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

Municipal Capital Improvement Fund: The Municipal Capital Improvement Fund had a fund balance of \$303.1 million as of June 30, 2018 that represents an increase of \$83.4 million or 37.9 percent from the prior fiscal year. This increase is primarily attributed to the other financing sources from the issuance of Measure KK bonds for infrastructure and affordable housing projects.

The Other Special Revenue Fund accounts for activities of several Special Revenue Funds, which include mainly the following local measures; Measure Z – Violence Prevention and Public Safety Act of 2014; Measure C – Oakland Hotel Tax; Measure Q – Library Services Retention and Enhancement; Measure WW East Bay Regional Park District local grant program; Measure N – Paramedics Services Act; Oakland Kid's First Fund; Development Service Fund; and other miscellaneous special revenue funds. The ending fund balance as of June 30, 2018 was \$156.4 million, which increased \$54.4 million from the previous fiscal year due to new development fees and permitting.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements under the business-type activities column but in more detail. The portion of net position invested in capital assets, excluding internal service funds, was \$201.6 million as of June 30, 2018, compared to \$188.1 million for the previous fiscal year. The increase of \$13.4 million is primarily due to the capitalization of completed projects.

General Fund Budgetary Highlights

During the year ended June 30, 2018, the General Fund had a \$2.8 million increase in budgeted revenues between the original and final amended operating budget. Actual budgetary basis revenues of \$765.5 million were \$23.5 million higher than the final amended budget. The variance is due primarily to increases in property tax, sales and use tax, sugar sweetened beverage distribution tax, and business license tax.

In addition, there was a \$34.8 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 multi-year projects, capital improvement projects, and other projects authorized by the City Council.

Actual budgetary basis expenditures of \$638.1 million were \$39.2 million less than the final amended budget. Savings were experienced in all expenditure categories mainly due to budget contingency and project and encumbrance carryforwards for multi-year budgets.

Capital Assets

The City's governmental activities capital assets, net of depreciation, totaled \$1.4 billion as of June 30, 2018 compared to \$1.4 billion as of June 30, 2017, a slight decrease of \$8.5 million or 0.6 percent. Governmental activities additions included \$90.7 million in capital assets from construction in progress which met the City's threshold for capitalization, and were offset by retirements and depreciation. Major construction projects underway include roadway and traffic improvements, park and recreation center upgrades, and infrastructure in support of the new logistics facility at the former Oakland Army Base.

CITY OF OAKLAND
Management’s Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

Business-type activities, primarily the Sewer Fund, increased capital assets by \$10.9 million, which included \$16.2 million increase in construction in progress net of retirements and depreciation, primarily for sanitary sewer system capacity upgrades. See Note II, part D to the financial statements for more details on capital assets.

Construction Commitments

The City has committed to funding in the amount of \$148.4 million for a number of capital improvement projects for fiscal year 2017-18 through fiscal year 2018-19. These projects include improvements to building and facilities, parks and open space, sewers and storm drains, streets and sidewalks, technology enhancements, and traffic improvements. See Note III, part C.1 for more details on construction commitments.

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 outstanding general obligation bonds from all three rating agencies. The City of Oakland’s underlying ratings for its bonds as of June 30, 2018 were as follows:

	Ratings		
	Moody's	S&P	Fitch
General obligation bonds	Aa2	AA	n/a
Lease revenue bonds	Aa3	AA	A1
Pension obligation bonds	Aa3	AA-	n/a
Tas allocation bonds	Baa1; Baa2	AA;AA-;A	n/a

¹ Upgraded to A+ on August 27, 2018

² Ratings vary by series

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 \$2.0 billion. The total amount of debt applicable to the debt limit was \$317.6 million. The resulting legal debt margin was \$1.7 billion.

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

Long-Term Obligations

As of June 30, 2018, the City had total long-term obligations of \$1.1 billion compared to \$1.1 billion outstanding for the prior fiscal year, an increase of 4.0 percent. Of this amount, \$317.6 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$808.4 million is comprised of various long-term debt instruments listed below including accruals of year-end estimates for other long-term liabilities (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 317,605	\$ 216,655	\$ -	\$ -	\$ 317,605	\$ 216,655
Lease revenue bonds	60,025	71,335	-	-	60,025	71,335
Pension obligation bonds	271,580	296,854	-	-	271,580	296,854
Special assessment district bonds	3,585	5,335	-	-	3,585	5,335
Accreted interest of appreciation bonds	136,371	149,896	-	-	136,371	149,896
Sewer bonds	-	-	30,495	32,620	30,495	32,620
Unamortized premium and discounts	27,934	23,246	3,772	4,115	31,706	27,361
Total bonds payable	817,100	763,321	34,267	36,735	851,367	800,056
Loans, notes and lease payable	76,296	75,823	-	-	76,296	75,823
Other long-term liabilities	232,625	240,142	-	-	232,625	240,142
Total long-term obligations	\$ 1,126,021	\$ 1,079,286	\$ 34,267	\$ 36,735	\$ 1,160,288	\$ 1,116,021

The City's overall bonds, notes and lease payables increased by \$51.8 million compared to the prior fiscal year balance. The increase is primarily attributable to the issuance of \$117.8 million of general obligation bonds (Measure KK), the drawdown of \$16.5 million on the Oakland Army Base loan, and an equipment lease of \$4.9 million, offset by debt repayments.

Current Year Long-Term Debt Financing:

- On August 30, 2017 the City issued \$62.7 million Measure KK, Series 2017 A-1 and \$55.1 million Series 2017 A-2 General Obligation Bonds to improve public safety and invest in neighborhoods throughout Oakland by re-paving streets to remove potholes, rebuilding cracked and deteriorating sidewalks, funding bicycle and pedestrian safety improvements, funding affordable housing for Oaklanders, and providing funds for facility improvements, such as, neighborhood recreation centers, playgrounds, and libraries.
- On February 16, 2017, the City entered into a draw-down term loan of \$24.5 million which will be used for construction of public improvements at the former Oakland Army Base and (ii) to pay for certain costs related to the issuance of the Loan. During the fiscal year ended June 30, 2018, the City drew down the remaining loan balance of \$16.5 million.
- On August 1, 2017, the City entered into a Master-Lease Purchase Agreement with Banc of America Public Capital Corp. in the principal amount of \$4.9 million to provide funding to upgrade, replace, and implement mission-critical public safety information technology systems.

Additional information on the City's long-term debt obligations can be found in Note II, part G to the financial statements.

CITY OF OAKLAND
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

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 2017-18.

The City's economy continues to grow, which is resulting in a steady growth of General Fund revenues. While revenues now exceed pre-recession levels, the growth is not enough to restore pre-recession service levels due to rising costs. There is also pressure on the budget to fund long-term deferred maintenance and capital equipment, and long-term unfunded liabilities. The City adopted a balanced budget for fiscal years 2017-19 without layoffs, and continues to invest in public safety, stabilize our workforce, economic growth, job creation and training, education, equipment and technology, and quality of life.

In February 2017, the City issued a Five-Year Financial Forecast that forecasted revenues and expenditures. The purpose of the Five-Year Financial Forecast is to help the City of Oakland make informed financial and operational decisions by better anticipating long-term future revenues and expenditures. Since that time the City has experienced a continued growth in revenues and in the local economy. This economic growth will be reflected in subsequent reports on City revenues and expenditures.

In February 2019, the City will release a new Five-Year Financial Forecast in preparation for the FY 2019-21 Biennial Budget. This new forecast will address the projected future growth rates of expenditures and revenues, and any other fiscal concerns, based upon information available through December 2018.

The City of Oakland's unemployment rate decreased to 3.8 percent in June 2018 compared to a rate of 4.9 percent for June 2017.

The Bay Area's consumer price index for all urban consumers in October 2018 was 289.7 compared to 277.6 in October 2017, a 4.4% increase, and 14.5% above the U.S. city average of 252.9 (Base period: 1982 – 84 = 100).

The City's estimated population for 2018 is 428,827, a 0.6% increase above the 2017 estimated population of 426,074.

Pension rates, and health care costs have been factored into the City's mid-cycle budget adjustments for Fiscal Year 2017-19.

Requests for Information

This financial report is designed to provide a general overview of the City of Oakland's finances for all those with an interest in the City's fiscal and economic affairs. Requests for additional financial information should be addressed to the Finance Department, Controller's Bureau, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353; Oakland, California 94612-2093. This report is also available online at <http://www.oaklandca.gov>.

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

City of Oakland
Statement of Net Position
June 30, 2018
(In thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Port of Oakland
ASSETS				
Cash and investments	\$ 648,586	\$ 44,874	\$ 693,460	\$ 368,157
Receivables (net of allowance for uncollectibles of \$6,547 for City and \$540 for Port):				
Accrued interest	2,401	169	2,570	-
Property taxes	13,271	-	13,271	-
Accounts receivable	63,175	19,348	82,523	44,157
Grants receivable	34,534	-	34,534	-
Due from Port	8,675	-	8,675	-
Due from Oakland Redevelopment Successor Agency (ORSA)	4,269	-	4,269	-
Due from private purpose trust fund	72	-	72	-
Internal balances	383	(383)	-	-
Due from other governments	10,891	-	10,891	-
Inventories	911	-	911	-
Restricted assets:				
Cash and investments	266,084	152	266,236	66,075
Receivables	-	-	-	3,674
Property held for resale	162,657	-	162,657	-
Notes and loans receivable (net of allowance for uncollectibles of \$158,428 for the City)	403,128	-	403,128	-
Prepaid expenses	451	19	470	3,663
Other	-	-	-	42,211
Capital assets:				
Land and other capital assets not being depreciated	410,692	37,986	448,678	590,686
Facilities, infrastructure, and equipment, net of depreciation	996,238	198,268	1,194,506	1,573,884
TOTAL ASSETS	3,026,418	300,433	3,326,851	2,692,507
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding of debt	16,003	-	16,003	6,838
Deferred outflows of resources related to pensions	383,063	10,874	393,937	48,652
Deferred outflows of resources related to OPEB	36,654	571	37,225	14,732
TOTAL DEFERRED OUTFLOWS OF RESOURCES	435,720	11,445	447,165	70,222
LIABILITIES				
Accounts payable and other current liabilities	177,728	3,265	180,993	36,528
Accrued interest payable	24,788	58	24,846	7,568
Due to other governments	1,385	-	1,385	-
Due to primary government	-	-	-	8,675
Due to Oakland Redevelopment Successor Agency (ORSA)	2,312	-	2,312	-
Unearned revenue	5,755	-	5,755	34,204
Other	21,067	6	21,073	27,782
Non-current liabilities:				
Due within one year	178,967	2,578	181,545	73,580
Due in more than one year	947,054	31,689	978,743	1,042,730
Net pension liability	1,660,253	43,672	1,703,925	222,741
Net other postemployment benefits (OPEB) liability	836,431	13,040	849,471	103,877
TOTAL LIABILITIES	3,855,740	94,308	3,950,048	1,557,685
DEFERRED INFLOWS OF RESOURCES				
Unamortized gain on refunding of debt	-	434	434	-
Deferred inflows of resources related to pensions	24,856	620	25,476	2,565
Deferred inflows of resources related to OPEB	250,952	3,912	254,864	1,492
TOTAL DEFERRED INFLOWS OF RESOURCES	275,808	4,966	280,774	4,057
NET POSITION				
Net investment in capital assets	1,126,892	201,553	1,328,445	1,155,086
Restricted for:				
Debt service	19,296	-	19,296	-
Housing and community development	313,298	-	313,298	-
Low and moderate income housing redevelopment	292,353	-	292,353	-
Other purposes	23,619	-	23,619	10,457
Unrestricted (deficit)	(2,444,868)	11,051	(2,433,817)	35,444
TOTAL NET POSITION	\$ (669,410)	\$ 212,604	\$ (456,806)	\$ 1,200,987

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

City of Oakland
Statement of Activities
Year Ended June 30, 2018
(In thousands)

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Component Unit Port of Oakland
		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	\$ 110,486	\$ 45,511	\$ 6,628	\$ -	\$ (58,347)	\$ -	\$ (58,347)	
Public safety	471,378	24,343	17,047	-	(429,988)	-	(429,988)	
Community services	144,763	6,610	36,104	-	(102,049)	-	(102,049)	
Community and economic development	103,328	99,239	24,253	750	20,914	-	20,914	
Public works and transportation	158,610	46,016	40,206	-	(72,388)	-	(72,388)	
Interest on long-term debt	61,505	-	-	-	(61,505)	-	(61,505)	
TOTAL GOVERNMENTAL ACTIVITIES	1,050,070	221,719	124,238	750	(703,363)	-	(703,363)	
Business-type activities:								
Sewer	49,645	65,614	-	-	-	15,969	15,969	
Parks and recreation	1,317	554	-	-	-	(763)	(763)	
TOTAL BUSINESS-TYPE ACTIVITIES	50,962	66,168	-	-	-	15,206	15,206	
TOTAL PRIMARY GOVERNMENT	\$ 1,101,032	\$ 287,887	\$ 124,238	\$ 750	(703,363)	15,206	(688,157)	
Component unit:								
Port of Oakland	\$ 391,175	\$ 381,011	\$ 324	\$ 50,172				\$ 40,332
General revenues:								
Property taxes					340,573	-	340,573	-
State taxes (unrestricted intergovernmental revenues):								
Sales and use taxes					85,500	-	85,500	-
Gas tax					10,867	-	10,867	-
Motor vehicle in-lieu					224	-	224	-
Local taxes (own source revenues):								
Business license					86,107	-	86,107	-
Utility consumption					52,047	-	52,047	-
Real estate transfer					77,663	-	77,663	-
Transient occupancy					30,039	-	30,039	-
Parking					21,137	-	21,137	-
Voter approved special tax					50,469	-	50,469	-
Franchise					19,124	-	19,124	-
Interest and investment income					11,762	727	12,489	5,109
Other					42,362	-	42,362	38,315
Transfers					1,292	(1,292)	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					829,166	(565)	828,601	43,424
Changes in net position					125,803	14,641	140,444	83,756
Net position - beginning, as previously reported					(93,045)	208,019	114,974	1,201,736
Cumulative effect of change in accounting principle					(702,168)	(10,056)	(712,224)	(84,505)
Net position - beginning, as restated					(795,213)	197,963	(597,250)	1,117,231
NET POSITION - ENDING	\$ (669,410)	\$ 212,604	\$ (456,806)	\$ 1,200,987				

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

City of Oakland
Balance Sheet
Governmental Funds
June 30, 2018
(In thousands)

	General Fund	Federal/ State Grant Fund	Low and Moderate Income Housing Asset Fund	Municipal Capital Improvement Fund	Other Special Revenue Fund	Other Governmental Funds	Total
ASSETS							
Cash and investments	\$ 400,305	\$ 1,265	\$ 24,588	\$ 480	\$ 169,269	\$ 40,442	\$ 636,349
Receivable (net of allowance for uncollectibles of \$5,207)							
Accrued interest	1,553	(11)	74	49	556	123	2,344
Property taxes	7,487	-	-	-	2,678	3,106	13,271
Accounts receivable	47,145	5,226	2	1,194	3,952	5,523	63,042
Grants receivable	305	33,741	-	-	488	-	34,534
Due from Port	8,675	-	-	-	-	-	8,675
Due from ORSA trust fund	-	-	1,978	2,291	-	-	4,269
Due from other funds	22,592	-	-	-	-	-	22,592
Due from other governments	10,891	-	-	-	-	-	10,891
Notes and loans receivable (net of allowance for uncollectibles of \$158,428)	6,855	135,285	233,728	26,356	904	-	403,128
Restricted cash and investments	57,390	152	1,525	176,918	-	11,201	247,186
Property held for resale	-	-	30,677	131,980	-	-	162,657
Other assets	50	94	-	-	29	36	209
TOTAL ASSETS	\$ 563,248	\$ 175,752	\$ 292,572	\$ 339,268	\$ 177,876	\$ 60,431	\$ 1,609,147
LIABILITIES							
Accounts payable and accrued liabilities	\$ 140,892	\$ 9,545	\$ 215	\$ 3,494	\$ 9,062	\$ 10,231	\$ 173,439
Due to other funds	-	11,610	-	55	-	1,550	13,215
Due to ORSA trust fund	2,312	-	-	-	-	-	2,312
Due to other governments	1,356	2	-	-	27	-	1,385
Unearned revenue	5,546	209	-	-	-	-	5,755
Other	3,796	2,588	4	3,062	9,276	2,334	21,060
TOTAL LIABILITIES	153,902	23,954	219	6,611	18,365	14,115	217,166
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - property tax	3,520	-	-	-	2,048	2,160	7,728
Unavailable revenue - notes and loans	6,855	135,285	233,861	26,356	904	-	403,261
Unavailable revenue - mandated claims	10,891	-	-	-	-	-	10,891
Unavailable revenue - grants and others	2,913	9,634	-	1,000	191	-	13,738
Unavailable revenue - loans to OSRA	-	-	1,978	2,164	-	-	4,142
TOTAL DEFERRED INFLOWS	24,179	144,919	235,839	29,520	3,143	2,160	439,760
FUND BALANCES							
Restricted	235,084	6,879	56,514	303,137	-	42,020	643,634
Committed	14,323	-	-	-	17,959	1,590	33,872
Assigned	41,959	-	-	-	138,409	1,652	182,020
Unassigned	93,801	-	-	-	-	(1,106)	92,695
TOTAL FUND BALANCES	385,167	6,879	56,514	303,137	156,368	44,156	952,221
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 563,248	\$ 175,752	\$ 292,572	\$ 339,268	\$ 177,876	\$ 60,431	\$ 1,609,147

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 Position for Governmental Activities
June 30, 2018
(In thousands)

Fund balances - total governmental funds (page 25) \$ 952,221

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

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

Primary government capital assets, net of depreciation	1,406,930	
Less: internal service funds' capital assets, net of depreciation	<u>(46,183)</u>	1,360,747

Prepaid insurance premiums on long-term debt are not financial resources and, therefore, are not reported in the governmental funds. 204

Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not accrued as a liability in the governmental funds.

Interest payable on long-term debt of the primary government	(24,788)	
Less: interest payable on long-term debt of the internal service funds	<u>324</u>	(24,464)

Deferred inflows of resources recorded in governmental fund financial statements resulting from activities in which revenues were earned but funds were not available are reclassified as revenues in the government-wide financial statements. 439,760

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	(1,126,021)	
Less: long-term liabilities for internal service funds	<u>39,234</u>	(1,086,787)

Deferred outflows of resources in governmental activities related to losses on refunding of debt are not financial resources and, therefore, are not reported in the governmental funds. 16,003

Net pension liability, net OPEB liability and deferred outflows of resources and deferred inflows of resources related to pensions and OPEB on the government-wide statement of net position are not due and payable in the current period, and therefore are not reported in the governmental funds.

Net pension liability	(1,609,734)	
Deferred outflows of resources related to pensions	370,616	
Deferred inflows of resources related to pensions	(24,156)	
Net OPEB liability	(820,718)	
Deferred outflows of resources related to OPEB	35,966	
Deferred inflows of resources related to OPEB	<u>(246,237)</u>	(2,294,263)

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, deferred outflows, liabilities, and deferred inflows of resources of internal service funds are included in governmental activities in the statement of net position. (32,831)

NET POSITION OF GOVERNMENTAL ACTIVITIES (page 23) \$ (669,410)

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

City of Oakland
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018
(In thousands)

	General Fund	Federal/ State Grant Fund	Low and Moderate Income Housing Asset Fund	Municipal Capital Improvement Fund	Other Special Revenue Fund	Other Governmental Funds	Total
REVENUES							
Taxes:							
Property	\$ 295,216	\$ -	\$ -	\$ -	\$ 16,536	\$ 30,549	\$ 342,301
Sales and use	57,465	-	-	-	-	28,035	85,500
Motor vehicle in-lieu	224	-	-	-	-	-	224
Gas	-	-	-	-	-	10,867	10,867
Local taxes:							
Business license	86,107	-	-	-	-	-	86,107
Utility consumption	52,047	-	-	-	-	-	52,047
Real estate transfer	77,663	-	-	-	-	-	77,663
Transient occupancy	23,583	-	-	-	6,456	-	30,039
Parking	10,803	-	-	-	10,334	-	21,137
Voter approved special tax	11,878	-	-	-	19,408	19,183	50,469
Franchise	18,858	266	-	-	-	-	19,124
Licenses and permits	2,384	-	-	-	45,207	140	47,731
Fines and penalties	18,267	364	-	-	859	876	20,366
Interest and investment income	(3,069)	1,065	1,643	1,814	2,248	856	4,557
Charges for services	97,371	110	384	2,963	52,634	160	153,622
Federal and state grants and subventions	3,813	110,458	-	-	2,844	4,444	121,559
Annuity income	6,952	-	-	-	-	-	6,952
Other	6,320	3,853	17,409	1,901	2,104	2,621	34,208
TOTAL REVENUES	765,882	116,116	19,436	6,678	158,630	97,731	1,164,473
EXPENDITURES							
Current:							
Elected and Appointed Officials:							
Mayor	2,768	437	-	-	151	379	3,735
Council	4,625	-	-	-	-	-	4,625
City Administrator	13,155	80	-	196	1,507	24	14,962
City Attorney	14,204	64	-	260	1,977	39	16,544
City Auditor	1,994	-	-	-	-	-	1,994
City Clerk	3,608	-	-	-	-	-	3,608
Public Ethics Commission	1,038	-	-	-	-	-	1,038
Departments:							
Administrative Service Department:							
Human Resource Management	7,642	-	-	-	149	-	7,791
Financial Services	27,546	313	-	-	1,015	130	29,004
Information Technology	11,200	12	-	355	1,027	-	12,594
Race and Equity Department	448	-	-	-	-	-	448
Public Safety:							
Oakland Police Department	260,564	4,910	-	-	18,801	1,008	285,283
Oakland Fire Department	135,443	5,969	-	-	6,122	735	148,269
Police Commission	2,098	-	-	-	-	-	2,098
Community Service Department:							
Parks and Recreation	22,402	121	-	-	259	3,475	26,257
Library	12,396	156	-	-	16,815	161	29,528
Department of Violence Prevention	211	-	-	-	30	-	241
Human Services Department	7,540	38,401	96	-	26,000	2,409	74,446
Community and Economic Development:							
Planning and Building	-	404	-	25	30,302	-	30,731
Economic & Workforce Development	7,607	4,936	-	13,201	895	2,263	28,902
Housing & Community Development	4,899	9,090	11,327	11,799	3,034	-	40,149
Oakland Public Works	32,918	2,361	-	1,999	997	13,443	51,718
Department of Transportation	1,189	7,016	-	1,360	5,538	31,595	46,698
Other	54,908	1,429	-	4,345	6,690	3,809	71,181
Capital outlay	1,827	21,199	-	4,549	469	44,878	72,922
Debt service:							
Principal repayment	4,744	-	-	-	-	51,853	56,597
Bond issuance cost	167	-	-	-	-	1,964	2,131
Payment to refund bond escrow agent	-	-	-	-	-	1,535	1,535
Interest and other charges	941	-	-	8	-	56,503	57,452
TOTAL EXPENDITURES	638,082	96,898	11,423	38,097	121,778	216,203	1,122,481
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	127,800	19,218	8,013	(31,419)	36,852	(118,472)	41,992
OTHER FINANCING SOURCES (USES)							
Issuance of bonds	-	-	-	117,855	-	-	117,855
Proceeds from loan	-	-	-	-	-	16,479	16,479
Issuance of refunding bonds	-	-	-	-	-	61,405	61,405
Premiums on issuance of bonds	-	-	-	-	-	8,565	8,565
Discounts on issuance of bonds	-	-	-	-	-	(10)	(10)
Payment to refund bond escrow agent	-	-	-	-	-	(68,307)	(68,307)
Proceeds from sale of capital assets	2,855	-	-	-	-	-	2,855
Insurance claims and settlements	2,917	-	-	-	32	-	2,949
Transfers in	6,971	2,934	-	-	18,115	77,403	105,423
Transfers out	(101,102)	(35)	-	(3,082)	(476)	(412)	(105,107)
TOTAL OTHER FINANCING SOURCES (USES)	(88,359)	2,899	-	114,773	17,671	95,123	142,107
NET CHANGE IN FUND BALANCES	39,441	22,117	8,013	83,354	54,523	(23,349)	184,099
Fund balances - beginning	345,726	(15,238)	48,501	219,783	101,845	67,505	768,122
FUND BALANCES - ENDING	\$ 385,167	\$ 6,879	\$ 56,514	\$ 303,137	\$ 156,368	\$ 44,156	\$ 952,221

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

City of Oakland
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities of Governmental Activities
Year Ended June 30, 2018
(In thousands)

Net change in fund balances - total governmental funds (page 27) \$ 184,099

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	91,240	
Capital asset retirement	(30,326)	
Depreciation	(63,476)	(2,562)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the change in the deferred inflows during the current period. 38,317

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. 1,758

The issuance of long-term debt provides current financial resources to governmental funds. This is the amount by which bond proceeds increases the liabilities in the statement of net position. (134,563)

The repayment of the principal of long-term debt consumes the current financing sources of the governmental funds. This is the amount by which principal retirement reduces the liabilities in the statement of net position. 56,597

Some expenses 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.

