CITY OF OAKLAND
CALIFORNIA

SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2008

PREPARED BY THE FINANCE AND MANAGEMENT AGENCY

JOSEPH T. YEW, JR • DIRECTOR
OSBORN K. SOLITEI • ACTING CONTROLLER

PRINTED ON RECYCLED PAPER

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2008

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CITY OF OAKLAND
SINGLE AUDIT REPORT

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Oakland Municipal Employees' Retirement System (OMERS) and the Oakland Police and Fire Retirement System (PFRS), which collectively represent 67%, 71% and (18)%, respectively, of the assets, net assets/fund balances, and revenues/additions of the aggregate remaining fund information as of and for the year ended June 30, 2008. We also did not audit the Oakland Redevelopment Agency (ORA) whose financial activities are included in the County's basic financial statements as a major fund and which represents 27%, 28% and 16% of the assets, net assets, and revenues of the governmental activities as of and for the year ended June 30, 2008.. The OMERS, PFRS and ORA financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 16 and 17 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, effective July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress and the budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

Walnut Creek, California
December 17, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Oakland's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the additional information contained in the City's financial statements and related notes and our letter of transmittal that precedes this section.

FINANCIAL HIGHLIGHTS

- The City's total assets exceeded its total liabilities by $740.4 million as of June 30, 2008, compared to $755.7 million at June 30, 2007. This represents a net decrease of $15.3 million or 2.0 percent compared to the previous year. Assets decreased by 2.5 percent or net of $71.4 million, the net decrease is primarily attributed to a decrease of net pension assets in the amount of $31.6 million to reflect annual pension cost, an increase in capital assets by $54.6 million and an offset of a combined decrease of $62.8 million in pooled and restricted cash and investments attributable to the retirement of refunding bonds and spent bond proceeds for capital improvement. Conversely, liabilities decreased by 0.9 percent or $21.2 million compared to the prior fiscal year primarily as a result of principal debt payments.

- The City's governmental cumulative fund balances decreased by 4.4 percent or $53.7 million to $1,157.3 million compared to $1,211.0 million for the prior fiscal year. This decrease is primarily attributed to a $67.8 million increase in overall governmental expenditures for its operations and the increase was offset by a $9.3 million or 1.0 percent increase in overall governmental revenue.

- As of June 30, 2008, the City had total long-term obligations outstanding of $2.0 billion compared to a similar amount outstanding for the prior fiscal year for a decrease of 1.5 percent or $30.2 million. Of this amount, $331.5 million is general obligation bonds backed by the full faith and credit of the City. The remaining $1.7 billion is comprised of various long-term debt instruments including accruals of year-end estimates for other long-term liabilities.

- The City's General Fund unreserved/undesignated fund balance at June 30, 2008 was $37.5 million compared to $56.1 million for the previous year, a decrease of 33.2 percent or $18.6 million. The unreserved/undesignated fund balance met the requirements of the City Council's 7.5% reserve policy based on the total General Fund expenditures for fiscal year 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to introduce the City's basic financial statements. The City's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also includes required and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

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

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

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

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

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

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

> ***Enterprise funds*** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Sewer Service System and the Parks and Recreation operations. The Sewer Service Fund is considered to be a major fund of the City.
>
> ***Internal service funds*** are used to report activities that provide services and supplies for certain City programs and activities. The City uses internal service

funds to account for its fleet of vehicles, radio and communication equipment, facilities management, printing and reproduction, and central stores. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

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

Notes to the Basic Financial Statements

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

Other Information

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

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

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of the City's financial position. The City's total assets exceeded its liabilities as of June 30, 2008 by $740.4 million compared to $755.7 million as of June 30, 2007, a decrease of $15.3 million. The largest portion of the City's net assets, 69.4 percent, reflects its investment in capital assets of $513.8 million for governmental and business type activities net of related debt. Of the remaining balance, 84.6 percent reflects $191.8 million in resources that are subject to external restrictions on how they may be used. The net deficit of $110.2 million is primarily attributed to the restatement of the net pension asset of $69.2 million as of June 30, 2007 to reflect prior years actuarially required annual contributions, and ongoing projects related to governmental activities and a 6.8 percent increase in expenditures and offset by a 1.0 percent increase in revenues.

City of Oakland's Net Assets
June 30, 2008
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	**2007 (1)**	**2008**	**2007 (2)**	**2008**	**2007**
Assets:						
Current and other assets	$ 1,866,790	$1,950,947	$ 40,808	$ 47,689	$ 1,907,598	$ 1,998,636
Capital assets	899,317	854,373	145,731	136,093	1,045,048	990,466
TOTAL ASSETS	2,766,107	2,805,320	186,539	183,782	2,952,646	2,989,102
Long-term liabilities	1,951,568	1,979,249	63,541	66,024	2,015,109	2,045,273
Other liabilities	193,721	186,286	3,386	1,845	197,107	188,131
TOTAL LIABILITIES	2,145,289	2,165,535	66,927	67,869	2,212,216	2,233,404
Net assets:						
Invested in capital assets, net of related debt	401,881	353,715	111,881	109,886	513,762	463,601
Restricted	336,908	317,558	-	-	336,908	317,558
Unrestricted (deficit)	(117,971)	(31,488)	7,731	6,027	(110,240)	(25,461)
Total net assets	$ 620,818	$ 639,785	$ 119,612	$ 115,913	$ 740,430	$ 755,698

(1) The June 30, 2007 balances were restated to reflect the impact of prior years actuarially required annual contributions on the net pension asset.
(2) The June 30, 2007 balances were restated to reflect the accrual of sewer services revenues as of June 30, 2007 for comparison purposes.

Governmental activities. The City's change in net assets of ($19.0) million for the year ended June 30, 2008 compared to $111.6 million for the previous fiscal year represents a net decrease of $130.6 million. The key elements of this decrease are listed below.

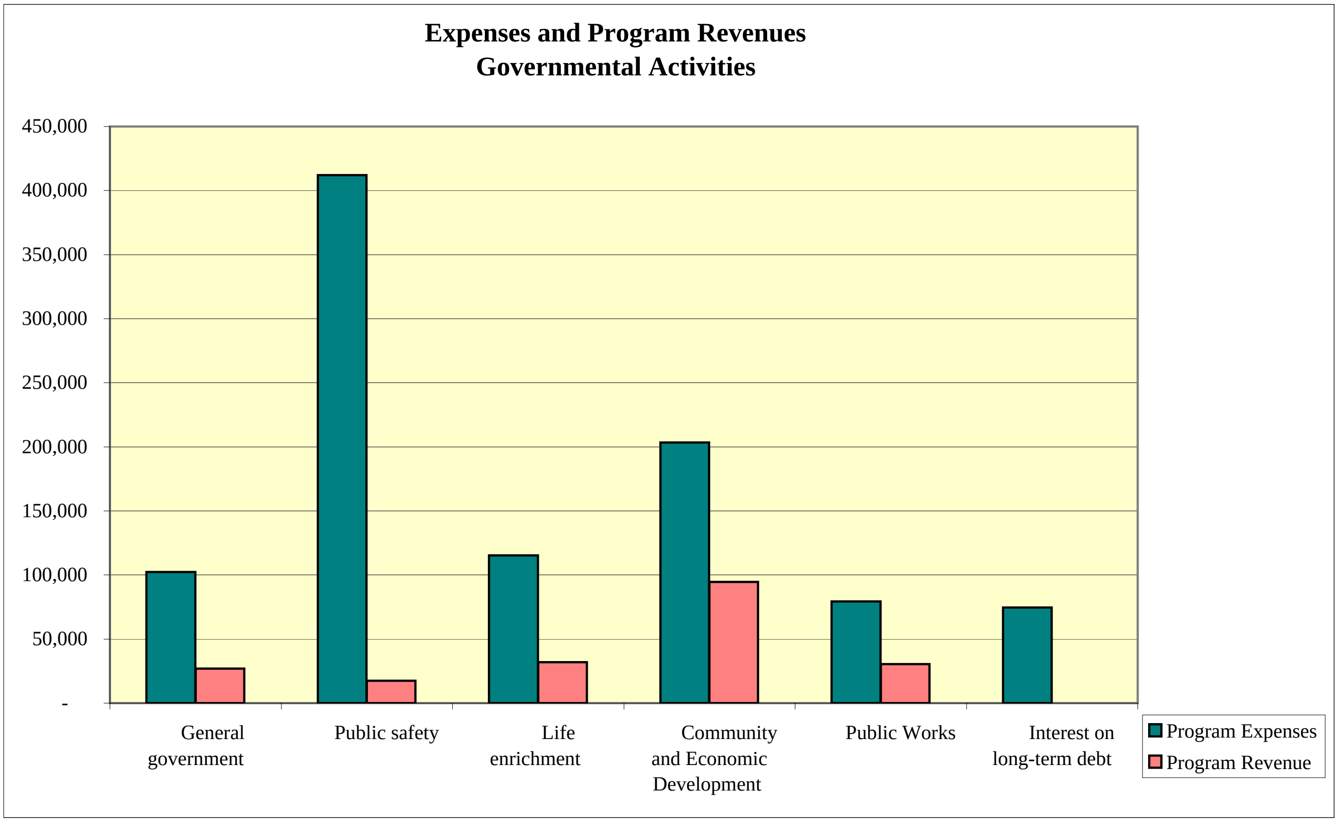
Changes in Net Assets
For the Year Ended June 30, 2008
(In Thousands)

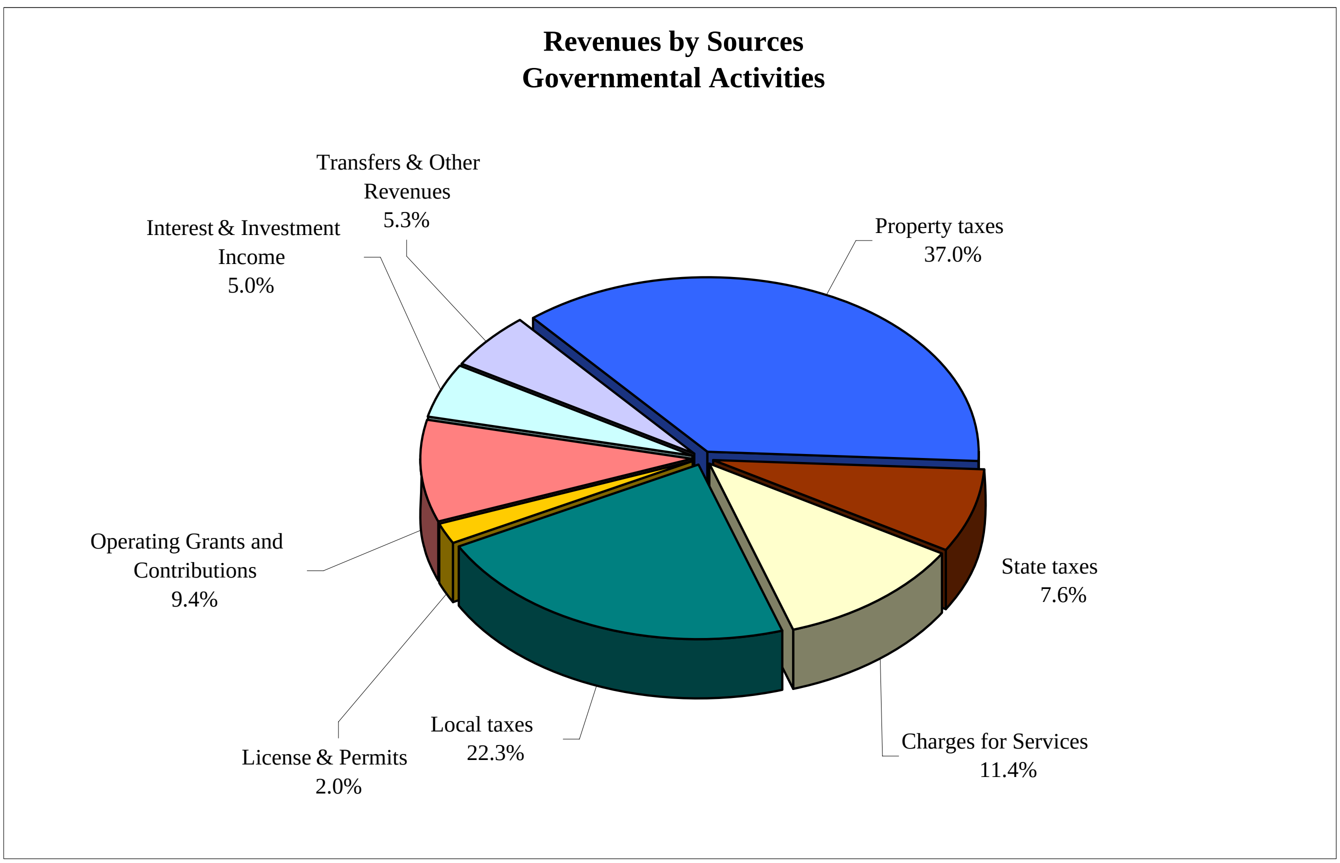
	Governmental Activities		Business-Type Activities		Totals	
	2008	2007 (3)	2008	2007 (2)	2008	2007
Revenues:						
Program revenues:						
Charges for services (1)	$ 110,296	$ 97,449	$ 33,751	$ 30,075	$ 144,047	$ 127,524
Operating grants and contributions	91,278	106,903	-	21	91,278	106,924
General revenues:						
Property taxes	358,338	317,666	-	-	358,338	317,666
State taxes:						
Sales and use taxes	64,812	58,006	-	-	64,812	58,006
Motor vehicles in-lieu tax	1,811	2,268	-	-	1,811	2,268
Gas tax	7,305	7,449	-	-	7,305	7,449
Local taxes:						
Business license	52,542	50,339	-	-	52,542	50,339
Utility comsumption	52,524	51,426	-	-	52,524	51,426
Real estate transfer	36,205	61,505	-	-	36,205	61,505
Transient occupancy	12,400	12,303	-	-	12,400	12,303
Parking	15,747	16,202	-	-	15,747	16,202
Voter approved special tax	32,942	31,483	-	-	32,942	31,483
Franchise	13,791	13,010	-	-	13,791	13,010
License and permits	19,319	20,390	-	-	19,319	20,390
Interest and investment income	47,852	48,073	1,434	1,745	49,286	49,818
Other (1)	50,153	85,841	-	2	50,153	85,843
Total revenues	967,315	980,313	35,185	31,843	1,002,500	1,012,156
Expenses:						
General government	102,218	91,119	-	-	102,218	91,119
Public safety	412,050	366,578	-	-	412,050	366,578
Life enrichment	115,315	105,728	-	-	115,315	105,728
Community & economic development	203,406	183,968	-	-	203,406	183,968
Public works	79,348	101,075	-	-	79,348	101,075
Interest on long-term debt	74,545	79,864	-	-	74,545	79,864
Sewer	-	-	30,502	29,365	30,502	29,365
Parks and recreation	-	-	384	1,087	384	1,087
Total expenses	986,882	928,332	30,886	30,452	1,017,768	958,784
Change in net assets before tranfers and special item	(19,567)	51,981	4,299	1,391	(15,268)	53,372
Tranfers	600	600	(600)	(600)	-	-
Special item:						
Net resale properties from OBRA	-	59,020	-	-	-	59,020
Change in net assets	(18,967)	111,601	3,699	791	(15,268)	112,392
Net assets - beginning, as previously reported	639,785	579,234	112,059	111,268	751,844	690,502
Restatement		(51,050)	3,854	-	3,854	(51,050)
Net assets - beginning, as restated	639,785	528,184	115,913	111,268	755,698	639,452
Net assets at end of year	$ 620,818	$ 639,785	$ 119,612	$ 112,059	$ 740,430	$ 751,844