Amortization of bond premiums and discounts	1,178	
Amortization of prepaid bond insurance premium on long-term debt	(46)	
Amortization of deferred outflows of refunding loss	(517)	
Accreted interest on appreciation bonds	13,525	
Changes in accrued interest on bonds and notes payable	(1,580)	
Changes in Coliseum Authority pledged obligation	4,335	
Changes in mandated environmental remediation obligations	(224)	
Changes in net pension liability and deferred outflows and inflows of resources related to pensions	(47,227)	
Changes on net OPEB liability and deferred outflows and inflows of resources related to OPEB	4,928	
Changes on fair value of the interest swap agreement	1,648	(23,980)

Net expenses of activities of internal service funds is reported with governmental activities 6,137

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (page 24) **\$ 125,803**

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

City of Oakland
Statement of Fund Net Position
Proprietary Funds
June 30, 2018
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental
	Nonmajor Fund		Total	Internal
	Sewer Service	Parks and Recreation		Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 44,873	\$ 1	\$ 44,874	\$ 12,237
Interest receivable	169	-	169	57
Accounts receivable (net of allowance for uncollectibles of \$1,340 for the enterprise funds)	19,344	4	19,348	133
Inventories	-	-	-	911
Restricted cash and investments	-	152	152	18,898
Prepaid expenses	19	-	19	38
Total current assets	<u>64,405</u>	<u>157</u>	<u>64,562</u>	<u>32,274</u>
Capital assets:				
Land and other assets not being depreciated	37,625	361	37,986	1,081
Facilities, equipment and infrastructure, net of depreciation	196,505	1,763	198,268	45,102
Total capital assets	<u>234,130</u>	<u>2,124</u>	<u>236,254</u>	<u>46,183</u>
TOTAL ASSETS	<u>298,535</u>	<u>2,281</u>	<u>300,816</u>	<u>78,457</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	10,801	73	10,874	12,447
Deferred outflows of resources related to OPEB	567	4	571	688
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>11,368</u>	<u>77</u>	<u>11,445</u>	<u>13,135</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	3,265	-	3,265	4,289
Accrued interest payable	58	-	58	324
Due to other funds	2	381	383	8,922
Other liabilities	6	-	6	7
Bonds, capital leases, notes and other payables	2,578	-	2,578	11,514
Total current liabilities	<u>5,909</u>	<u>381</u>	<u>6,290</u>	<u>25,056</u>
Non-current liabilities:				
Bonds, capital leases, notes and other payables	31,689	-	31,689	27,720
Net pension liability	43,382	290	43,672	50,519
Net other postemployment benefit (OPEB) liability	12,939	101	13,040	15,713
Total non-current liabilities	<u>88,010</u>	<u>391</u>	<u>88,401</u>	<u>93,952</u>
TOTAL LIABILITIES	<u>93,919</u>	<u>772</u>	<u>94,691</u>	<u>119,008</u>
DEFERRED INFLOWS OF RESOURCES				
Unamortized gain on refunding of debt	434	-	434	-
Deferred inflows of resources related to pensions	616	4	620	700
Deferred inflows of resources related to OPEB	3,882	30	3,912	4,715
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>4,932</u>	<u>34</u>	<u>4,966</u>	<u>5,415</u>
NET POSITION				
Net investment in capital assets	199,429	2,124	201,553	25,847
Unrestricted (deficit)	11,623	(572)	11,051	(58,678)
TOTAL NET POSITION	<u>\$ 211,052</u>	<u>\$ 1,552</u>	<u>\$ 212,604</u>	<u>\$ (32,831)</u>

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

City of Oakland
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2018
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental
	Nonmajor Fund			Activities
	Sewer Service	Parks and Recreation	Total	Internal Service Funds
OPERATING REVENUES				
Rental	\$ -	\$ 554	\$ 554	\$ -
Sewer services	65,589	-	65,589	-
Charges for services	-	-	-	84,585
Other	25	-	25	409
TOTAL OPERATING REVENUES	65,614	554	66,168	84,994
OPERATING EXPENSES				
Personnel	21,246	159	21,405	25,326
Supplies	754	741	1,495	9,571
Depreciation and amortization	6,208	278	6,486	12,626
Contractual services and supplies	2,703	-	2,703	7,192
Repairs and maintenance	6,344	5	6,349	7,775
General and administrative	8,167	92	8,259	8,669
Rental	1,773	33	1,806	2,427
Other	1,318	9	1,327	7,421
TOTAL OPERATING EXPENSES	48,513	1,317	49,830	81,007
OPERATING INCOME (LOSS)	17,101	(763)	16,338	3,987
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment income	730	(3)	727	253
Interest expense	(1,132)	-	(1,132)	(846)
Insurance claims and settlements	-	-	-	1,688
Other, net	-	-	-	79
TOTAL NON-OPERATING REVENUES (EXPENSES)	(402)	(3)	(405)	1,174
INCOME/(LOSS) BEFORE TRANSFERS	16,699	(766)	15,933	5,161
Transfers in	-	-	-	4,225
Transfers out	(1,292)	-	(1,292)	(3,249)
Change in net position	15,407	(766)	14,641	6,137
Net position - beginning, as reported	205,619	2,400	208,019	(26,694)
Cumulative effect of change in accounting principle	(9,974)	(82)	(10,056)	(12,274)
Net position - beginning, as restated	195,645	2,318	197,963	(38,968)
NET POSITION - ENDING	\$ 211,052	\$ 1,552	\$ 212,604	\$ (32,831)

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

City of Oakland
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental
	Sewer Service	Nonmajor Fund		Internal
		Parks and Recreation	Total	Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers and users	\$ 60,100	\$ -	\$ 60,100	\$ 84,554
Cash received from tenants for rents	-	554	554	-
Cash from other sources	25	-	25	2,197
Cash paid to employees	(20,366)	(154)	(20,520)	(24,092)
Cash paid to suppliers	(22,116)	(888)	(23,004)	(42,315)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>17,643</u>	<u>(488)</u>	<u>17,155</u>	<u>20,344</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from interfund loans	-	137	137	141
Repayment of interfund loans	-	-	-	(4,583)
Transfers in	-	-	-	4,225
Transfers out	(1,292)	-	(1,292)	(3,249)
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	<u>(1,292)</u>	<u>137</u>	<u>(1,155)</u>	<u>(3,466)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(17,215)	(177)	(17,392)	(7,890)
Long-term debt:				
Proceeds from issuance of debt	-	-	-	4,900
Repayment of long-term debt	(2,125)	-	(2,125)	(12,578)
Interest paid on long-term debt	(1,519)	-	(1,519)	(920)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(20,859)</u>	<u>(177)</u>	<u>(21,036)</u>	<u>(16,488)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	662	(3)	659	215
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,846)	(531)	(4,377)	605
Cash and cash equivalents - beginning	48,719	684	49,403	30,530
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 44,873</u>	<u>\$ 153</u>	<u>\$ 45,026</u>	<u>\$ 31,135</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 17,101	\$ (763)	\$ 16,338	\$ 3,987
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Depreciation and amortization	6,208	278	6,486	12,626
Loss on write off on capital assets	-	-	-	1,205
Miscellaneous nonoperating revenues (expenses)	-	-	-	1,767
Changes in assets, liabilities, and deferred outflows and inflows of resources:				
Receivables	(5,489)	-	(5,489)	(31)
Inventories	-	-	-	(173)
Other assets	21	-	21	(36)
Accounts payable and accrued liabilities	(1,078)	(8)	(1,086)	(235)
Net pension liability and related pension deferred items	(77)	-	(77)	1,328
Net OPEB liability and related OPEB deferred items	957	5	962	(94)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 17,643</u>	<u>\$ (488)</u>	<u>\$ 17,155</u>	<u>\$ 20,344</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION				
Cash and investments	\$ 44,873	\$ 1	\$ 44,874	\$ 12,237
Restricted cash and investments	-	152	152	18,898
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 44,873</u>	<u>\$ 153</u>	<u>\$ 45,026</u>	<u>\$ 31,135</u>
NON CASH ITEMS:				
Amortization of bond premiums	\$ 40	\$ -	\$ 40	\$ -

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

City of Oakland
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018
(In thousands)

	Pension Trust Fund	Private Purpose Trust Funds
ASSETS		
Cash and investments	\$ 7,821	\$ 59,843
Receivables:		
Accrued interest and dividends	905	501
Accounts receivable	-	2,710
Investments and others	5,383	-
Due from other funds of the City	-	2,312
Prepaid expenses	-	1,867
Restricted:		
Cash and investments:		
Short-term investments	4,285	11,870
U.S. government agency securities	98,313	-
U.S. corporate bonds and mutual funds	-	-
Domestic equities and mutual funds	151,601	-
International equities and mutual funds	46,770	-
Alternative investments	71,132	-
Foreign currency contracts, net	(1)	-
Total restricted cash and investments	372,100	11,870
Securities lending collateral	43,818	-
Loans receivable, net of allowance for uncollectibles of \$46,675	-	16,759
Property held for resale	-	2,818
TOTAL ASSETS	430,027	98,680
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunding of debt	-	14,473
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	10,236	1,066
Accrued interest payable	-	6,374
Due to other funds of the City	-	4,341
Securities lending liabilities	43,815	-
Other	-	50
Total current liabilities	54,051	11,831
Non-current liabilities:		
Due within one year	-	34,991
Due in more than one year	-	323,656
Total noncurrent liabilities	-	358,647
TOTAL LIABILITIES	54,051	370,478
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized gain on refunding of debt	-	448
NET POSITION RESTRICTED FOR:		
Employees' pension benefits	375,976	-
Redevelopment dissolution and other purposes	-	(257,773)
TOTAL NET POSITION	\$ 375,976	\$ (257,773)

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

City of Oakland
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2018
(In thousands)

	Pension Trust Fund	Private Purpose Trust Funds
ADDITIONS:		
Trust receipts	\$ -	\$ 64,861
Contributions:		
Employer	44,860	
Investment income:		
Net appreciation in fair value of investments	30,072	-
Interest	2,625	1,073
Dividends	4,032	-
Securities lending	761	-
TOTAL INVESTMENT INCOME	37,490	1,073
Less investment expenses:		
Investment expenses	(2,055)	-
NET INVESTMENT INCOME	35,435	1,073
Federal and state grants	-	220
Other income	20	2,108
TOTAL ADDITIONS	80,315	68,262
DEDUCTIONS:		
Benefits to members and beneficiaries:		
Retirement	34,370	-
Disability	19,855	-
Death	1,774	-
TOTAL BENEFITS TO MEMBERS AND BENEFICIARIES	55,999	-
Administrative expenses	1,490	2,034
Oakland Police Department	-	5
Human Services	-	122
Economic & Workforce Development	-	5,334
Other	53	9,950
Bond issuance cost	-	565
Interest on debt	-	19,990
TOTAL DEDUCTIONS	57,542	38,000
Change in net position	22,773	30,262
Net position - beginning	353,203	(288,035)
NET POSITION - ENDING	\$ 375,976	\$ (257,773)

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

This page intentionally left blank.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF OAKLAND
Notes to the Basic Financial Statements
Year Ended June 30, 2018

I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Primary Government

The City of Oakland, California (the City or Primary Government) was incorporated on May 25, 1852, 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. Component units are classified as blended, discretely presented or fiduciary. 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.

Fiduciary Component Unit

Oakland Redevelopment Successor Agency (ORSA) - 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 ORSA, effective February 1, 2012, and as such is a fiduciary component unit of the City. Also, in 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 Redevelopment Agency of the City of Oakland (Former Agency).

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, with the Oakland City Council serving as its governing board, subject to the direction of an Oversight Board. Up through June 30, 2018, 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) representatives; the County Superintendent of Education; the Chancellor of California Community Colleges; and a representative of the largest special district from the taxing entities. Effective July 1, 2018, the Alameda Countywide Oversight Board serves as the Oversight Board for ORSA (see Note III, part E).

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). 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, ORSA is reported in a fiduciary fund (private purpose trust fund) in the City's financial statements.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Blended Component Unit

Oakland Joint Powers Financing Authority (JPFA) - 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 was 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 position. AB X1 26 as amended by AB 1484 was enacted and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The dissolution law provides that ORSA is a separate legal entity from the City, with ORSA holding all of the transferred assets and obligations of the Former Agency (other than the housing assets). Therefore, ORSA assumed the Former Agency's role as a member of the JPFA as of February 1, 2012, pursuant to AB X1 26.

Discretely Presented Component Unit

Port of Oakland (Port) – The Port is a legally separate component unit established in 1927 by the City. Operations include the Oakland International Airport and the Port of Oakland Marine Terminal Facilities. 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.

The Port's separately issued Comprehensive Annual Financial Report may be obtained as follows:

Port of Oakland
Port Financial Services Division
530 Water Street
Oakland, CA 94607

B. FINANCIAL STATEMENT PRESENTATION

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position 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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

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.

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 license taxes, utility and real estate transfer taxes, other unrestricted local 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 Former Agency's affordable housing activities, including the 20% redevelopment property tax revenue 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 **Municipal Capital Improvement Fund** accounts primarily for monies pertaining to capital improvement funds, which includes mainly capital financing projects funds:

- *Oakland Redevelopment Successor Agency* - Unspent bond proceeds transferred to the City. The California Department of Finance approved the bond expenditure agreement between ORSA and the City to transfer excess tax allocation bond proceeds to the City. The Bond Spending Plan allows ORSA to utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants.
- *Measure DD* – Capital improvement bond financing funds for clean water, safe parks, and open space trust for the City.
- *Measure G* – Capital improvement bond financing funds for Oakland Zoo, Museum, and Chabot Space and Science Center improvements.
- *Master Lease Agreement Financing* – Capital improvement for vehicles, and equipment, and telecommunications.
- *Other miscellaneous capital improvement funds* – The fund comprises other municipal capital improvement funds, which may be used for the lease, acquisition, construction, or other improvements of public facilities.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

The ***Other Special Revenue Fund*** accounts for activities of several Special Revenue Funds, which include mainly the following local measures and funds:

- ***Measure Y – Violence Prevention and Public Safety Act of 2004.*** The measure provides for the following services: community and neighborhood policing, violence prevention services with an emphasis on youth and children, fire services, and evaluation.
- ***Measure C – Oakland Hotel Tax.*** This additional transient occupancy tax was approved to fund the following entities: Oakland Convention and Visitors Bureau 50%, Oakland Zoo 12.5%, Oakland Museum of California 12.5%, Chabot Space and Science Center 12.5%, and the City Cultural Arts Programs and Festivals 12.5%.
- ***Measure Q – Library Services Retention and Enhancement.*** In March 2004, the electorate of Oakland approved, by more than a two-thirds majority, the extension of the Library Services and Retention Act, Measure Q (formerly known as Measure O). The act re-authorized and increased a special parcel tax on residential and non-residential parcels for the purpose of raising revenue to retain and enhance library services. The term of the tax is 20 years, commencing July 1, 2004 and ending June 30, 2024.
- ***Measure WW – East Bay Regional Park District local grant program.*** The funds are for various Oakland parks and open space renovation projects.
- ***Measure N – Paramedics Services Act.*** The revenue from the measure increases, enhances, and supports paramedic services in the City.
- ***Oakland Kids’ First Fund.*** The charter requires 3 percent of the City’s unrestricted general purpose fund revenues for the fund. The funds provide additional funding for programs and services benefiting children and youth.
- ***Development Service Fund.*** The revenue sources for the development service fund will be the fees and penalties for development and enforcement activities, such as land use, permit, inspection, and abatement services for both direct and indirect costs.
- ***Other miscellaneous special revenue funds.*** Accounts for several other restricted monies that are classified as special revenue funds.

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; procurement of materials, supplies, and services for City departments; and the service and maintenance of City information technology systems.

The ***Pension Trust Fund*** accounts for the closed benefit plan that covers uniformed employees hired prior to July 1976.

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Successor Agency with passage of AB X1 26; (b) the Other Private Purpose Trust Fund, which accounts for assets and liabilities from the Former Agency and for the operations of the Youth Opportunity Program and certain gifts that are not related to the Former Agency projects or parks, recreation and cultural, activities; and (c) the Private Pension Trust Fund, which accounts for the employee deferred compensation plan.

C. 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 days of the end of the fiscal period. All other revenues are considered to be available if they are collected within 120 days of the end of the 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 available. The estimated installments receivable not considered available, as defined above, are recorded as receivables and offset by deferred inflows of resources.

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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

D. 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.

E. New Pronouncements

During the year ended June 30, 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement addresses the accounting and financial reporting requirements for governments whose employees are provided with OPEB plans. The provisions of GASB Statement No. 75 separate accounting and financial reporting from how OPEB plans are funded and require changes in the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of the total OPEB liability. It also includes comprehensive disclosures regarding the net OPEB liability, the sensitivity of the net OPEB liability to the discount rate, and OPEB expense and related deferred outflows/inflows of resources disclosures (see Note III, part B).

The provisions of Statement No. 75 are effective for the City's year ended June 30, 2018. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2017 as follows:

	Record Beginning Net OPEB Liability	Record Beginning Deferred Outflows of Resources - OPEB Items	Remove Net OPEB Obligation (Change from GASB 45)	Total Cumulative Effect of Change in Accounting Principle
Primary Government:				
Governmental Activities	\$ (1,075,862)	\$ 20,111	\$ 353,583	\$ (702,168)
Business-Type Activities	(16,771)	313	6,402	(10,056)
Total Primary Government	\$ (1,092,633)	\$ 20,424	\$ 359,985	\$ (712,224)
Discrete Component Unit				
Port of Oakland	\$ (109,884)	\$ 15,400	\$ 9,979	\$ (84,505)
Enterprise Funds:				
Sewer Service Fund	\$ (16,642)	\$ 311	\$ 6,357	\$ (9,974)
Nonmajor Fund Parks and Recreation	(129)	2	45	(82)
Total Enterprise Funds	\$ (16,771)	\$ 313	\$ 6,402	\$ (10,056)
Internal Service Funds	\$ (20,212)	\$ 378	\$ 7,560	\$ (12,274)

The City's adoption of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishment Issues*, did not have a material impact on the City's June 30, 2018 financial statements.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

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

- In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. The requirements of this statement are effective for the City's fiscal year ending June 30, 2019.
- In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. The requirements of this statement are effective for the City's fiscal year ending June 30, 2020.
- In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of the statement is to improve the accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the consistency of information about governments' leasing activities. The requirements of this statement are effective for the City's fiscal year ending June 30, 2021.
- In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for the City's fiscal year ending June 30, 2019.
- In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. The requirements of this statement are effective for the City's fiscal year ending June 30, 2021.
- In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for the City's fiscal year ending June 30, 2020.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Cash and Investments

The City follows the practice of pooling cash of all operating funds for investment, except for the ORSA and PFRS, whose funds are held by outside custodians. The City measures its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, using observable market transactions or available market information. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end, and it includes the effects of these adjustments in income for that fiscal year.

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.

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

For purposes of the statement of cash flows, the City considers all highly liquid unrestricted and restricted 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.

2. 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, 2018.

3. 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

4. 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/expenses 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.

5. Prepaid Bond Insurance, Original Issue Discounts and Premiums, and Refundings

Prepaid bond insurance costs are amortized using the straight-line method over the life of the bonds. Amortization of these balances is recorded as a component of operating expenses. In the government-wide, proprietary fund, and fiduciary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are amortized using the straight-line method over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Gains or losses from refunding of debt are reported as deferred inflows or outflows of resources and amortized over the shorter of the life of the refunded debt or refunding debt. Amortizations of bond premiums and discounts and gains or losses from refunding of debt are recorded as a component of interest expense.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. 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.

7. 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, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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 is not capitalized.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

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
Systems and structures	10-50 years
Other equipment	5-10 years
Software	20 years

8. Property Held for Resale

Property held for resale was 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.

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.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will report a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources related to pension and OPEB contributions subsequent to measurement date and other pension and OPEB related deferred outflows. Also, losses on refunding result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

refunded or the refunding debt. Amortization of these balances is recorded as a component of interest expense.

In addition to liabilities, the statement of net position and governmental funds balance sheet will report a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has deferred inflows of resources related to unavailable revenues reported under the modified accrual basis of accounting in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, notes and loan receivables, grant receivables/advances from the federal government and State, and other sources as appropriate. These amounts are deferred and recognized as revenues in the period the amounts become available. The City also has deferred inflows of resources related to the unamortized gains on refunding of debt and pension and OPEB related deferred inflows.

10. 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.

11. Retirement Plans

The City has three defined benefit retirement plans: Oakland Police and Fire Retirement System (PFRS), and the Miscellaneous and the Public Safety Plans of the California Public Employees' Retirement System (CalPERS) (collectively, the Retirement Plans). For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's Retirement Plans and additions to/deductions from the Retirement Plans' fiduciary net position have been determined on the same basis as they are reported by PFRS and CalPERS. 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 III, part A for additional information.

12. Other Postemployment Benefits (OPEB)

The City's OPEB plan covers the City's police, fire, and other (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 CalPERS were public safety employees retirements benefits under a 3 percent at 50 formula and miscellaneous employees retirement benefits under a 2.7 percent at 55 formula. In addition, the Port's Retiree Healthcare Plan covers the Port's employees. Refer to Note III, part B for additional information.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

13. 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 III, part C for additional information.

14. Fund Balances

Under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental funds classify fund balances based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent. Fund balance for the City's governmental funds consists of the following categories:

- *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 City Council ordinance, which is the City's highest level of decision-making authority. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.
- *Assigned Fund Balance*: comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed through City Council budgetary action, which includes appropriations and revenue sources pertaining to the next fiscal year's budget. The City Council adopted a resolution establishing the City's policy budget, which states that assigned fund balances are intended to be used for specific purposes through City Council budgetary actions. Intent is expressed by (a) the City Council or (b) the City Administrator to which the City 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 appropriations.
- *Unassigned Fund Balance*: are amounts technically available for any purpose. It is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Other governmental funds may only report a negative unassigned balance that was created after classification in one of the other three fund balance categories.

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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Fund balances for all the major and nonmajor governmental funds as of June 30, 2018, were distributed as follows (in thousands):

	General Fund	Federal/ State Grant Fund	LMIHF ¹	Municipal Capital Improvement Fund	Other Special Revenue Fund	Other Governmental Funds	Total
Restricted for:							
Capital projects	\$ -	\$ 6,879	\$ 1,525	\$ 171,157	\$ -	\$ 23,188	\$ 202,749
Pension obligations annuity	57,390	-	-	-	-	-	57,390
Pension obligations PFRS	177,694	-	-	-	-	-	177,694
Debt service	-	-	-	-	-	18,832	18,832
Property held for resale	-	-	30,677	131,980	-	-	162,657
Housing projects	-	-	24,312	-	-	-	24,312
Total restricted	235,084	6,879	56,514	303,137	-	42,020	643,634
Committed for:							
Vital services	14,323	-	-	-	-	-	14,323
Library, Kids First, and museum trust	-	-	-	-	17,959	1,590	19,549
Total committed	14,323	-	-	-	17,959	1,590	33,872
Assigned for:							
Capital projects	41,959	-	-	-	138,409	1,652	182,020
Unassigned							
	93,801	-	-	-	-	(1,106)	92,695
Total	\$ 385,167	\$ 6,879	\$ 56,514	\$ 303,137	\$ 156,368	\$ 44,156	\$ 952,221

¹ Low and Moderate Income Housing Asset Fund

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 (GPF) appropriation for each fiscal year. The GPF accounts for the City’s operating budget that pays for basic programs and services as well as elected offices and municipal business functions. The GPF is reported within the General Fund.

On May 15, 2018, the City Council revised the definition and use of excess Real Estate Transfer Tax (RETT) revenues and the use of one-time revenues (Ordinance No. 13487 C.M.S.). The policy defines excess Real Estate Transfer Tax as any amounts of RETT revenues whose value exceeds 15 percent of the corresponding GPF Tax Revenues (inclusive of RETT). The excess RETT shall be used in the following manner:

- At least 25 percent shall be allocated to the Vital Services Stabilization Fund until the value in such fund is projected to equal to 15 percent of General Purpose Fund revenues over the coming fiscal year.
- At least 25 percent shall be used to fund accelerated debt retirement and unfunded long-term obligations, including negative funds balances, the PFRS liability, other unfunded retirement and pension liabilities, unfunded paid leave liabilities, and OPEB liabilities.
- The remainder shall be used to fund one-time expenses, augment the General Purpose Fund Emergency Reserve, and to augment the Capital Improvements Reserve Fund.

Use of the “excess” RETT revenue for purposes other than those established above may only be allowed by majority vote of the City Council through a separate resolution.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

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

- Fiscal prudence requires that any unrestricted one-time revenues be used for one-time expenses. Therefore, one-time revenues shall be used in the following manner, unless they are legally restricted to other purposes: to fund one-time expenditures, to fund debt retirement and unfunded long-term obligations such as negative fund balances, PFRS unfunded liabilities, CalPERS pension unfunded liabilities, paid leave unfunded liabilities, and OPEB unfunded liabilities; or shall remain as fund balance.

Use of “one-time revenues” for purposes other than those established may only be allowed by a majority vote of the City Council through a separate resolution. Additionally, the policy includes the requirement that the City maintain a Vital Services Stabilization Fund (VSSF). In years when the City forecasts that total GPF revenues will be less than the current year's revenues, or anytime significant service reductions, such as layoffs or furloughs, are contemplated due to adverse financial conditions, use of this fund must be considered to maintain existing services. Use of the VSSF must be authorized by City Council resolution. The resolution shall explain the need for using the VSSF. The resolution shall also include steps the City will take in order to replenish the VSSF in future years.

As of June 30, 2018, the City has \$78.2 million in the GPF fund balance. Of this amount, \$45.2 million is set aside to meet the mandated 7.5 percent required reserve, and is reported in the unassigned fund balance of the General Fund. The Vital Services Stabilization reserve of \$14.3 million is reported in the committed fund balance of the General Fund.

15. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- *Net Investment in Capital Assets* groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt and debt-related deferred outflows and inflows of resources that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* represents net position that has external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- *Unrestricted Net Position* represents net position of the City that is not restricted for any project or purpose.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

II. DETAILED NOTES ON ALL FUNDS

A. CASH, DEPOSIT, AND INVESTMENTS

The City maintains a cash and investment pool consisting of City funds and cash held for PFRS and the Port. The City's funds are invested according to the investment policy adopted by the City Council. The objectives of the policy are preservation of capital, 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:

Investment Type	Maximum Maturity	Maximum Portfolio Exposure	Maximum Issuer Exposure	Credit Requirement
U.S. Treasury Securities	5 years	20%	n/a	n/a
Federal Agencies and Instrumentalities	5 years	None	n/a	n/a
Banker's Acceptances	180 days	40%	5%	A1, P1 or F1 or better
Commercial Paper	270 days	25%	5%	A1, P1 or F1 or better
Asset-backed Commercial Paper	270 days	25%	5%	A1, P1 or F1 or better
Local Government Investment Pools	n/a	20%	n/a	Top ranking
Medium Term Notes	5 years	30%	5%	A3, A- or A- or better
Negotiable Certificates of Deposits	5 years	30%	5%	A, A2 or A or better
Repurchase Agreements	360 days	none	n/a	Collateral limited to US securities
Reverse Repurchase Agreements	92 days	20%	n/a	Limited to primary dealers
Secured Obligations and Agreements	2 years	20%	5%	AA or better
Certificates of Deposit	360 days	n/a	n/a	n/a
Money Market Mutual Funds	n/a	20%	n/a	Top ranking
State Investment Pool (LAIF)	n/a	none	n/a	n/a
Local City/Agency Bonds	5 years	none	5%	n/a
State of California Obligations and Others	5 years	none	5%	n/a
Other Local Agency Bonds	5 years	none	5%	n/a
Deposits- Private Placement	n/a	30%	10%	n/a
Supranationals	5 years	30%	n/a	AA or better

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

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

As of June 30, 2018, total City cash, deposits, and investments at fair value are as follows (in thousands):

	Primary Government		Fiduciary Funds		Total	Component Unit
	Governmental Activities	Business-type Activities	Pension Trust Fund	Private Purpose Trust Funds		Port
Cash and investments	\$ 648,586	\$ 44,874	\$ 7,821	\$ 59,843	\$ 761,124	\$ 368,157
Restricted cash and investments	266,084	152	372,100	11,870	650,206	66,075
Securities lending collateral	-	-	43,818	-	43,818	-
Total	\$ 914,670	\$ 45,026	\$ 423,739	\$ 71,713	\$ 1,455,148	\$ 434,232
City pooled deposits					\$ 33,055	\$ -
City pooled investments					673,307	373,311
City restricted investments					265,274	-
PFRS restricted investments					415,918	-
ORSA deposits					2,309	-
ORSA investments					65,285	-
Port's cash and investments					-	60,921
Total					\$ 1,455,148	\$ 434,232

Primary Government

Hierarchy of Inputs: The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The City's pooled and restricted investments have the following recurring fair value measurements as of June 30, 2018 (in thousands):

	Level One	Level Two	Level Three	Total
Investments by fair value level:				
U.S Government Agency Securities	\$ -	\$ 982,420	\$ -	\$ 982,420
Medium Term Notes	-	6,923	-	6,923
State Bonds	-	3,045	-	3,045
Commercial Paper	-	365	-	365
Annuity Contracts	-	-	55,000	55,000
Total investments by fair value level	\$ -	\$ 992,753	\$ 55,000	1,047,753
Investments not subject to fair value hierarchy:				
Money Market Mutual Funds				199,261
Local Agency Investment Fund (LAIF)				64,878
Total investments measured at fair value				\$ 1,311,892

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

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.