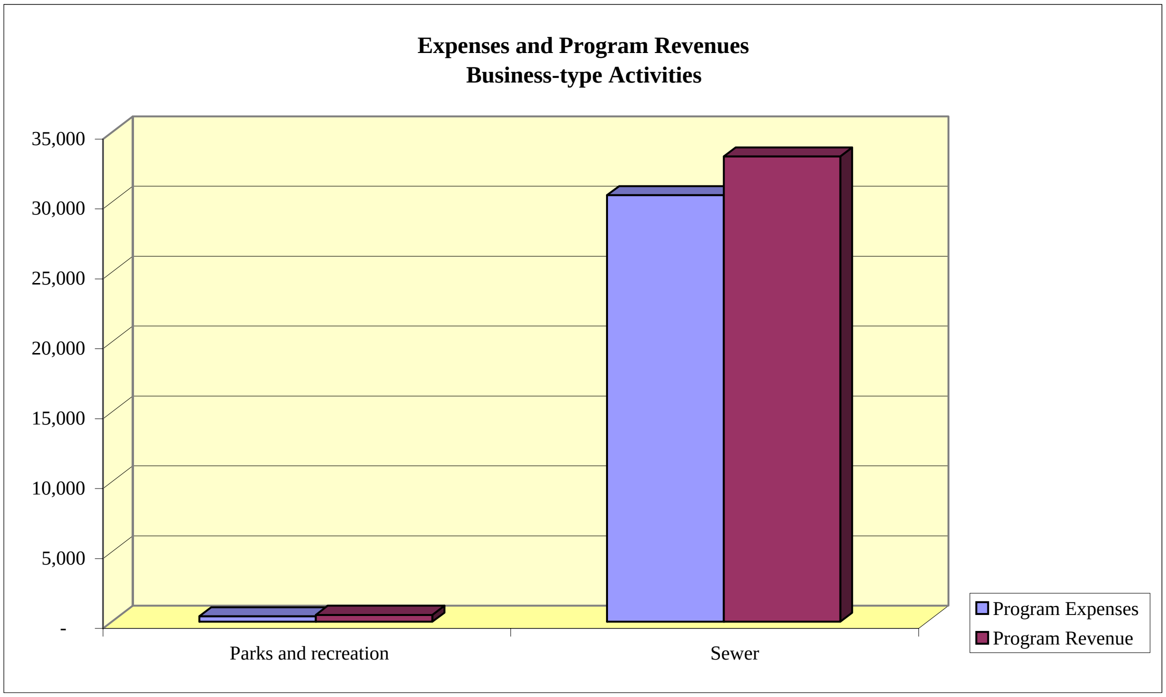
(1) Charges for services and other revenues in governmental activities were reclassified for fiscal year 2006/07 for comparison purposes.

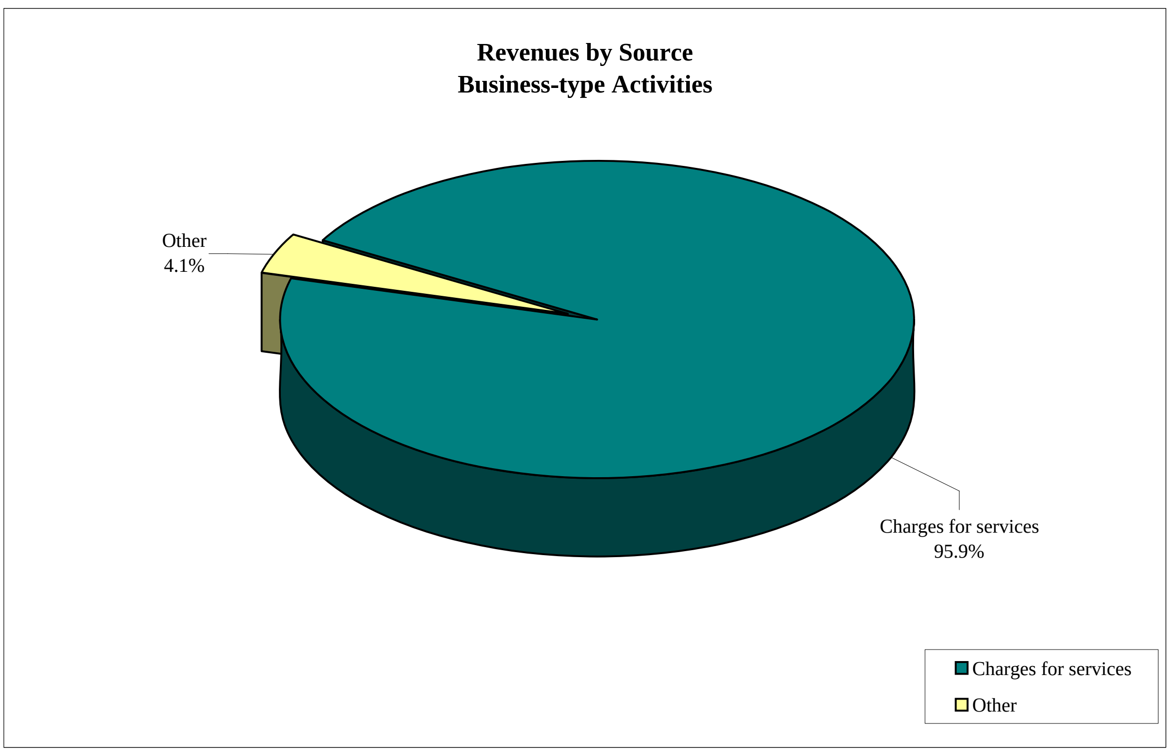
(2) The amounts for fiscal year 2006/07 have not been restated to reflect the restatement of sewer service revenues as the amounts as of June 30, 2006 were not available.

(3) The amounts for fiscal year 2006/2007 have been restated to reflect the impact of prior years actuarially required annual contributions on the Police and Fire Retirement System.


Expenses and Program Revenues
Governmental Activities
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
General government
Public safety
Life enrichment
Community and Economic Development
Public Works
Interest on long-term debt
Program Expenses
Program Revenue


Revenues by Sources
Governmental Activities
Transfers & Other Revenues 5.3%
Interest & Investment Income 5.0%
Property taxes 37.0%
Operating Grants and Contributions 9.4%
State taxes 7.6%
License & Permits 2.0%
Local taxes 22.3%
Charges for Services 11.4%


Expenses and Program Revenues
Business-type Activities
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
Parks and recreation
Sewer
Program Expenses
Program Revenue


Revenues by Source
Business-type Activities
Other
4.1%
Charges for services
95.9%
Charges for services
Other

Governmental activities

The decrease of $130.6 million or 117.0 percent in the change in net assets attributed to the following significant elements:

- While the increases in property taxes of $40.7 million or 12.8 percent was driven by enhancement in assessed property valuation within the boundaries of the City of Oakland during fiscal year 2007-08 and also an increase of charges for services by $35.1 million or 46.6 percent; local taxes decreased by $20.1 million or 8.5 percent primarily due to the real estate transfer tax; operating grants and contributions and other revenues decreased by 21.3 million or 19.9 percent and 15.1 million or 13.9 percent respectively.

- The increase of $11.1 million or 12.2 percent of spending in general government when compared to the pervious year is due to personnel cost, ongoing capital projects and Other Post Employment Benefits (OPEB) cost.

- The increase of $45.5 million or 12.4 percent of spending in public safety when compared to the previous year is due primarily to overtime costs resulting from the continuing problem of shortage in sworn staff, and the added costs to recruit new officers, conduct police academies to train and certify new recruits and OPEB cost.

- The increases in life enrichment expenses of $9.6 million or 9.1 percent is attributed to OPEB cost, completed projects and costs related to continuing projects from previous years.

- The increases in community and economic development expenses of $19.4 million or 10.6 percent is attributed to OPEB cost, completed projects and costs related to continuing projects from previous years and also the transfer of design and construction division from public works agency to community and economic development.

- The decrease in public works agency expenses of $21.7 million or 21.5 percent is attributed to the transfer of design and construction division from public works agency to community and economic development.

- Interest on long-term debt decreased by $5.3 million or 6.7 percent due to refunding of certain debts by the City.

Business-type activities. Business-type activities ended the fiscal year with a positive change in its net assets of $3.7 million compared to $0.8 million the previous fiscal year. The increase of $2.9 million in net assets is attributable to $3.4 million or 10.3 percent increase in sewer revenues offset by $1.1 million or 3.9 percent increase in sewer project related expenses. The increase in net assets is a result of rate increases and the restatement of sewer revenues.

Financial Analysis of the Government's Funds

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

General Fund: The General Fund is the chief operating fund of the City. At June 30, 2008, its unreserved fund balance is $121.1 million or 48.9 percent of the $247.7 million total General Fund balance.

In 2007-08, General Fund revenues of $541.7 million were $5.0 million or 0.9 percent higher than 2006-07 revenues of $536.7 million. Due to a slowing economy, the revenues have increased modestly over last year. The current year increase is due primarily to increases in property tax revenue of $31.7 million and sales tax of $6.4 million, offset by a decrease in real estate transfer revenue of $25.3 million due to a slowing housing market.

In 2007-08, General Fund expenditures of $488.5 million were $20.2 million or 4.3 percent higher than 2006-07 expenditures of $468.3 million. The increase in expenditures was mainly due to increases in public safety of $13.6 million because of salaries, pension, healthcare and benefit costs.

Federal and State Fund: The Federal and State Fund had a fund balance of $17.3 million as of June 30, 2008 that represents an increase of $12.3 million or 243.7 percent over the prior fiscal year. The net increase of $12.3 million was primarily attributed to a decrease in Home Loan Program and multi year grant projects expenditures for community and economic development.

Oakland Redevelopment Agency: The Oakland Redevelopment Agency had a fund balance of $598.8 million as of June 30, 2008 that represents a modest decrease of $2.6 million or 0.4 percent over the prior fiscal year. The net decrease of $2.6 million was primarily attributed to $12.4 million increase in tax increment. These increases were offset by increased project expenditures of $12.2 million and a decrease of $3.9 million in rents and other reimbursements revenues.

Municipal Capital Improvement Fund: The Municipal Capital Improvement Fund had a fund balance of $68.5 million as of June 30, 2008 that represents a decrease of $28.3 million or 29.2 percent over the prior fiscal year. The net decrease of $28.3 million is attributed to increase in capital improvement projects expense.

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

The portion of net assets invested in capital assets, net of related debt amounted to $111.9 million as of June 30, 2008, compared to $109.9 million for the previous fiscal year. The $2.0 million or 1.8 percent increase is related to proceeds spent from a debt issued to finance sewer projects. During the fiscal year, the City capitalized $9.2 million in sewer system completed projects, net of depreciation.

General Fund Budgetary Highlights

During the fiscal year ended June 30, 2008, General Fund had a $2.6 million decrease in budgeted revenues between the original and final amended operating budget. The decrease is due to decrease in other revenues. Actual budgetary basis revenues of $541.2 million were $6.8 million less than the final amended budget. The decrease is primarily attributed to real estate transfer tax revenue collection due to the housing market.

In addition, there was $27.7 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 City Council. The original approved expenditure budget contained only estimates of project carryforwards.

Actual budgetary basis expenditures of $488.5 million were $11.8 million less than the amended budget and $15.9 million less than the original budget. The net budget savings is attributed to (1) the significant turnover in full time sworn officers through attrition, (2) the absorption of a certain portion of sworn officers salaries and benefits by Measure Y funds to satisfy that Measure's mandates while recruitment for additional authorized full time peace officers is in progress, and (3) the completion of carryforward projects during the fiscal year.

Capital Assets

The City's capital assets, net of depreciation, totaled $1,045.0 million as of June 30, 2008 compared to $990.5 million as of June 30, 2007, an increase of $54.5 million or 5.5 percent. Governmental activities additions of $92.2 million in capital assets included land acquisition and capitalization of infrastructure, facilities and improvements, and furniture, machinery and equipment which met the City's threshold for capitalization. These additions were offset by retirements and depreciation, the net effect of which was an increase of $44.9 million in adjustments against capital assets for governmental activities. Business activities, primarily the sewer fund, increased its capital assets by $9.2 million, net of retirements and depreciation. See Note (7) for more details in capital assets.

Construction Commitments

The City has active construction projects as of June 30, 2008 totaling $180,320,388. The projects include street construction, park construction, building improvements and sewer and storm drain improvements.

Debt Administration

At the end of the current fiscal year, the City's debt limit (3.75 percent of property valuation, net of exemptions subject to taxation) was $1,116.2 million. The total amount of debt applicable to the debt limit was $331.5 million. The resulting legal debt margin was $784.7 million.

The City of Oakland's underlying ratings for its general obligation bonds as of June 30, 2008, were as follows:

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

On March 21, 2008, the Standard and Poor's Corporation upgraded the City's general obligations bonds rating from A+ to AA- while affirming the stable outlook.

As of June 30, 2008, the City had total long-term obligations outstanding of $2.02 billion compared to $2.05 billion outstanding for the prior fiscal year, a decrease of 1.5 percent. Of this amount, $331.5 million is general obligation bonds backed by the full faith and credit of the City. The remaining $1.7 billion is comprised of various long-term debt instruments listed below including accruals of year-end estimates for other long-term liabilities.

Outstanding Debt
June 30, 2008
(In Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
General obligation bonds	$ 331,528	$ 345,214	$ -	$ -	$ 331,528	$ 345,214
Tax allocation bonds	496,630	514,475	-	-	496,630	514,475
Certificate of participation	40,495	45,795	-	-	40,495	45,795
Lease revenue bonds	323,340	325,105	-	-	323,340	325,105
Pension obligation bonds	282,705	313,625	-	-	282,705	313,625
Special assessment debt with government commitments	6,200	6,800	-	-	6,200	6,800
Accreted interest on appreciation bonds	125,743	104,356	-	-	125,743	104,356
Sewer-bonds & notes payable	-	-	61,066	63,431	61,066	63,431
Less: deferred amounts						
Bond issuance premiums	32,204	22,887	2,475	2,593	34,679	25,480
Bond refunding loss	(34,658)	(20,035)	-	-	(34,658)	(20,035)
Total Bonds Payable	1,604,187	1,658,222	63,541	66,024	1,667,728	1,724,246
Notes & Leases payable	46,013	48,899	-	-	46,013	48,899
Other long-term liabilities	301,368	272,128	-	-	301,368	272,128
Total Outstanding Debt	$ 1,951,568	$1,979,249	$ 63,541	$ 66,024	$2,015,109	$2,045,273

The City's overall total long-term obligations decreased by $30.2 million compared to fiscal year 2007. The net decrease is primarily attributable to the City debt principal payments and the refunding of variable bonds (Auction Rates Securities) to fixed rate bonds.

Summary of New Debt:

Oakland Joint Powers Financing Authority
Refunding Revenue Bonds, 2008 Series A-1 and A-2

On April 3, 2008, the Oakland Joint Powers Financing Authority (the "JPFA") issued its Refunding Revenue Bonds in an aggregate principal amount of $127,960,000. This issue is comprised of a tax-exempt portion in an aggregate amount of $107,630,000 (the "2008 Series A-1") and a taxable portion in an aggregate amount of $20,330,000 (the "2008 Series A-2"), (collectively, the "2008 Bonds"). The 2008 Bonds are fixed rate bonds. The 2008 Bonds were issued to (i) refund and defease all of the outstanding JPFA's Refunding Revenue Bonds, 2005 Series A and Series B (Auction Rates Securities) and (ii) to convert the auction rates securities to fixed rate bonds. The proceeds associated with the 2008 Series A-2 were used to fund a portion of the City's obligation to make payments to its Police and Fire Retirement System.