At June 30, 2018, the carrying amount of the City's deposits was \$33.1 million. Deposits include checking accounts, interest earning savings accounts, and money market accounts. The bank balance of \$31.3 million was covered by FDIC insurance or 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 a financial institution secure its deposits made by state or local government units by pledging securities in an undivided collateral pool held by the depository regulated under the state law (unless so waived by the government units). The market value of the pledged government securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150%, respectively, of the deposit amount. The collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

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 & Poor's (S&P), at the time security is purchased. Long-term debt shall be rated at least A by S&P. 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.

The following tables show the City's credit risk for the pooled and restricted investment portfolios as of June 30, 2018 (in thousands):

Pooled Investments

	Fair Value	Ratings as of June 30, 2018				
		AAA	AA	A	P-1	Not Rated
U.S. Government Agency Securities	\$ 448,778	\$ -	\$ 448,778	\$ -	\$ -	\$ -
U.S. Government Agency Securities (Discount)	430,994	-	430,994	-	-	-
Medium Term Notes	6,923	-	-	6,923	-	-
Money Market Mutual Funds	92,000	92,000	-	-	-	-
Local Agency Investment Fund (LAIF)	64,878	-	-	-	-	64,878
State of California, General Obligation Bonds	3,045	-	3,045	-	-	-
Total pooled investments	\$1,046,618	\$ 92,000	\$ 882,817	\$ 6,923	\$ -	\$ 64,878

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Restricted Investments

	Fair Value	Ratings as of June 30, 2018			
		AAA	AA	P-1	Not Rated
U.S. Government Agency Securities	\$ 40,839	\$ -	\$ 40,839	\$ -	\$ -
U.S. Government Agency Securities (Discount)	61,809	-	61,809	-	-
Money Market Mutual Funds	107,261	105,609	-	-	1,652
Commercial Paper (Discount)	365	-	-	365	-
Annuity Contracts	55,000	-	-	-	55,000
Total restricted investments	\$ 265,274	\$ 105,609	\$ 102,648	\$ 365	\$ 56,652

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 percent of the City's investment portfolio as of June 30, 2018 are as follows (in thousands):

<u>Investment Type / Issuer</u>	<u>Amount</u>	<u>Percent of City's Investment Portfolio</u>
U.S. Government Agency Securities:		
Federal Farm Credit Bank	\$ 278,711	21.24%
Federal Home Loan Bank	506,512	38.61%
Federal Home Loan Mortgage Corporation (Freddie Mac)	164,354	12.53%

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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

The City uses the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2018, the City had the following investments and original maturities (in thousands):

Pooled Investments

Investment Type	Fair Value	Interest Rates (%)	Maturity		
			12 Months or Less	1 - 3 Years	3 - 5 Years
U.S. Government Agency Securities	\$ 448,778	0.89 - 3.20	\$ 135,470	\$ 274,679	\$ 38,629
U.S. Government Agency Securities (Discount)	430,994	0.00 - 2.24	430,994	-	-
Medium Term Notes	6,923	2.63 - 3.59	4,968	1,955	-
Money Market Mutual Funds	92,000	1.81	92,000	-	-
Local Agency Investment Fund (LAIF)	64,878	0.98	64,878	-	-
State of California, General Obligation Bonds	3,045	2.29	3,045	-	-
Total pooled investments	\$1,046,618		\$ 731,355	\$ 276,634	\$ 38,629

Restricted Investments

Investment Type	Fair Value	Interest Rates (%)	Maturity			
			12 Months or Less	1 - 3 Years	3 - 5 Years	5 Years or More
U.S. Government Agency Securities	\$ 40,839	0.92 - 2.68	\$ 16,935	\$ 21,829	\$ 2,075	\$ -
U.S. Government Agency Securities (Discount)	61,809	1.69 - 2.08	61,809	-	-	-
Money Market Mutual Funds	107,261	1.34 - 1.81	107,261	-	-	-
Commercial Paper (Discount)	365	2.05	365	-	-	-
Annuity Contracts	55,000	2.65	-	-	-	55,000
Total restricted investments	\$ 265,274		\$ 186,370	\$ 21,829	\$ 2,075	\$ 55,000

Other Disclosures: As of June 30, 2018, the City's investment in LAIF is \$64.9 million. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately \$88.9 billion, 97.3 percent is invested in non-derivative financial products and 2.7 percent in structured notes and asset-backed securities. 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.

Oakland Police and Fire Retirement System (PFRS)

Deposits in the City's Investment Pool

As of June 30, 2018, 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 a bank and with a custodian. These funds are invested according to the Investment Policy adopted by the City Council. As of June 30, 2018, PFRS' share of the City's investment pool totaled \$7.8 million. As of June 30, 2018, PFRS also had cash and cash deposits not held in the City's investment pool that totaled \$2 thousand.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Investments

PFRS' investment policy authorizes investment in U.S. equities, international equities, U.S. fixed income instruments including U.S. Treasury notes and bonds, government agency mortgage-backed securities, U.S. corporate notes and bonds, collateralized mortgage obligations, Yankee bonds and non-U.S. issued fixed income securities denominated in foreign currencies. PFRS' investment portfolio is managed by external investment managers, except for the bond iShares, which are managed internally. During the year ended June 30, 2018, the number of external investment managers was twelve.

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, Moody's, or Fitch ratings).

PFRS' investment policy states that investments in derivative securities known as Collateralized Mortgage Obligations (CMOs) shall be limited to a maximum of 20 percent of a broker account's fair value with no more than 5 percent 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 percent 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 percent in each manager's portfolio.

The following was the Board's adopted investment policy as of June 30, 2018:

Asset Class	Target Allocation
Fixed income	31%
Credit	2%
Covered calls	5%
Domestic equity	40%
International equity	12%
Crisis risk offset	10%
Total	100%

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Hierarchy of Inputs: The PFRS has the following recurring fair value measurements as of June 30, 2018 (in thousands):

	<u>Level One</u>	<u>Level Two</u>	<u>Level Three</u>	<u>Total</u>
Investments by Fair Value Level:				
Short-Term Investments	\$ -	\$ 196	\$ -	\$ 196
Bonds	-	90,589	-	90,589
Domestic Equities and Mutual Funds	130,882	23	-	130,905
International Equities and Mutual Funds	32,162	-	2	32,164
Alternative Investments	71,132	-	-	71,132
Total Investments by Fair Value Level	\$ 234,176	\$ 90,808	\$ 2	324,986
Investments Measured at Net Asset Value (NAV):				
Short-Term Investments				4,089
Fixed Income Funds				7,724
Domestic Equities and Mutual Funds				20,695
International Equities and Mutual Funds				14,607
Securities Lending Collateral				43,818
Total Investments Measured at NAV				90,933
Total				\$ 415,919

Interest Rate Risk: 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 6.00 years as of June 30, 2018.

As of June 30, 2018, PFRS had the following fixed income investments by category (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration (Years)</u>
Short-Term Investment Funds	\$ 4,285	n/a
Total short-term investment duration	\$ 4,285	
Fixed Income Investments:		
Government Bonds:		
U.S. Treasuries	\$ 20,481	6.74
U.S. Government Agency Securities	29,039	8.85
Total Government Bonds	49,520	
U.S. Corporate Bonds		
Corporate Bonds	48,792	3.99
Total long-term investment duration	\$ 98,312	6.00
Securities Lending	\$ 43,818	

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

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

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, 2018 (in thousands):

Securities Name	Weighted Average Coupon Rate	Weighted Average Maturity (Years)	Fair Value	Percent of Total Investment
Mortgage-Backed Securities	3.43%	25.1	\$ 18,705	4.50%

Custodial Credit Risk: 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.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The following table provides information as of June 30, 2018 concerning credit risk of fixed income securities (in thousands):

Investment Type	S&P/Moody's Rating	Fair Value
Short-Term Investment Funds	Not Rated	\$ 4,285
Foreign Currency Exchange Contracts, net	Not Rated	(1)

The following table provides information as of June 30, 2018 concerning the credit risk of fixed income investments by long-term investment rating (in thousands):

S & P/Moody's Rating	Fair Value	Percent of Total Fair Value
AAA/Aaa	\$ 38,378	39.0%
AA /Aa	24,803	25.2%
A/A	11,368	11.6%
BBB/Baa	14,624	14.9%
BB/Ba	1,416	1.4%
CCC/Caa	7,724	7.9%
Total fixed income investments	\$ 98,313	100.0%

As of June 30, 2018, the securities lending collateral of \$43.8 million was not rated.

Concentrations: Accounting standards require the disclosure of investments in any one organization that represent 5 percent or more of the PFRS's fiduciary net position. As of June 30, 2018, the PFRS had commingled funds issued by State Street Global Advisors that represent 9.4 percent of its fiduciary net position.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Rate of return: The money-weighted rate of return is a measure of the rate of return for an asset or portfolio of assets that incorporates the size and timing of cash flows. For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 10.60 percent.

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 percent of the portfolio value.

The following summarizes PFRS' investments denominated in foreign currencies as of June 30, 2018 (in thousands):

<u>Foreign Currency</u>	
Australian Dollar	\$ 633
British Pound	3,326
Canadian Dollar	614
Danish Krone	1,209
Euro	10,273
Hong Kong Dollar	2,578
Indonesian Rupiah	216
Japanese Yen	3,834
Mexican Peso	892
Norwegian Krone	233
Singapore Dollar	363
Swedish Krona	543
Swiss Franc	1,690
Total foreign currency	<u>\$ 26,404</u>

Securities Lending Transactions: PFRS's investment policy authorizes participation in securities lending transactions, which are short-term collateralized loans of PFRS's securities to brokers-dealers with a simultaneous agreement allowing PFRS to invest and receive earnings on the collateral received. 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 administrator of the PFRS's securities lending activities 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. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of said collateral. If securities collateral is received, PFRS cannot pledge or sell the collateral securities unless the borrower defaults.

As of June 30, 2018, 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 administrator 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

The following table summarizes investments in securities lending transactions and collateral received as of June 30, 2018 (in thousands):

	Securities Lending		
	Fair Value of Loaned Securities		
	For Cash Collateral	For Non-Cash Collateral	Total
Securities On Loan:			
U.S. Government and Agencies	\$ 11,586	\$ -	\$ 11,586
U.S. Corporate Bonds	3,198	-	3,198
U.S. Equity	28,095	1,396	29,491
Non-U.S. Equity	3	966	969
Total Securities On Loan	\$ 42,882	\$ 2,362	\$ 45,244
Collateral Received	\$ 43,815	\$ 2,452	\$ 46,267

Derivative Instruments: PFRS reports its derivative instruments under the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Pursuant to the requirements of this statement, PFRS has provided a summary of derivative instrument activities during the reporting periods presented and the related risks.

As of June 30, 2018, the derivative instruments held by PFRS are considered investments and not hedges for accounting purposes. All investment derivatives are reported as investments at fair value in the statement of fiduciary net position. The gains and losses arising from this activity are recognized as incurred in the statement of changes in fiduciary net position. All investment derivatives discussed below are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The fair value of the exchange traded derivative instruments, such as futures, options, rights, and warrants are based on quoted market prices. The fair values of forward foreign currency contracts are determined using a pricing service, which uses published foreign exchange rates as the primary source. The fair values of swaps are determined by PFRS's investment managers based on quoted market prices of the underlying investment instruments.

The table below presents the notional amounts, the fair values, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2018 (in thousands):

Derivative Type/Contract	Notional Amount	Fair Value	Net Appreciation in Fair Value
Options			
Equity contracts	\$ -	\$ (262)	\$ 257
Swaps			
Credit contracts	190	14	1
Total	\$ 190	\$ (248)	\$ 258

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Counterparty Credit Risk – As of June 30, 2018, PFRS is not exposed to credit risk on non-exchange traded derivative instruments that are in asset positions.

Custodial Credit Risk - The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2018, all of PFRS’s investments in derivative instruments are held in PFRS’s name and are not exposed to custodial credit risk.

Interest Rate Risk - The tables below describe the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2018 (in thousands):

<u>Derivative Type/Contract</u>	<u>Fair Value</u>	<u>Maturities</u>	
		<u>Less than 1 Year</u>	<u>1 - 5 years</u>
Options			
Equity contracts	\$ (195)	\$ (195)	\$ -
Swaps			
Credit contracts	(19)	-	(19)
Total	\$ (214)	\$ (195)	\$ (19)

Foreign Currency Risk - At June 30, 2018, PFRS is not exposed to foreign currency risk.

Contingent Features - At June 30, 2018, PFRS held no positions in derivatives containing contingent features.

Oakland Redevelopment Successor Agency

The ORSA’s cash and investment consists of the following at June 30, 2018 (in thousands):

<u>Cash and Investments</u>	<u>Amount</u>
Unrestricted cash and investments:	
Demand deposits	\$ 2,309
Investments	53,415
Total unrestricted cash and investments	55,724
Restricted cash and investments	11,870
Total cash and investments	\$ 67,594

Investments: 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. ORSA 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, ORSA is permitted to invest in LAIF, obligations of the U.S. Treasury or U.S. government agencies, time deposits, and money market mutual funds invested in U.S. government securities, along with various other permitted investments.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Hierarchy: The hierarchy is based on the valuation inputs used to measure fair value of the assets. At June 30, 2018, the ORSA does not have any of its investments using Level 1 and 3 inputs. The ORSA has the following recurring fair value measurements as of June 30, 2018 (in thousands):

	Significant other observable inputs (Level 2)	Investments not subject to fair value hierarchy
Unrestricted investments:		
U.S. Government Agency Securities (Discount)	\$ 43,915	\$ -
Money Market Mutual Funds	-	9,500
Restricted investments:		
U.S. Government Agency Securities (Discount)	6,963	-
Money Market Mutual Funds	-	4,907
Total	\$ 50,878	\$ 14,407

Custodial Credit Risk: As of June 30, 2018, the carrying amount of the ORSA's deposits was \$2.3 million. The deposits are insured by the FDIC insurance coverage limit of \$0.25 million, and the remaining bank balance is 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: ORSA Investment Policy has mitigated interest rate risk by establishing policies over liquidity.

Credit Risk: 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

As of June 30, 2018, ORSA had the following investments, credit risk ratings, and maturities (in thousands):

<u>Type of Investment</u>	<u>Current Yield (%)</u>	<u>Credit Ratings (S&P)</u>	<u>Maturities</u>	
			<u>Less than 1 Year</u>	<u>1 - 3 Years</u>
Unrestricted investments:				
U.S. Government Agency Securities (Discount)	1.75-1.88	AA	\$ 43,915	\$ -
Money Market Mutual Funds	1.81	AAA	9,500	-
Total unrestricted investments			\$ 53,415	\$ -
Restricted investments:				
U.S. Government Agency Securities	2.53	AA	\$ -	\$ 2,963
U.S. Government Agency Securities (Discount)	0.94	AA	4,000	-
Money Market Mutual Funds	1.76-1.81	AAA	4,907	-
Total restricted investments			\$ 8,907	\$ 2,963

Concentration of Credit Risk: The following tables show ORSA's investments in one issuer that exceed 5 percent of ORSA's investment portfolio as of June 30, 2018 (in thousands):

<u>Type of Investment/Issuer</u>	<u>Amount</u>	<u>% of ORSA's Unrestricted Portfolio</u>
U.S. Government Agency Securities		
Federal Home Loan Bank	\$ 43,915	82.2%
<u>Type of Investment/Issuer</u>	<u>Amount</u>	<u>% of ORSA's Restricted Portfolio</u>
U.S. Government Agency Securities		
Federal Home Loan Bank	\$ 4,000	33.7%
Federal Farm Credit	2,963	25.0%

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Discretely Presented Component Unit – Port of Oakland

The Port's cash, cash equivalents, investments, and deposits in escrow consisted of the following at June 30, 2018 (in thousands):

Deposits in escrow	\$	2,284
City investment pool		373,311
Federal Home Loan Mortgage Note		56,678
Government Securities Money Market Mutual Funds		1,959
Total cash and investments	\$	434,232

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: Senior Lien Bonds reserves are on deposit with the Senior Lien Bonds trustee. The investment of funds held by the Senior Lien Bonds trustee is governed by the Senior Trust Indenture and is currently invested in either 1) U.S. Treasury Notes or 2) Government Securities Money Market Mutual Funds. There were no investments pertaining to the Intermediate Lien Debt.

Under the City of Oakland Charter, all cash receipts from the operations of the Port are deposited in the City Investment Pool. These funds are managed and invested by the City, pursuant to the City's Investment Policy, that the City administers and reviews annually. For this reason, the Port does not maintain its own investment policy and relies on the City Investment Policy to mitigate the risks described below.

At June 30, 2018, the Port had the following investments (in thousands):

	<u>Fair Value</u>	<u>Fair Value Hierarchy</u>	<u>Credit Ratings per Moody's</u>	<u>Maturity Less than 1 Year</u>
Federal Home Loan Mortgage Note	\$ 56,678	Level 2	Aaa	\$ 56,678
Government Securities Money Market Mutual Funds	1,959	Exempt	Aaa	1,959
City investment pool	373,311	Exempt	Not Rated	373,311
Total investments	\$ 431,948			\$ 431,948

Investment securities classified in Level 2 of the fair value hierarchy consist of Federal Home Loan Bank notes and are valued using various market and industry inputs. Investments exempt from fair value treatment consist of government securities money market mutual funds, which are valued at amortized cost, and the City Investment Pool, whose fair value disclosure is presented at the City-wide level in the City's basic financial statements.

Investments Authorized by Debt Agreements: The following are the types of investments generally allowed under the Senior Trust Indenture and the Intermediate Trust Indenture (Intermediate Trust Indenture, together with the Senior Trust Indenture, are referred to as 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 acceptances, money market mutual funds, long or medium-term corporate debt, repurchase agreements, state-sponsored investment pools, investment contracts, and forward delivery agreements.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Interest Rate Risk: Pursuant to the City Charter, all cash receipts from Port operations are deposited in the City Investment Pool. For this reason, the Port does not have a formal policy to manage interest risk. In order to manage interest rate risk:

- Proceeds from bonds are invested in permitted investments, as stated in the Trust Indentures, with short-term maturities.
- The deposits held by the City Treasury pursuant to the City's Investment Policy and Section 53601 of the State of California Government Code, limits the maximum maturities of certain investments. Also, Section 53601 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.

Credit Risk: Pursuant to the City Charter, all cash receipts from Port operations are deposited in the City Investment Pool. For this reason, the Port does not have a formal policy to manage risk. In order to manage credit risk:

- Provisions of the Trust Indentures 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, such as certain investments that must be rated in either of the two highest ratings by S&P and Moody's.

Concentration of Credit Risk: The Trust Indentures place no limit on the amount the Port may invest in any one issuer.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of a depository financial institution or 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 under the terms of the Trust Indentures are held in the name of the Port for safekeeping by a third party bank trust department, acting as an agent for the Port. The Port had investments held by a third party bank trust department in the amount of \$58.6 million at June 30, 2018.

The carrying amount of the Port's deposits in escrow was \$2.3 million at June 30, 2018. Of this amount, bank balances and escrow deposits of \$0.25 million on June 30, 2018 are insured or collateralized with securities held by the pledging financial institution's trust department in the Port's name and the remaining balance was exposed to custodial credit risk by not being insured or collateralized.

B. INTERFUND TRANSACTIONS

"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 III, part D.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Primary Government

1. Due from/Due to other funds

The amounts payable to the General Fund to cover the other City funds' overdraft position as of June 30, 2018 is as follows (dollars in thousands):

<u>Payable Fund</u>	<u>Amount</u>
Federal/State Grant Fund	\$ 11,610
Municipal Capital Improvement Fund	55
Other Governmental Funds	1,550
Subtotal Governmental Funds	13,215
Sewer Service Enterprise Fund	2
Parks and Recreation Enterprise Fund	381
Subtotal Enterprise Funds	383
Internal Service Funds	8,922
Private Pension Trust Fund (Fiduciary Fund)	72
Total due from the General Fund	\$ 22,592

2. Interfund Transfers:

The following schedule summarizes the City's transfer activities for the year ended June 30, 2018 (dollars in thousands):

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 75,828 ⁽¹⁾
	Federal/State Grant Fund	2,934 ⁽²⁾
	Other Special Revenue Fund	18,115 ⁽³⁾
	Internal Service Funds	4,225 ⁽⁴⁾
Federal/State Grant Fund	General Fund	35 ⁽⁵⁾
Municipal Capital Improvement Fund	General Fund	1,507 ⁽⁵⁾
	Other Governmental Funds	1,575 ⁽¹⁾
Other Special Revenue Fund	General Fund	476 ⁽⁶⁾
Other Governmental Funds	General Fund	344 ⁽⁵⁾
	General Fund	68 ⁽⁶⁾
Sewer Service Fund	General Fund	1,292 ⁽⁵⁾
Internal Service Funds	General Fund	3,249 ⁽⁵⁾
	Total	\$ 109,648

Significant transfers for the year ended June 30, 2018 include the following:

- (1) Transfers for debt service payments.
- (2) Transfers to provide funds to cover the Central Service Overhead cost for certain federal funds.
- (3) Transfers for the Kids' First Children's Program.
- (4) One-time repayment of Facilities Internal Service Fund negative fund balance.
- (5) Transfers for the City's claims and liability payments.
- (6) Transfers to provide additional funds to cover the City's self-insurance programs.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

3. Due from the City

As of June 30, 2018, ORSA has a total due from the City in the amount of \$2.3 million, which has no change compared to the \$2.3 million at June 30, 2017. The ending balance is composed of the Former Agency's assets transferred to the Housing Successor, which include the Former Agency's Central District Project Area Fund loan receivable from the City in the amount of \$1.5 million, land sale receivable of \$0.3 million, as well as the Former Agency's Coliseum Project Area Fund loan receivable from the City in the amount of \$0.5 million.

4. Due to the City

At June 30, 2018, ORSA has a payable to the City in the amount of \$4.3 million, which included the former Agency's Low and Moderate Housing Fund loan of \$1.5 million to the Central City East Project Funds where the Low and Moderate Housing Funds Assets were transferred to the Housing Successor, a loan of \$2.7 million from the Capital Project Fund to the West Oakland Project for public improvements, and a payable of \$0.1 million to the City for support services. Payment to the City is subject to the State Department of Finance's approval.

Component Unit-Port of Oakland (Port)

The City has entered into agreements with the Port for various services such as aircraft rescue and firefighting (ARFF), Special Services, General Services, and Lake Merritt Trust Services. The City provides these services to the Port.

Special Services include designated police services, personnel, City clerk, legislative programming, and treasury services. General Services includes fire, rescue, police, street maintenance, treasury, and similar services. Lake Merritt Trust Services include items such as recreation services, grounds maintenance, security, and lighting.

Port payments to the City for these services are made upon execution of appropriate agreements and/or periodic findings and authorizations from the Board.

1. 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 \$6.5 million and are included in operating expenses. At June 30, 2018, \$6.2 million was accrued as a current liability by the Port and as a receivable by the City.

2. General Services and Lake Merritt Trust Services

Payments for General Services provided by 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, 2018, the Port accrued approximately \$1.3 million 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 \$1.1 million to reimburse the City for General Services for net City expenditures for Lake Merritt Tideland Trust properties in fiscal year 2018. 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, 2018

C. NOTES AND LOANS RECEIVABLE, NET OF ALLOWANCE

Primary Government

The composition of the City's notes and loans receivable for governmental activities, net of the allowance for uncollectible accounts, as of June 30, 2018, is as follows (in thousands):

<u>Type of Loan</u>	<u>General Fund</u>	<u>Federal/ State Grant Fund</u>	<u>LMHF¹</u>	<u>Municipal Capital Improve- ment Fund</u>	<u>Other Govern- mental Funds</u>	<u>Total</u>
HUD loans	\$ -	\$ 112,788	\$ 349,568	\$ 2,557	\$ -	\$ 464,913
Economic development loans and other	7,061	63,922	-	24,195	1,465	96,643
Less: allowance for uncollectible accounts	(206)	(41,425)	(115,840)	(396)	(561)	(158,428)
Total notes and loans receivables, net	\$ 6,855	\$ 135,285	\$ 233,728	\$ 26,356	\$ 904	\$ 403,128

¹ Low and Moderate Income Housing Asset Fund

Management has determined that certain loans may be forgiven or renegotiated and extended long into the future if certain terms and conditions of these loans are met. At June 30, 2018, it was determined that \$158.4 million of the loan portfolio is not expected to be ultimately collected. All of the City's notes and loans receivables are offset with deferred inflows of resources in the governmental funds.

Prior to the effective date of the Redevelopment Dissolution Law, California Community Redevelopment Law required that at least 20 percent 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 percent Housing Program and an additional 5 percent 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 LMHF, which was established as of February 1, 2012 pursuant to City Council Resolution No. 83680 C.M.S. As of June 30, 2018, loans receivable relating to the LMHF program totaled approximately \$233.7 million, net of allowance for uncollectible accounts.

Oakland Redevelopment Successor Agency (ORSA)

Composition of loans receivable as of June 30, 2018 is as follows (in thousands):

<u>Type of Loan</u>	<u>Amount</u>
Housing developments project	\$ 1,463
Economic development	61,971
Gross notes and loans receivable	63,434
Less: allowance for uncollectible	(46,675)
Total notes and loans receivables, net	\$ 16,759

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

D. CAPITAL ASSETS AND LEASES

Primary Government

1. Summary Schedule

The following is a summary of governmental activities capital assets activity for the year ended June 30, 2018 (in thousands):

	Balance June 30, 2017	Additions	Deletions	Transfers of Completed Construction	Balance June 30, 2018
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 87,076	\$ 700	\$ -	\$ 292	\$ 88,068
Intangibles (easements)	2,607	-	-	-	2,607
Museum collections	793	-	-	-	793
Construction in progress	465,249	90,741	31,531	(205,235)	319,224
Total capital assets, not being depreciated	555,725	91,441	31,531	(204,943)	410,692
Capital assets, being depreciated:					
Facilities and improvements	828,983	464	-	14,141	843,588
Furniture, machinery, and equipment	228,327	6,834	1,449	54,157	287,869
Infrastructure	799,419	391	-	136,645	936,455
Total capital assets, being depreciated	1,856,729	7,689	1,449	204,943	2,067,912
Less accumulated depreciation:					
Facilities and improvements	447,717	24,369	-	-	472,086
Furniture, machinery, and equipment	192,965	21,214	1,449	-	212,730
Infrastructure	356,339	30,519	-	-	386,858
Total accumulated depreciation	997,021	76,102	1,449	-	1,071,674
Total capital assets, being depreciated, net	859,708	(68,413)	-	204,943	996,238
Governmental Activities - capital assets, net	\$ 1,415,433	\$ 23,028	\$ 31,531	\$ -	\$ 1,406,930

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

The following is a summary of business-type activities capital assets activity for the year ended June 30, 2018 (in thousands):

	Balance June 30, 2017	Additions	Transfers	Balance June 30, 2018
Business-Type Activities:				
Sewer Service Fund:				
Capital assets, not being depreciated:				
Land	\$ 4	\$ -	\$ -	\$ 4
Construction in progress	57,417	16,215	(36,011)	37,621
Total capital assets, not being depreciated	57,421	16,215	(36,011)	37,625
Capital assets, being depreciated:				
Facilities and improvements	466	24	-	490
Furniture, machinery and equipment	8,424	976	-	9,400
Sewer and storm drains	277,743	-	35,963	313,706
Street work	-	-	48	48
Total capital assets, being depreciated	286,633	1,000	36,011	323,644
Less accumulated depreciation:				
Facilities and improvements	304	18	-	322
Furniture, machinery and equipment	5,261	937	-	6,198
Sewer and storm drains	115,366	5,252	-	120,618
Street work	-	1	-	1
Total accumulated depreciation	120,931	6,208	-	127,139
Total capital assets, being depreciated, net	165,702	(5,208)	36,011	196,505
Sewer Service Fund, capital assets, net	\$ 223,123	\$ 11,007	\$ -	\$ 234,130
Parks and Recreation Fund:				
Capital assets, not being depreciated:				
Land	\$ 361	\$ -	\$ -	\$ 361
Construction in progress	588	168	(756)	-
Total capital assets, not being depreciated	949	168	(756)	361
Capital assets, being depreciated:				
Facilities and improvements	4,433	-	669	5,102
Furniture, machinery and equipment	468	9	87	564
Infrastructure	85	-	-	85
Total capital assets, being depreciated	4,986	9	756	5,751
Less accumulated depreciation:				
Facilities and improvements	3,207	246	-	3,453
Furniture, machinery and equipment	449	26	-	475
Infrastructure	54	6	-	60
Total accumulated depreciation	3,710	278	-	3,988
Total capital assets, being depreciated, net	1,276	(269)	756	1,763
Parks and Recreation Fund, capital assets, net	\$ 2,225	\$ (101)	\$ -	\$ 2,124
Business-Type Activities - capital assets, net	\$ 225,348	\$ 10,906	\$ -	\$ 236,254

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

2. Depreciation

Depreciation expense was charged to various governmental and business-type activities of the City for the year ended June 30, 2018 is as follows (in thousands):

Governmental Activities:

General Government	\$ 9,801
Public Safety	3,160
Community Services	7,003
Community and Economic Development	11,071
Public Works	32,441
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	12,626

Total	\$ 76,102
--------------	------------------

Business-Type Activities:

Sewer	\$ 6,208
Parks and Recreation	278

Total	\$ 6,486
--------------	-----------------

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Component Unit – Port of Oakland

1. Summary Schedule

A summary of changes in capital assets for the year ended June 30, 2018, is as follows (in thousands):

	Balance June 30, 2017	Additions	Adjustments and Retirements	Transfers	Balance June 30, 2018
Capital assets, not being depreciated:					
Land	\$ 523,374	\$ -	\$ 8	\$ -	\$ 523,382
Intangibles (noise easements and air rights)	25,852	-	1	-	25,853
Construction in progress	143,257	125,032	(6)	(226,832)	41,451
Total capital assets, not being depreciated	<u>692,483</u>	<u>125,032</u>	<u>3</u>	<u>(226,832)</u>	<u>590,686</u>
Capital assets, being depreciated:					
Building and improvements	852,273	-	-	133,908	986,181
Container cranes	148,697	-	-	7,000	155,697
Systems and structures	2,061,770	-	(25,629)	81,327	2,117,468
Intangibles (software)	13,842	-	2	-	13,844
Other equipment	99,980	1,713	(2,753)	4,597	103,537
Total capital assets, being depreciated	<u>3,176,562</u>	<u>1,713</u>	<u>(28,380)</u>	<u>226,832</u>	<u>3,376,727</u>
Less accumulated depreciation:					
Building and improvements	593,243	24,174	-	-	617,417
Container cranes	103,639	5,080	-	-	108,719
Systems and structures	917,387	76,689	641	-	993,435
Intangibles (software)	8,238	1,405	-	-	9,643
Other equipment	71,696	4,684	2,751	-	73,629
Total accumulated depreciation	<u>1,694,203</u>	<u>112,032</u>	<u>3,392</u>	<u>-</u>	<u>1,802,843</u>
Total capital assets, being depreciated, net	<u>1,482,359</u>	<u>110,319</u>	<u>(24,988)</u>	<u>226,832</u>	<u>1,573,884</u>
Port - capital assets, net	<u>\$ 2,174,842</u>	<u>\$ 14,713</u>	<u>\$ (24,985)</u>	<u>\$ -</u>	<u>\$ 2,164,570</u>

For the year ended June 30, 2018, the Port recognized a net adjustment to infrastructure assets of \$25.0 million to recognize as other non-operating expense, payments made to Union Pacific Railroad Company (UPRR) for the construction of railroad track and related assets by UPRR that are owned and operated by UPRR.

2. Capital Assets Under Operating Leases as Lessor

The capital assets leased to others at June 30, 2018, consist of the following (in thousands):

Land.....	\$ 298,940
Container cranes.....	155,697
Buildings and improvements.....	195,555
Infrastructure.....	984,368
	<u>1,634,560</u>
Less accumulated depreciation.....	(763,046)
Net capital assets, on lease.....	<u>\$ 871,514</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

3. Operating Leases as Lessor

A major portion of the Port's capital assets are held for lease. Leased assets include maritime facilities, aviation facilities, office and commercial space, and land. The majority of the Port's 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. The leases generally provide for minimum rentals with percentage rent contingent on business sales or activity.

A summary of revenues from long-term leases for the year ended June 30, 2018, is as follows (in thousands):

Minimum non-cancelable rentals, including preferential assignments.....	\$ 146,310
Contingent rentals in excess of minimums.....	43,422
Total.....	\$ 189,732

Outer Harbor Terminal Closure

On February 1, 2016, Outer Harbor Terminal, LLC (formerly Ports America Outer Harbor Terminal, LLC) (OHT) filed for Chapter 11 bankruptcy protection. At that time OHT held a 50-year lease with the Port to operate at Berths 20-24, a month to month lease to operate Berth 25/26 (including crane maintenance), and a separate lease to operate and maintain cranes at Berth 20-24. On February 20, 2016, the Port reached a settlement agreement with OHT by which the Port would let OHT out of its lease obligations. This agreement was subsequently approved by the bankruptcy court. This event returned property to the Port that was in need of significant repairs and deferred maintenance. As of June 30, 2018, the Port estimated the cost to complete significant repairs and deferred maintenance over the next few years is approximately \$18.0 million.

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
2019	\$ 155,665
2020	155,516
2021	157,011
2022	154,794
2023	139,968
2024 - 2028	545,261
2029 - 2033	177,868
2034 - 2038	119,760
2039 - 2043	59,780
2044 - 2048	55,038
2049 - 2053	61,836
Thereafter	500,540
Total	\$ 2,283,037

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

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, which is a component of unearned revenue, for years ending June 30 are as follows (in thousands):

Year	Lease Payments
2019	\$ 452
2020	465
2021	479
2022	493
2023	508
2024 - 2028	2,780
2029 - 2033	3,222
2034 - 2038	3,736
2039 - 2043	4,331
2044 - 2048	5,020
2049 - 2053	5,720
Thereafter	1,054
Total	\$ 28,260

E. PROPERTY HELD FOR RESALE

Primary Government

At June 30, 2018, the City has a total of \$162.7 million of property held for resale.

Oakland Redevelopment Successor Agency (ORSA)

As of June 30, 2018, ORSA has a total \$2.8 million for properties recorded at the lower of cost or estimated conveyance value. On May 29, 2014, pursuant to HSC Section 34191.4, the California Department of Finance approved the ORSA's Long-Range Property Management Plan addressing the disposition and use of Former Agency properties and authorizing the disposition of properties pursuant to the plan.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

F. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Primary Government – Governmental Activities

Accounts payable and accrued liabilities for the governmental and business-type activities at June 30, 2018, are as follows (in thousands):

	Accounts Payable	Accrued Payroll/ Employee Benefits	Total
Governmental Activities:			
Governmental Funds:			
General Fund	\$ 42,314	\$ 98,578	\$ 140,892
Federal/State Grant Fund	9,545	-	9,545
Low and Moderate Income Housing Asset Fund	215	-	215
Municipal Capital Improvement Fund	3,494	-	3,494
Other special revenue funds	9,062	-	9,062
Other governmental funds	10,231	-	10,231
Total governmental funds	74,861	98,578	173,439
Internal service funds	4,289	-	4,289
Total governmental activities	\$ 79,150	\$ 98,578	\$ 177,728
Business-type Activities:			
Sewer Service Fund	\$ 3,265	\$ -	\$ 3,265

Accounts payable and accrued liabilities for the pension trust fund at June 30, 2018, are as follows (in thousands):

Pension Trust Fund	
Accounts payable	\$ 95
Member benefits payable	4,608
Investments payable	5,189
Accrued investment management fees	344
Total pension trust fund	\$ 10,236

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

G. LONG-TERM AND OTHER OBLIGATIONS

Primary Government

1. Summary Schedule of Long-Term Debt

The following is a summary of long-term obligations of the City as of June 30, 2018 (in thousands):

Governmental Activities			
Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Bonds payable:			
General obligation bonds	2047	2.00 - 5.00%	\$ 317,605
Lease revenue bonds	2027	5.00%	60,025
Pension obligation bonds	2026	2.37 - 6.89%	271,580
Accreted interest on appreciation bonds	2023	n/a	136,371
City guaranteed special assessment district bonds	2039	3.00 - 3.63%	3,585
Unamortized premiums and discounts, net			27,934
Total bonds payable			\$ 817,100
Loans payable and capital leases:			
Loans payable	2020	2.44%	\$ 22,250
Capital leases	2025	1.17 - 5.46%	54,046
Total notes payable and capital leases			\$ 76,296

Business-Type Activities			
Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Bonds payable:			
Sewer revenue bonds	2029	2.00 - 5.00%	\$ 30,495
Unamortized bond premium			3,772
Total bonds payable			\$ 34,267

2. 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 (Swap) with Goldman Sachs Mitsui Marine Derivatives Products, U.S., L.P. (Counterparty) in connection with the \$187.5 million Oakland Joint Powers Financing Authority (Authority) Lease Revenue Bonds, 1998 Series A1/A2 (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 \$15.0 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 Offered Rates (LIBOR). This amendment resulted in an additional upfront payment from the Counterparty to the City of \$6.0 million.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

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). \$143.0 million was deposited with the trustee to defease the 1998 Lease Revenue Bonds. However, the Swap associated with the 1998 Lease Revenue Bonds still remains in effect. This is now a stand-alone swap with no association to any bond. The amortization schedule is as follows as of June 30, 2018:

Calculation period (July 31)	Notional Amount	Fixed Rate To Counterparty	65% of LIBOR ¹	Net Rate
2018	\$ 25,800,000	5.6775%	1.3587%	4.3188%
2019	19,300,000	5.6775%	1.3587%	4.3188%
2020	12,800,000	5.6775%	1.3587%	4.3188%
2021	6,400,000	5.6775%	1.3587%	4.3188%

¹ The 1-month LIBOR rate is 2.09025% as of June 30, 2018. Rates are projections, the LIBOR rate fluctuates daily.

Terms: The swap agreement terminates on July 31, 2021, and has a notional amount as of June 30, 2018 of \$25.8 million. 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: The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the Swap. 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. The fair value hierarchy of the interest rate swap is Level 2. Because interest rates have declined since the execution of the Swap, the Swap had a negative fair value of \$2.0 million as of June 30, 2018.

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, and AA- by S& P as of June 30, 2018. To mitigate the potential for credit risk, if the Counterparty’s credit quality falls below A3 by Moody’s or A- by S&P, the Swap provides the Counterparty, the City, the bond insurer for the Bonds and a third party collateral agent to execute a collateral agreement within 30 days of such a downgrade.

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

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 or “BBB-” by S&P. 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, 2018

3. Summary of Changes in Long-term Obligations

Primary Government

The changes in long-term obligations for the year ended June 30, 2018, are as follows (in thousands):

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Amounts due within one year
Governmental activities:					
Bonds payable:					
General obligation bonds (A)	\$ 216,655	\$ 117,855	\$ 16,905	\$ 317,605	\$ 15,950
Lease revenue bonds (B)	71,335	60,025	71,335	60,025	5,120
Pension obligation bonds (C)	296,854	-	25,274	271,580	24,708
Accreted interest on					
appreciation bonds (B) and (C)	149,896	15,282	28,807	136,371	30,841
City guaranteed special					
assessment district bonds (C)	5,335	1,380	3,130	3,585	280
Unamortized premium and discounts	23,246	8,555	3,867	27,934	1,926
Total bonds payable	763,321	203,097	149,318	817,100	78,825
Loans, notes and lease payable:					
Loans and notes payable (B) and (D)	8,021	16,479	2,250	22,250	4,125
Capital leases (B) and (D)	67,802	4,900	18,656	54,046	16,557
Total notes payable and capital leases	75,823	21,379	20,906	76,296	20,682
Other long-term liabilities:					
Accrued vacation and sick leave (E)	49,087	59,821	59,520	49,388	34,861
Pledge obligation for					
Coliseum Authority debt (B)	41,384	-	4,335	37,049	4,550
Estimated environmental cost (B)	156	688	464	380	167
Self-insurance liability -					
workers' compensation (B)	94,028	23,827	25,402	92,453	18,027
Self-insurance liability -					
general liability (B)	51,800	25,731	26,215	51,316	21,855
Interest rate swap agreement	3,687	-	1,648	2,039	-
Total other long-term liabilities	240,142	110,067	117,584	232,625	79,460
Total governmental activities	\$ 1,079,286	\$ 334,543	\$ 287,808	\$ 1,126,021	\$ 178,967
Business-type activities:					
Sewer fund - bonds payable	\$ 32,620	\$ -	\$ 2,125	\$ 30,495	\$ 2,235
Unamortized bond premium	4,115	-	343	3,772	343
Total business-type activities	\$ 36,735	\$ -	\$ 2,468	\$ 34,267	\$ 2,578

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) Compensated absences are financed by governmental funds (General Fund, Federal/State Grant Fund, LMIHF, Municipal Capital Improvement Fund, and Other Governmental Funds) and proprietary funds (Sewer Service Fund) have funded the compensated absences through contributions to the General Fund.

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, 2018, \$39.2 million of bonds, notes payable, and capital leases related to the internal service funds are included in the above amounts.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

4. Annual Requirements to Maturity

Primary Government

The annual repayment schedules for governmental activities' long-term debt as of June 30, 2018, are as follows (in thousands):

Governmental Activities ¹						
Year Ending June 30	General Obligation Bonds		Lease Revenue Bonds		Special Assessment District Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 15,950	\$ 13,305	\$ 5,120	\$ 2,690	\$ 280	\$ 79
2020	16,675	12,601	5,725	2,602	355	104
2021	16,300	11,848	6,015	2,309	350	94
2022	17,045	11,115	6,330	2,000	365	84
2023	17,855	10,332	6,650	1,676	375	73
2024-2028	57,295	42,619	30,185	3,113	970	210
2029-2033	65,800	28,952	-	-	335	129
2034-2038	46,045	17,025	-	-	380	72
2039-2043	35,025	9,156	-	-	175	10
2044-2047	29,615	2,914	-	-	-	-
Total	\$ 317,605	\$ 159,867	\$ 60,025	\$ 14,390	\$ 3,585	\$ 855

Year Ending June 30	Loan Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2019	\$ 4,125	\$ 516	\$ 16,557	\$ 1,156
2020	13,875	350	13,916	808
2021	4,250	26	8,718	531
2022	-	-	6,562	321
2023	-	-	3,110	195
2024-2028	-	-	5,183	193
Total	\$ 22,250	\$ 892	\$ 54,046	\$ 3,204

Year Ending June 30	Pension Obligation Bonds			Total		
	Principal	Accreted Interest	Interest	Principal	Accreted Interest	Interest
2019	\$ 24,708	\$ 30,841	\$ 41,001	\$ 66,740	\$ 30,841	\$ 58,747
2020	24,316	32,801	42,710	74,862	32,801	59,175
2021	23,992	34,778	44,390	59,625	34,778	59,198
2022	23,758	36,728	46,002	54,060	36,728	59,522
2023	23,425	37,926	47,599	51,415	37,926	59,875
2024-2028	151,380	-	10,832	245,013	-	56,967
2029-2033	-	-	-	66,135	-	29,081
2034-2038	-	-	-	46,425	-	17,097
2039-2043	-	-	-	35,200	-	9,166
2044-2047	-	-	-	29,615	-	2,914
Subtotal	271,579	173,074	232,534	729,090	173,074	411,742
Less: unaccreted interest	-	(36,703)	-	-	(36,703)	-
Total	\$ 271,579	\$ 136,371	\$ 232,534	\$ 729,090	\$ 136,371	\$ 411,742

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, 2018

The annual repayment schedule for business-type activities' long-term debt as of June 30, 2018, is as follows (in thousands):

Year Ending June 30	Business-Type Activities	
	Sewer Revenue Bonds	
	Principal	Interest
2019	\$ 2,235	\$ 1,413
2020	2,275	1,368
2021	2,370	1,277
2022	2,490	1,159
2023	2,610	1,034
2024-2028	15,040	3,198
2029	3,475	174
Total	\$ 30,495	\$ 9,623

The City pledged future net revenues to repay its sewer revenue bonds. The total principal and interest remaining to be paid on the bonds is \$40.1 million. The principal and interest payments made in 2018 were \$3.6 million and pledged revenues (total net revenues calculated in accordance with the bond indenture) for the year ended June 30, 2018 were \$23.2 million.

5. New Debt Issuance

General Obligation Bonds - Series 2017 A-1 and A-2, Measure KK

On November 8, 2016, the City's voters authorized the issuance of \$600.0 million (Measure KK) in general obligation bonds. The bonds are to be issued to improve public safety and invest in neighborhoods throughout Oakland by re-paving streets to remove potholes, rebuilding cracked and deteriorating sidewalks, funding bicycle and pedestrian safety improvements, funding affordable housing for Oaklanders, and providing funds for facility improvements, such as neighborhood recreation centers, playgrounds, and libraries.

On August 30, 2017, the City issued General Obligation Bonds Series 2017 A-1 (Tax-Exempt) and Series 2017 A-2 (Taxable) in the amount of \$62.7 million and \$55.1 million, respectively. These bonds were issued to finance Measure KK projects and to pay for certain costs related to the issuance of the bonds. The bonds mature from January 2018 through January 2047 with interest rates ranging from 2.0 percent to 4.0 percent. Debt service payments for these bonds are funded through ad valorem taxes on property. Following this transaction, the City retained \$482.1 million of unissued general obligation bond authorization under Measure KK.

JPFA Lease Revenue Refunding Bonds (Oakland Administration Building) - Series 2018

On May 23, 2018, the Oakland Joint Powers Financing Authority (JPFA) issued \$60.0 million Lease Revenue Refunding Bonds (Oakland Administration Building) Series 2018 to refund all of the JPFA's outstanding Lease Revenue Refunding Bonds (Oakland Administration Building) Series 2008 B (Prior Bonds). The bonds mature from November 2018 through November 2026 with a 5.0 percent interest rate. The Prior Bonds were defeased on the date of issuance of the 2018 Bonds and redeemed on August 1, 2018. The refunding of the Prior Bonds was effected by depositing a portion of the 2018 Bonds into a special and irrevocable escrow fund established for the Prior Bonds in accordance with that certain Escrow Agreement, dated May 1, 2018. The funds deposited and held with the escrow agent were sufficient for the Prior Bonds full redemption. Accordingly, the liability for the Prior Bonds has been removed from the statement of net position at June 30, 2018. The refunding resulted

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

in the recognition of an accounting loss of \$8.5 million for the year ended June 30, 2018 and reduced the aggregate debt service payments by \$7.1 million, producing an economic gain for the City of \$6.9 million on a present value basis.

Limited Obligation Refunding Bonds, Utility Underground Assessment District No. 2007-232, Piedmont Pines Phase 1 (Reassessment and Refunding of 2018)

On June 6, 2018, the City issued \$1.4 million Limited Obligation Refunding Bonds, Utility Underground Assessment District No. 2007-232, Piedmont Pines Phase 1 (Reassessment and Refunding of 2018). The bonds mature from September 2019 through September 2039 with interest rates ranging from 2.0 percent to 3.625 percent. The City deposited a portion of the proceeds from the sale of these bonds along with other available monies on hand related to the City of Oakland California Utility Underground Assessment District No. 2007-232, Piedmont Pines Phase 1 2010 Limited Obligation Improvement Bonds (2010 Bonds) into an escrow fund held by Wilmington Trust, National Association (Escrow Bank) to provide monies for the purpose of paying on September 2, 2018 the debt service due on the 2010 Bonds and the redemption price of the outstanding 2010 Bonds maturing after September 2, 2018. The current refunding of the 2010 Bonds reduced aggregate debt service payments by \$2.9 million, producing an economic gain for the City of \$2.1 million on a present value basis.

Loan Payable - Oakland Army Base Credit Agreement

Pursuant to Ordinance No. 13381 adopted by the City Council on July 19, 2016, the City is authorized to incur indebtedness secured by an assignment of the City's rights under the Alameda County Transportation Commission (ACTC) Administered Funds to provide interim bridge financing in an amount not to exceed \$53.2 million for certain capital infrastructure expenditures to support the redevelopment of the former Oakland Army Base (OAB Project).

On February 16, 2017, the City entered into a credit agreement with JPMorgan Chase Bank, N.A. (JPMorgan) whereby JPMorgan agreed to loan the City an amount not to exceed \$24.5 million to support the OAB Project. The loan, evidenced by a promissory note, bears interest at 2.44 percent on scheduled amounts funded, has an unused fee rate of seven basis points per annum, has interest payments on the fifteenth day of each January, April, July and October, and matures July 15, 2020. During the year ended June 30, 2018, the City drew down the remaining loan available of \$16.5 million.

The JPMorgan loan is secured by the pledge of revenues under the Alameda CTC Administered Funds received by the City until the final maturity date of the loan. On June 30, 2018, the total principal and interest remaining on this loan is approximately \$23.1 million. For the year ended June 30, 2018, the City collected \$2.3 million in ACTC Administered Funds and made total debt service payments in the amount of \$2.6 million.

Master Lease-Purchase Agreement, Public Safety IT Systems Lease 2017, Schedule No. 1

On August 1, 2017, the City entered into a Master Lease-Purchase Agreement in the principal amount of \$4.9 million to provide funding to upgrade, replace, and implement mission-critical public safety IT systems including 1) 911 Computer Aided Dispatch, the Records Management System, and the Fire Station Alerting System, as well as, 2) the Oakland Police Department's Performance, Reporting, and Information & Metrics Environment 2.0 (PRIME 2.0) enterprise platform. The aim of the project is to produce accurate, reliable, efficient, and modern next-generation public safety IT systems. The final maturity is August 1, 2023 and has an interest rate of 1.765 percent.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Oakland Redevelopment Successor Agency (ORSA)

1. Summary Schedule of Long-Term Debt

The following is a summary of ORSA's long-term debt as of June 30, 2018 (in thousands):

Oakland Redevelopment Successor Agency			
Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Bonds payable:			
Tax Allocation Bonds	2041	4.00 - 8.50%	\$ 208,130
ORSA Subordinated Tax Allocation Refunding Bonds	2040	1.33 - 5.00%	141,360
Unamortized premiums and discounts, net			9,157
Total bonds payable			\$ 358,647

2. Revenues Pledged for the Repayment of Debt Service

Tax Allocation Bonds

The Tax Allocation Bonds (TAB), which are comprised of Series 2006-T, Series 2009-T, Series 2006A-T, Series 2006B-T, Series 2006C-T, Series 2010-T and Refunding Bond Series 2013 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 of the tax increment generating redevelopment project areas, and are equally and ratably secured on a parity with each TAB series.

As of June 30, 2018, the total principal and interest remaining on these TABs was estimated at \$290.1 million and the property tax revenues are pledged until the year 2041, the final maturity date of the bonds. The Former Agency's debt service payments are requested through the Recognized Obligation Payments Schedule (ROPS) as enforceable obligations until the debt obligations have been satisfied.

Subordinated Tax Allocation Refunding Bonds

The Subordinate Tax Allocation Refunding Bonds, which are comprised of Series 2015TE and Series 2015T (Series 2015 Bonds) and the Series 2018TE/T Bonds. These bonds are limited obligations of the ORSA and payable from and secured by pledged tax revenues. Pledged tax revenues are tax increment revenues that were eligible for allocation to the Former Agency and are allocated to the ORSA, excluding (i) tax revenues required to pay debt service on the existing bonds, (ii) certain amounts required to be paid under the Uptown Ground Lease and the 17th Street Garage Disposition and Development Agreement, and (iii) amounts required to be paid to taxing entities pursuant to the Dissolution Law, unless such payments are subordinated.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

3. Summary of Changes in Long-Term Obligations

The changes in long-term obligations for the year ended June 30, 2018, are as follows (in thousands):

Oakland Redevelopment Successor Agency					
	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Amounts due within one year
Tax allocation bonds	\$ 249,765	\$ -	\$ 41,635	\$ 208,130	\$ 24,830
Housing set-aside bonds	39,720	-	39,720	-	-
Subordinated tax allocation refunding bonds	88,745	56,955	4,340	141,360	8,750
Unamortized premium and discounts:					
Issuance premiums	8,913	3,230	1,897	10,246	1,523
Issuance discounts	(1,843)	(775)	(1,529)	(1,089)	(112)
Total ORSA	\$ 385,300	\$ 59,410	\$ 86,063	\$ 358,647	\$ 34,991

4. Annual Requirements to Maturity

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, 2018, including mandatory sinking fund payments, are as follows (in thousands):

Oakland Redevelopment Successor Agency					
Year Ending June 30	Tax Allocation Bonds		Subordinate Refunding Tax Allocation Bonds		
	Principal	Interest	Principal	Interest	
	2019	\$ 24,830	\$ 11,088	\$ 8,750	\$ 5,250
2020	25,975	9,618	4,515	5,694	
2021	27,425	8,033	4,645	5,558	
2022	23,545	6,607	4,795	5,401	
2023	9,365	5,747	8,030	5,178	
2024-2028	30,845	23,384	23,605	22,853	
2029-2033	39,490	13,568	25,720	17,184	
2034-2038	22,480	3,486	50,230	8,391	
2039-2042	4,175	472	11,070	447	
Total	\$ 208,130	\$ 82,003	\$ 141,360	\$ 75,956	

Component Unit- Port of Oakland (Port)

1. Summary Schedule of Long-Term Debt

The following is a summary of long-term debt of the Port as of June 30, 2018 (in thousands):

Component Unit - Port of Oakland			
Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Bonds, notes, and loans payable			
Senior and intermediate lien bonds	2033	1.65 - 5.125%	\$ 891,695
Notes and loans	2030	0.42 - 4.50%	109,543
Unamortized bond discounts and premiums, net			57,960
Total bonds, notes, and loans payable			\$ 1,059,198

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

2. Revenues Pledged for the Repayment of Debt Service

The Port's long-term debt and final maturity consists primarily of tax-exempt bonds, short-term commercial paper notes, and a loan from the California Department of Boating and Waterways. All of the Port's outstanding bonds, loans, and commercial paper notes have been issued to finance or refinance capital improvements to the Port's aviation, maritime, and commercial real estate infrastructure. 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 amounted to \$386.0 million in fiscal year 2018.