Oakland Joint Powers Financing Authority
Lease Revenue Refunding Bonds, 2008 Series B

On April 16, 2008, the Oakland Joint Powers Financing Authority (the "JPFA") issued its Lease Revenue Refunding Bonds (Oakland Administration Buildings) 2008 Series B in an aggregate principal amount of $113,450,000 (the "2008 Series B Bonds"). The 2008 Series B Bonds are tax-exempt, and fixed rate bonds. The 2008 Series Bonds were issued to (i) refund and defease all of the outstanding JPFA's Lease Revenue Refunding Bonds (Oakland Administration Buildings) 2004 Series A-1 and A-2 (Auction Rates Securities) (the "2004 Bonds"), (ii) to convert the auction rates securities to fixed rate bonds and (iii) to terminate two interest rate swaps associated with the 2004 Bonds.

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

Economic Factors and Next Year's Budgets and Tax Rates

The economic indicators highlighted below, among others and including labor union contracts, were factored into the City's budget formulation process as they relate to revenue forecasting, program planning, and resource allocation for fiscal year 2007-08.

The City of Oakland's unemployment rate increased to 9.6% in June 2008 compared to an average unemployment rate of 7.4% for July 2007.

The Bay Area's consumer price index for all urban consumers in June 2008 was 225.181 compared to the U.S. city average consumer price index (CPI-U) for all urban consumers at 218.815. (Base period: 1982 – 84 = 100).

Average forecast residential rental and vacancy rates for 2008 were $1,410 per month and 4.5% respectively compared to $1, 321 and 3.8% for 2007.

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

Estimated population for January 1, 2008 is 420,183 with a total number of households of 412,926 an average household size of 2.629 persons and a per capita personal income of $25,118..

Electric utility average total rate for commercial range from 13.764 to 16.528 cents per kilowatt hour while industrial average total rate are from 8.230 to 11.475 cents per kilowatt hour.

Increases in expenditures due to new union contracts, CalPERS pension rates, and healthcare costs have been factored into the City's Fiscal Year 2007-08 budget without raising or imposing new taxes.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

City of Oakland
Statement of Net Assets
June 30, 2008
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Port of Oakland
ASSETS				
Cash and investments	$ 408,412	$ 3,926	$ 412,338	$ 88,720
Receivables (net of allowance for uncollectibles of $6,894 for City and $2,079 for Port):				
Accrued interest	2,080	-	2,080	407
Property taxes	25,261	-	25,261	-
Accounts receivable	64,134	8,235	72,369	50,619
Grants receivable	12,239	-	12,239	-
Due from Port	11,421	-	11,421	-
Internal balances	1,177	(1,177)	-	-
Inventories	1,136	-	1,136	-
Restricted assets:				
Cash and investments	669,220	29,197	698,417	119,309
Receivables	-	-	-	3,839
Property held for resale	121,735	-	121,735	-
Notes and loans receivable (net of allowance for uncollectibles of $49,941 for the City)	257,741	-	257,741	-
Other	36	-	36	86,851
Capital assets:				
Land and other assets not being depreciated	131,696	10,542	142,238	616,781
Facilities, infrastructures, and equipment, net of depreciation	767,621	135,189	902,810	1,723,532
Unamortized bond issuance costs	16,917	627	17,544	-
Net pension asset	275,281	-	275,281	-
TOTAL ASSETS	2,766,107	186,539	2,952,646	2,690,058
LIABILITIES				
Accounts payable and other current liabilities	145,122	3,178	148,300	44,119
Accrued interest payable	15,691	176	15,867	18,105
Due to other governments	15,350	-	15,350	-
Due to primary government	-	-	-	11,421
Unearned revenue	6,442	26	6,468	66,057
Matured bonds and interest payable	520	-	520	-
Other	10,596	6	10,602	44,959
Non-current liabilities:				
Due within one year	173,473	2,554	176,027	36,241
Due in more than one year	1,778,095	60,987	1,839,082	1,545,358
TOTAL LIABILITIES	2,145,289	66,927	2,212,216	1,766,260
NET ASSETS (deficit)				
Invested in capital assets, net of related debt	401,881	111,881	513,762	877,126
Restricted net assets:				
Debt service	14,220	-	14,220	15,241
Pension	131,367	-	131,367	-
Urban redevelopment and housing	174,627	-	174,627	-
Other purposes	16,694	-	16,694	12,692
Unrestricted net assets (deficit)	(117,971)	7,731	(110,240)	18,739
TOTAL NET ASSETS	$ 620,818	$ 119,612	$ 740,430	$ 923,798

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

City of Oakland
Statement of Activities
Year Ended June 30, 2008
(In Thousands)

		Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			Component Unit
			Operating	Capital				
		Charges for	Grants and	Grants and	Governmental	Business-type		Port
Functions/Programs	Expenses	Services	Contributions	Contributions	Activities	Activities	Total	of Oakland
Primary government:								
Governmental activities:								
General government	$ 102,218	$ 22,276	$ 4,667	$ -	$ (75,275)	$ -	$ (75,275)	
Public safety	412,050	10,331	7,173	-	(394,546)	-	(394,546)	
Life enrichment	115,315	5,110	26,923	-	(83,282)	-	(83,282)	
Community and economic development	203,406	45,466	49,137	-	(108,803)	-	(108,803)	
Public works	79,348	27,113	3,378	-	(48,857)	-	(48,857)	
Interest on long-term debt	74,545	-	-	-	(74,545)	-	(74,545)	
TOTAL GOVERNMENTAL ACTIVITIES	986,882	110,296	91,278	-	(785,308)	-	(785,308)	
Business-type activities:								
Sewer	30,502	33,264	-	-	-	2,762	2,762	
Parks and recreation	384	487	-	-	-	103	103	
TOTAL BUSINESS-TYPE ACTIVITIES	30,886	33,751	-	-	-	2,865	2,865	
TOTAL PRIMARY GOVERNMENT	$ 1,017,768	$ 144,047	$ 91,278	$ -	$ (785,308)	$ 2,865	$ (782,443)	
Component unit:								
Port of Oakland	$ 335,070	$ 299,883	$ -	$ 27,092				$ (8,095)
General revenues:								
Property taxes					358,338	-	358,338	-
State taxes:								
Sales and use taxes					64,812	-	64,812	-
Motor vehicle in-lieu tax					1,811	-	1,811	-
Gas tax					7,305	-	7,305	-
Local taxes:								
Business license					52,542	-	52,542	-
Utility consumption					52,524	-	52,524	-
Real estate transfer					36,205	-	36,205	-
Transient occupancy					12,400	-	12,400	-
Parking					15,747	-	15,747	-
Voter approved special tax					32,942	-	32,942	-
Franchise					13,791	-	13,791	-
License and permits					19,319	-	19,319	-
Interest and investment income					47,852	1,434	49,286	13,145
Other					50,153	-	50,153	21,499
Transfers					600	(600)	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					766,341	834	767,175	34,644
Changes in net assets					(18,967)	3,699	(15,268)	26,549
NET ASSETS - BEGINNING, AS PREVIOUSLY REPORTED					708,977	112,059	821,036	897,249
Restatement of net pension asset					(69,192)	-	(69,192)	-
Restatement of sewer service revenue					-	3,854	3,854	-
Net Assets - Beginning, as restated					639,785	115,913	755,698	897,249
NET ASSETS - ENDING					$ 620,818	$ 119,612	$ 740,430	$ 923,798

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

CITY OF OAKLAND
Balance Sheet
Governmental Funds
June 30, 2008
(In Thousands)

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	$110,735	$ -	$ 227,767	$ 77	$ 69,769	$ 408,348
Receivables (net of allowance for uncollectibles of $3,867):						
Accrued interest	297	81	1,348	18	336	2,080
Property taxes	14,182	1,678	2,074	-	7,327	25,261
Accounts receivable	41,751	4,551	2,577	165	14,936	63,980
Grants receivable	-	11,685	-	-	554	12,239
Due from component unit	11,083	-	-	-	338	11,421
Due from other funds	81,170	174	14,772	-	4,000	100,116
Notes and loans receivable (net of allowance for uncollectibles of $49,941)	21,875	96,291	116,429	-	23,146	257,741
Restricted cash and investments	131,696	11,652	282,373	70,479	168,310	664,510
Property held for resale	-	-	121,735	-	-	121,735
Other	36	-	-	-	-	36
TOTAL ASSETS	$412,825	$ 126,112	$ 769,075	$ 70,739	$ 288,716	$1,667,467
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued liabilities	$124,284	$ 6,461	$ 3,938	$ 1,062	$ 7,697	$ 143,442
Due to other funds	8,431	6,332	12,579	-	22,564	49,906
Due to other governments	80	257	15,013	-	-	15,350
Deferred revenue	31,467	95,722	134,650	-	28,540	290,379
Matured bonds and interest payable	-	-	-	520	-	520
Other	879	9	4,087	612	5,009	10,596
TOTAL LIABILITIES	165,141	108,781	170,267	2,194	63,810	510,193
Fund balances						
Reserved:						
Encumbrances	6,193	28,230	-	4,752	18,715	57,890
Long-term receivables	-	-	1,292	-	-	1,292
Debt service	15,382	16,280	-	746	162,527	194,935
Property held for resale	-	-	121,735	-	-	121,735
Capital projects	-	-	474,037	-	-	474,037
Pension obligations	105,000	-	-	-	-	105,000
Unreserved/(deficit) reported in:						
General fund	121,109	-	-	-	-	121,109
Special revenue funds	-	(27,179)	-	-	35,308	8,129
Capital project funds	-	-	1,744	63,047	8,356	73,147
TOTAL FUND BALANCES	247,684	17,331	598,808	68,545	224,906	1,157,274
TOTAL LIABILITIES AND FUND BALANCES	$412,825	$ 126,112	$ 769,075	$ 70,739	$ 288,716	$1,667,467

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

City of Oakland
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
for Governmental Activities
June 30, 2008
(In Thousands)

Fund balances - total governmental funds		$ 1,157,274
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not a financial resource and therefore, are not reported in the funds.		
Primary government capital assets, net of depreciation	$ 899,317	
Less: internal service funds' capital assets, net of depreciation	(19,001)	880,316
Bond issuance costs are expended in the governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for the purposes of the governmental activities on the statement of net assets.		16,917
Net pension assets are recognized in the statement of net assets as an asset, however, it is not considered a financial resource and, therefore, is not reported on the balance sheet of governmental funds.		275,281
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.		
Interest payable on long-term debt for primary government	$ (15,691)	
Add: Interest payable on long-term debt for internal service fund	97	(15,594)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the governmental funds.		283,937
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	$ (1,951,568)	
Less: long-term liabilities for internal service funds	10,841	(1,940,727)
Internal service funds are used by the City to charge the costs of providing supplies and services, fleet and facilities management, and use of radio and communication equipment to individual funds. Assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		(36,586)
NET ASSETS OF GOVERNMENTAL ACTIVITIES		$ 620,818

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

CITY OF OAKLAND
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008
(In Thousands)

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Property	$ 201,765	$ -	$ 121,784	$ -	$ 34,525	$ 358,074
State:						
Sales and use	53,090	-	-	-	11,722	64,812
Motor vehicle in-lieu	1,811	-	-	-	-	1,811
Gas	-	-	-	-	7,305	7,305
Local:						
Business license	52,542	-	-	-	-	52,542
Utility consumption	52,524	-	-	-	-	52,524
Real estate transfer	36,205	-	-	-	-	36,205
Transient occupancy	12,400	-	-	-	-	12,400
Parking	8,524	-	-	-	7,223	15,747
Voter approved special tax	-	11,825	-	-	21,117	32,942
Franchise	13,791	-	-	-	-	13,791
Licenses and permits	1,612	-	-	-	17,707	19,319
Fines and penalties	21,653	124	-	-	1,720	23,497
Interest and investment income	10,885	1,764	20,333	3,162	13,750	49,894
Charges for services	55,048	74	5,893	-	15,720	76,735
Other intergovernmental revenues	-	-	-	-	33,561	33,561
Federal and state grants and subventions	5,935	82,023	3,810	6	2,654	94,428
Annuity income	2,495	-	-	-	-	2,495
Other	11,441	1,918	2,991	458	4,897	21,705
TOTAL REVENUES	541,721	97,728	154,811	3,626	171,901	969,787
EXPENDITURES						
Current:						
Elected and Appointed Officials:						
Mayor	3,172	-	-	1	602	3,775
Council	4,423	-	-	1,271	1,447	7,141
City Administrator	11,459	752	-	640	3,365	16,216
City Attorney	10,112	77	-	-	5,022	15,211
City Auditor	1,230	-	-	-	53	1,283
City Clerk	1,906	-	-	-	68	1,974
Agencies/Departments:						
Personnel Resource Management	6,135	-	-	-	1,383	7,518
Information Technology	11,263	161	-	834	1,408	13,666
Financial Services	26,658	255	-	-	1,330	28,243
Contracting and Purchasing	1,997	-	-	-	283	2,280
Police Services	203,954	5,533	-	65	16,341	225,893
Fire Services	106,006	2,254	-	1,667	8,502	118,429
Life Enrichment:						
Parks and Recreation	16,907	46	-	83	3,836	20,872
Library	11,817	11,962	-	10	44	23,833
Cultural Arts and Museum	6,561	7	-	-	315	6,883
Aging & Health and Human Services	6,334	28,783	-	2	21,120	56,239
Community and Economic Development	8,161	16,706	109,587	9,722	62,732	206,908
Public Works	32,499	2,620	-	1,961	34,891	71,971
Other	9,115	-	1,398	-	84	10,597
Capital outlay	6,718	14,325	-	14,797	10,472	46,312
Debt service:						
Principal repayment	1,069	810	17,845	865	72,351	92,940
Bond termination payments	-	-	-	-	5,674	5,674
Bond issuance costs	268	-	-	-	3,942	4,210
Interest charges	733	1,149	28,542	46	41,058	71,528
TOTAL EXPENDITURES	488,497	85,440	157,372	31,964	296,323	1,059,596
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	53,224	12,288	(2,561)	(28,338)	(124,422)	(89,809)
OTHER FINANCING SOURCES (USES)						
Issuance of refunding bonds	-	-	-	-	241,410	241,410
Premiums on issuance of bonds	-	-	-	-	11,313	11,313
Payment to refunding bond escrow agent	-	-	-	-	(221,250)	(221,250)
Property sale proceeds	4,044	1	-	-	-	4,045
Transfers in	3,600	-	-	-	95,091	98,691
Transfers out	(95,091)	-	-	-	(3,000)	(98,091)
TOTAL OTHER FINANCING SOURCES (USES)	(87,447)	1	-	-	123,564	36,118
NET CHANGE IN FUND BALANCES	(34,223)	12,289	(2,561)	(28,338)	(858)	(53,691)
Fund balances - beginning	281,907	5,042	601,369	96,883	225,764	1,210,965
FUND BALANCES - ENDING	$ 247,684	$ 17,331	$ 598,808	$ 68,545	$ 224,906	$ 1,157,274

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, 2008
(In Thousands)