Pledged Revenues do not include cash received from passenger facility charge (PFCs) or customer facility charge (CFCs) 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.

Senior Lien Bonds

2011 Series O, 2012 Series P, and 2012 Series Q (collectively, the Senior Lien Bonds) are issued under the Senior Trust Indenture and are paid from Pledged Revenues first. As long as any Senior Lien Bonds remain outstanding, the Port has covenanted to collect rates, tolls, fees, rentals, and charges so that Pledged Revenues in each fiscal year will be sufficient to pay all of the following amounts: (i) the sum of principal and interest on the outstanding Senior Lien Bonds; (ii) all other payments required for compliance with terms of the Senior Trust Indenture including, but not limited to, required deposits to any Reserve Fund; (iii) all other payments necessary to meet ongoing legal obligations to be paid from Pledged Revenues; and (iv) operation and maintenance expenses of the Port. In addition, payment of principal and interest on the Senior Lien Bonds when due is secured by a reserve fund held by the trustee and invested in Federal Home Loan Mortgage Notes.

The Port has also covenanted in the Senior Trust Indenture that Net Pledged Revenues (Revenues less the Operation and Maintenance Expenses) will be equal to at least 125 percent of actual debt service for the Senior Lien Bonds (Senior Lien Debt Service Coverage Ratio).

California Department of Boating and Waterways (DBW) Loan

The DBW Loan is subordinate to the Senior Lien Bonds but superior to the Intermediate Lien Bonds and the Port's Commercial Paper Notes with respect to the Pledged Revenues. The Port turned over the operation of its marina, financed, in part, with DBW Loans, to a private company through a fifty-year capital lease in May 2004. As of June 30, 2018, only one DBW Loan remained outstanding with a balance of \$4.2 million.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Intermediate Lien Bonds

As of June 30, 2018, the bonds issued under the Intermediate Trust Indenture include the 2017 Series D, Series E, Series F, and Series G Bonds (Series 2017 Bonds). The Series 2017 Bonds were issued on August 3, 2017 to refund the 2007 Series A, Series B, and Series C Bonds (Series 2017 Bonds and combined with the Series 2017 Bonds collectively, the Intermediate Lien Bonds) issued under the Intermediate Trust Indenture are next in payment priority. The Intermediate Lien Bonds are paid from the Intermediate Lien Pledged Revenues. The Intermediate Lien Pledged Revenues are the Pledged Revenues after payment first, of all amounts payable for any Senior Lien Bonds and second, any debt service requirements payable on the DBW Loan. Payment of principal and interest on the Intermediate Lien Bonds when due is secured by a debt service reserve surety policy, as well as being insured by municipal bond insurance policies.

The Port covenanted in the Intermediate Trust Indenture that Net Pledged Revenues will be equal to at least 110% of the actual debt service becoming due and payable on the combined Intermediate Lien Bonds, Senior Lien Bonds, and DBW Loan (Intermediate Lien Debt Service Coverage Ratio).

Commercial Paper Notes

Commercial Paper Notes (CP Notes) have the lowest payment priority. The Board authorized a \$150.0 million Commercial Paper program in 1998 and a further \$150.0 million was authorized in 1999. The maximum maturity of the CP Notes is 270 days and the maximum interest rate is 12 percent. The Port has classified the CP Notes as long-term debt as the Port intends and has the ability to reissue CP Notes until the expiration of the two irrevocable Letters of Credit (LOC), discussed below. Interest income paid to the holders of the CP Notes may fall under one of three tax treatments: tax-exempt Alternative Minimum Tax (AMT), tax-exempt non-AMT, and taxable.

On June 13, 2017, the Port substituted its then-outstanding JPMorgan Chase Bank National Association (JPMorgan) LOC supporting its DEF Series of CP Notes, with a new LOC supported by Bank of America National Association (BANA) in the amount of \$54.4 million (principal of \$50.0 million and interest of \$4.4 million). This is equal to the prior JPMorgan LOC and represents the second LOC the Port has entered into with BANA. On June 13, 2016, the Port entered into a LOC with BANA amounting to \$163.3 million (principal of \$150.0 million and interest coverage of \$13.3 million) supporting its ABC Series of CP Notes. Both BANA LOCs expire on June 30, 2019.

As of June 30, 2018, the outstanding balance of CP Notes under the Port's ABC Series of CP is \$60.0 million, while the outstanding balance of CP Notes under the Port's DEF Series of CP is \$45.4 million.

The Port covenants in both of its LOC and Reimbursement Agreements with BANA that the Intermediate Lien Debt Service Coverage Ratio will equal to at least 110 percent.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

3. Summary of Changes in Long-Term Obligations

The changes in the Port's long-term obligations for the year ended June 30, 2018, are as follows (in thousands):

Component Unit - Port of Oakland					
	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Amounts due within one year
Bonds and notes payable:					
Senior and intermediate lien bonds	\$ 979,565	\$ 253,950	\$ 341,820	\$ 891,695	\$ 50,260
Notes and loans payable	102,272	11,529	4,258	109,543	270
Unamortized premium and discounts, net	38,784	33,785	14,609	57,960	9,497
Total bonds and notes payable	<u>1,120,621</u>	<u>299,264</u>	<u>360,687</u>	<u>1,059,198</u>	<u>60,027</u>
Other long-term liabilities:					
Accrued vacation, sick leave, and compensatory time	6,705	1,890	1,596	6,999	6,399
Environmental remediation	15,339	11,662	9,247	17,754	2,134
Self -insurance liability - workers' compensation	11,282	649	1,270	10,661	1,270
Other long-term liabilities	23,494	350	2,146	21,698	3,750
Total other long-term liabilities	<u>56,820</u>	<u>14,551</u>	<u>14,259</u>	<u>57,112</u>	<u>13,553</u>
Total component unit	<u>\$ 1,177,441</u>	<u>\$ 313,815</u>	<u>\$ 374,946</u>	<u>\$ 1,116,310</u>	<u>\$ 73,580</u>

4. Annual Requirements to Maturity

The Port's required debt service payments on its Senior Lien Bonds and Intermediate Lien Bonds are due each May 1 and November 1 through May 1, 2033. The California Department of Boating and Waterways loan is due each August 1 through August 1, 2029. Commercial Paper has been classified as long-term debt because the Port has the intent and ability to continue to refinance this debt. The Port's required debt service payment for the outstanding long-term debt for the years ending June 30 are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2019	\$ 50,530 ⁽¹⁾	\$ 42,658	\$ 93,188
2020	88,120	46,482	134,602
2021	90,188	42,511	132,699
2022	92,667	37,283	129,950
2023	60,412	32,782	93,194
2024-2028	342,934	115,813	458,747
2029-2033	276,387	33,396	309,783
Total	<u>\$ 1,001,238</u>	<u>\$ 350,925</u>	<u>\$ 1,352,163</u>

¹ Although the Port intends to refinance the CP Notes in the future, for purposes of this schedule, CP Notes are amortized over the fiscal years 2020-2022 pursuant to the "Term Loan" provisions of the Commercial Paper Reimbursement Agreements, beginning when the current letters of credit expire on June 30, 2019.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

City-Wide Short-Term and Long-Term Debt

1. Tax and Revenue Anticipation Notes Payable

On July 20, 2017, the City issued \$70.6 million tax and revenue anticipation notes in advance of property tax collections. The notes were issued as one taxable series bearing an interest rate of 1.69% per annum and maturing on June 29, 2018. The notes were issued to finance the prepayment of the City's Employer Unfunded Accrued Liability contribution to CalPERS for fiscal year 2017-18. The short-term debt activity for the year ended June 30, 2018 is as follows (in thousands):

	<u>Beginning Balance</u>		<u>Issued</u>		<u>Redeemed</u>		<u>Ending Balance</u>
2017 - 2018 Tax & Revenue							
Anticipation Notes	\$ -		\$ 70,605		\$ (70,605)		\$ -

2. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures held by the City, ORSA, and the Port. The City believes it is in compliance with all significant limitations and restrictions for which noncompliance would adversely affect its ability to pay debt service. During the course of the fiscal year, the City identified several noncompliant issues with the continuing disclosure requirements and these have been remedied.

3. Legal Debt Limit and Legal Debt Margin

As of June 30, 2018, the City's debt limit (3.75% of valuation subject to taxation) was \$2.0 billion. The total amount of debt applicable to the debt limit was \$317.6 million. The resulting legal debt margin was \$1.7 billion.

4. Prior Years' Debt Defeasance

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. At June 30, 2018, the principal amount of defeased debt outstanding is as follows:

<u>Refunded Bonds</u>	<u>Refunding Bonds Issued</u>	<u>Date of Refunding Bond Issuance</u>	<u>Outstanding as of June 30, 2018</u>	<u>Scheduled Call Date</u>
General Obligation Refunding Bonds, Series 2009B	General Obligation Refunding Bonds, Series 2015A	05/06/15	\$ 54,485	01/15/19
Joint Powers Financing Authority, Lease Revenue Refunding Bonds, Series 2008 B	Joint Powers Financing Authority, Lease Revenue Refunding Bonds, Series 2018	05/08/18	65,675	08/01/18
Limited Obligation Improvement Bonds, Utility Underground Assessment District No. 2007-232, Piedmont Pines Phase I	Limited Obligation Refunding Bonds, Utility Underground Assessment District No. 2007-232, Piedmont Pines Phase I	05/03/18	2,700	09/04/18
Subordinated Housing Set-Aside Revenue Bonds, Series 2011A-T	ORSA Subordinated Tax Allocation Refunding Bonds, Series 2018-T	05/09/18	37,785	09/01/21
Subordinated Tax Allocation Bonds, Series 1993A	ORSA Central District Redevelopment Project Subordinated Tax Allocation Refunding Bonds, Series 2013	09/18/13	6,050	09/01/22
	Total outstanding defeased bonds		\$ 166,695	

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

5. 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, 2018 (in thousands):

	<u>Authorized and Issued</u>	<u>Maturity</u>	<u>Outstanding at June 30, 2018</u>
Oakland JPFA Revenue Bond 2001 Series A Fruitvale Transit Village (Fruitvale Development Corporation)	\$ 19,800	07/01/33	\$ 12,625

H. ESTIMATED LIABILITY FOR SELF-INSURANCE

Primary Government

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; employee’s injuries; natural disasters; unemployment coverage; and providing health benefits to employees, retirees, and their dependents. 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 \$3.0 million retention level and up to \$0.75 million 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

1. 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 \$10,000 deductible to be paid by the City. Vehicles are insured at full replacement value after a \$20,000 deductible. Equipment valued at more than \$250,000 is insured at full replacement after a \$100,000 deductible.

2. Workers’ Compensation

The City is self-insured for workers’ compensation up to a \$.075 million retention level. Payment of claims is provided through annual appropriations, which are based on claim payment experience and supplemental appropriations. Of the \$92.5 million in claims liabilities as of June 30, 2018, approximately \$18.0 million is estimated to be due within one year.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Changes in self-insurance workers' compensation for the years ended June 30, 2018 and 2017 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Self-insurance liability -		
workers' compensation, beginning of year	\$ 94,028	\$ 99,955
Current year claims and changes in estimates	23,827	19,388
Claims payments	(25,402)	(25,315)
Self-insurance liability - workers' compensation, end of year	<u>\$ 92,453</u>	<u>\$ 94,028</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.

3. General Liability

Numerous lawsuits are pending or threatened against the City. The City estimates that as of June 30, 2018, the amount of liability determined to be probable of occurrence is approximately \$51.3 million. Of this amount, claims and litigation approximating \$21.9 million 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, except for the Warehouse Fire Related Litigation as described below. 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, 2018 and 2017 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Self-insurance liability - general liability, beginning of year	\$ 51,800	\$ 40,978
Current year claims and changes in estimates	25,731	37,059
Claims payments	(26,215)	(26,237)
Self-insurance liability - general liability, end of year	<u>\$ 51,316</u>	<u>\$ 51,800</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, 2018

4. 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, 2017, the self-insured retention levels and purchased insurance per occurrence are as follows:

<u>Type of Coverage</u>	<u>Limits</u>	<u>Purchased Insurance Per Occurrence</u>
General Liability	Up to \$3.0 million	\$3.0 to \$25.0 million
Automobile Liability	Up to \$3.0 million	\$3.0 to \$25.0 million
Public Officials Errors and Omissions	Up to \$3.0 million	\$3.0 to \$25.0 million
Products and Completed Operations	Up to \$3.0 million	\$3.0 to \$25.0 million
Employment Practices Liability	Up to \$3.0 million	\$3.0 to \$25.0 million
Workers' Compensation	Up to \$750,000	\$750,000 to \$100.0 million

Effective July 1, 2018, the City's self-insured retention level increased from \$3.0 million to \$5.0 million.

5. Warehouse Fire Related Litigation

Litigation has been filed against the City arising from the tragic fire at an Oakland warehouse that resulted in the deaths of 36 persons on December 2, 2016. Plaintiffs are primarily survivors of these decedents, and also include persons injured in the fire. The coordinated cases allege that the City was aware of dangerous conditions at the warehouse through its police and fire personnel, who visited the site on numerous occasions, and that the City failed to report or abate these conditions despite statutory "mandatory duties" to do so. The City is vigorously defending the matter.

The City's demurrer to Plaintiffs' Second Amended Complaint was overruled. The City filed a Writ to the Court of Appeals challenging the Superior Court's decision. The Court of Appeal Writ Petition was denied. The City sought review by the Supreme Court of the Court of Appeals decision which was denied on November 14, 2018. Trial is scheduled for October of 2019.

While the City vigorously opposes the allegations, it believes that it could have some loss exposure. Potential losses to the City are estimated to be up to \$100 million.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Component Unit – Port of Oakland

1. Workers' Compensation

The Port is self-insured for other workers' compensation of the Port's employees. The workers' compensation liability of \$10.7 million at June 30, 2018 is based upon an actuarial study performed as of June 30, 2018 that assumed a probability level of 80% and a discount rate of 0.0%. Changes in liability, which is included as part of non-current liabilities, follows (in thousands):

	2018	2017
Self -insurance liability -		
workers' compensation, beginning of year	\$ 11,282	\$ 12,249
Current year claims and changes in estimates	649	312
Claims payments	(1,270)	(1,279)
Self -insurance liability - workers' compensation, end of year	\$ 10,661	\$ 11,282

2. General Liability - Insurance

The Port purchases insurance on certain risk exposures including but not limited to property, automobile liability, airport liability, umbrella liability, environmental 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 self-insured for other general liability and liability/litigation-type claims, and most first party exposures. During fiscal year 2018, the Port carried excess insurance over \$1,000,000 for the self-insured general liability and workers compensation exposures. There have been no claim payments related to these programs that exceeded insurance limits in the last three years.

3. Capital Improvement Projects

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

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 \$250,000 for each general liability and workers' compensation claim.

The OPPI protects the Port from the potential error and omission of consultants working on Port CIP projects. Consultants must meet minimum insurance requirements of \$1,000,000 to \$2,000,000. If minimum insurance is not provided or does not respond, the Port would be responsible for \$100,000 self-insured retention. There is no actuarial forecast for this coverage.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

I. JOINT VENTURE

Oakland-Alameda County Coliseum

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

Stadium Bonds – Background

In August 1995, the Coliseum Authority issued \$9.2 million in Fixed Rate Refunding Lease Revenue Bonds and \$188.5 million in Variable Rate Lease Revenue Bonds (collectively known as the Stadium Bonds) to satisfy certain obligations of the Coliseum Authority, the City, the County, the Financing Corporation, and Oakland-Alameda County Coliseum Inc. (Coliseum Inc.), which then managed 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 to the City.

On May 31, 2012, the Coliseum Authority issued \$122.8 million in Refunding Bonds Series 2012 A with coupons of 2 to 5 percent to refund and defease all outstanding variable rate 2000 Series C Refunding Bonds. The bonds were priced at a premium, bringing total proceeds to \$138.1 million. These funds coupled with \$13 million in the 2000 Series C reserve fund generated available funds of \$151.1 million which was used to refund the 2000 C Refunding Bonds of \$137.4 million, fund a reserve fund of \$12.8 million, and to pay underwriter's discount and issuance cost of \$0.9 million. The all-in-interest cost of the 2012A refunding bonds was 3.04 percent. There was an economic loss of \$23 million (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 Coliseum 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 Coliseum 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 \$15.3 million.

The Stadium Bonds are limited obligations of the Coliseum Authority payable solely from certain revenues of the Coliseum Authority, including revenues from the Stadium and Arena Complex and base rental payments from the City and the County. The source of the Coliseum Authority's revenues relating to football games consists primarily of a portion of the club dues, concession, and parking payments. The Coliseum Authority has pledged the base rental payments and most other revenues received under the Master Lease from the lessees, the City, and the County to the trustee to pay debt service on the bonds. In the event that 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 \$12 million annually to cover such shortfall 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 \$24 million annually in the event of default by the County. Base rental payments are projected to cover one hundred percent of the debt service

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

requirements over the life of the bonds. The obligation of the City and the County to make such payments is reduced to the extent the Coliseum Authority receives revenues generated at the complex to pay debt service and for operations and maintenance. The Stadium Bonds are not general obligations of either the City or the County.

Arena Bonds – Background

On August 2, 1996, the Coliseum Authority issued \$70 million Series A-1 and \$70 million 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 Coliseum 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) among the Warriors and the City, the County, Coliseum Inc., and the Coliseum Authority.

On April 14, 2015, the Authority issued \$79,735,000 in Refunding Bonds Series 2015 A with coupons of .8 to 3.793 percent to refund and defease all outstanding variable rate 1996 Series A-1 and A-2 Bonds. The bonds were sold at par, bringing total proceeds to \$79,735,000. These funds coupled with \$3,319,013 in the 1996 Series A reserve fund generated available funds of \$83,054,013, which was used to refund the 1996 Series A Refunding Bonds of \$79,735,000, to fund a reserve fund of \$2,168,103, to pay underwriter's discount and issuance cost of \$659,928 and \$490,983 was returned to the Authority's general fund. The all-in true interest cost of the 2015A refunding bonds was 3.33 percent. There was an economic loss of \$13,479,519 (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.

Under the Bond Agreements, the Arena Bonds are limited obligations of the Coliseum Authority, payable solely from revenues received by the Coliseum Authority on behalf of the City and the County. Revenues consist of base rental payments from the City and County, certain payments from the Warriors of up to \$7.4 million annually from premium seating revenues, the sale of personal seat licenses by the Coliseum Authority, concessionaire payments, and Arena naming rights. If necessary to prevent default, additional premium revenues up to \$10 million may be pledged to service Arena debt. 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 the County are obligated to make up the shortfall in the base rental payments from their respective general funds. The County and the City each have covenanted to appropriate up to \$9.5 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 \$19 million annually in the event of default by the County. The Warrior's obligation to pay up to \$7.4 million annually ends with the termination of the current lease option in June 2019. However, in October 2018, an arbitrator provided an interim ruling favorable to the City and the County regarding the Warriors' ongoing contractual obligation under the License Agreement to annually reimburse the Authority for any principal balance remaining on the Arena Bonds debt obligation if the net operating revenues are not sufficient to pay scheduled debt service through the term of the debt issuance. The arbitrator's interim award is not final and may be appealed to the Alameda Superior Court.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Debt Compliance

Long-term debt outstanding as of June 30, 2018 is as follows (in thousands):

<u>Type of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Authorized and Issued</u>	<u>Outstanding as of June 30, 2018</u>
Stadium Bonds:				
2012 Refunding Series A Lease revenue bonds	February 1, 2025	2.0% - 5.0%	\$ 122,815	\$ 74,100
Arena Bonds:				
2015 Refunding Series A Lease revenue bonds	February 1, 2025	1.0% - 4.0%	79,735	62,335
Total			<u>\$ 202,550</u>	<u>\$ 136,435</u>

Debt payments during the year ended June 30, 2018 were as follows (in thousands):

	<u>Stadium</u>	<u>Arena</u>	<u>Total</u>
Principal	\$ 8,670	\$ 6,200	\$ 14,870
Interest	4,139	2,095	6,234
Total	<u>\$ 12,809</u>	<u>\$ 8,295</u>	<u>\$ 21,104</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2018 (in thousands):

Outstanding lease revenue bonds, beginning of year	\$ 151,305
Principal repayments	(14,870)
Outstanding lease revenue bonds, end of year	<u>\$ 136,435</u>

Annual debt service requirements to maturity for the lease revenue bonds, including interest payments, are as follows (in thousands):

<u>Year Ending June 30,</u>	<u>Stadium Bonds</u>		<u>Arena Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 9,100	\$ 3,705	\$ 6,600	\$ 1,991	\$ 15,700	\$ 5,696
2020	9,555	3,250	7,000	1,838	16,555	5,088
2021	10,035	2,772	7,600	1,650	17,635	4,422
2022	10,535	2,271	8,200	1,426	18,735	3,697
2023	11,065	1,744	8,800	1,167	19,865	2,911
2024-2025	23,810	1,800	24,135	1,607	47,945	3,407
Total	<u>\$ 74,100</u>	<u>\$ 15,542</u>	<u>\$ 62,335</u>	<u>\$ 9,679</u>	<u>\$ 136,435</u>	<u>\$ 25,221</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Management of Coliseum Authority

The Coliseum Authority entered into an agreement with the Oakland Coliseum Joint Venture (OCJV) to manage the entire Coliseum complex beginning July 1, 1998. On January 1, 2001, the Coliseum Authority terminated its agreement with OCJV and reinstated its Operating Agreement with Coliseum Inc. Coliseum Inc. subcontracted all of the operations of the Coliseum Complex to OCJV. The Operating Agreement between the Coliseum Authority and Coliseum Inc. expired, by its terms, on July 31, 2006. The Coliseum Authority entered into a Termination Agreement whereby, in return for certain consideration, the Coliseum Authority agreed to perform the duties of Coliseum, Inc. on and after August 1, 2006. The Authority's management agreement with OCJV expired in June 2012. In July 2012, AEG Management Oakland, LLC took over management of the Coliseum Complex after signing a five-year agreement. In April 2016, the agreement was extended through 2022.

Under the joint exercise of power agreement, which formed the Coliseum Authority, the City is responsible for funding up to 50 percent of the Coliseum Authority's operating costs and debt service requirements, to the extent such funding is necessary. During the year ended June 30, 2018, the City made contributions of \$12.0 million to fund its share of operating deficits and debt service payments of the Coliseum Authority.

The Coliseum Authority has anticipated a deficit for operating costs and repayment of its Stadium Bonds, such that the City and County will have to contribute to base rental payments. Of the \$24.0 million obligated, for the year ending June 30 2019, it is estimated that the City will have to contribute \$12.0 million, which is appropriated in the debt service fund. There are many uncertainties in the estimation of revenues for the Coliseum Authority beyond one year into the future; therefore, the City has established a contingent liability to fund the Coliseum Authority deficit in the statement of net position in an amount equal to its contingent share (50 percent) of the outstanding Stadium Bonds, in the amount of \$37.0 million. 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.

Complete financial statements for the Coliseum Authority can be obtained from the County Auditor-Controller's Office at 1221 Oak Street, Room 249, Oakland, CA 94612.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

III. OTHER INFORMATION

A. DEFINED BENEFIT PENSION PLANS

1. General Information About the Pension Plans

The City has three defined benefit retirement plans: Oakland Police and Fire Retirement System (PFRS), the California Public Employees' Retirement System (CalPERS) Safety Plan, and the CalPERS Miscellaneous Plan. All full-time and certain other qualifying employees of the Port are eligible to participate in the City's CalPERS Miscellaneous Plan.

PFRS is a closed single-employer pension plan that covered employees hired prior to July 1976. Public safety employees hired subsequent to PFRS' closure date and certain employees hired before the closure date who elected to change plans are covered by CalPERS. PFRS issues a publicly available financial report that includes financial statements and required supplementary information for the PFRS Plan. PFRS' standalone financial statements are available by contacting the City Administrator's Office, One Frank Ogawa Plaza, Oakland, CA 94612 or can be accessed via the City's website, www.oaklandca.gov.

The CalPERS Safety and Miscellaneous Plans are agent multi-employer pension plans. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. Benefit provisions and other requirements are established by State statute, employer contract with CalPERS, and by City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

2. Benefits

PFRS – PFRS provides death, disability, and service retirement benefits to uniformed employees and their beneficiaries. Members who completed 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, were eligible for retirement benefits. The basic retirement allowance equals 50 percent of the compensation attached to the average rank held during the three years immediately preceding retirement, plus an additional allowance of 1-2/3 percent of such compensation for each year of service (up to ten) subsequent to: a) qualifying for retirement, and b) July 1, 1951. Early retirees received reduced benefits based on the number of years of service. Benefit provisions and all other requirements are established by the City Charter (Charter).

CalPERS – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on a final average compensation period of 36 months. The cost of living adjustments for the CalPERS plans are applied as specified by the Public Employees' Retirement Law. The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. As such members who established CalPERS membership on or after January 1, 2013 are known as "PEPRA" members.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

<u>Tier Pension Plans</u>	<u>CalPERS Miscellaneous Plan</u>	<u>CalPERS Safety Plan</u>
Tier One (Classic Member)	Receive 2.7% at age 55. Final compensation is based on the twelve highest paid consecutive months.	Receive 3% at age 50. Pension benefits are based on the one year of highest salary.
Tier Two (New Hires as of June 9, 2012)	Receive 2.5% at age 55. Final compensation is based on the highest average annual compensation of the three consecutive years.	Receive 3% at age 55. Pension benefits are based on the final average salary of three years under the Government Code 20037.
Tier Three: AB 340 (January 1, 2013)	Receive 2% at 62. Pension benefits are based on the final average salary of the three years subject to established cap.	Basic: 2% at age 57. Option 1: 2.5% at age 57. Option 2: 2.7% at age 57. Pension benefits are based on the final average salary of three years subject to established cap.