Net change in fund balances - total governmental funds		$ (53,691)
Amounts reported for governmental activities in the statement of activities are different because:		
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.		
Primary government:		
Capital asset acquisition	$ 92,150	
Retirement of capital assets	(27)	
Depreciation	(47,179)	
Net changes of capital assets within internal service funds	318	45,262
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, loans made to developers and others are treated as urban redevelopment and housing expenditures at the time the loans are made and are reported as revenues when the loans are collected in the funds. This represents the change in the deferred amounts during the current period.		17,714
Some expenses such as claims, vacations and sick leave reported in the statement of activities do not require the use of current financial resources and therefore are not reported as an expenditure in the governmental funds.		9,310
Changes to the net pension assets, as reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(31,551)
Bond issuance costs are expended in the governmental funds when paid, and are deferred and amortized over the life of the corresponding life of the bonds for purposes of the statement of net assets. This is the amount by which current year bond issuance costs exceeded amortization expense in the current period.		2,793
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and the advance refunding of debt consume the current financing sources of the governmental funds. These transactions, however have no effect on net assets. This is the amount by which principal retirement and payment to escrow agent exceeded bond proceeds in the current period.		
Debt and capital lease principal payments	$ 92,940	
Payments to escrow agent for refunded debt	221,250	
Issuance of bonds and notes	(241,410)	
Drawdowns on EEC HUD 108 notes	(2,605)	
Premium on bond proceeds	(11,313)	
Bond termination payments	5,674	64,536
Amortization of bond premiums		1,996
Amortization of refunding loss		(3,044)
Additional accrued and accreted interest calculated on bonds and notes payable		(22,896)
Principal payments of Coliseum Authority pledge obligation		2,900
Net changes on other long-term liability for mandated Alameda County environmental clean-up health costs		2,218
Net changes on post employment benefits other than pension benefits (OPEB)		(43,668)
The net loss of activities of internal service funds is reported with governmental activities		(10,846)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		$ (18,967)

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

CITY OF OAKLAND
Statement of Fund Net Assets
Proprietary Funds
June 30, 2008
(In Thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	$ -	$ 3,926	$ 3,926	$ 64
Accounts receivables (net of uncollectibles of $2,578 and $449) for the enterprise funds and internal service funds, respectively)	8,218	17	8,235	154
Due from other funds	-	-	-	74
Inventories	-	-	-	1,136
Restricted cash and investments	29,064	133	29,197	4,710
Total Current Assets	37,282	4,076	41,358	6,138
Non-current Assets:				
Capital assets:				
Land and other assets not being depreciated	9,785	757	10,542	310
Facilities and equipment, net of depreciation	133,532	1,657	135,189	18,691
Total capital assets	143,317	2,414	145,731	19,001
Unamortized bond issuance costs	627	-	627	-
Total Non-current Assets	143,944	2,414	146,358	19,001
TOTAL ASSETS	181,226	6,490	187,716	25,139
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	2,921	257	3,178	1,680
Accrued interest payable	176	-	176	97
Due to other funds	1,177	-	1,177	49,107
Unearned revenue	26	-	26	-
Other payables	6	-	6	-
Bonds and notes payables	2,554	-	2,554	3,035
Total Current Liabilities	6,860	257	7,117	53,919
Non-current Liabilities:				
Bonds and notes payables	60,987	-	60,987	7,806
Total Non-current Liabilities	60,987	-	60,987	7,806
TOTAL LIABILITIES	67,847	257	68,104	61,725
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	109,467	2,414	111,881	8,160
Unrestricted (deficit)	3,912	3,819	7,731	(44,746)
TOTAL NET ASSETS (DEFICIT)	$ 113,379	$ 6,233	$ 119,612	$ (36,586)

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

CITY OF OAKLAND
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2008
(In Thousands)

	Business-type Activities Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
OPERATING REVENUES				
Rental	$ -	$ 386	$ 386	$ -
Sewer services	33,196	-	33,196	-
Charges for services	-	-	-	41,477
Other	68	101	169	94
TOTAL OPERATING REVENUES	33,264	487	33,751	41,571
OPERATING EXPENSES				
Personnel	13,210	108	13,318	20,758
Supplies	420	2	422	7,533
Depreciation and amortization	4,068	174	4,242	4,337
Contractual services and supplies	1,154	25	1,179	586
Repairs and maintenance	67	-	67	3,066
General and administrative	4,284	27	4,311	5,271
Rental	1,496	48	1,544	1,818
Other	2,869	-	2,869	7,413
TOTAL OPERATING EXPENSES	27,568	384	27,952	50,782
OPERATING INCOME (LOSS)	5,696	103	5,799	(9,211)
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment income	1,272	162	1,434	35
Interest expense	(2,934)	-	(2,934)	(2,116)
Other, net	-	-	-	446
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1,662)	162	(1,500)	(1,635)
INCOME (LOSS) BEFORE TRANSFERS	4,034	265	4,299	(10,846)
Transfers in	-	-	-	1,278
Transfers out	(600)	-	(600)	(1,278)
TOTAL TRANSFERS	(600)	-	(600)	-
Change in net assets (deficit)	3,434	265	3,699	(10,846)
Net Assets (deficit) - Beginning, as previously reported	106,091	5,968	112,059	(25,740)
Restatement of sewer service revenue	3,854	-	3,854	-
Net Assets (deficit) - Beginning, as restated	109,945	5,968	115,913	(25,740)
NET ASSETS (DEFICIT) - ENDING	$ 113,379	$ 6,233	$ 119,612	$ (36,586)

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, 2008
(In Thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers, including other funds and cash deposits	$ 32,328	$ -	$ 32,328	$ 41,449
Cash received from tenants for rents	-	401	401	-
Cash from other sources	68	-	68	94
Cash paid to employees for services	(13,210)	(108)	(13,318)	(20,758)
Cash paid to suppliers for goods and services	(8,996)	246	(8,750)	(26,999)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	10,190	539	10,729	(6,214)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from interfund loans	-	-	-	9,521
Repayment of interfund loans	(2,239)	-	(2,239)	(120)
Interest paid on interfund loans	-	-	-	(1,566)
Transfers in	-	-	-	1,278
Transfers out	(600)	-	(600)	(1,278)
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	(2,839)	-	(2,839)	7,835
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(13,302)	(578)	(13,880)	(4,019)
Other non-operating receipts	-	-	-	446
Long-term debt:				
Repayment of long-term debt	(2,365)	-	(2,365)	(2,907)
Interest paid on long-term debt	(3,052)	-	(3,052)	(550)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(18,719)	(578)	(19,297)	(7,030)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	1,272	162	1,434	35
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,096)	123	(9,973)	(5,374)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	39,160	3,936	43,096	10,148
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 29,064	$ 4,059	$ 33,123	$ 4,774
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	$ 5,696	$ 103	$ 5,799	$ (9,211)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Depreciation and amortization	4,068	174	4,242	4,337
Changes in assets and liabilities:				
Receivables	(868)	15	(853)	(79)
Inventories	-	-	-	92
Due from other funds	-	-	-	(19)
Accounts payable and accrued liabilities	1,293	247	1,540	(1,334)
Unearned revenue	1	-	1	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 10,190	$ 539	$ 10,729	$ (6,214)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS				
Cash and investments	$ -	$ 3,926	$ 3,926	$ 64
Restricted cash and investments	29,064	133	29,197	4,710
TOTAL CASH AND CASH EQUIVALENTS	$ 29,064	$ 4,059	$ 33,123	$ 4,774
NON CASH ITEM:				
Amortization of bond premiums	$ (118)	$ -	$ (118)	$ -

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

CITY OF OAKLAND
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008
(In Thousands)

	Pension Trust Funds	Private Purpose Trust Funds
ASSETS		
Cash and investments	$ 4,715	$ 6,569
Receivables:		
Accrued interest and dividends	1,499	21
Investments and contributions	28,635	-
Restricted:		
Cash and investments:		
Short-term investments	39,888	-
U.S. government bonds	72,540	-
U.S. Corporate bonds	75,488	-
Domestic equities and mutual funds	258,251	-
International equities and mutual funds	79,064	-
Real estate mortgage loans	50	-
Total restricted cash and investments	525,281	-
Securities lending collateral	89,147	-
TOTAL ASSETS	649,277	6,590
LIABILITIES		
Accounts payable and accrued liabilities	71,835	22
Securities lending collateral	89,147	-
Other	-	8
TOTAL LIABILITIES	160,982	30
NET ASSETS		
Net assets held in trust	$ 488,295	$ 6,560

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

CITY OF OAKLAND
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2008
(In Thousands)

	Pension Trust Funds	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Member contributions	$ 14	$ -
Other contributions	-	325
Total contributions	14	325
Trust receipts	-	966
Investment income:		
Net depreciation in fair value of investments	(48,029)	-
Interest	11,055	235
Dividends	5,839	-
Securities lending	2,516	-
TOTAL INVESTMENT INCOME (LOSS)	(28,619)	235
Less investment expenses:		
Investment expenses	(2,640)	-
Borrowers rebates and other agent fees on securities lending transactions	(2,208)	-
Total investment expenses	(4,848)	-
NET INVESTMENT INCOME (LOSS)	(33,467)	235
Other income	125	-
TOTAL ADDITIONS (DEDUCTIONS)	(33,328)	1,526
DEDUCTIONS:		
Benefits to members and beneficiaries:		
Retirement	46,009	-
Disability	27,396	-
Death	2,381	-
TOTAL BENEFITS TO MEMBERS AND BENEFICIARIES	75,786	-
Administrative expenses	1,054	86
Change in payable to City	(4,205)	-
Other	-	83
Police services	-	1,257
TOTAL DEDUCTIONS	72,635	1,426
Change in net assets	(105,963)	100
NET ASSETS - BEGINNING	594,258	6,460
NET ASSETS - ENDING	$ 488,295	$ 6,560

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

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NOTES TO BASIC FINANCIAL STATEMENTS

(1) ORGANIZATION AND DEFINITION OF REPORTING ENTITY

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

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

Blended Component Units

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

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

The Oakland Joint Powers Financing Authority (JPFA) was formed to assist in the financing of public capital improvements. JPFA is a joint exercise agency organized under the laws of the State of California and is composed of the City and the Agency. 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 government-wide statement of net assets.

Discretely Presented Component Units

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

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

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available for the year levied and if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The County of Alameda is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law, and for remitting such amounts to the City. Property taxes are assessed and levied as of July 1 on all taxable property located in the City, and result in a lien on real property. Property taxes are then due in two equal installments; the first on November 1 and the second on February 1 of the following calendar year, and are delinquent after December 10 and April 10, respectively. General property taxes are limited to a flat 1% rate applied to the 1975-76 full value of the property, or 1% of the sales price of the property or of the construction value added after the 1975-76 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise a maximum of 2% per year. Taxes were levied at the maximum 1% rate during the year ended June 30, 2008.

The City reports the following major governmental funds:

> The **General Fund** is the City's primary operating fund. It accounts for all financial activities and resources of the general government except those required to be accounted for in another fund. These activities are funded principally by property taxes, sales and use taxes, business, utility and real estate transfer taxes, interest and investment income, and charges for services.
>
> The **Federal/State Grant Fund** accounts for various Federal and State grants used or expended for a specific purpose, activity or program.
>
> The **Oakland Redevelopment Agency Fund** accounts for federal grants, land sales, rents and other revenues relating to redevelopment projects. Expenditures are comprised of land acquisitions and improvements and all other costs inherent in redevelopment activities.

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

The City reports the following major enterprise fund:

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

Additionally, the City reports the following fund types:

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: sewers, golf courses, vehicle acquisition and maintenance, radio and telecommunication support charges, and reproduction services. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Cash and Investments

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

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

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

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

Due From/Due To Other Funds and Internal Balances

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

Interest Rate Swap Agreement

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

Inter-fund Transfers

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

> Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund and a liability of the requesting fund at the end of the fiscal year.
>
> Reimbursements for expenditures, initially made by one fund that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the fund that is reimbursed. Reimbursements are eliminated for purposes of government-wide reporting.

Bond Issuance Costs and Discounts/Premiums

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

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

Inventories

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

Capital Assets

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

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

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

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

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

Property Held for Resale

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

Net Pension Asset

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

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

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

Retirement Plans

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

Other Post Employment Benefits (OPEB)

The OPEB valuation covers Police, Fire and Miscellaneous employees. The City retirees are eligible for retiree health benefits if they meet certain requirements relating to age and service. The retiree health benefits are described in the labor agreements between the City and Local Unions and in City resolutions. The demographic rates used for the California Public Employee Retirement System (PERS) were public safety employees retirements benefits under a 3% @ 50 formula and for miscellaneous employees retirement benefits under a 2.7% @ 55 formula. At June 30, 2008, the City reported a net OPEB obligation of $43,000,000.

Refer to Note 17 for additional information.

Refunding of Debt

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

Fund Balances

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

1. **Reserve for Encumbrances –** Encumbrances outstanding at fiscal year end are reported as reservations of fund balances and the related appropriation is automatically carried forward into the next fiscal year. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

2. **Reserve for Long-Term Receivables –** This fund balance is reserved for long-term receivables that do not represent expendable available financial resources

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

4. **Reserve for Property Held for Resale –** This fund balance is reserved for the cost of developing and administering residential and commercial properties intended for resale.

5. **Reserve for Capital Projects –** This fund balance is reserved for ongoing projects in specific areas excluding the General Fund. This reservation includes $90,260,000 reserved for low and moderate housing projects.

6. **Reserve for Pension Obligations –** This fund balance is reserved for the City's pension obligations and is restricted with New York Life Annuity Company.

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

Restricted Net Assets

Restricted net assets are those assets, net of their related liabilities that have constraints placed on their use by laws and regulations of other governments, creditors, grantors, or contributors and restrictions imposed by law through constitutional provisions or enabling legislation. Accordingly, restricted assets may include principal and interest amounts accumulated to pay debt service, unspent grant revenues, certain fees and charges, and restricted tax revenues. At June 30, 2008, the government-wide statement of net assets reported restricted net assets of $336.9 million in governmental activities none of which was restricted by enabling legislation.

Restatement of Net Pension Assets

Although not contractually required to contribute to the Oakland Police and Fire Retirement System (PFRS) until July 2011, it was determined that the calculation of the annual pension cost for the PFRS did not include some of the actuarially required annual contributions for certain prior years. The City issued pension obligation bonds in February 1997 to fund PFRS through fiscal year 2011. Bond proceeds in the amount of $417,173,300 were contributed in fiscal year 1997 and, as a result, no employer contributions are required through June 30, 2011. While the City does not have a contractual requirement to contribute to the PFRS until July 2011, the actuary has computed an actuarially required annual contribution in order to determine the amount necessary to fund the plan over a level period. Therefore, the City has restated the beginning net assets of governmental activities in the amount of $69,191,544 in order to adjust the beginning balance of the City's net pension asset as of June 30, 2007, to reflect the amortization of the asset as a result of the actuarially required annual contributions. Please refer to Note 16 for more details.

Restatement of Sewer Services Revenue

During the year, it was discovered that only a portion of the sewer services revenue accruals were made on an annual basis. The East Bay Municipal Utilities District (EBMUD) has been contracted by the City to collect sewer services revenues on its behalf. It was determined that the City, based on the information provided by EBMUD, only accrued a portion of the billed revenue and did not accrue any estimates for unbilled revenues. Therefore, the City has restated the beginning net assets of the Sewer Service Enterprise Fund in the amount of $3,854,427 to reflect the billed and unbilled revenues due to the City as of June 30, 2007.

Effects of New Pronouncements

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

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

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of the financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this statement is effective for the City's fiscal year ending June 30, 2010.

Use of Estimates

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

(3) CASH AND INVESTMENTS AND RESTRICTED CASH AND INVESTMENTS

Primary Government

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

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

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

On September 30, 2008, the City Operating Fund or Investment Pool is rated AAA/V1+ by Fitch Ratings. Investment pools rated AAA meet the highest credit quality standards for underlying assets, diversification, management and operational capabilities. The fund's V1+ volatility rating reflects low market risk and a strong capacity to return stable principal values to participants, even in adverse interest rate environments.

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

The retirement systems' investment policies authorize investment in the domestic stocks and bonds, U.S. equities, international equities, U.S. fixed income, mortgage loans and real estate. The systems' investment portfolios are managed by external investment managers. During the year ended June 30, 2008, the number of external investment managers was nine for the PFRS and one for the OMERS.

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

	Primary Government				Component Unit
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Port
Cash and investments	$ 408,412	$ 3,926	$ 11,284	$ 423,622	$ 88,720
Restricted cash and investments	669,220	29,197	525,281	1,223,698	119,309
Restricted securities lending collateral	-	-	89,147	89,147	-
TOTAL	$ 1,077,632*	$ 33,123	$ 625,712	$ 1,736,467	$ 208,029
Deposits				$ 24,054	$ 12,733
Investments				1,712,413	195,296
TOTAL				$ 1,736,467	$ 208,029

*$1,077,632 consists of all governmental funds and the internal service funds.

Investments – Primary Government

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

At June 30, 2008, the carrying amount of the City's deposits and bank balance was $24.0 million. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, $1.0 million was FDIC insured and $23.0 million was collateralized with securities held by the pledging financial institution in the City's name, in accordance with Section 53652 of the California Government Code.

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

Credit Risk (Financial Risk): Credit risk represents the possibility that the issuer/counterparty to an investment will be unable to fulfill its obligations. The most effective method for minimizing the risk of default by an issuer is to invest in high quality obligations. Under the City investment policy, short term debt shall be rated at least A-1 by Standard and Poor's (S&P), P-1 by Moody's Investor Service or F-1 by Fitch. Long term debt shall be rated at least A by Standard and Poor's, Moody's Investors Service or Fitch.

Since these obligations are the only ones permitted by State law, investing in them is also the most effective way to maintain legal compliance. The City invests only in securities from highly rated entities. As of June 30, 2008, approximately 83% of the pooled investments was invested in "AAA" quality securities.

The following tables show the City's credit risk for the Pool and Restricted portfolios as of June 30, 2008 (in thousands):

Pooled Investments

	Rating as of Fiscal Year Ended 06-30-08			
	Fair Value	**AAA/Aaa**	**A1/P1/F1**	**Not Rated**
U.S. Govt. Agency Securities	$ 186,345	$ 186,345	$ -	$ -
U.S. Govt. Agency Securities (Disc)	154,048	154,048	-	-
Money Market Funds	80,047	80,047	-	-
Local Agency Investment Fund (LAIF)	76,910	-	-	76,910
Commercial Paper	2,989	-	2,989	-
Negotiable Certificates of Deposit	6,000	-	6,000	-
Total Investment Pool	**$ 506,339**	**$ 420,440**	**$ 8,989**	**$ 76,910**

Restricted Investments

	Rating as of Fiscal Year Ended 06-30-08				
	Fair Value	**AAA/Aaa**	**A1/P1/F1**	**Baa3**	**Not Rated**
U.S. Treasury Strips	$ 22,702	$ -	$ -	$ -	$ 22,702
Money Market Funds	342,464	342,464	-	-	-
Local Agency Investment Fund (LAIF)	9,736	-	-	-	9,736
Commercial Paper	5,927	-	5,927	-	-
Corporate Bonds	2,535	-	-	2,535	-
Investment Agreements	101,111	-	-	-	101,111
Local Government Bond	106,533	-	-	-	106,533
Annuity	105,000	-	-	-	105,000
Total	**$ 696,008**	**$ 342,464**	**$ 5,927**	**$ 2,535**	**$ 345,082**

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

Under the City's Investment Policy, no more than five percent (5%) of the total assets of the investments held by the City may be invested in the securities of any one issuer, except the obligations of the United States government or government-sponsored enterprises, investment with the Local Agency Investment Fund and proceeds of or pledged revenues for any tax revenue anticipation notes.

Certain other investments are governed by bond covenants which do not restrict the amount of investment in any one issuer. Investments in one issuer that exceed 5% of the City's investment portfolio at June 30, 2008 are as follows (in thousands):

Issuer	Investment Type	Amount	Percent of City's Investment Portfolio
Federal National Mortgage Association	U.S. Government Securities	$ 158,356	13.17%
Federal Home Loan Bank	U.S. Government Securities	135,122	11.24%
FSA Capital Management	Investment Agreement	63,309	5.27%
Oakland Joint Powers Financing Authority	Local Government Bond	106,533	8.86%
New York Life Insurance Company	Annuity	105,000	8.73%

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

Pooled Investments

	Fair Value	% of Portfolio
U.S. Govt. Agency Securities	$ 186,345	36.80%
U.S. Govt. Agency Securities (Disc)	154,048	30.42%
Money Market Funds	80,047	15.81%
LAIF	76,910	15.19%
Commercial Paper	2,989	0.59%
Negotiable Certificates of Deposit	6,000	1.19%
TOTAL	**$ 506,339**	**100.00%**

Restricted Investments

	Fair Value	% of Portfolio
U.S. Treasury Strips	$ 22,702	3.26%
Money Market Funds	342,464	49.20%
LAIF	9,736	1.40%
Commercial Paper	5,927	0.85%
Corporate Bond	2,535	0.36%
Investment Agreements	101,111	14.53%
Local Government Bonds	106,533	15.31%
Annuity	105,000	15.09%
TOTAL	**$ 696,008**	**100.00%**

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

The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2008, the City's pooled portfolio had an average day to maturity of 342 days and had the following investments and original maturities (in thousands):

Pooled Investments

	Fair Value	Interest Rates (%)	Maturity 12 Months or Less	1 - 3 Years	3 - 5 Years
U.S. Govt. Agency Securities	$ 186,345	2.72 - 5.52	$ 55,362	$ 87,037	$ 43,946
U.S. Govt. Agency Securities (Disc)	154,048	2.00 - 2.67	154,048	-	-
Money Market Funds	80,047	2.57 - 5.13	80,047	-	-
Local Agency Investment Fund (LAIF)	76,910	2.89	76,910	-	-
Commercial Paper	2,989	2.17	2,989	-	-
Negotiable Certificates of Deposit	6,000	2.73 - 2.84	6,000	-	-
Total Investment Pool	**$ 506,339**		**$ 375,356**	**$ 87,037**	**$ 43,946**

Restricted Investments

	Fair Value	Interest Rates (%)	Maturity 12 Months or Less	1 - 3 Years	3 - 5 Years	5 Years +
U.S. Treasury Strips	$ 22,702	1.85 - 4.86	$ 2,133	$ 4,105	$ 3,855	$ 12,609
Money Market Funds	342,464	1.20 - 5.00	342,464	-	-	-
Local Agency Investment Fund	9,736	2.89	9,736	-	-	-
Commercial Paper	5,927	2.41 - 2.80	5,927	-	-	-
Corporate Bonds	2,535	9.27	-	-	-	2,535
Investment Agreements	101,111	3.90 - 5.02	101,111	-	-	-
Local Government Bond	106,533	4.86	5,859	12,663	14,054	73,957
Annuity	105,000	5.45	-	-	-	105,000
Total	**$ 696,008**		**$ 467,230**	**$ 16,768**	**$ 17,909**	**$ 194,101**

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

Other Disclosures: As of June 30, 2008, the City's investment in LAIF is $86.6 million ($76.9 million in pooled investments and $9.7 million in restricted investments). The total amount invested by all public agencies in LAIF at that date is approximately $25.1 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately $70 billion, 85.28% is invested in non-derivative financial products and 14.72% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the City's position in the pool.

Pensions Cash and Investments

Oakland Municipal Employee's Retirement System (OMERS)

City's Investment Pool

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

OMERS maintains its operating cash in the City's investment pool. As of June 30, 2008, the OMERS share of the City's investment pool totaled $647,326.

Investments

OMERS investment policy authorizes investment in domestic common stocks and bonds and mutual funds comprised of these investments. During the year ended June 30, 2008, OMERS investment portfolio was managed by one external investment manager.

OMERS investment policy states that the asset allocation of the investment portfolio target shall be 70% Domestic Equity and 30% Domestic Fixed Income. As of June 30, 2008, OMERS investment portfolio consists of shares of two commingled fund investments (Funds). OMERS invests in the Western Asset Core Bond Fund and the American Century Equity Fund. Specific guidelines for the Funds are detailed in the prospectus, or declaration of Trust, for each individual fund.

The following summarizes OMERS investment allocation at June 30, 2008 (in thousands):

Investments	Fair Value	Fund Allocation
Equity Investments		
American Century Equity Mutual Fund	$ 4,616	67%
Fixed Investments		
Western Asset Core Bond Mutual Fund	2,232	33%
Total Investment	$ 6,848	100%

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

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

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

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

Oakland Police and Fire Retirement System (PFRS)

City's Investment Pool

Cash in treasury is held in the City's cash and investment pool. These funds are invested according to the investment policy adopted by the City Council. Interest earned on these pooled accounts is allocated monthly to all funds based on the average daily cash balance maintained by the respective funds. It is not possible to disclose relevant information about PFRS separate portion of the investment pool. As of June 30, 2008, the PFRS share of the City's investment pool totaled $4,068,080.

Investments

PFRS investment policy authorizes investment in U.S. equities, international equities, U.S. fixed income, instruments including U.S. Treasury notes and bonds, government agency mortgage backed securities, U.S. corporate notes and bonds, collateralized mortgage obligations, yankee bonds and non U.S. issued fixed income securities denominated in foreign currencies. PFRS investment portfolio is managed by external investment managers. During the year ended June 30, 2008, the number of external investment managers was eleven.

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

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

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

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

Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. PFRS investment policy limits fixed income investments to a maximum average duration of 10 years and a maximum remaining term to maturity (single issue) at purchase of 30 years, with targeted portfolio duration of between 3 to 8 years and targeted portfolio maturity of 15 years. As of June 30, 2008 the average duration for PFRS fixed income investment portfolio was 4.61 years, excluding the fixed income short-term investments and securities lending investments.

As of June 30, 2008, PFRS had the following fixed income investments and maturities (in thousands):

Fixed Investments	Fair Value	Modified Duration (Year)
U.S. Government Bonds	$ 72,540	4.93
Corporate Bonds	75,488	4.30
Total Fixed Income Investments	$ 148,028	4.61

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The following tables provide information as of June 30, 2008 concerning credit risk of fixed and short-term income securities (in thousands):

S & P or Moody's Rating	Fair Value	Fair Value as a Percentage of Total Fixed Maturity Fair Value
AAA	$ 103,275	69.77%
AA	5,471	3.70%
A	14,408	9.73%
BBB	15,897	10.74%
BB	2,641	1.78%
B	6,102	4.12%
C	234	0.16%
Total Fixed Investments	$ 148,028	100.0%

PFRS has $233,792 of fixed income that does not meet the minimum rating of B or higher.

Short-Term Investment Type	S & P or Moody's Rating	Fair Value
Government Agencies	AAA	$ 9,029
Commercial Paper	AAA	3,315
Pooled Funds and Mutual Funds	Not Rated	25,996
Money Market Bank Accounts *	Not Rated	1,525
Total Short-Term Investments		$ 39,865

* The Money Market Bank Account is collateralized with AAA rated government agency securities.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2008, with the exception of mutual funds and United States Government securities, no investment exceeded 5% of PFRS investments.

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

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

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

Foreign Currency Risk: This risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. The following summarizes PFRS investments that are denominated in foreign currencies as of June 30, 2008:

Foreign Currency	**Total**
Australian Dollar	$ 3,435
Brazilian Real	146
British Pound	6,844
Canadian Dollar	3,579
Danish Krone	777
Euro	15,323
Hong Kong Dollar	2,829
Japanese Yen	7,782
Norwegian Krone	370
Philippines Peso	1
Singapore Dollar	879
South African Rand	280
Swedish Krona	169
Swiss Franc	4,172
Total Foreign Currency	**$ 46,586**

Securities Lending Transactions

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

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

As of June 30, 2008, management believes that PFRS has minimized its credit risk exposure to borrowers because the amounts held by PFRS as collateral exceeded the securities loaned by PFRS. PFRS' contract with MetWest requires it to indemnify PFRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay PFRS for income distributions by the securities' issuers while the securities are on loan.

The following table provides information as of June 30, 2008 concerning securities lending investments and collateral received (in thousands):

Securities Lending
Investments and Collateral Received (At Fair Value)

Type of Investment		Amount
Cash Collateral		
U.S. Government and Agencies	$	14,813
U.S. Equity		70,392
Non - U.S. Equity		3,036
U.S. Corporate bonds		906
Total Securities Lent	$	89,147
Type of Collateral Received		
Money market		75,942
U.S. corporate floating rate		9,048
Asset backed securities		3,933
Certificates of deposit floating rate		3,019
Total Collateral Received	$	91,942

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

The following table shows sensitive interest rate analysis as of June 30, 2008:

Securities Name	Coupon Rate	Fair Value (in millions)	Percent of account Market value
Commercial Mortgage Pass-Through, reported as part of U.S. Government Agencies	4.93%	$3.91	0.76%

Discretely Presented Component Unit

Port of Oakland

The Port's cash, cash equivalents, investments and deposits consisted of the following at June 30, 2008 (in thousands):

Cash on hand	$ 83
Bank deposit - escrow in-lieu of retentions	12,650
Investments	195,296
Total Cash and Investments	$ 208,029

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

Investments

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

At June 30, 2008 the Port had the following investments (in thousands):

	Fair Value	Credit Rating	Maturity: Less than 1 Year	1 - 5 Years	5 Years +
U.S Treasury Notes	$ 35,823	N/A	$ 35,823	$ -	$ -
Federal Agency Securities	114	AAA	-	114	-
Government Securities Money Market Mutual Funds	14,961	AAA	14,961	-	-
Guaranteed Investment Contracts	17,058	Not Rated	-	7,551	9,507
Bank Investment Contract	28,996	Not Rated	-	-	28,996
City Investment Pool	98,344	AAA	98,344	-	-
Total Investment	**$ 195,296**		**$ 149,128**	**$ 7,665**	**$ 38,503**

Investments Authorized by Debt Agreements

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

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Investment	Investment Type	Percent of Investment
U.S. Treasury Notes	U.S. Treasury Obligation	18.34%
First American Treasury Obligations	Government Securities	7.66%
Bayerische Landesbank	Bank Investment Contract	14.85%
City Investment Pool	City Pool	50.36%

Port revenues are deposited in the City Treasury. These and all the City funds are commingled and invested in the City's investment pool. The City's investment portfolio average maturity may not exceed 540 days; the weighted average maturity of the City's investment pool as of June 30, 2008 is 342. The maximum maturity for any one investment may not exceed 5 years.