Covered Employees - As of June 30, 2018, the following employees were covered by the benefit terms of each pension plan:

	<u>PFRS Plan</u>	<u>CalPERS Miscellaneous Plan</u>	<u>CalPERS Safety Plan</u>
Inactive employees or beneficiaries currently receiving benefits	837	3,512	1,199
Inactive employees entitled to but not yet receiving benefits	-	1,728	400
Active employees	-	2,646	1,226
Total	837	7,886	2,825

3. Contributions

For the years ended June 30, 2018 and 2017, the City's and Port's actuarial determined contributions were as follows (in thousands):

	<u>2018</u>	<u>2017</u>
PFRS Plan	\$ 44,860	\$ -
CalPERS Miscellaneous Plan (City)	63,622	56,987
CalPERS Miscellaneous Plan (Port)	19,253	18,906
CalPERS Safety Plan (City)	59,266	57,273
CalPERS Safety Plan (Port)	524	458
Total	\$ 187,525	\$ 133,624

PFRS – 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.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

On July 30, 2012, the City issued additional Pension Obligation Bonds (Series 2012) and contributed \$210.0 million to PFRS. 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. The City resumed contributions to PFRS on July 1, 2017. The City contributed \$44.9 million in the year ended June 30, 2018.

CalPERS – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by public employees during the year, with an additional amount to finance any unfunded accrued liability.

Port’s CalPERS Safety Unit – Special Agreement with the City of Oakland

During the period from July 1, 1976, through January 17, 1998 (employment period), the Port appointed certain employees to positions in the classifications of Airport Servicemen and Airport Operations Supervisors. The Port was and has always been the employer that directly appointed, retained, employed, and compensated the personnel in these positions. As result of a decision by CalPERS’ Board of Administration on April 15, 1998, employees appointed to positions in the classifications of Airport Servicemen and Airport Operations Supervisors were reclassified from the Miscellaneous Unit member status in CalPERS to Safety Unit member status, effective retroactively to the later of either the date of their respective employment in such classifications or July 1, 1976. The decision to reclassify employees to safety member status resulted in an additional net cost to provide retirement benefits earned during the employment period. CalPERS’ actuary estimated that the present value of this net cost (including subsequent actual experience through June 30, 2000, and projected experience through June 30, 2002) was \$5.9 million.

The Port entered into an agreement with the City for the payment of this net cost by the Port directly to CalPERS. The agreement provides for the Port to make payments over 20 years in annual installments, with interest at 4.34 percent and adjusted for cost of living at a rate of 3.75 percent. Under this agreement, the Port’s obligation will not fluctuate based on the recognition of market gains or losses, changes in the actuarial assumptions, or experiences that differ from the actuary projections. The Port’s obligation will remain fixed until paid in full. For the year ended June 30, 2018, the Port recognized principal payments of \$0.5 million for the Safety Unit obligation.

4. Net Pension Liability

The table below shows how the net pension liability as of June 30, 2018, is distributed (in thousands).

Governmental Activities	\$	1,660,253
Business-type Activities		43,672
Component Unit - Port of Oakland		222,741
Total	\$	<u>1,926,666</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

As of June 30, 2018, the City's net pension liability is comprised of the following (in thousands):

PFRS Plan	\$	307,467
CalPERS Miscellaneous Plan - City		664,994
CalPERS Miscellaneous Plan - Port		219,306
CalPERS Safety Plan - City		731,464
CalPERS Safety Plan - Port		3,435
Total	\$	<u>1,926,666</u>

The City's net pension liability is measured for each plan as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The Port's proportionate share of the City's Miscellaneous Plan was determined based on the Port's employer contributions divided by the total employer contributions for the respective measurement period and was 24.8 percent for the June 30, 2017 and 2016 measurement dates.

The changes in the net pension liability for the PFRS Plan are as follows (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2016 (valuation date)	\$ 670,085	\$ 361,610	\$ 308,475
Changes for the year:			
Interest on the total pension liability	44,932	-	44,932
Differences between expected and actual experience	3,028	-	3,028
Claims and settlements	-	70	(70)
Net investment income	-	50,159	(50,159)
Administrative expenses	-	(1,261)	1,261
Benefit payments, including refunds of employee contributions	(57,376)	(57,376)	-
Net changes	(9,416)	(8,408)	(1,008)
Balance at June 30, 2017 (measurement date)	<u>\$ 660,669</u>	<u>\$ 353,202</u>	<u>\$ 307,467</u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

The changes in the net pension liability for each CalPERS plan are as follows (in thousands):

	CalPERS Miscellaneous Plan			CalPERS Safety Plan		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2016 (valuation date)	\$ 2,452,219	\$ 1,651,356	\$ 800,863	\$ 1,806,062	\$ 1,169,061	\$ 637,001
Changes for the year:						
Service cost	44,132	-	44,132	43,687	-	43,687
Interest on the total pension liability	181,418	-	181,418	136,316	-	136,316
Changes in assumptions	140,332	-	140,332	120,639	-	120,639
Differences between expected and actual experience	(8,109)	-	(8,109)	1,595	-	1,595
Contributions from the employer	-	75,893	(75,893)	-	57,731	(57,731)
Contributions from employees	-	17,935	(17,935)	-	18,432	(18,432)
Net plan to plan resource movement	-	135	(135)	-	(92)	92
Net investment income	-	182,811	(182,811)	-	129,995	(129,995)
Administrative expenses	-	(2,438)	2,438	-	(1,727)	1,727
Benefit payments, including refunds of employee contributions	(138,379)	(138,379)	-	(87,231)	(87,231)	-
Net changes	219,394	135,957	83,437	215,006	117,108	97,898
Balance at June 30, 2017 (measurement date)	\$ 2,671,613	\$ 1,787,313	\$ 884,300	\$ 2,021,068	\$ 1,286,169	\$ 734,899

5. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City and the Port recognized pension expense of \$217.2 million and \$27.9 million, respectively. At June 30, 2018, the City's deferred outflows of resources and deferred inflows of resources related to pension items are from the following sources (in thousands):

	CalPERS							
	PFRS Plan		City Miscellaneous Plan		Safety Plan		Total City	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 44,860	\$ -	\$ 63,622	\$ -	\$ 59,266	\$ -	\$ 167,748	\$ -
Change in assumptions	-	-	69,140	-	98,299	(11,902)	167,439	(11,902)
Differences between expected and actual experiences	-	-	-	(7,779)	23,160	-	23,160	(7,779)
Net differences between projected and actual earnings on plan investments	-	(5,795)	18,416	-	17,174	-	35,590	(5,795)
Total	\$ 44,860	\$ (5,795)	\$ 151,178	\$ (7,779)	\$ 197,899	\$ (11,902)	\$ 393,937	\$ (25,476)

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

At June 30, 2018, the Port's deferred outflows of resources and deferred inflows of resources related to pension items are from the following sources (in thousands):

	Port Miscellaneous and Safety Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 19,777	\$ -
Change in assumptions	22,802	-
Differences between expected and actual experiences	-	(2,565)
Net differences between projected and actual earnings on plan investments	6,073	-
Total	\$ 48,652	\$ (2,565)

At June 30, 2018, the City and the Port reported \$167.7 million and \$19.8 million, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction to net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (in thousands):

Year Ending June 30	Deferred Outflows/ (Inflows) of Resources		
	City	Port	Total
2019	\$ 48,449	\$ 9,836	\$ 58,285
2020	99,532	17,220	116,752
2021	44,056	2,567	46,623
2022	(378)	(3,313)	(3,691)
2023	9,054	-	9,054
Total	\$ 200,713	\$ 26,310	\$ 227,023

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

6. Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2017 is provided below, including any assumptions that differ from those used in the June 30, 2016 actuarial valuations.

	<u>PFRS Plan</u>	<u>CalPERS Miscellaneous and Safety Plans</u>
Valuation date	June 30, 2016	June 30, 2016
Measurement date	June 30, 2017	June 30, 2017
Actuarial cost method	Entry-age normal cost method	Entry-age normal cost method
Discount rate	6.37%	7.15%
Investment rate of return	5.53%	7.15%, net of pension plan investment expenses, including inflation
Inflation rate	2.75% to 2.85%	2.75%
Payroll growth	n/a	Varies by Entry Age and Service
Postretirement benefit increases	Police - 2.5% and 1% increases at January 1, 2018, 2% on July 1, 2018 and 2.5% at January 1, 2019, then 3.25% Fire - 3.25%	Contract cost of living adjustment up to 2.75% until purchasing power allowance floor on purchasing power applies, 2.75% thereafter

For the PFRS Plan, the mortality rates for healthy and disabled lives were based on the CalPERS Healthy Table from the 2006-2011 Experience Study, and the CalPERS Industrial Disability Mortality Table from the 2006-2011 Experience Study, respectively, excluding the 20-year projection using Scale BB. Mortality improvement tables are based on Scale MP-2014 using a base year of 2009. Actuarial assumptions used in the PFRS June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2014.

For CalPERS, the mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on the CalPERS website.

Change in Assumptions – For the PFRS Plan, the City entered into new Memorandums of Understanding (MOU) for Police members between the valuation date and the measurement date, increasing Police retirees' Cost of Living Adjustments (COLAs). The updated procedures included the additional liability due to the new Police MOUs, and the addition of interest cost offset by actual benefit payments.

Discount Rates

PFRS – The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Best estimates of geometric real rates of return for each major class included in the PFRS's target asset allocation as of June 30, 2017 measurement date are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	3.40%
Domestic Equity	5.75%
International Equity	6.80%
Covered Calls	5.25%
Crisis Risk Offset	4.40%
Cash	2.25%

The discount rate used to measure the total pension liability was 6.37 percent. The projection of cash flows used to determine the discount rate assumed that the City would contribute to the PFRS Plan based on its July 1, 2012 funding agreement with the PFRS. This agreement suspends City contributions until the fiscal year beginning July 1, 2017, after which they will resume, based upon the recommendation of the actuary, with a Charter requirement that the PFRS Plan's liabilities be fully funded by July 1, 2026. A cash flow projection showed that the projected fiduciary net position would be greater than or equal to the benefit payments projected for each future period. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CalPERS - The discount rate used to measure each of the CalPERS Miscellaneous Plan and the Safety Plan total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound geometric returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2016.

Asset Class	Current Target Allocation	Real Return Years 1 - 10¹	Real Return Years 11+²
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

⁽¹⁾ An expected inflation of 2.5% used for this period.

⁽²⁾ An expected inflation of 3.0% used for this period.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's net pension liability for each of the City's retirement plans and the Port's proportionate share of the net pension liability of the City's CalPERS Miscellaneous Plan. The sensitivity of the net pension liability is calculated using the discount rate, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands).

	1% Decrease at 6.15%	Measurement Date at 7.15%	1% Increase at 8.15%
CalPERS Miscellaneous Plan - City	\$ 916,205	\$ 664,994	\$ 456,098
CalPERS Miscellaneous Plan - Port's proportionate share	302,152	219,306	150,415
CalPERS Safety Plan	1,031,426	731,464	494,205

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

B. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Primary Government

1. 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 CalPERS plans were public safety employees retirements benefits under a 3% at 50 formula and miscellaneous employees retirement benefits under a 2.7% at 55 formula.

In 2014, the City began to partially pre-fund the annual required contribution (ARC) to the California Employer's Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit postemployment healthcare plan administered by CalPERS. 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 OPEB costs.

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

2. Benefits Provided

As provided by the Public Employees' Medical & Hospital Care Act (PEMHCA), the City contracts with CalPERS for medical plan coverage for both active and retired employees. The City pays part of the health insurance premiums for all eligible retirees from City employment receiving a pension annuity earned through City service.

Employees Covered – At June 30, 2018, based on the GASB Statement No. 75 actuarial report measured as of June 30, 2017 for the year ended June 30, 2018 the following employees were covered by the benefit terms for the OPEB plan:

Inactive retired participants and surviving spouses receiving benefits	2,672
Inactive participants' spouses receiving benefits	1,040
Active employees eligible for retirement benefits	1,047
Active employees not eligible for retirement benefits	2,473
Total	<u><u>7,232</u></u>

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

3. Contributions

The annual contribution is based on the actuarially determined contribution. The City pays a portion of retiree benefit expenses on a pay-as-you-go basis to third parties, outside of the CERBT fund, and funds the remaining actuarially determined contribution (ADC) to the CERBT fund. Benefit payments occur in the form of direct payments for premiums and taxes (explicit subsidies) and indirect payments to retirees in the form of higher premiums for active employees (implicit subsidies). On August 8, 2017, the City contributed the first of two one-time payments of \$10.0 million into the CERBT fund to partially prefund the actuarially determined contribution for OPEB. The FY 2017-19 Adopted Policy Budget allocated \$10.0 million each year, for a total of \$20.0 million, for this purpose.

Benefits and other contributions paid by the City during the measurement period and those made in the year following the measurement period but prior to the fiscal year ended June 30, 2018 are shown below.

	Reporting Date	
	2018	2017
Explicit contributions	\$ 21,157	\$ 20,424
Implicit contributions	6,068	-
Trust contributions	10,000	-
Total	\$ 37,225	\$ 20,424

The amount of implicit contributions paid are reflected as a reduction in (active) employee premiums. The contributions made during the year ended June 30, 2018 are reported as deferred outflows of resources on the statement of net position as discussed below.

Net OPEB Liability

The City's net OPEB liability is measured as the total OPEB liability, less the OPEB plan's fiduciary net position. The net OPEB liability is measured as of June 30, 2017 (measurement date), using an annual actuarial valuation as of July 1, 2017. A summary of principal actuarial assumptions and methods used to determine the total OPEB liability is as follows:

Actuarial valuation date	July 1, 2017
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Market value
Amortization method	Level percentage of pay, open period, 30 years
Inflation	2.50%
Discount rate	3.58%
Rate of salary increase	2.50%
Ultimate rate of medical inflation	3.50%
Years to ultimate rate of medical inflation	20 years
Mortality, termination and disability	Based on the 2014 CalPERS Experience Study from 1997 to 2011
Post retirement benefit increases	Police - 2.5% and 1% increases at January 1, 2018, 2% on July 1, 2018 and 2.5% at January 1, 2019, then 3.25% Fire - 3.25%

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Discount Rate - The discount rate used to measure the total OPEB liability was the Bond Buyer 20-Bond GO Index pursuant to GASB requirements. As this index is issued weekly, the value closest to but not after the reporting date is used in determining the appropriate rate. Based on this practice, the municipal bond rate at June 29, 2017 was 3.58%.

The following table shows the changes in net OPEB liability for the year ended June 30, 2018:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2016 (valuation date)	\$ 1,096,546	\$ 3,913	\$ 1,092,633
Changes for the year:			
Service cost	50,972	-	50,972
Interest	32,415	-	32,415
Changes in assumptions	(294,914)	-	(294,914)
Differences between expected and actual experience	(10,799)	-	(10,799)
Contributions from the employer	-	20,424	(20,424)
Net investment income	-	414	(414)
Administrative expenses	-	(2)	2
Benefit payments, including refunds of employee contributions	(20,424)	(20,424)	-
Net changes	(242,750)	412	(243,162)
Balance at June 30, 2017 (measurement date)	\$ 853,796	\$ 4,325	\$ 849,471

4. Sensitivity of Liabilities to Changes in the Discount Rate and Healthcare Cost Trend Rate

The discount rate used for the fiscal year ended June 30, 2018 is 3.58 percent. The impact of a 1 percent increase or decrease in the discount rate assumption is shown below:

	1% Decrease at 2.58%	Measurement Date at 3.58%	1% Increase at 4.58%
Net OPEB Liability	\$ 984,818	\$ 849,471	\$ 740,509

The following presents the net OPEB liability of the OPEB plan as of the measurement date, as well as what the net OPEB liability would be if they were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current rate (in thousands):

	-1.00%	Baseline	+1.00%
Net OPEB Liability	\$ 740,217	\$ 849,471	\$ 982,669

5. OPEB Plan Fiduciary Net Position

The City's OPEB plan trust fund is included in the CalPERS CERBT agent multiple-employer plan reported in the CalPERS Comprehensive Annual Report (CAFR).

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

6. OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of \$32.1 million. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 37,225	\$ -
Change in assumptions	-	245,762
Differences between expected and actual experiences	-	8,999
Net differences between projected and actual earnings on plan investments	-	103
Total	\$ 37,225	\$ 254,864

The \$37.2 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred inflows of resources will be recognized as future OPEB expense as follows:

Year Ending June 30	Deferred (Inflows) of Resources
2019	\$ (50,978)
2020	(50,978)
2021	(50,978)
2022	(50,978)
2023	(50,952)
Total	\$ (254,864)

Component Unit – Port of Oakland

1. Plan Description

The Port also contributes to the CERBT, an agent multiple-employer defined benefit postemployment healthcare plan administered by CalPERS. The Port's Retiree Health Plan allows eligible retirees and their dependents to receive employer paid medical insurance benefits through CalPERS, subject to certain limitations described below. Additionally, through the Port's Retiree Health Plan, employees hired before October 1, 2009 (before January 1, 2013 for members of the Services Employees International Union and International Brotherhood of Electrical Workers) are eligible to receive dental and vision benefits.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Prior to 2011, eligible retirees must have attained the age of fifty or over at the time of retirement, have five or more years of CalPERS service, and must be eligible to receive CalPERS retirement benefits. On July 21, 2011, the Port adopted resolutions that established a Health Benefit Vesting Requirement for employees hired on or after September 1, 2011 (on or after April 1, 2013 for members of SEIU and IBEW). The vesting schedule does not apply to employees that are granted a disability retirement.

Under the adopted vesting schedule, the Port shall pay a percentage of 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 5 of which are with the City/Port. The Port will pay a percentage of employer contributions for the retiree based upon the following:

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

Employees Covered - As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the Port's Retiree Healthcare Plan:

Active employees	461
Inactive employees or beneficiaries currently receiving benefits	575
Inactive employees entitled to, but not yet receiving benefits	-
Total	1,036

2. Contributions

Benefit provisions are established and are amended through negotiations between the Port and the various bargaining units during each bargaining period. The annual contribution is based on the actuarially determined contribution. The Port pays a portion of retiree benefit expenses on a pay-as-you-go basis to third parties, outside of the CERBT fund, and funds the remaining actuarially determined contribution to the CERBT fund. For the year ended June 30, 2018, the Port's cash contributions totaling \$14.7 million consisted of \$7.7 million in payments to third parties, \$5.5 million paid to the CERBT fund, and the estimated implied subsidy of \$1.5 million.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

3. Net OPEB Liability

The Port's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 based on the following actuarial methods and assumptions:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry-Age Normal
Discount rate	6.75%
Inflation	2.50%
Salary increases	3.00% per annum
Investment rate of return	6.75% net of investment expenses
Mortality, termination and disability ¹	Based on the 2014 CalPERS Experience Study from 1997 to 2011
Healthcare trend rate ²	3.5-6.25% per year increase for medical and 4.0% per year increase for vision and dental

¹ The mortality table used was developed based on CalPERS' specific data. The table includes a margin for mortality improvement based on Scale BB projected to 2032. The Experience Study Reports may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

² Based on the "Getzen" model published by the Society of Actuaries for purposes of evaluating long-term medical care.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Arithmetic Nominal Return (50 Years) ¹
Global Equity	57.00%	7.92%
U.S. Fixed Income	27.00%	6.83%
Treasury Inflation - Protected Securities	5.00%	3.95%
Real Estate Investment Trust	8.00%	7.46%
Commodities	3.00%	5.37%

¹ Rates include a 2.5 percent long-term inflation assumption.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

4. Discount Rate

The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that Port contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

5. Changes in the Net OPEB Liability

The changes in the net OPEB liability for the Port's Retiree Healthcare Plan are as follows (in thousands):

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2016 (valuation date)	\$ 164,654	\$ 54,770	\$ 109,884
Changes for the year:			
Service cost	4,055	-	4,055
Interest	11,089	-	11,089
Changes in assumptions	-	-	-
Differences between expected and actual experience	-	-	-
Contributions from the employer	-	15,400	(15,400)
Net investment income	-	5,773	(5,773)
Administrative expenses	-	(22)	22
Benefit payments, including refunds of employee contributions	(9,000)	(9,000)	-
Net changes	6,144	12,151	(6,007)
Balance at June 30, 2017 (measurement date)	\$ 170,798	\$ 66,921	\$ 103,877

6. Sensitivity of Liabilities to Changes in the Discount Rate and Healthcare Cost Trend Rate

The discount rate used for the fiscal year-end 2018 is 6.75%. The impact of a 1% increase or decrease in the discount rate assumption is shown below:

	1% Decrease at 5.75%	Measurement Date at 6.75%	1% Increase at 7.75%
Net OPEB Liability	\$ 125,311	\$ 103,877	\$ 85,050

The following presents the net OPEB liability of the Port if it were calculated using healthcare cost trend rates that are one percentage point lower to one percentage point higher than the current rate, for measurement period ended June 30, 2017 (in thousands):

	-1.00%	Current Healthcare Costs Trend Rate	+1.00%
Net OPEB Liability	\$ 84,786	\$ 103,877	\$ 126,892

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

7. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Port recognized OPEB expense of \$10.9 million. The Port reported deferred outflows of resources related to OPEB from the following sources as of June 30, 2018 (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 14,732	\$ -
Differences between expected and actual experiences	-	1,492
Total	\$ 14,732	\$ 1,492

The deferred inflows of resources are amortized over the expected average remaining service lifetime for all active and inactive members. The expected average service lifetime is 3.91 years.

The OPEB contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources will be amortized annually and recognized as a reduction to OPEB expense for the years ending June 30 as follows (in thousands):

Year Ending June 30	Deferred (Inflows) of Resources
2019	\$ (373)
2020	(373)
2021	(373)
2022	(373)
Total	\$ (1,492)

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

C. COMMITMENTS AND CONTINGENCIES

1. Construction Commitments

As of June 30, 2018, the City had construction commitments for the acquisition and construction of assets as follows (in thousands):

	General Fund	Federal/State Grant Fund	Municipal Capital Improvement Fund	Other Special Revenue Fund	Other Governmental Funds	Internal Service Funds	Total Governmental Activities
Art	\$ -	\$ -	\$ 303	\$ 204	\$ -	\$ -	\$ 507
Building, facilities and infrastructure	162	2,292	12,137	420	-	1,188	16,199
Parks and open space	2,067	4,278	14,302	367	-	-	21,014
Sewers and storm drains	-	121	-	-	-	-	121
Streets and sidewalks	-	29,167	20,272	992	-	-	50,431
Technology enhancements	2,384	-	1,054	25	-	11,151	14,614
Traffic improvements	-	-	-	-	12,199	-	12,199
Total	\$ 4,613	\$ 35,858	\$ 48,068	\$ 2,008	\$ 12,199	\$ 12,339	\$ 115,085

	Sewer Fund	Nonmajor Parks and Recreation	Total Business-Type Activities
Building, facilities and infrastructure	\$ -	\$ 4	\$ 4
Parks and open space	84	-	84
Sewers and storm drains	33,257	-	33,257
Total	\$ 33,341	\$ 4	\$ 33,345

2. Other Commitments and Contingencies

Recognized Obligation Payment Schedule

ORSA reported \$743.2 million of total outstanding debt or obligations per the ROPS covering the July 1, 2018 through June 30, 2019 period, which was approved by the DOF on May 17, 2018. Of this total amount, the FY2018-19 period requested as enforceable obligations total \$107.5 million.

Component Unit – Port of Oakland

As of June 30, 2018, the Port had construction commitments for the acquisition and construction of assets as follows (in thousands):

Aviation	\$ 82,127
Maritime	14,527
Total	\$ 96,654

The most significant projects for which the Port has contractual commitments for construction are the Runway 12/30 Rehabilitation project of \$46.1 million, the International Arrivals Building upgrades for \$16.5 million, and the Rail Infrastructure at the Maritime Support Center for \$11.0 million.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

1. Power Purchases

The Port purchases electrical power for resale and self-consumption and currently has three power purchase agreements with East Bay Municipal Utility (EBMUD), the Western Area Power Administration (WAPA) and SunE H3 Holdings, LLC (SunE) with expiration dates greater than two years.

Counterparty	Contract Ending Year	Contract Structure	Estimated Output	Estimated Annual Cost
EBMUD	2022	Take and Pay - (Pay contract price only if energy is received)	8,000 MWH	Approximately \$584,000 with no annual escalator through 2017; approximately \$464,000 with no annual escalator from 2017-2022.
WAPA	2024	Take or Pay - (Pay contract price without regard to energy received)	17,000 MWH	Approximately \$800,000 (Changes annually depending on revenue requirement for power generation projects).
SunE (formerly SunEdison)	2027	Take and Pay - (Pay contract price only if energy is received)	1,200 MWH	Approximately \$200,000 with annual escalator.

In addition to the aforementioned power purchase agreements, the Port had outstanding, as of June 30, 2018, multiple forward power purchase contracts totaling approximately \$3.3 million with Powerex Corporation and Shell Energy North America. The forward power purchase contracts have various expiration dates through December 31, 2020.

2. Environmental Remediation

The entitlements for the Airport Development Program (ADP) subject the Port to obligations arising from the adopted ADP Mitigation Monitoring and Reporting Program required under the California Environmental Quality Act, permits issued by numerous regulatory agencies including the Regional Water Quality Control Board and the Bay Conservation and Development Commission, and settlement agreements. The majority of these obligations have been met, and monitoring and reporting are ongoing.

A summary of the Port's environmental remediation liability accounts, net of the estimated recoveries, included in long-term obligations on the statement of net position at June 30, 2018, is as follows (in thousands):

Obligating Event	Liability	Estimated Recovery
Pollution poses an imminent danger to the public or environment	\$ 3,042	\$ -
Identified as responsible to clean up pollution	12,904	304
Begins or legally obligates to clean up or post-clean up activities	1,808	-
Total by obligating event	\$ 17,754	\$ 304

The environmental remediation 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;

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

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).

Methods and Assumptions

The Port measured the environmental liabilities for pollution remediation sites on Port-owned property using the Expected Cash Flow technique. The measurements are based on the current value of the outlays expected to be incurred. The cash flow scenarios include each component which can be reasonably estimated for outlays such as testing, monitoring, legal services, and indirect outlays for Port labor instead of ranges of all components. Reasonable estimates of ranges of possible cash flows are limited from a single scenario to a few scenarios. Data used to develop the cash flow scenarios is obtained from outside consultants, Port staff, and the Port's outside legal counsel.

Changes to estimates will be made when new information becomes available. Estimates for the pollution remediation sites will be developed when the following benchmarks or changes in estimated outlays occur:

- Receipt of an administrative order;
- Participation, as a responsible party or a potentially responsible party, in the site assessment or investigation;
- Completion of a corrective measures feasibility study;
- Issuance of an authorization to proceed;
- Remediation design and implementation, through and including operation and maintenance and post-remediation monitoring;
- Change in the remediation plan or operating conditions, including but not limited to type of equipment, facilities and services that will be used and price increases;
- Changes in technology; or
- Changes in legal or regulatory requirements.

Recoveries

The environmental liabilities balances listed on the prior page have been reduced by estimated future recoveries. In calculating the estimated future recoveries, Port staff and outside legal counsel reviewed and applied the requirements of GASB Statement No. 49 for accounting for recoveries. For example, if a Port tenant has a contract obligation to reimburse the Port for certain pollution remediation costs, or if an insurance carrier has paid money on a certain claim and the Port is pursuing additional costs from the insurance carrier associated with the claim, then a recovery was estimated. If an insurance carrier has not yet acknowledged coverage, then a recovery was not estimated.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

D. DEFICIT FUND BALANCES/NET POSITION

As of June 30, 2018, the following funds reported deficits in fund balance/net position (in thousands):

Special Revenue Funds:	
Landscape and Lighting Assessment District.....	\$ (1,106)
Internal Service Funds:	
Equipment.....	(4,392)
Facilities.....	(30,137)
Reproduction.....	(3,331)
Central Stores.....	(5,320)
Purchasing.....	(2,863)
Private Purpose Trust Funds:	
Oakland Redevelopment Successor Agency Trust Fund.....	(261,739)
Private Pension Trust Fund.....	(72)

The deficit in the Landscape and Lighting Assessment District is expected to be cured from collections from special assessments. The City’s equipment, facilities, reproduction, central stores, and purchasing fund deficits are expected to be funded through increased user charges in future years. In addition, the City has allocated one-time funds to address these negative balances at various times over the past several years, which has reduced such balances over time. In April 2018, City Council passed a resolution to review the existing repayment schedule to add 10-year repayment plans for these internal service funds as part of the 2019-2021 proposed policy budget.

At June 30, 2018, ORSA has a negative net position of \$261.7 million. Under the former California Redevelopment Law, the Former Agency issued bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues. In general, ORSA’s revenues 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). The deficit in the Private Pension Trust Fund will be cured by future revenues and reduction in costs.

E. SUBSEQUENT EVENTS

Debt Issuance – City

Tax and Revenue Anticipation Notes Payable - On July 18, 2018, the City issued \$83.4 million tax and revenue anticipation notes in advance of property tax collections. The notes were issued as one taxable series bearing an interest rate of 2.72 percent per annum and maturing on June 28, 2019. The notes were issued to finance the prepayment of the City’s Employer Unfunded Accrued Liability contribution to CalPERS for fiscal year 2018-19. The City received a 3.5 percent prepayment discount from CalPERS for pre-funding.

CITY OF OAKLAND
Notes to the Basic Financial Statements (continued)
Year Ended June 30, 2018

Master Lease-Purchase Agreement, Public Safety IT Systems Lease 2017, Phase II, Schedule No. 2 - On August 1, 2018, the City entered into a Master Lease-Purchase Agreement in the principal amount of \$7.9 million. This financing provides funding to upgrade, replace, and implement mission-critical public safety IT systems including 1) 911 Computer Aided Dispatch, the Records Management System, and the Fire Station Alerting System, as well as, 2) the Oakland Police Department's Performance, Reporting, and Information & Metrics Environment 2.0 (PRIME 2.0) enterprise platform. The aim of the project is to produce accurate, reliable, efficient, and modern next-generation public safety IT systems. The final maturity is August 1, 2024 and the agreement has an interest rate of 1.9755 percent.

ORSA's Countywide Oversight Board - ORSA

Pursuant to SB 107, the functions of the Oversight Board have been assumed by an oversight board established for all successor agencies within the County of Alameda commencing on July 1, 2018. As of July 1, 2018, the Countywide Oversight Board is appointed as follows:

- One member is appointed by the County Board of Supervisors
- One member may be appointed by the City Selection Committee
- One member may be appointed by the independent Special District Selection Committee
- One member may be appointed by the County Superintendent of Education
- One member may be appointed by the Chancellor of the California Community Colleges
- One member of the public
- One member may be appointed by the recognized employee organization representing the largest number of successor agency employees in the County

This page intentionally left blank.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Schedule of Changes in Net Pension Liability and Related Ratios –
Police and Fire Retirement System
Last Four Fiscal Years*
(In Thousands)

Fiscal year	2017-18	2016-17	2015-16	2014-15
Measurement period	2016-17	2015-16	2014-15	2013-14
Total pension liability				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest on the total pension liability	44,932	42,480	41,263	42,333
Changes of assumptions	-	43,480	34,219	-
Differences between expected and actual experience	3,028	6,978	(21,209)	-
Benefit payments, including refunds of employee contributions	(57,376)	(58,441)	(59,008)	(57,409)
Net change in total pension liability	(9,416)	34,497	(4,735)	(15,076)
Total pension liability, beginning	670,085	635,588	640,323	655,399
Total pension liability, ending	<u>\$ 660,669</u>	<u>\$ 670,085</u>	<u>\$ 635,588</u>	<u>\$ 640,323</u>
Plan fiduciary net position				
Contributions, employer	\$ -	\$ -	\$ -	\$ -
Contributions, employee	-	-	-	4
Net investment income	50,159	(1,419)	15,439	66,392
Administrative expenses	(1,261)	(1,376)	(985)	(776)
Claims and settlements	70	3,593	-	-
Benefit payments, including refunds of employee contributions	(57,376)	(58,441)	(59,008)	(57,409)
Net change in plan fiduciary net position	(8,408)	(57,643)	(44,554)	8,211
Plan fiduciary net position, beginning	361,610	419,253	463,807	455,596
Plan fiduciary net position, ending	<u>\$ 353,202</u>	<u>\$ 361,610</u>	<u>\$ 419,253</u>	<u>\$ 463,807</u>
Plan net pension liability	<u>\$ 307,467</u>	<u>\$ 308,475</u>	<u>\$ 216,335</u>	<u>\$ 176,516</u>
Plan fiduciary net position as a percentage of the total pension liability	53.5%	54.0%	66.0%	72.4%
Covered payroll	\$ -	\$ -	\$ -	\$ -
Plan net pension liability as a percentage of covered payroll	n/a	n/a	n/a	n/a

Note to schedule:

* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only four years of information is shown.

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Schedule of Changes in Net Pension Liability and Related Ratios –
CalPERS Miscellaneous Plan
Last Four Fiscal Years*
(In Thousands)

Fiscal year	2017-18	2016-17	2015-16	2014-15
Measurement period	2016-17	2015-16	2014-15	2013-14
Total pension liability				
Service cost	\$ 44,132	\$ 37,856	\$ 37,347	\$ 37,135
Interest on the total pension liability	181,418	177,626	172,693	166,822
Changes of assumptions	140,332	-	(39,092)	-
Differences between expected and actual experience	(8,109)	(16,210)	(7,769)	-
Benefit payments, including refunds of employee contributions	(138,379)	(132,473)	(126,730)	(121,423)
Net change in total pension liability	219,394	66,799	36,449	82,534
Total pension liability, beginning	2,452,219	2,385,420	2,348,971	2,266,437
Total pension liability, ending	<u>\$ 2,671,613</u>	<u>\$ 2,452,219</u>	<u>\$ 2,385,420</u>	<u>\$ 2,348,971</u>
Plan fiduciary net position				
Contributions, employer	\$ 75,893	\$ 65,067	\$ 63,531	\$ 52,556
Contributions, employee	17,935	17,291	16,904	17,431
Net plan to plan resource movement	135	-	24	-
Net investment income	182,811	8,647	37,833	256,552
Administrative expenses	(2,438)	(1,032)	(1,919)	-
Benefit payments, including refunds of employee contributions	(138,379)	(132,473)	(126,730)	(121,423)
Net change in plan fiduciary net position	135,957	(42,500)	(10,357)	205,116
Plan fiduciary net position, beginning	1,651,356	1,693,856	1,704,213	1,499,097
Plan fiduciary net position, ending	<u>\$ 1,787,313</u>	<u>\$ 1,651,356</u>	<u>\$ 1,693,856</u>	<u>\$ 1,704,213</u>
Plan net pension liability	<u>\$ 884,300</u>	<u>\$ 800,863</u>	<u>\$ 691,564</u>	<u>\$ 644,758</u>
Plan fiduciary net position as a percentage of the total pension liability	66.9%	67.3%	71.0%	72.6%
Covered payroll	\$ 220,386	\$ 206,595	\$ 200,562	\$ 188,886
Plan net pension liability as a percentage of covered payroll	401.3%	387.6%	344.8%	341.3%

Note to schedule:

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Change in assumptions - In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.50% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts were based on the 7.50% discount rate.

* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only four years of information is shown.

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Schedule of Changes in Net Pension Liability and Related Ratios –
CalPERS Safety Plan
Last Four Fiscal Years*
(In Thousands)

Fiscal year	2017-18	2016-17	2015-16	2014-15
Measurement period	2016-17	2015-16	2014-15	2013-14
Total pension liability				
Service cost	\$ 43,687	\$ 36,434	\$ 32,899	\$ 34,590
Interest on the total pension liability	136,316	129,920	121,444	115,261
Changes of assumptions	120,639	-	(31,738)	-
Differences between expected and actual experience	1,595	32,162	4,892	-
Benefit payments, including refunds of employee contributions	(87,231)	(80,752)	(74,198)	(68,751)
Net change in total pension liability	215,006	117,764	53,299	81,100
Total pension liability, beginning	1,806,062	1,688,298	1,634,999	1,553,899
Total pension liability, ending	<u>\$ 2,021,068</u>	<u>\$ 1,806,062</u>	<u>\$ 1,688,298</u>	<u>\$ 1,634,999</u>
Plan fiduciary net position				
Contributions, employer	\$ 57,731	\$ 47,172	\$ 44,366	\$ 37,007
Contributions, employee	18,432	16,221	15,027	14,598
Net plan to plan resource movement	(92)	-	(24)	-
Net investment income	129,995	6,311	26,057	175,344
Administrative expenses	(1,727)	(719)	(1,337)	-
Benefit payments, including refunds of employee contributions	(87,231)	(80,752)	(74,198)	(68,751)
Net change in plan fiduciary net position	117,108	(11,767)	9,891	158,198
Plan fiduciary net position, beginning	1,169,061	1,180,828	1,170,937	1,012,739
Plan fiduciary net position, ending	<u>\$ 1,286,169</u>	<u>\$ 1,169,061</u>	<u>\$ 1,180,828</u>	<u>\$ 1,170,937</u>
Plan net pension liability	<u>\$ 734,899</u>	<u>\$ 637,001</u>	<u>\$ 507,470</u>	<u>\$ 464,062</u>
Plan fiduciary net position as a percentage of the total pension liability	63.6%	64.7%	69.9%	71.6%
Covered payroll	\$ 148,995	\$ 136,073	\$ 119,980	\$ 120,396
Plan net pension liability as a percentage of covered payroll	493.2%	468.1%	423.0%	385.4%

Note to schedule:

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Change in assumptions - In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.50% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts were based on the 7.50% discount rate.

* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only four years of information is shown.

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Schedule of Employer Pension Contributions –
Police and Fire Retirement System
Last Five Fiscal Years*
(In Thousands)

Oakland Police and Fire Retirement System

Fiscal year ended June 30	2018	2017 *	2016 *	2015 *	2014
Actuarially determined contributions (ADC)	\$ 44,860	\$ -	\$ -	\$ -	\$ 20,300
Contributions in relation to the ADC	(44,860)	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ 20,300
Covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	n/a	n/a	n/a	n/a	n/a

* Although an actuarial valuation was performed as of June 30, 2014, 2015, and 2016, PFRS did not determine an Actuarially Determined Contribution for 2015, 2016, and 2017 based on the City's funding policy.

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018 were as follows:

Actuarial valuation date	July 1, 2016
Actuarial cost method	Entry-Age Normal
Asset valuation method	Recognizes 20% difference between market value and expected actuarial value each year, with a corridor of 10% around market value.
Amortization method	Level dollar closed (9 years remaining as of 7/1/2017)
Inflation	2.75% (U.S) and 2.85% (Bay Area)
Discount rate	6.37%
Projected benefit increases	Following expiration of current MOUs (6/30/19 for Police, 10/31/17 for Fire):
Police	2.50% and 1.00% increase at January 1, 2018, 2.00% on July 1, 2018 and 2.50% at January 1, 2019, then 3.25% per year
Fire	3.25% (2.85% inflation plus 0.40% productivity increase) per year
Mortality (healthy)	CalPERS Healthy Annuitant Table (from 2006-2011 Experience Study), projected to improve with MP-2014 using 2009 base year
Mortality (disabled)	CalPERS Industrial Disability Mortality Table (from 2006-2011 Experience Study) projected to improve with MP-2014 using 2009 base year.

* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only five years of information is shown.

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Schedule of Employer Pension Contributions – CalPERS Plans
Last Five Fiscal Years*
(In Thousands)

Miscellaneous Plan - City

Fiscal year ended June 30	2018	2017	2016**	2015**	2014
Actuarially determined contributions (ADC)	\$ 63,622	\$ 56,987	\$ 47,934	\$ 44,733	\$ 52,556
Contributions in relation to the ADC	(63,622)	(56,987)	(49,078)	(48,796)	(52,556)
Contribution deficiency (excess)	\$ -	\$ -	\$ (1,144)	\$ (4,063)	\$ -
Covered payroll	\$ 174,983	\$ 161,870	\$ 150,559	\$ 146,366	\$ 188,886
Contributions as a percentage of covered payroll	36.36%	35.21%	32.60%	33.34%	27.82%

Safety Plan

Fiscal year ended June 30	2018	2017**	2016**	2015**	2014
Actuarially determined contributions	\$ 59,790	\$ 57,731	\$ 46,611	\$ 43,747	\$ 37,007
Contributions in relation to the ADC	(59,790)	(57,731)	(47,173)	(44,366)	(37,007)
Contribution deficiency (excess)	\$ -	\$ -	\$ (562)	\$ (619)	\$ -
Covered payroll	\$ 155,269	\$ 148,995	\$ 136,073	\$ 119,980	\$ 120,396
Contributions as a percentage of covered payroll	38.51%	38.75%	34.67%	36.98%	30.74%

Miscellaneous Plan - Port

Fiscal year ended June 30	2018	2017	2016	2015	2014
Actuarially determined contributions (ADC)	\$ 19,253	\$ 18,906	\$ 15,989	\$ 14,735	n/a
Contributions in relation to the ADC	(19,253)	(18,906)	(15,989)	(14,735)	n/a
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	n/a
Covered payroll	\$ 61,326	\$ 58,516	\$ 56,036	\$ 54,196	n/a
Contributions as a percentage of covered payroll	31.39%	32.31%	28.53%	27.19%	n/a

* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only five years of information is shown.

** In prior fiscal years, the contributions in relation to the actuarially determined contributions were based on estimates. The City adjusted the amounts to align the estimated employer contributions with the actual employer contributions per the 2017 agent-multiple employer CalPERS reports for the CalPERS Miscellaneous Plan and the Safety Plan.

Methods and assumptions used to determine the last 5 years contribution rates to CalPERS plans

ADC for fiscal year.....	June 30, 2018, 2017, 2016, 2015, 2014
Actuarial valuation date.....	June 30, 2015, 2014, 2013, 2012, 2011
Actuarial cost method.....	Entry-Age Normal Cost Method
Asset valuation method.....	In fiscal year 2015 and 2016, the actuarial value of assets was used. In fiscal year 2017 and 2018, the market value of assets was used.
Inflation.....	2.75%
Salary increases.....	Varies by entry age and services
Payroll growth.....	3.00%
Investment rate of return.....	7.50%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age.....	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.
Mortality.....	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Schedule of Changes in Net OPEB Liability and Related Ratios –
City Postretirement Health Plan
Year Ended June 30, 2018
(In Thousands)

Fiscal year	2017-18*
Measurement period	2016-17
Total OPEB liability	
Service cost	\$ 50,972
Interest (includes interest on service cost)	32,415
Changes of assumptions	(294,914)
Differences between expected and actual experience	(10,799)
Benefit payments, including refunds of employee contributions	(20,424)
Net change in total OPEB liability	(242,750)
Total OPEB liability, beginning	1,096,546
Total OPEB liability, ending	\$ 853,796
 Plan fiduciary net position	
Contributions, employer	\$ 20,424
Contributions, employee	-
Net investment income	414
Administrative expenses	(2)
Benefit payments, including refunds of employee contributions	(20,424)
Net change in plan fiduciary net position	412
Plan fiduciary net position, beginning	3,913
Plan fiduciary net position, ending	\$ 4,325
Plan net OPEB liability	\$ 849,471
Plan fiduciary net position as a percentage of the total OPEB liability	0.5%
Covered payroll	\$ 360,309
Plan net OPEB liability as a percentage of covered payroll	235.8%

Note to schedule:

* Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only one year of information is shown.

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Schedule of Changes in Net OPEB Liability and Related Ratios –
Port Retiree Health Plan
Year Ended June 30, 2018
(In Thousands)

Fiscal year	2017-18*
Measurement period	2016-17
Total OPEB liability	
Service cost	\$ 4,055
Interest (includes interest on service cost)	11,089
Changes of assumptions	-
Differences between expected and actual experience	-
Benefit payments, including refunds of employee contributions	(9,000)
Net change in total OPEB liability	6,144
Total OPEB liability, beginning	164,654
Total OPEB liability, ending	\$ 170,798
 Plan fiduciary net position	
Contributions, employer	\$ 15,400
Contributions, employee	-
Net investment income	5,773
Administrative expenses	(22)
Benefit payments, including refunds of employee contributions	(9,000)
Net change in plan fiduciary net position	12,151
Plan fiduciary net position, beginning	54,770
Plan fiduciary net position, ending	\$ 66,921
Plan net OPEB liability	\$ 103,877
Plan fiduciary net position as a percentage of the total OPEB liability	39.2%
Covered payroll	\$ 58,516
Plan net OPEB liability as a percentage of covered payroll	177.5%

Note to schedule:

* Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only one year of information is shown.

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Schedule of Employer OPEB Contributions –
City Postretirement Health Plan
Year Ended June 30, 2018
(In Thousands)

Fiscal year ended June 30	<u>2018 *</u>
Actuarially determined contributions (ADC)	\$ 72,480
Contributions in relation to the ADC	<u>(37,225)</u>
Contribution deficiency (excess)	<u>\$ 35,255</u>
Covered payroll	\$ 369,316
Contributions as a percentage of covered payroll	10.08%

The actuarial methods and assumptions used to set the actuarially determined contributions were as follows:

Actuarial valuation date	July 1, 2017
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Market value
Amortization method	Level percentage of pay, open period, 30 years
Inflation	2.50%
Discount rate	3.58%
Rate of salary increase	2.50%
Ultimate rate of medical inflation	3.50%
Years to ultimate rate of medical inflation	20 years
Rates of mortality	Based on CalPERS assumptions adopted in 2014

* Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only one year of information is shown.

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Schedule of Employer OPEB Contributions –
Port Retiree Health Plan
Year Ended June 30, 2018
(In Thousands)

Fiscal year ended June 30	2018 *
Actuarially determined contributions (ADC)	\$ 13,203
Contributions in relation to the ADC	<u>(14,732)</u>
Contribution deficiency (excess)	<u>\$ (1,529)</u>
Covered payroll	\$ 61,326
Contributions as a percentage of covered payroll	24.02%

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018 were as follows:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry-Age Normal
Amortization method/period	30-year level dollar amount on a "closed" basis
Asset valuation method	Market value
Inflation	2.50%
Payroll growth	CalPERS salary scale for Miscellaneous employees hired at age 30
Investment rate of return	6.75% net of investment expense
Healthcare Cost-Trend Rates	Medical is based on the "Getzen" model published by the Society of Actuaries. Dental and vision are based on a 4.0% increase per year.
Retirement Age and Mortality	Based on CalPERS Experience Study Report adopted in 2014 and includes a margin for mortality improvements based on Scale BB projected to 2032.

* Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only one year of information is shown.

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2018
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 292,068	\$ 292,068	\$ 295,216	\$ 3,148
Sales and use	52,566	52,566	57,465	4,899
Motor vehicle in-lieu	-	-	224	224
Local taxes:				
Business license	79,581	79,581	86,107	6,526
Utility consumption	50,700	50,700	52,047	1,347
Real estate transfer	75,823	75,823	77,663	1,840
Transient occupancy	22,654	22,654	23,583	929
Parking	11,131	11,131	10,803	(328)
Voter approved special tax	6,294	6,364	11,878	5,514
Franchise	19,161	19,161	18,858	(303)
Licenses and permits	2,069	2,376	2,384	8
Fines and penalties	22,253	22,255	18,267	(3,988)
Interest and investment income	740	740	(3,069)	(3,809)
Charges for services	90,996	91,469	97,371	5,902
Federal and state grants and subventions	4,752	6,675	3,813	(2,862)
Annuity income	6,826	6,826	6,574	(252)
Other	1,644	1,649	6,320	4,671
TOTAL REVENUES	739,258	742,038	765,504	23,466
EXPENDITURES				
Current:				
Elected and Appointed Officials:				
Mayor	2,882	2,942	2,768	174
Council	5,168	5,299	4,625	674
City Administrator	16,106	17,489	13,155	4,334
City Attorney	13,801	14,159	14,204	(45)
City Auditor	1,957	2,020	1,994	26
City Clerk	4,285	3,326	3,608	(282)
Public Ethics Commission	935	973	1,038	(65)
Departments:				
Administrative Service Department:				
Human Resource Management	7,783	8,344	7,642	702
Financial Services	30,197	32,488	27,546	4,942
Information Technology	10,334	11,016	11,200	(184)
Race and Equity Department	432	497	448	49
Public Safety:				
Oakland Police Department	250,556	261,143	260,564	579
Oakland Fire Department	130,014	133,966	135,443	(1,477)
Police Commission	2,342	2,354	2,098	256
Community Service Department:				
Parks and Recreation	23,918	24,671	22,402	2,269
Library	12,387	12,700	12,396	304
Department of Violence Prevention	262	262	211	51
Human Services Department	8,662	10,860	7,540	3,320
Community and Economic Development:				
Planning and Building	6	206	-	206
Economic & Workforce Development	8,207	8,980	7,607	1,373
Housing & Community Development	2,818	8,139	4,899	3,240
Oakland Public Works	34,757	36,124	32,918	3,206
Department of Transportation	5,743	7,503	1,189	6,314
Other	63,243	60,973	54,908	6,065
Capital outlay	687	5,826	1,827	3,999
Debt service:				
Principal repayment	4,744	4,744	4,744	-
Bond issuance cost	-	-	167	(167)
Interest charges	254	254	941	(687)
TOTAL EXPENDITURES	642,480	677,258	638,082	39,176
EXCESS OF REVENUES OVER EXPENDITURES	96,778	64,780	127,422	62,642
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	1,128	1,128	2,855	1,727
Insurance claims and settlements	-	2,165	2,917	752
Transfers in	33,239	33,239	6,971	(26,268)
Transfers out	(140,889)	(140,889)	(101,102)	39,787
TOTAL OTHER FINANCING SOURCES (USES)	(106,522)	(104,357)	(88,359)	15,998
NET CHANGE IN FUND BALANCE	(9,744)	(39,577)	39,063	78,640
Fund balance - beginning	347,925	347,925	347,925	-
FUND BALANCE - ENDING	\$ 338,181	\$ 308,348	\$ 386,988	\$ 78,640

See notes to the required supplementary information.

CITY OF OAKLAND
Required Supplementary Information (unaudited)
Budgetary Comparison Schedule – Other Special Revenue Fund
Year Ended June 30, 2018
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 16,261	\$ 16,261	\$ 16,536	\$ 275
Local taxes:				
Transient occupancy	6,178	6,178	6,456	278
Parking	10,387	10,387	10,334	(53)
Voter approved special tax	19,111	19,111	19,408	297
Licenses and permits	25,008	32,307	45,207	12,900
Fines and penalties	569	569	859	290
Interest and investment income	30	30	2,248	2,218
Charges for services	26,916	26,916	52,634	25,718
Federal and state grants and subventions	2,122	8,051	2,844	(5,207)
Other	7	167	2,104	1,937
TOTAL REVENUES	106,589	119,977	158,630	38,653
EXPENDITURES				
Current:				
Elected and Appointed Officials:				
Mayor	66	241	151	90
City Administrator	931	2,753	1,507	1,246
City Attorney	1,948	2,084	1,977	107
Departments:				
Administrative Service Department:				
Human Resource Management	139	139	149	(10)
Financial Services	872	683	1,015	(332)
Information Technology	916	807	1,027	(220)
Public Safety:				
Oakland Police Department	16,253	18,664	18,801	(137)
Oakland Fire Department	7,547	10,619	6,122	4,497
Community Service Department:				
Parks and Recreation	-	480	259	221
Library	16,538	17,035	16,815	220
Department of Violence Prevention	650	650	30	620
Human Services Department	28,019	41,230	26,000	15,230
Community and Economic Development:				
Planning and Building	33,737	54,338	30,302	24,036
Economic & Workforce Development	-	895	895	-
Housing & Community Development	3,359	4,966	3,034	1,932
Oakland Public Works	1,130	3,526	997	2,529
Department of Transportation	6,908	7,197	5,538	1,659
Other	5,531	5,907	6,690	(783)
Capital outlay	432	4,486	469	4,017
TOTAL EXPENDITURES	124,976	176,700	121,778	54,922
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(18,387)	(56,723)	36,852	93,575
OTHER FINANCING SOURCES (USES)				
Insurance claims and settlements	-	-	32	32
Transfers in	19,624	19,630	18,115	(1,515)
Transfers out	(2,052)	(2,052)	(476)	1,576
TOTAL OTHER FINANCING SOURCES (USES)	17,572	17,578	17,671	93
NET CHANGE IN FUND BALANCE	(815)	(39,145)	54,523	93,668
Fund balance - beginning	101,845	101,845	101,845	-
FUND BALANCE - ENDING	\$ 101,030	\$ 62,700	\$ 156,368	\$ 93,668

See notes to the required supplementary information.

CITY OF OAKLAND
Notes to Required Supplementary Information
Year Ended June 30, 2018

(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 2017, the City Council approved the City's two-year budget for fiscal years 2018 and 2019. Although appropriations are adopted for a 24-month period, they are divided into two one-year spending plans. The final budgetary data presented in the required supplementary information reflects approved changes to the original 2017-19 budget. Certain projects are appropriated on a multi-year rather than annual basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations may be carried forward to the following year with the approval of the City Administrator pursuant to the City's Consolidated Fiscal Policy.

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.

Budgetary Basis of Accounting

The City adopts budgets on a basis of accounting which is substantially the same as accounting principles generally accepted in the United States of America (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:

- Federal/State Grant Fund
- Low and Moderate Income Housing Asset Fund
- Municipal Capital Improvement Fund

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

CITY OF OAKLAND
Notes to Required Supplementary Information (continued)
Year Ended June 30, 2018

**(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 GAAP. The “Budgetary Comparison Schedule – General Fund” has been prepared on a budgetary basis, which is different from GAAP.

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

The main difference between actual amounts on a budgetary basis and a GAAP basis is due to timing.

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, 2018, was \$0.4 million.

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	\$ 39,441
Amortization of debt service deposit agreement	(378)
Net change in fund balance - Budgetary basis	<u>\$ 39,063</u>

The General Fund’s fund balance on a GAAP Basis is reconciled to a Budgetary Basis as of June 30, 2018, which is as follows (in thousands):

	General Fund
Fund balance as of June 30, 2018 - GAAP basis	\$ 385,167
Unamortized debt service deposit agreement	1,821
Fund balance as of June 30, 2018 - Budgetary basis	<u>\$ 386,988</u>

This page intentionally left blank.