Custodial Credit Risk

For investments, custodial credit risk is the risk that in the event of a failure of a depository financial institution or counterparty to a transaction, the inability to recover the value of the investments or collateral securities in the possession of an outside party may be doubtful. The carrying amount of Port bank investment contracts and deposits with banks was $41,646,000 at June 30, 2008. Bank balances and escrow deposits of $555,000 at June 30, 2008 are insured or collateralized with securities held by the pledging financial institution's trust department in the Port's name. The remaining balance of $41,091,000 as of June 30, 2008, was exposed to custodial credit risk by not being insured or collateralized.

Cash and Investments with the City of Oakland

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

Restricted Cash and Investments

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

(4) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash and interfund loans. The amounts due from the Oakland Redevelopment Agency are related to advances and interfund loans made by the City for projects, loans and services. The receivable amounts in the Agency relate to project advances made by the Agency for the City. The composition of interfund balances as of June 30, 2008, is as follows (in thousands):

DUE FROM/DUE TO OTHER FUNDS:

Receivables	Payable Fund	Amount
General Fund	Federal/State Grant Fund	$ 3,074
	Oakland Redevelopment Agency	8,331
	Other Governmental Funds	19,481
	Sewer Service Fund	1,177
	Internal Service Funds	49,107
TOTAL		81,170
Federal/State Grant Fund	Oakland Redevelopment Agency	174
Oakland Redevelopment Agency	General Fund	8,431
	Federal/State Grant Fund	3,258
	Other Governmental Funds	3,083
TOTAL		14,772
Other Governmental Funds	Oakland Redevelopment Agency	4,000
TOTAL GOVERNMENTAL		100,116
Internal Service Funds	Oakland Redevelopment Agency	74
TOTAL		$ 100,190

INTERFUND TRANSFERS:

	TRANSFERS IN			
TRANSFERS OUT	General Fund	Other Governmental Funds	Internal Service Funds	Total Governmental
General Fund	$ -	$ 95,091	$ -	$ 95,091
Other Governmental Funds	3,000	-	-	3,000
Sewer Service Funds	600	-	-	600
Internal Service Funds	-	-	1,278	1,278
Total	**$ 3,600**	**$ 95,091**	**$ 1,278**	**$ 99,969**

The $95.0 million transferred from the General Fund consists of transfers made to provide funding for the following:

- $12.0 million for the Kids' First Children's Program
- $3.5 million for Landscaping & Lighting Assessment District
- $78.8 million for debt service payments
- $0.6 million for contract compliance administration fee
- $0.1 million for City-owned parcels of land in the Wildfire Prevention Assessment District

The $3.0 million transferred from Other Governmental Funds to the General Fund are reimbursements from the Development Service Fund to General Fund for administrative and overhead costs incurred prior to the establishment of the new Development Services Fund.

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

The $1.3 million transfer from the Central Stores to the Purchasing Fund is to form Purchasing Section under the newly created Department of Contracting and Purchasing from Finance and Management Agency.

INTERFUND LOANS:

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

City Center Garage/Central District	$ 16,533
Oakland Center Project	13,737
Total	$ 30,270

(5) MEMORANDUMS OF UNDERSTANDING

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

Special Services

Payments for Special Services are treated as a cost of Port operations pursuant to the City Charter Section 717(3) Clause Third and have priority over certain other expenditures of Port revenues. Special Services totaled $7,723,000 and are included in "Operating Expenses." At June 30, 2008, $9,390,000 was accrued as a current liability by the Port and as a receivable by the City.

General Services and Lake Merritt

Payments for General Services from the City are payable only to the extent the Port determines annually that surplus monies are available under the Charter for such purposes. As of June 30, 2008, the Port accrued approximately $1,150,000 of payments for General Services as current liability and by the City as a receivable. Additionally, subject to certain conditions, the Port accrued approximately $881,000 to reimburse the City for General Services for net City expenditures for Lake Merritt tideland trust properties in 2008**.** Subject to adequate documentation from the City, and subject to availability of surplus monies, the Port expects that it will continue to reimburse the City annually for General Services and Lake Merritt Tideland Trust purpose costs.

Lease with the Port

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

(6) NOTES AND LOANS RECEIVABLE

The composition of the City's notes and loans receivable as of June 30, 2008, is as follows (in thousands):

Type of Loan	General Fund	Federal/State Grant Fund	Oakland Redevelopment Agency	Other Governmental Funds	Total Governmental Funds/ Governmental Activities
Pass-through loans	$ 8,012	$ 3,258	$ -	$ 692	$ 11,962
Loans to Oakland Hotel Association, LTD	12,038	-	-	-	12,038
HUD Loans	-	63,243	-	-	63,243
Economic Development Loans and Other	1,932	32,835	163,157	22,515	220,439
Less: Allowance for uncollectable accounts	(107)	(3,045)	(46,728)	(61)	(49,941)
TOTAL LOANS, NET	**$ 21,875**	**$ 96,291**	**$ 116,429**	**$ 23,146**	**$ 257,741**

(7) CAPITAL ASSETS

Primary Government

Capital assets activity of the primary government for the year ended June 30, 2008, is as follows (in thousands):

	Balance July 1, 2007	Additions	Deletions	Transfers	Balance June 30, 2008
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 77,408	$ 4,155	$ -	$ 233	$ 81,796
Museum collections	293	99	-	-	392
Construction in progress	41,678	72,733	1	(64,902)	49,508
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	119,379	76,987	1	(64,669)	131,696
Capital assets, being depreciated:					
Facilities and improvements	691,076	4,748	-	15,712	711,536
Furniture, machinery and equipment	158,026	10,113	476	511	168,174
Infrastructure	420,786	302	-	48,446	469,534
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	1,269,888	15,163	476	64,669	1,349,244
Less accumulated depreciation:					
Facilities and improvements	266,852	21,653	-	-	288,505
Furniture, machinery and equipment	122,535	10,712	450	-	132,797
Infrastructure	145,507	14,814	-	-	160,321
TOTAL ACCUMULATED DEPRECIATION	534,894	47,179	450	-	581,623
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	734,994	(32,016)	26	64,669	767,621
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 854,373	$ 44,971	$ 27	$ -	$ 899,317

(continued)

	Balance July 1, 2007	Additions	Deletions	Transfers	Balance June 30, 2008
Business-type activities:					
Sewer fund:					
Capital assets, not being depreciated:					
Land	$ 4	$ -	$ -	$ -	$ 4
Construction in progress	6,616	13,194	-	(10,029)	9,781
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	6,620	13,194	-	(10,029)	9,785
Capital assets, being depreciated:					
Facilities and improvements	306	-	-	-	306
Furniture, machinery and equipment	755	-	-	-	755
Sewer and storm drains	196,680	108	-	10,029	206,817
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	197,741	108	-	10,029	207,878
Less accumulated depreciation:					
Facilities and improvements	91	21	-	-	112
Furniture, machinery and equipment	712	12	-	-	724
Sewer and storm drains	69,475	4,035	-	-	73,510
TOTAL ACCUMULATED DEPRECIATION	70,278	4,068	-	-	74,346
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	127,463	(3,960)	-	10,029	133,532
SEWER FUND CAPITAL ASSETS, NET	134,083	9,234	-	-	143,317
Other Proprietary Funds:					
Capital assets, not being depreciated:					
Land	218	-	-	-	218
Construction in progress	81	458	-	-	539
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	299	458	-	-	757
Capital assets, not being depreciated:					
Facilities and improvements	2,264	-	-	-	2,264
Furniture, machinery & equipment	341	35	7	-	369
Infrastructure	-	85	-	-	85
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	2,605	120	7	-	2,718
Less accumulated depreciation:					
Facilities and improvements	627	154	-	-	781
Furniture, machinery & equipment	267	17	7	-	277
Infrastructure	-	3	-	-	3
TOTAL ACCUMULATED DEPRECIATION	894	174	7	-	1,061
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	1,711	(54)	-	-	1,657
OTHER PROPRIETARY FUNDS CAPITAL ASSETS, NET	2,010	404	-	-	2,414
TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 136,093	$ 9,638	$ -	$ -	$ 145,731

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

Governmental Activities:	
General Government	$ 5,372
Public Saftey	3,110
Life Enrichment	12,191
Community and Economic Development	7,879
Public Works	14,290
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	4,337
TOTAL	$ 47,179
Business-Type Activities:	
Sewer	$ 4,068
Parks and Recreation	174
	$ 4,242

Construction Commitments

The City has active construction projects as of June 30, 2008 totaling $297,462,436. The projects include street construction, park construction, building improvements and sewer and storm drain improvements.

Discretely Presented Component Units

Port of Oakland

Capital assets activity for the Port for the year ended June 30, 2008, is as follows (in thousands):

	Balance July 1, 2007	Additions	Adjustments & Retirements	Transfers of Completed Construction	Balance June 30, 2008
Capital assets, not being depreciated:					
Land	$ 393,887	$ 100,980	$ (62)	$ -	$ 494,805
Construction in progress	360,687	60,936	(14,638)	(285,009)	121,976
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	754,574	161,916	(14,700)	(285,009)	616,781
Capital assets, being depreciated:					
Building and improvements	766,591	-	(5,430)	26,614	787,775
Container cranes	171,362	-	6,494	124	177,980
Systems and structures	1,265,300	-	(1,693)	252,380	1,515,987
Other equipment	60,077	4,046	2,746	5,891	72,760
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	2,263,330	4,046	2,117	285,009	2,554,502
Less accumulated depreciation:					
Building and improvements	311,044	31,084	1,941	-	340,187
Container cranes	65,278	6,394	(6,495)	-	78,167
Systems and structures	335,801	45,589	191	-	381,199
Other equipment	25,379	5,840	(198)	-	31,417
TOTAL ACCUMULATED DEPRECIATION	737,502	88,907	(4,561)	-	830,970
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	1,525,828	84,861	(2,444)	285,009	1,723,532
CAPITAL ASSETS, NET	$ 2,280,402	$ 77,055	$ (17,144)	$ -	$ 2,340,313

Capital Leases

The capital assets leased to others at June 30, 2008, consist of the following (in thousands):

Land	$ 311,168
Container cranes	177,980
Building and other facilities	1,196,339
Total	1,685,487
Less accumulated depreciation	(378,688)
Capital assets, net, on lease	$ 1,306,799

Operating Leases

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

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

A summary of revenues from long-term leases for the year ended June 30, 2008, is as follows (in thousands):

Minimum non-cancelable rentals, including preferential assignments	$ 142,126
Contingent rentals in excess of minimums	19,004
Secondary use of facilities leased under preferential assignments	493
Total	$ 161,623

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
2009	$ 137,687
2010	130,540
2011	126,485
2012	121,737
2013	105,495
2014 - 2018	351,140
2019 - 2023	68,105
2024 - 2028	37,173
2029 - 2033	19,582
2034 - 2038	15,469
2039 - 2043	13,657
2044 - 2048	8,846
Thereafter through 2071	24,379
Total	$ 1,160,295

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

Year	Lease Revenues
2009	$ 336
2010	346
2011	356
2012	367
2013	378
2014 - 2018	2,068
2019 - 2023	2,397
2024 - 2028	2,779
2029 - 2033	3,222
2034 - 2038	3,735
2039 - 2043	4,330
2044 - 2048	5,020
Thereafter through 2054	12,712
Total	$ 38,046

(8) PROPERTY HELD FOR RESALE

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

	Balance July 1, 2007	Increases	Decreases	Transfers out	Balance June 30, 2008
Property held for resale	$ 120,586	$ 10,010	$ 761	$ 8,100	$ 121,735

The increase in Property Held for Resale represents the purchases of land in the amount of $8,013,000 for Wood Street Parcel-D, $602,000 for 9418 Edes Avenue, $10,000 for Sunshine Court and $1,058,000 for 2777 Foothill Blvd. The Agency capitalized remediation expenses of $327,000. Decreases included the $371,000 sale of the Fox parking lot and a $390,000 transfer to the City for street improvements from other projects.

The Henry J. Robinson Multi-Service Center provides services to disadvantaged persons living within or near the Central District Redevelopment Project Area by operating major transitional housing, emergency shelter and drop-in programs for the homeless population in Oakland. The Agency's Management has determined that beginning with fiscal year 2007-08, the Agency intends to continue the use of the Henry Robinson Multi-Service Center for such services into the foreseeable future and therefore has decided to transfer this facility from its list of "Property Held for Resale" and report it as a long-term depreciable capital asset in its government-wide financial statements. The total amount transferred is $5,100,000 and reflected in the above column.

The Fox Theater property was leased to Fox Oakland Theater, Inc. through a long-term (60 years) lease and a Disposition and Development Agreement. The $3,000,000 value of the land was therefore transferred from property held for resale to capital assets.

(9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES PAYABLE

Accounts payable and accrued liabilities payable as of June 30, 2008, for the City's individual major funds, non major funds in the aggregate, business-type activities – enterprise fund and internal service funds, are as follows (in thousands):

	Accounts Payable	Checks Payable	Accrued Payroll/Employee Benefits	Total
Governmental funds:				
General	$ 20,041	$ 6,973	$ 97,270	$ 124,284
Federal/State grant fund	5,540	-	921	6,461
Oakland Redevelopment Agency	3,938	-	-	3,938
Municipal Capital Improvement Fund	975	-	87	1,062
Other governmental funds	7,661	-	36	7,697
TOTAL	38,155	6,973	98,314	143,442
Governmental activities - Internal service funds	1,680	-	-	1,680
TOTAL	$ 39,835	$ 6,973	$ 98,314	$ 145,122
Business-type activities - Enterprise Funds:				
Parks and Recreation	$ 257	$ -	$ -	$ 257
Sewer Service	2,346	-	575	2,921
TOTAL	$ 2,603	$ -	$ 575	$ 3,178

Accounts payable and accrued liabilities for the pension trust funds and private purpose trust funds at June 30, 2008, are as follows (in thousands):

Accounts payable	$ 15
Investments payable	61,198
Retro payments	4,115
Accrued investment management fees	627
Member benefits payable	5,880
Total Pension Trust Funds Accounts Payable and Accrued Liabilities	71,835
Private Purpose Trust Fund Accounts Payable	22
Total Accounts Payable and Accrued Liabilities	$ 71,857

(10) DEFERRED REVENUE

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

At June 30, 2008, the various components of deferred revenue and unearned revenue reported were as follows (in thousands):

	Unavailable	Unearned
Major Funds:		
General Fund	$ 25,513	$ 5,954
Federal and State Grants Fund	95,234	488
Oakland Redevelopment Agency	134,650	-
Non-major Funds:		
Other Governmental Funds	28,540	-
TOTAL GOVERNMENTAL ACTIVITIES	$ 283,937	$ 6,442

(11) TAX AND REVENUE ANTICIPATION NOTES PAYABLE

The City issued tax and revenue anticipation notes in advance of property tax collections. The notes were used to satisfy General Fund obligations and carried an approximate effective interest rate of 4.50% for series A notes and 5.38% for series B notes (federally taxable). Principal and interest were paid on June 30, 2008.