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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Oakland, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated December 12, 2018. Our report included an emphasis of matter for the effect of adopting Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and an emphasis of matter for uncertainties regarding the future outcome of litigation. The financial statements of the Oakland Police and Fire Retirement System were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Oakland Police and Fire Retirement System. The City’s basic financial statements include the financial statements of the Port of Oakland (Port), a discretely presented component unit. The Port engaged us to perform a separate audit of its financial statements. This report does not include the results of our testing of internal control over financial reporting or compliance that was reported on separately.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Walnut Creek, California
December 12, 2018



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Oakland's (City) compliance with the types of compliance requirements described in the *OMB 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, 2018. 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.

The City's basic financial statements include the operations of the Port of Oakland (Port), which expended \$41,783,399 in federal awards which is not included in the City's schedule of expenditures of federal awards during the year ended June 30, 2018. Our audit, described below, did not include the operations of the Port because the Port engaged us to perform a separate audit in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on Home Investment Partnerships Program

As described in the accompany schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA 14.239, Home Investment Partnerships Program, as described in finding number 2018-002 for Earmarking. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on Home Investment Partnerships Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Home Investment Partnerships Program for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Other Matter

The City's response to the noncompliance finding identified in our audit is described in the accompanying correction action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness and 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a material weakness.

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 2018-003 to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
January 31, 2019

CITY OF OAKLAND
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Passed 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 State of California, Department of Education				
Child and Adult Care Food Program	10.558	04008-CACFP-01-GM-CS	\$ 243,989	\$ -
Summer Food Service Program for Children	10.559	E116-01	300,257	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>544,246</u>	<u>-</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs				
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-06-0013	7,228,818	1,669,530
Emergency Solutions Grant Program	14.231	E-16-MC-06-0013	46,206	46,206
Emergency Solutions Grant Program	14.231	E-17-MC-06-0013	604,272	556,542
Subtotal Emergency Solutions Grant Program			<u>650,478</u>	<u>602,748</u>
Home Investment Partnerships Program	14.239	M14-MC060208	1,446,546	-
Home Investment Partnerships Program	14.239	M15-MC060208	538,458	-
Home Investment Partnerships Program	14.239	M16-MC060208	35,140	-
Home Investment Partnerships Program	14.239	M17-MC060208	350,000	-
Subtotal Home Investment Partnerships Program			<u>2,370,144</u>	<u>-</u>
Housing Opportunities for Persons with AIDS	14.241	CA-H15-F001	417,942	417,942
Housing Opportunities for Persons with AIDS	14.241	CA-H16-F001	307,974	307,974
Housing Opportunities for Persons with AIDS	14.241	CA-H17-F001	657,510	579,874
Subtotal Housing Opportunities for Persons with AIDS			<u>1,383,426</u>	<u>1,305,790</u>
Community Development Block Grants/Brownfields				
Economic Development Initiative	14.246	E-95-EZ-06-0001	252,605	107,708
Continuum of Care Program	14.267	CA0103L9T021508	67,868	62,276
Continuum of Care Program	14.267	CA0106L9T021508	24,391	24,391
Continuum of Care Program	14.267	CA1270L9T021501	150,561	150,561
Continuum of Care Program	14.267	CA0096L9T021609	965,428	911,668
Continuum of Care Program	14.267	CA0093L9T021609	198,111	189,940
Continuum of Care Program	14.267	CA1465L9T021500	77,398	47,813
Continuum of Care Program	14.267	CA1270L9T021602	588,937	539,618
Continuum of Care Program	14.267	CA0106L9T021609	716,304	649,377
Continuum of Care Program	14.267	CA1643L9T021700	2,934	-
Continuum of Care Program	14.267	CA0103L9T021609	200,273	186,673
Continuum of Care Program	14.267	CA1465L9T021601	238,537	238,537
Continuum of Care Program	14.267	CA0096L9T021710	857,350	848,403
Subtotal Continuum of Care Program			<u>4,088,092</u>	<u>3,849,257</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>15,973,563</u>	<u>7,535,033</u>
U.S. DEPARTMENT OF JUSTICE				
Direct Programs				
Community-Based Violence Prevention Program	16.123	2015-MU-MU-K001	38,639	-
Juvenile Justice and Delinquency Prevention -				
Allocation to States	16.540	2010-PB-FX-K011	235,781	50,000
Crime Victims Assistance Grants	16.582	2016-MU-GX-K026	14,383	-
Public Safety Partnership and Community Policing Grants	16.710	2013ULWX0010	703,978	-
Public Safety Partnership and Community Policing Grants	16.710	2014ULWX0028	171,162	-
Public Safety Partnership and Community Policing Grants	16.710	2015ULWX0006	662,451	-
Public Safety Partnership and Community Policing Grants	16.710	2016ULWX0014	210,717	-
Subtotal Public Safety Partnership and Community Policing Grants			<u>1,748,308</u>	<u>-</u>

See notes to the schedule of expenditures of federal awards.

CITY OF OAKLAND
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Passed through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Grant Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF JUSTICE (Continued)				
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ16-12-7503	\$ 8,386	\$ -
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ17-13-7503	2,722	-
Subtotal Paul Coverdell Forensic Sciences Improvement Grant Program			<u>11,108</u>	<u>-</u>
Forensic Casework DNA Backlog Reduction Program	16.743	2015-DN-BX-0106	135,889	-
Forensic Casework DNA Backlog Reduction Program	16.743	2016-DN-BX-0097	112,575	-
Subtotal Forensic Casework DNA Backlog Reduction Program			<u>248,464</u>	<u>-</u>
Passed Through Alameda County				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0275	144,244	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0209	14,205	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0748	303,321	-
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			<u>461,770</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>2,758,453</u>	<u>50,000</u>
U.S. DEPARTMENT OF LABOR				
Passed through Contra Costa County, Employment and Human Services Department WIA/WIOA Cluster:				
WIA Adult Program:				
East Bay Slingshot Initiative	17.258	18-405-0	60,000	-
East Bay Regional Planning Unit	17.258	18-423-0	8,157	-
Passed through State of California, Employment Development Department WIA/WIOA Cluster:				
WIA Adult Program	17.258	K8106651	1,504,283	1,144,519
Subtotal WIA Adult Program			<u>1,572,440</u>	<u>1,144,519</u>
WIA Youth Activities	17.259	K7102050	283,186	222,471
WIA Youth Activities	17.259	K8106651	1,110,321	776,936
Subtotal WIA Youth Program			<u>1,393,507</u>	<u>999,407</u>
WIA/WIOA Dislocated Worker Formula Grants	17.278	K698378	13,146	-
WIA/WIOA Dislocated Worker Formula Grants	17.278	K7102050	360,958	225,806
WIA/WIOA Dislocated Worker Formula Grants	17.278	K8106651	1,026,241	706,728
Subtotal WIA/WIOA Dislocated Worker Formula Grants			<u>1,400,345</u>	<u>932,534</u>
Subtotal WIA/WIOA Cluster			<u>4,366,292</u>	<u>3,076,460</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>4,366,292</u>	<u>3,076,460</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through State of California, Department of Transportation				
Highway Planning and Construction	20.205	ATPL-5012(131)	1,043,895	-
Highway Planning and Construction	20.205	ATPL-5012(136)	934,547	-
Highway Planning and Construction	20.205	ATPL-5012(143)	180,617	-
Highway Planning and Construction	20.205	ATPL-5012(144)	286,328	-
Highway Planning and Construction	20.205	BPMP-5012(103)	60,508	-
Highway Planning and Construction	20.205	CML-5012(127)	1,621,724	-
Highway Planning and Construction	20.205	CML-5012(128)	1,690,371	-
Highway Planning and Construction	20.205	CML-5012(135)	831,893	-
Highway Planning and Construction	20.205	CML-5012(145)	252,836	-
Highway Planning and Construction	20.205	HSIPL-5012(118)	4,218	-
Highway Planning and Construction	20.205	HSIPL-5012(119)	333,281	-
Highway Planning and Construction	20.205	HSIPL-5012(126)	569,831	-
Highway Planning and Construction	20.205	HSIPL-5012(129)	599,936	-
Highway Planning and Construction	20.205	HSIPL-5012(139)	7,388	-

See notes to the schedule of expenditures of federal awards.

CITY OF OAKLAND
Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2018

Federal Grantor/Passed through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Grant Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION (Continued)				
Highway Planning and Construction	20.205	HSIPL-5012(140)	\$ 208,997	\$ -
Highway Planning and Construction	20.205	HSIPL-5012(141)	54,040	-
Highway Planning and Construction	20.205	HSIPL-5012(142)	29,486	-
Highway Planning and Construction	20.205	HSIPL-5012(147)	31,001	-
Highway Planning and Construction	20.205	HSIPL-5012(148)	16,365	-
Highway Planning and Construction	20.205	HSIPL-5012(149)	25,148	-
Highway Planning and Construction	20.205	HSIPL-5012(150)	26,212	-
Highway Planning and Construction	20.205	HSIPL-5012(151)	11,237	-
Highway Planning and Construction	20.205	HSIPL-5012(152)	8,929	-
Highway Planning and Construction	20.205	STPL-5012(028)	281,984	-
Highway Planning and Construction	20.205	STPLZ-5012(037)	7,385,877	-
Highway Planning and Construction	20.205	STPL-5012(122)	513,476	-
Highway Planning and Construction	20.205	STPLZ-5012(123)	2,330,548	-
Highway Planning and Construction	20.205	STPLZ-5012(124)	149,979	-
Highway Planning and Construction	20.205	STPLZ-5012(134)	25,091	-
Subtotal Highway Planning and Construction			<u>19,515,743</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>19,515,743</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs				
Substance Abuse and Mental Services	93.243	1H79SM063517	965,938	-
Head Start	93.600	09CH01039902-01	16,817,134	4,500,263
Passed through State of California, Department of Community Services and Development				
Community Services Block Grant	93.569	17F-2002	794,213	447,755
Community Services Block Grant	93.569	18F-5002	633,893	329,940
Subtotal Community Services Block Grant			<u>1,428,106</u>	<u>777,695</u>
Passed through State of California, Department of Aging				
Medical Assistance Program	93.778	MS-1718-01	1,376,885	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>20,588,063</u>	<u>5,277,958</u>
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Direct Programs				
Foster Grandparent/Senior Companion Cluster				
Foster Grandparent Program	94.011	17SF-195294	19,393	-
Senior Companion Program	94.016	17SC-195080	287,126	-
Subtotal Foster Grandparent/Senior Companion Cluster			<u>306,519</u>	<u>-</u>
TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>306,519</u>	<u>-</u>
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Programs				
National Urban Search and Rescue (US&R) Response System	97.025	EMW-2015-CA-00036	40,664	-
National Urban Search and Rescue (US&R) Response System	97.025	EMW-2016-CA-APP-00041	424,630	-
National Urban Search and Rescue (US&R) Response System	97.025	EMW-2017-CA-00088	890,268	-
Subtotal National Urban Search and Rescue Response System			<u>1,355,562</u>	<u>-</u>
Port Security Grant Program	97.056	EMW-2015-00078-OESID01	116,778	-
Subtotal Port Security Grant Program			<u>116,778</u>	<u>-</u>

See notes to the schedule of expenditures of federal awards.

CITY OF OAKLAND
Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2018

Federal Grantor/Passed through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Grant Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HOMELAND SECURITY (Continued)				
Passed through City and County of San Francisco				
Homeland Security Grant Program	97.067	SUASI 2013	\$ 8,324	\$ -
Homeland Security Grant Program	97.067	2015-00078	301,340	-
Homeland Security Grant Program	97.067	2016-0102	526,519	-
Homeland Security Grant Program	97.067	2017-0083	41,999	-
Subtotal Homeland Security Grant Program			<u>878,182</u>	<u>-</u>
Passed through California Governor's Office of Emergency Services,				
FEMA Seismic Retrofit Program				
California OES Hazard Mitigation Program	97.039	FEMA-4240-DR-CA-0065	40,108	-
California OES Hazard Mitigation Program	97.039	FEMA-4240-DR-CA-0024	4,200	-
Subtotal FEMA Seismic Retrofit Program			<u>44,308</u>	<u>-</u>
Passed through County of Alameda				
Metropolitan Medical Response System	97.071	233-03-0095	3,260	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>2,398,090</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 66,450,969</u>	<u>\$ 15,939,451</u>

See 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, 2018

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, 2018. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the SEFA.

The City's reporting entity is described in Note I.A. to the City's basic financial statements. The City's basic financial statements include the operations of the Port of Oakland (Port), which expended \$41,783,399 of federal awards during the year ended June 30, 2018. The Port's federal expenditures are not included in the SEFA because such expenditures are audited and reported on separately.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants as described in Note I Section C to the City's basic financial statements. The City did not elect to use the 10% de minimis cost rate as covered in U.S. Code of Federal Regulations, Title 2 Section 200.414 Indirect (F&A) costs.

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 – California Department of Aging Awards

The terms and conditions of local agency contracts with the California Department of Aging (CDA) require local agencies to display state-funded expenditures discretely along with the related federal expenditures. CDA grant expenditures that involve federal funding have been presented in the Schedule under CFDA No. 93.778, Medical Assistance Program. For state grants not involving federal funding, the amounts are to be displayed separately. The City did not receive any state grants from the CDA for the year ended June 30, 2018.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) 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 weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	Yes
Type of auditor’s report issued on compliance for major programs:	Unmodified except for Home Investment Partnerships Program (CFDA No. 14.239), which is qualified.
Any audit findings disclosed that are required to be reported in accordance with CFR 200.516(a)?	Yes

Identification of major federal programs:

Program Title	CFDA Number
• Home Investment Partnerships Program	14.239
• Continuum of Care Program	14.267
• Highway Planning and Construction	20.205
• Community Services Block Grant	93.569
• Medical Assistance Program	93.778

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,993,529
Auditee qualified as low-risk auditee?	No

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section II – Financial Statement Findings

2018-001 Financial Reporting Process

Material Weakness in Internal Control Over Financial Reporting

Criteria, Condition, Cause and Effect:

Management is responsible for the preparation and fair presentation of financial statements in accordance with generally accepted accounting principles: this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements. As part of our audit procedures, we assess an organization’s environment, risk assessment and monitoring of internal controls and determine whether internal controls have been effective over financial reporting. If controls do not exist, are poorly designed or not operating effectively, we must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is a significant deficiency or material weakness.

During 2018, the City’s Finance Department evaluated, tested, and implemented an automated financial reporting application that accumulates, maps and links data from the financial database (Oracle) for financial reporting in response to a prior year internal control deficiency. However, the City did not have enough time to update its chart of accounts in order to create a bridge between the various bases of accounting needed for financial reporting (modified accrual, full accrual and budgetary), test to ensure that the new application is generating accurate financial reports, and change its work processes to automate manual excel worksheets. As a result of this transition, the City continued to work on resolving reporting and reconciling errors during the current year’s audit

Recommendation:

We recommend the City complete user acceptance testing on its new application, update its chart of accounts and fund structure so that the financial information is properly captured for financial reporting purposes, and continue to provide increased technical accounting trainings for preparers and reviewers of journal entries and reconciliations to assist in timely identification and resolution of errors.

Views of Responsible Officials:

The views of responsible officials are set forth in the City’s Corrective Action Plan, which is included in Audit Findings Follow-Up section at the end of this report.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs

2018-002 Earmarking

Material Noncompliance and Material Weakness in Internal Control Over Compliance

Federal Program Title:	Home Investment Partnerships Program
Federal Catalog Number:	14.239
Federal Agency:	U.S. Department of Housing and Urban Development
Federal Award Number and Year:	Not available

Criteria:

Per 24 CFR Section 92.207, a participating jurisdiction may expend, for payment of reasonable administrative and planning costs of the HOME program, not more than ten percent of the sum of the Fiscal Year HOME basic formula allocation plus any funds received in accordance with Section 92.102(b) to meet or exceed participation threshold requirements that Fiscal Year. A participating jurisdiction may also use up to ten percent of any program income, as defined in 24 CFR Section 92.2, calculated at the time of deposit in its local HOME account, for administrative and planning costs.

Condition:

On September 5, 2015, the U.S. Department of Housing and Urban Development (HUD) approved the City's Annual Action Plan. HUD's approval included \$2,107,060 attributed from the HOME program for the City's year ended June 30, 2018. In addition, we noted that the City's total program income for the year was \$1,818,139. As a result, the City could expend up to \$392,520 for administrative and planning costs.

During our audit, we noted that the City claimed \$538,458 as administrative and planning costs for the year ended June 30, 2018, which is more than ten percent of the total allocation plus program income.

Cause:

The Housing and Community Development Department normally records an adjustment to reduce the amount of expenditures up to what is allowed for administrative and planning costs. However, the Housing and Community Development Department did not present the adjustment to the Finance Department until after the closing of the fiscal year (FY) 2018 general ledger. As a result, the adjustment had to be recorded in FY 2019, and thus results an overstatement of administrative and planning costs for FY 2018. The claim was already submitted that contained the questioned administrative costs and was not subsequently corrected.

Effect:

The City is not in compliance with the HUD requirements.

Questioned Costs:

\$145,938 – the questioned cost is the difference of actual administrative costs charged to the HOME program (\$538,458) and the 10% of total annual allocation and program income (\$392,520).

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs

2018-002 Earmarking (continued)

Identification of Repeat Finding:

This finding is a repeat of the prior year finding number 2017-002.

Recommendation:

The City should timely record administrative cost adjustments and review the computation so that the adjustments are equivalent to the 10% limit during the grant period prior to the year-end close of the City's general ledger system. The City should also perform a year-end review to ensure compliance with grant requirements.

Views of Responsible Officials:

The views of responsible officials are set forth in the City's Corrective Action Plan, which is included in the Audit Findings Follow-Up section at the end of this report.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs

2018-003 Period of Performance

Significant Deficiency in Internal Control Over Compliance

Federal Program Title:	Continuum of Care Program
Federal Catalog Number:	14.267
Federal Agency:	U.S. Department of Housing and Urban Development
Federal Award Number and Year:	Not available

Criteria:

Per 2 CFR Section 200.309, a non-federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in section 200.461 Publication and printing costs) and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.

Condition:

In the City's financial management system (Oracle 12), the City enters project codes at the beginning of the fiscal year for budgeting purposes, which may be prior to the start of the program's performance period. As such, the program staff has access to charge time to project codes before the period of performance. As part of the review process, the Human Services Department accounting staff will go back and reverse the charges that are incurred before the period of performance. However, the department did not adjust all the incurred charges and billed payroll charges to projects before the period of performance. During our audit, we noted that the City recorded \$20,558 for payroll charges, which did not meet the criteria for period of performance.

Cause:

The City's personnel charged payroll charges to the three projects codes before the period of performance began for the effective grant dates.

Effect:

The City is not in compliance with the HUD requirements.

Questioned Costs:

\$20,558 – the questioned cost was the total of excess charges incurred outside of the grant period for three projects funded by grants: CA1270L9T021602 - (\$9,595), CA0106L9T021609 - (\$3,688), and CA0103L9T021609 (\$7,275).

Identification of Repeat Finding:

This program was not a major program in the prior year.

Recommendation:

The City should develop processes and procedures to monitor unallowable charges recorded in the project codes during the year and perform a review at year-end to ensure compliance with grant requirements.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs

2018-003 **Period of Performance (continued)**

Views of Responsible Officials:

The views of responsible officials are set forth in the City's Corrective Action Plan, which is included in the Audit Findings Follow-Up section at the end of this report.

SUPPLEMENTARY SCHEDULES

CITY OF OAKLAND
Supplemental Schedule of Revenue and Expenditures

State of California, Department of Community Services and Development (CSD)
Community Services Block Grant (CSBG) – CFDA No. 93.569
Contract No. 17F-2002, Project No. 1001402
For the Period January 1, 2017 through June 30, 2018

	January 1, 2017 through June 30, 2017	July 1, 2017 through June 30, 2018	Total Audited Costs	Total Reported Expenses	Total Budget
Revenue					
Grant Amount	\$ 98,749	\$ 1,249,049	\$ 1,347,798	\$ 1,347,798	\$ 1,347,798
Expenditures					
Personnel Costs					
Salaries and Wages	\$ 121,664	\$ 139,794	\$ 261,458	\$ 261,458	\$ 256,453
Fringe Benefits	132,870	156,300	289,170	289,170	289,123
Subtotal Personnel Costs	254,534	296,094	550,628	550,628	545,576
Non-Personnel Costs					
Operating Expense	9,223	16,098	25,321	25,321	27,144
Travel	10,348	2,569	12,917	12,918	13,000
Sub-Contractors/Consultants	260,477	462,643	723,120	723,119	721,588
Other Costs	19,003	16,809	35,812	35,812	40,490
Subtotal Non-Personnel Costs	299,051	498,119	797,170	797,170	802,222
Total Expenditures	\$ 553,585	\$ 794,213	\$ 1,347,798	\$ 1,347,798	\$ 1,347,798

¹ The reported column represents expenditures reported to the State of California, Department of Community Services and Development since the inception of the grant.

CITY OF OAKLAND
Supplemental Schedule of Revenue and Expenditures

State of California Department of Community Services and Development (CSD)
Community Services Block Grant (CSBG) – CFDA No. 93.569
Contract No. 18F-5002, Project No. 1003626-27
For the Period January 1, 2018 through June 30, 2018

	January 1, 2018 through June 30, 2018	Total Audited Costs	Total Reported Expenses	Total Budget
Revenue				
Grant Amount	\$ 633,893	\$ 633,893	\$ 633,893	\$ 1,404,913
Expenditures				
Personnel Costs				
Salaries and Wages	\$ 138,482	\$ 138,482	\$ 138,482	\$ 267,926
Fringe Benefits	125,913	125,913	125,913	303,928
Subtotal Personnel Costs	264,395	264,395	264,395	571,854
Non-Personnel Costs				
Operating Expense	12,227	12,227	12,227	29,444
Travel	6,321	6,321	6,321	13,000
Sub-Contractors/Consultants	337,890	337,890	337,890	762,799
Other Costs	13,060	13,060	13,060	27,816
Subtotal Non-Personnel Costs	369,498	369,498	369,498	833,059
Total Expenditures	\$ 633,893	\$ 633,893	\$ 633,893	\$ 1,404,913

¹ The reported column represents expenditures reported to the State of California Department of Community Services and Development since the inception of the grant.

CITY OF OAKLAND
Supplemental Schedule of Expenditures of Alameda County Awards
Year Ended June 30, 2018

Alameda County Award/Program Title	Contract Number	Exhibit/ PO Number	Expenditures
Alameda Public Health Agency			
Be Oakland Be Active	900163	10078	\$ 39,071
Total Public Health Agency			<u>39,071</u>
Department of Adult and Aging Services			
Information and Assistance (Outreach)	900163	13349	64,029
Total Department of Adult and Aging Services			<u>64,029</u>
Housing and Community Development Department			
Winter Shelter Program	C-16062	16648	194,382
Total Housing and Community Development Department			<u>194,382</u>
Department of Workforce and Benefits Administration			
Henry J. Robinson Multi-Service Center	900163	15999	301,865
Total Department of Workforce and Benefits Administration			<u>301,865</u>
Alameda Health Care Services Agency			
Core Housing Centers	15654	15654	1,140,874
Total Health Care Services Agency			<u>1,140,874</u>
Total Alameda County Awards			<u>\$ 1,740,221</u>

This page is intentionally left blank.

AUDIT FINDINGS FOLLOW-UP



CITY HALL • 1 FRANK H. OGAWA PLAZA • OAKLAND, CALIFORNIA 94612

Office of the City Administrator
 Sabrina B. Landreth
 City Administrator

(510) 238-3301
 FAX (510) 238-2223

In relation to the City of Oakland’s (City) annual financial statement audit and the single audit for the year ended June 30, 2018, the City hereby submits a summary schedule of prior audit findings and a corrective action plan, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Section 511 *Audit findings follow-up*.

Summary Schedule of Prior Audit Findings

Reference Number: **Financial Statement Finding 2017-001**
 2017-001 Material Weakness in Internal Control Over Financial Reporting *Financial Reporting Process*

Audit Finding: The CAFR financial reporting relies on numerous manual spreadsheets to support computations to prepare its financial statements. This manual process is prone to errors such as the audit adjustment identified related to the City’s pension expense and related pension activities if not carefully analyzed. The City evaluated, tested, and implemented an automated financial reporting application to automate its year-end financial reporting process. However, the City did not have enough time to ensure that the new application is generating accurate financial reports and change its work processes to automate manual excel worksheets. The City continues to work on resolving reporting and reconciling errors during the current year’s audit.

Year in which Finding Initially Occurred: Fiscal year 2016-17.

Status of Corrective Action: In process – see current year finding 2018-001.

Reference Number: **Federal Award Finding 2017-002**
 CFDA number(s)/ 14.239– Home Investment Partnerships Program
 Program Name(s):

Audit Finding: Earmarking – The City did not have procedures in place to monitor related spending during the grant period, nor did they have a process to perform year-end review to ensure compliance with HUD’s limits. This resulted in \$337,938 in questioned cost of administrative costs that were not eligible to be claimed.

Year in which Finding Initially Occurred: Fiscal year 2016-17.

Status of Corrective Action: In process – see current year finding 2018-002.



Corrective Action Plan

The findings listed herein are discussed and numbered consistently with the findings in the Schedule of Findings and Questioned Costs.

Section II – Financial Statement Findings

2018-001 Material Weakness in Internal Control Over Financial Reporting Financial Reporting Process

The City concurs with this recommendation and is developing additional resources to improve its general ledger accounting functions and financial reporting procedures. These steps include both personnel and process enhancements, which the City expects to have in place before the end of the current fiscal year.

Contact person responsible for corrective action: Kirsten LaCasse, Controller

Anticipated completion date: Fiscal year ending June 30, 2019

In relation to the City of Oakland's (City) single audit for the year ended June 30, 2018, the City hereby submits a corrective action plan for finding number 2018-002 for the Home Investments Partnership Program.

Section III – Federal Award Findings and Questioned Costs

2018-002 Earmarking

Management acknowledges that the frequency of monitoring and adjusting the administrative expenditures during the grant term was inadequate for a multi-year grant. The Housing and Community Development Department has established procedures to program staff costs allocated to the HOME Administration project during the budget process at the allowable limit of 10 percent of the HOME formula allocation plus 10 percent of any HOME program income. Staff will monitor and adjust spending quarterly for each fiscal year during the grant period and make any necessary corrections to transfer ineligible staff costs to other eligible funds prior to year-end to ensure compliance with grant requirements.

Contact person responsible for corrective action: Dan Dayananthan, Fiscal Services Manager

Anticipated completion date: March 2019



CITY HALL • 1 FRANK H. OGAWA PLAZA • OAKLAND, CALIFORNIA 94612

Office of the City Administrator
Sabrina B. Landreth
City Administrator

(510) 238-3301
FAX (510) 238-2223

In relation to the City of Oakland’s (City) single audit for the year ended June 30, 2018, the City hereby submits a corrective action plan for finding number 2018-003 for the Continuum of Care Program.

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

2018-003 Period of Performance

Management acknowledges that the payroll costs should not have been charged before the period of performance occurred for the projects. The Human Services Department will establish procedures to have accounting staff properly capture and reverse the charges that are incurred before the period of performance for the grant projects.

Contact person responsible for corrective action: Neil Valle, Fiscal Services Manager

Anticipated completion date: March 2019