The short-term debt activity for the year ended June 30, 2008, is as follows (in thousands):

2007 - 2008 Tax & Revenue Anticipation Notes	Beginning Balance	Issued	Redeemed	Ending Balance
Series A	$ -	$ 65,000	$ (65,000)	$ -
Series B (Federally Taxable)	-	76,880	(76,880)	-
TOTAL	$ -	$ 141,880	$ (141,880)	$ -

(12) LONG-TERM OBLIGATIONS

Long-term Obligations

The following is a summary of long-term obligations as of June 30, 2008 (in thousands):

Governmental Activities

Type of Obligation	Final Maturity Year	Remaining Interest Rates		Amount
General obligation bonds (A)	2036	2.50 - 5.00%	$	331,528
Tax allocation bonds (B)	2037	2.50 - 8.03%		496,630
Certificate of participation (C)	2015	4.00 - 6.55%		40,495
Lease revenue bonds (C)	2026	3.60 - 5.50%		323,340
Pension obligation bonds (D)	2022	6.09 - 7.31%		282,705
Accreted interest (C) & (D)				125,743
City guaranteed special assessment district bonds (D)	2024	4.60 - 6.70%		6,200
Notes payable (C) & (E)	2016	1.70 - 8.27%		19,045
Capital leases (C) & (E)	2016	3.54 - 5.52%		26,968
Accrued vacation and sick leave (C)				35,646
Estimated liability for self-insurance (C)				80,382
Estimated claims payable (C)				50,242
Estimated environmental cost (B) & (C)				8,980
Pledge obligation for Coliseum Authority debt (C)				82,450
Net OPEB obligation (C)				43,668
GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS				1,954,022
DEFERRED AMOUNTS:				
Bond issuance premiums				32,204
Bond refunding loss				(34,658)
GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS, NET			$	1,951,568

Debt service payments are made from the following sources:

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

Business-Type Activities

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Sewer fund - Notes payable	2014	3.00 - 3.50%	$ 3,346
Sewer fund - Bonds	2029	3.00 - 5.25%	57,720
Unamortized Bond Premium			2,475
BUSINESS-TYPE ACTIVITIES - TOTAL LONG-TERM OBLIGATIONS			$ 63,541

Component Unit - Port of Oakland

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Parity bonds	2033	3.00 - 6.00%	$ 1,465,912
Notes and Loans	2030	1.41 - 4.50%	84,847
Total			1,550,759
Self - Insurance liability for workers' compensation			6,000
General Liability			3,925
Environmental Remediation & Others			11,657
Total			1,572,341
Unamortized bond discount and premium, net			21,488
Deferred loss on refunding			(19,984)
COMPONENT UNIT TOTAL LONG-TERM OBLIGATIONS			$ 1,573,845

Debt Compliance

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

Legal Debt Limit and Legal Debt Margin

As of June 30, 2008, the City’s debt limit (3.75% of valuation subject to taxation) was $1,116,227,253**.** The total amount of debt applicable to the debt limit was $331,528,315. The resulting legal debt margin was $784,698,938.

Interest Rate Swap

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

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

On June 21, 2005, all of the outstanding 1998 Lease Revenue Bonds were defeased by the Oakland Joint Powers Financing Authority Refunding Revenue Bonds, 2005 Series A-1, A-2 and B ("Series 2005 A & B Bonds"). The Swap associated with the 1998 Lease Revenue Bonds still remains in effect.

On April 16, 2008, all of the outstanding Series 2005 A & B Bonds were defeased by the Oakland Joint Powers Financing Authority Refunding Revenue Bonds, 2008 Series A-1 and A-2 ("Series 2008 A-1 and A-2 Bonds"). However, the Swap remains in effect and is set to terminate on July 31, 2021.

Terms. The swap agreement terminates on July 31, 2021, and has a notional amount as of June 30, 2008 of $101,700,000. The notional amount of the swap declines through 2021. Under the Swap, the City pays the counterparty a fixed payment of 5.6775% and receives a variable payment computed at 65% of 1 – month LIBOR rate (total rate not to exceed 12%). The City's payments to the counterparty under the Swap agreement are insured by the third party bond insurer.

Fair Value. Because interest rates have declined since the execution of the Swap, the Swap had a negative fair value of $16,429,065 as of June 30, 2008. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the Swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the Swap.

Credit Risk. The issuer and the counterparty take a credit risk to each other over the life of the swap agreement. This is the risk that either the issuer or the counterparty will fail to meet its contractual obligations under the swap agreement. The Counterparty was rated Aaa by Moody's Investors Service, and AA+ by Standard and Poor's as of June 30, 2008. To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's the swap agreement provides the counterparty, the City, the bond insurer for the Bonds and a third party collateral agent to execute a collateral agreement within 30 days of such a downgrade.

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

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

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

Changes in Long-term Obligations

The changes in long-term obligations for the year ended June 30, 2008, are as follows (in thousands):

Governmental Activities

	Balance at July 1, 2007	Additional obligations, interest accretion and net increases (decreases)	Current maturities, retirements and net decreases (increases)	Balance at June 30, 2008	Amounts due within one year
Bonds Payable:					
General obligation bonds	$ 345,214	$ -	$ 13,686	$ 331,528	$ 14,340
Tax allocation bonds	514,475	-	17,845	496,630	17,230
Certificate of participation	45,795	-	5,300	40,495	5,620
Lease revenue bonds	325,105	241,410	243,175	323,340	26,355
Pension obligation bonds	313,625	-	30,920	282,705	34,250
City guaranteed special assessment district bonds	6,800	-	600	6,200	275
Accreted interest on appreciation bonds	104,356	21,387	-	125,743	-
Less deferred amounts:					
Bond issuance premiums	22,887	11,313	1,996	32,204	2,777
Bond refunding loss	(20,035)	(17,667)	(3,044)	(34,658)	(3,806)
TOTAL BONDS PAYABLE	1,658,222	256,443	310,478	1,604,187	97,041
Notes payable	17,090	2,765	810	19,045	1,435
Capital Leases	31,809	-	4,841	26,968	5,213
TOTAL NOTES & LEASES	48,899	2,765	5,651	46,013	6,648
Other Long-Term Liabilities					
Accrued vacation and sick leave	33,601	57,767	55,722	35,646	27,883
Pledge obligation for Coliseum Authority debt	85,350	-	2,900	82,450	3,100
Estimated environmental cost	11,198	414	2,632	8,980	4,312
Estimated liability for self -insurance	98,381	7,785	25,784	80,382	18,094
Estimated claims payable	43,598	15,877	9,233	50,242	16,395
Net OPEB obligation	-	43,668	-	43,668	-
TOTAL OTHER LONG-TERM LIABILITIES	272,128	125,511	96,271	301,368	69,784
TOTAL GOVERNMENTAL ACTIVITIES - LONG-TERM OBLIGATIONS	$ 1,979,249	$ 384,719	$ 412,400	$ 1,951,568	$ 173,473

Internal service funds predominantly serve the governmental funds and therefore, the long-term liabilities of these funds are included as part of the above totals for governmental activities. At June 30, 2008, $10,841,242 of capital leases related to the internal service funds are included in the above amounts.

Business-Type Activities

	Balance at July 1, 2007	Current maturities, retirements and net decreases	Balance at June 30, 2008	Amounts due within one year
Sewer fund - Notes payable	$ 4,126	$ 780	$ 3,346	$ 806
Sewer fund - Bonds	59,305	1,585	57,720	1,630
Unamortized bond premium	2,593	118	2,475	118
Total	$ 66,024	$ 2,483	$ 63,541	$ 2,554

Component Unit - Port of Oakland

	Balance at July 1, 2007	Additional obligations, interest accretion and net increases	Current maturities, retirements and net decreases	Balance at June 30, 2008	Amounts due within one year
Parity bonds	$ 1,370,072	$ 503,090	$ 407,250	$ 1,465,912	$ 19,550
Notes and loans	198,366	57,445	170,964	84,847	276
Total	1,568,438	560,535	578,214	1,550,759	19,826
Self - insurance workers' compensation	6,000	869	869	6,000	6,000
General liability	4,747	4,287	5,109	3,925	-
Environmental remediation & others	11,824	991	1,158	11,657	1,117
Other post employment benefits	-	7,754	-	7,754	7,754
Unamortized bond discount/ premium, net	(2,762)	24,869	619	21,488	3,175
Deferred loss on refunding	(4,493)	(16,407)	(916)	(19,984)	(1,631)
TOTAL DEBT	$ 1,583,754	$ 582,898	$ 585,053	$ 1,581,599	$ 36,241

Repayment Schedule

The annual repayment schedules for all long-term debt as of June 30, 2008, are as follows (in thousands):

	2009	2010	2011	2012	2013	2014-2018	2019-2023	2024-2028	2029-2033	2034-2038	Total
Governmental-type Activities:											
General obligation bonds:											
Principal	$ 14,340	$ 15,006	$ 15,762	$ 16,587	$ 17,451	$ 95,515	$ 90,139	$ 29,798	$ 33,295	$ 3,635	$ 331,528
Interest	16,014	15,398	14,688	13,936	13,143	52,474	28,289	13,565	5,681	332	173,520
Certificate of participation:											
Principal	5,620	5,965	6,415	7,095	3,500	11,900	-	-	-	-	40,495
Interest	1,627	1,377	1,116	833	511	689	-	-	-	-	6,153
Lease revenue bonds:											
Principal	26,355	26,315	27,870	32,270	33,680	111,175	32,830	32,845	-	-	323,340
Interest	11,844	13,600	12,354	11,095	9,728	27,690	12,468	3,387	-	-	102,166
Pension obligation bonds:											
Principal	34,250	37,860	14,959	20,860	19,923	86,149	68,704	-	-	-	282,705
Interest	3,833	1,321	25,346	17,515	19,632	130,426	182,181	-	-	-	380,254
Special assessments bonds:											
Principal	275	300	305	325	350	1,640	2,050	955	-	-	6,200
Interest	332	316	301	284	265	1,062	553	52	-	-	3,165
Tax allocation bonds:											
Principal	17,230	16,865	18,680	19,665	20,645	105,225	135,220	44,775	58,615	59,710	496,630
Interest	26,602	25,645	24,667	23,645	22,585	95,898	63,001	38,867	24,582	6,560	352,052
Notes payable:											
Principal	1,435	2,015	2,180	2,355	2,525	8,535	-	-	-	-	19,045
Interest	995	936	871	799	721	1,051	-	-	-	-	5,373
Capital leases											
Principal	5,213	4,010	3,184	3,261	1,956	7,039	2,305	-	-	-	26,968
Interest	1,199	989	815	667	531	1,345	220	-	-	-	5,766
TOTAL PRINCIPAL	$ 104,718	$ 108,336	$ 89,355	$ 102,418	$ 100,030	$ 427,178	$ 331,248	$ 108,373	$ 91,910	$ 63,345	$ 1,526,911
TOTAL INTEREST	$ 62,446	$ 59,582	$ 80,158	$ 68,774	$ 67,116	$ 310,635	$ 286,712	$ 55,871	$ 30,263	$ 6,892	$ 1,028,449

For governmental activities the specific year for payment of the pledge obligation, environmental costs, estimated accrued vacation, sick leave, estimated liability for self-insurance, estimated claims, and the net OPEB obligation are not practicable to determine.

(continued)

	2009	2010	2011	2012	2013	2014-2018	2019-2023	2024-2028	2029-2033	2034-2038	Total
Business-type Activities:											
Sewer revenue bonds:											
Principal	$ 1,630	$ 1,710	$ 1,800	$ 1,885	$ 1,985	$ 11,470	$ 14,480	$ 18,490	$ 4,270	$ -	$ 57,720
Interest	2,852	2,771	2,685	2,595	2,499	10,943	7,933	3,931	214	-	36,423
Sewer notes payable:											
Principal	806	833	860	274	282	291	-	-	-	-	3,346
Interest	109	82	54	25	17	9	-	-	-	-	296
TOTAL PRINCIPAL	$ 2,436	$ 2,543	$ 2,660	$ 2,159	$ 2,267	$ 11,761	$ 14,480	$ 18,490	$ 4,270	$ -	$ 61,066
TOTAL INTEREST	$ 2,961	$ 2,853	$ 2,739	$ 2,620	$ 2,516	$ 10,952	$ 7,933	$ 3,931	$ 214	$ -	$ 36,719

Component Unit – Port of Oakland

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2008, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2009	$ 19,724	$ 74,656	$ 94,380
2010	37,508	79,551	117,059
2011	45,125	76,064	121,189
2012	47,243	75,318	122,561
2013	73,813	72,284	146,097
2014 - 2018	328,604	302,476	631,080
2019 - 2023	307,486	222,491	529,977
2024 - 2028	381,229	132,456	513,685
2029 - 2033	310,027	34,191	344,218
SUB TOTAL	1,550,759	1,069,487	2,620,246
Unamortized bond (discount) premium, net	21,488	-	21,488
Self-insurance workers' compensation	6,000	-	6,000
General Liability	3,925	-	3,925
Environmental Remediation & Others	11,657	-	11,657
Deferred loss on refunding	(19,984)	-	(19,984)
TOTAL	$ 1,573,845	$ 1,069,487	$ 2,643,332

In August 2007, the Port defeased $10,000,000 of 2002 Series M Bonds, due on November 1, 2008. Sufficient funds were deposited with the trustee and invested in State and Local Government Series (SLGS) securities to pay both interest and principal on their respective due dates.

In October 2007, the Port issued $503,090,000 of Intermediate Lien Refunding Revenue Bonds; 2007 Series A, 2007 Series B and 2007 Series C, collectively the 2007 Bonds. The bonds were issued to (i) refund the 1997 Series G, H, I, and J bonds, $240,965,000 and $131,375,000 of 2002 Series M bonds and converted the Senior Lien debt to Intermediate Lien debt (ii) refinance a portion of the outstanding Commercial Paper Notes amounting to $146,693,000 (iii) satisfy the 2007 Common Reserve Fund Requirement applicable to the 2007 Bonds; and (iv) pay costs of issuance of the 2007 Bonds. The 2007 Bonds bear interest rates ranging from 4% to 5%, and have a final maturity date of November 2029.

The refunding of 1997 Series G, H, I, J and 2002 Series M resulted in the accounting recognition of a deferred loss of $16,407,000 for the fiscal year ended June 30, 2008. The refunding, however, generated approximately $17,798,000 of net present value debt service savings.

In June 2008, the Port defeased principal and interest on $9,784,000 of 1993 Series F bonds including interest, and $1,132,000 plus interest of 2002 Series M bonds, both due in November 2008, with taxable commercial paper. The defeasance resulted in the accounting recognition of a deferred loss of $16,000, and a net present value debt service savings of $15,000, representing a 2.45% net present value reduction in debt service payments.

Net interest costs of $5,895,000 were capitalized in fiscal 2008. These amounts represented capitalized interest expense of $7,419,000, net of interest revenue of $1,524,000 for fiscal 2008.

Current Year Long-Term Debt Financings

Oakland Joint Powers Financing Authority
Refunding Revenue Bonds, 2008 Series A-1 and A-2

On April 3, 2008, the Oakland Joint Powers Financing Authority (the "JPFA") issued its Refunding Revenue Bonds in an aggregate principal amount of $127,960,000. This issue is comprised of a tax-exempt portion in an aggregate amount of $107,630,000 (the "2008 Series A-1") and a taxable portion in an aggregate amount of $20,330,000 (the "2008 Series A-2"), (collectively, the "2008 Bonds"). The 2008 Bonds are fixed rate bonds. The 2008 Bonds were issued to (i) refund and defease all of the outstanding JPFA's Refunding Revenue Bonds, 2005 Series A and Series B (Auction Rates Securities) and (ii) to convert the auction rates securities to Fixed rate bonds. The proceeds associated with the 2008 Series A-2 were used to fund a portion of the City's obligation to make payments to its Police and Fire Retirement System.

The 2008 Bonds are insured by Assured Guaranty Corp., and are rated Aaa/AAA/AAA by Moody's, S&P and Fitch, respectively, and are limited obligations of the Authority payable solely from lease revenues from the City, as lessee, to the Authority, as lessor.

The refunding resulted in a negative cash flow in the amount of $2,629,776. In addition, the City obtained a net economic loss on this financing of $9,777,180. However, given the penalty rates the City was experiencing from the downgrade of the bond insurance agency, XL Capital Assurance Inc., and the failed auction rate market, the City would have had to pay more in debt service. If the current market persists or worsens the bonds would not be remarketable. In addition, the deferred loss on refunding, difference between the reacquisition price and the carrying value of the old debt, was $1,550,738.

Oakland Joint Powers Financing Authority
Lease Revenue Refunding Bonds, 2008 Series B

On April 16, 2008, the Oakland Joint Powers Financing Authority (the "JPFA") issued its Lease Revenue Refunding Bonds (Oakland Administration Buildings) 2008 Series B in an aggregate principal amount of $113,450,000 (the "2008 Series B Bonds"). The 2008 Series B Bonds are tax-exempt, and fixed rate bonds. The 2008 Series Bonds were issued to (i) refund and defease all of the outstanding JPFA's Lease Revenue Refunding Bonds (Oakland Administration Buildings) 2004 Series A-1 and A-2 (Auction Rates Securities) (the "2004 Bonds"), (ii) to convert the auction rates securities to Fixed rate bonds and (iii) to terminate two interest rate swaps associated with the 2004 Bonds. The proceeds from the sale of the 2008 Series B Bonds included bond termination payment of $5,674,000.

The 2008 Series B Bonds are insured by Assured Guaranty Corp., and are rated Aaa/AAA/AAA by Moody's, S&P and Fitch, respectively, and are limited obligations of the Authority payable solely from lease revenues from the City, as lessee, to the Authority, as lessor.

The refunding resulted in a negative cash flow in the amount of $27,601,281. In addition, the City obtained a net economic loss on this financing of $16,715,869. However, at the time of issuance of the 2004 Bonds, the City had taken out approximately $8,691,291 of new monies to finance certain public capital projects and expenditures.

In addition, the deferred loss on refunding, difference between the reacquisition price and the carrying value of the old debt, was $16,116,400.

Prior Year's Debt Defeasance

In prior years, the City has defeased various bond issues by creating separate irrevocable escrow funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the escrow funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of June 30, 2008, the amount of defeased debt outstanding but removed from the City's government-wide financial statements amounted to $88.2 million.

Authorized and Unissued Debt

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

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, 2008, is (in thousands):

	Authorized and Issued	Maturity	Outstanding at June 30, 2008
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999A	$ 64,425	01/01/29	$ 63,425
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999B	15,720	01/01/29	15,720
City of Oakland Liquidity Facility Revenue Bonds (Association of Bay Area Governments), Series 1984	3,300	12/01/09	470
Oakland JPFA Revenue Bond 2001 Series A Fruitvale Transit Village (Fruitvale Development Corporation)	19,800	07/01/33	17,305
Oakland JPFA Revenue Bond 2001 Series B Fruitvale Transit Village (La Clinica De La Raza Fruitvale Health Project, Inc)	5,800	07/01/33	5,500
Redevelopment Agency of the City of Oakland, Multifamily Housing Revenue Bonds (Uptown Apartment Project), 2005 Series A	160,000	10/01/50	160,000
TOTAL			$ 262,420

(13) GENERAL FUND UNRESERVED FUND BALANCE

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

Designations:	
Pension obligations - PFRS	$ 69,906
Carryforward for continuing projects	13,709
Total designations	83,615
Unreserved/undesignated fund balance	37,494
Total General Fund unreserved fund balance	$ 121,109

(14) SELF-INSURANCE

Changes in the balances of claims liabilities for all self-insured claims for the years ended June 30, 2008 and 2007 are as follows (in thousands):

Workers' Compensation

	2008	2007
Unpaid claims, beginning of fiscal year	$ 98,381	$ 100,493
Current year claims and changes in estimates	7,785	18,071
Claims payments	(25,784)	(20,183)
Unpaid claims, end of fiscal year (Note 12)	$ 80,382	$ 98,381

General Liability

	2008	2007
Unpaid claims, beginning of fiscal year	$ 43,598	$ 44,945
Current year claims and changes in estimates	15,877	9,663
Claims payments	(9,233)	(11,010)
Unpaid claims, end of fiscal year (Note 12)	$ 50,242	$ 43,598

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

Primary Government

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

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

Property Damage

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

General Liability

Numerous lawsuits are pending or threatened against the City. The City estimates that as of June 30, 2008, the amount of liability determined to be probable of occurrence is approximately $50,242,000. Of this amount, claims and litigation approximating $16,395,000 are estimated to be due within one year. The recorded liability is the City's best estimate based on available information and may be revised as further information is obtained and as pending cases are litigated. The City and the Agency are involved in various claims and litigation arising in the ordinary course of its activities. In the opinion of the Agency's in-house counsel, the City Attorney's Office for the City, none of these claims are expected to have a significant impact on the financial condition or changes in financial position of the City and the Agency.

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

Workers' Compensation

The City is self-insured for workers' compensation. Payment of claims is provided through annual appropriations, which are based on claim payment experience and supplemental appropriations. Of the $80,382,000 in claims liabilities as of June 30, 2008, approximately $18,094,000 is estimated to be due within one year. Effective July 1, 2008, the City reduced its seif-insured retention to $750,000 per occurrence.

Insurance Coverage

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

Type of Coverage	Self-Insurance Retention	Insurance Authority/Purchase Insurance
General Liability	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence
Automobile Liability	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence
Public Officials Errors and Omissions	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence/annual annual aggretate
Products & Completed Operations	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence/annual annual aggretate
Employment Practices Liability	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence/annual annual aggretate

Discretely Presented Component Unit

Workers' Compensation

The Port is exposed to risk of loss related to injuries of employees. The Port is self-insured and self-administered for workers' compensation up to a maximum of $750,000 per accident. The Port carries commercial insurance for claims in excess of $750,000 per accident up to a maximum limit per accident of $1,000,000. There were no workers' compensation claims paid in fiscal years 2008, 2007, and 2006 above the $1,000,000 per accident limit. The excess policy provides full statutory limits as established by California law.

Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses are based on an actuarial valuation performed as of June 30, 2008 and include an estimate of claims that have been incurred but not reported.

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

	2008	2007
Workers' compensation liability at beginning of fiscal year	$ 6,000	$ 5,829
Current year claims and changes in estimates	869	1,652
Claims payments	(869)	(1,481)
Workers' compensation liability at end of fiscal year	$ 6,000	$ 6,000

General Liability

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

As of June 30, 2008, the Port was a defendant in various lawsuits arising in the normal course of constructing public improvements or construction related claims for unspecified amounts. The ultimate disposition of these suits and claims is not known. The Port's insurance may cover a portion of any losses. For additional information, please contact the Port of Oakland, 530 Water Street, Oakland, California 94607.

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

	2008	2007
General liability at beginning of fiscal year	$ 4,747	$ 3,986
Current year claims and changes in estimates	4,287	4,620
Vendor payments	(5,109)	(3,859)
General liability at end of fiscal year	$ 3,925	$ 4,747

(15) JOINT VENTURE

Oakland-Alameda County Coliseum

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

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

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

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

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

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

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

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

For the Period	**Stadium Debt**		**Arena Debt**	
Ending June 30,	**Principal**	**Interest**	**Principal**	**Interest**
2009	$ 6,200	$ 5,924	3,250	7,146
2010	6,700	5,563	3,600	6,944
2011	7,100	5,212	3,950	6,720
2012	7,500	4,951	4,050	6,474
2013	7,900	4,669	4,400	6,221
2014-2018	45,400	18,938	27,300	26,563
2019-2023	57,200	10,167	38,200	16,837
2024-2026	26,900	1,105	30,050	3,838
Total	$ 164,900	$ 56,529	$ 114,800	$ 80,743

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

Under the joint exercise of power agreement, which formed the Authority, the City is responsible for funding up to 50% of the Authority's operating costs and debt service requirements, to the extent such funding is necessary. During the year ended June 30, 2008, the City made contributions of $10,946,000 to fund its share of operating deficits and debt service payments of the Authority.

The Coliseum Authority has anticipated a deficit for operating costs and repayment of its Stadium bonds, such that the City and County may have to contribute to base rental payments. Of the $20,500,000 appropriated in the General Fund as part of the above agreements, it is estimated that the City may have to contribute $10,925,000 for the 2008-09 fiscal year. There are many uncertainties in the estimation of revenues for the Authority beyond one year into the future; therefore, the City has established a liability to fund the Authority deficit in the statement of net assets in an amount equal to its contingent share (50%) of the outstanding Stadium bonds in the amount of $82,450,000. The City has not established a contingent liability for the Arena Bonds because management is of the opinion that revenues from the Arena, including payments from the Warriors and revenues from Arena operations, will be sufficient to cover the debt payments.

(16) PENSION PLANS

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

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

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

	PFRS	OMERS	PERS
Type of plan	Single employer	Single employer	Agent multi-employer
Reporting entity	City	City	State
Last complete actuarial study	July 01, 2007	July 01, 2007	June 30, 2007

Police and Fire Retirement System (PFRS)

PFRS provides death, disability and service retirement benefits to uniformed employees and their beneficiaries. Members who complete at least 25 years of service, or 20 years of service and have reached the age of 55, or have reached the age of 65, are eligible for retirement benefits. The basic retirement allowance equals 50% of the compensation attached to the average rank held during the three years immediately preceding retirement, plus an additional allowance of 1-2/3% of such compensation for each year of service (up to ten) subsequent to: a) qualifying for retirement, and b) July 1, 1951. Early retirees will receive reduced benefits based on the number of years of service. Benefit provisions and all other requirements are established by the City Charter (Charter). The June 30, 2007, stand alone financial statements are available by contacting the City Administrator's Office, One Frank Ogawa Plaza, Oakland, California 94612.

In accordance with the Charter, active members of PFRS contribute a percentage of earned salaries based upon entry age as determined by the City's consulting actuary. During the year ended June 30, 2008, these contributions ranged from 5.47% to 6.05%. By statute, employee contributions are limited to 13% of earned salaries. Employee contributions are refundable with interest at 4% per annum if an employee elects to withdraw from PFRS upon termination of employment with the City.

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

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

The City's annual pension cost and prepaid asset, computed in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, for fiscal year ended June 30, 2008, were as follows:

Annual Required Contribution (ARC)	$	(28,600,000)	
Interest on pension asset		24,546,590	
Adjustment to the annual required contribution		(27,497,868)	
Annual Pension Cost		(31,551,278)	
Pension contribution		-	
Pension assets, beginning of year		306,832,370	*
Pension assets, end of year	$	275,281,092	

* The beginning pension assets as of July 1, 2007 were restated to reflect prior year required annual contributions.

The following table shows the City's annual pension cost and the percentage contributed for the fiscal year 2008 and each of the two preceding years:

Fiscal Year Ended June 30	Annual Pension Cost	Percentage (%) Contributed	Net Pension Asset as Restated *
2006	$ 26,517,755	-	$ 333,375,218
2007	26,542,848	-	306,832,370
2008	31,551,278	-	275,281,092

* The ending pension assets were restated to reflect prior required annual contributions.

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

Actuarial Assumptions and Funded Status

PFRS adopted GASB Statement No. 50, Pension Disclosure – an amendment to GASB Statements No. 25 and No. 27, effective for periods beginning after June 15, 2007. GASB Statement No. 50 is designed to inform financial statement users further about PFRS funded status and actuarial assumptions. Information regarding the funded status of the plan as of the most recent valuation date is shown below (in millions).

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
7/1/2007	$ 888.1	$ 566.0	$ 322.1	63.7%	$ 0.4	80525%

Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose and that the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

Multiyear trend actuarial information is presented in the Required Supplementary Information immediately following the notes to the financial statements.

A summary of the actuarial methods and significant assumptions used to calculate the funded status of the plan for the current year are as follows:

Valuation Date	7/1/07
Actuarial Cost Method	Entry Age Normal Cost Method
Investment Rate of Return	8.0%
Inflation Rate, US	3.25%
Inflation Rate, Bay Area	3.50%
General Pay increases	4.75%
Post-retirement benefit increases	4.75%
Amortization Method	Level Dollar
Amortization Period	29 Years, Closed

Oakland Municipal Employees Retirement System (OMERS)

OMERS provides death, and service retirement benefits to participants of the plan. sMembers who complete at least 20 years of service and have reached the age of 52, or who complete at least 5 years of service and reach the age of 60, are eligible for retirement benefits. The retirement allowance is calculated on a basis which takes into account the final three-years' average compensation, age and the number of years of service. Benefit provisions and all other requirements are established by the Charter. The June 30, 2008, stand alone financial statements are available by contacting by the City Administrator's Office, One Frank Ogawa Plaza, Oakland, California 94612.

All active non-uniformed City employees hired prior to September 1970 have transferred to CalPERS as of July 1, 2004. Accordingly, OMERS did not receive any employee contributions during the year ended June 30, 2008, and will not receive any employee contributions in the future. Because of the Retirement System current funding status, the City is currently not required to make contributions to OMERS. The actuarial calculations are computed using the "aggregate cost method" and the asset valuation is on a market value basis. Under this method, the normal cost is the actuarial present value of a member's benefit divided by the member's expected future working lifetime. The funding of the unfunded actuarial accrued liability is based on a level percentage of payroll over a period ending July 1, 2020, as required by the City Charter.

Actuarial Assumptions and Funded Status

OMERS adopted GASB Statement No. 50, Pension Disclosure – an amendment to GASB Statements No. 25 and No. 27, for periods beginning after June 15, 2007. GASB Statement No. 50 is designed to inform financial statement users further about OMERS funded status and actuarial assumptions.

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

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Over funded AAL (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
7/1/2007	$ 7,516	$ 9,371	$ (1,855)	124.7%	$ -	n/a

Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose and that the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

OMERS is not required to make any payments due to its funded status. Multiyear trend actuarial information is presented in the Required Supplementary Information immediately following the notes to the financial statements.

A summary of the actuarial methods and assumptions used to calculate the funded status of the plan for the current year follows:

Valuation Date	July 1, 2007
Actuarial Cost Method	Entry Age Normal Cost Method
Asset Valuation Method	Market Value
Investment Rate of Return	8.0%
Inflation Rate	3.25%
Cost-of-living Adjustments	3.0%
Amortization Method	NA*
Amortization Period	NA*

*Not Applicable because OMERS is in a surplus position.

California Public Employees Retirement Systems (PERS)

Plan Description

The City of Oakland contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street, Sacramento, CA 95814. A separate report for the City's plan is not available.

Funding Policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 19.199% for non-safety employees and 27.077% for police and fire employees, of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2007-08, the City's annual pension cost of $97,863,350 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service (3.25% to 14.45%), and (c) payroll growth of 3.25%. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a closed 20 year period.

Three-Year Trend Information for PERS (in millions)

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	$ 95.0	100%	$ -
2007	89.3	100	-
2008	97.9	100	-

Funded Status and Funding Progress for Pension Plans

Safety Plan

As of June 30, 2007, the most recent actuarial valuation date, the Public Safety plan was 76.6% funded. The actuarial accrued liability for benefits was $989,095,209, and the actuarial value assets was $757,340,889, resulting in an unfunded actuarial accrued liability (UAAL) of $231,754,320. The annual covered payroll was $127,434,797, and the ratio of the UAAL to the annual covered payroll was 181.9%.

A summary of principal assumptions and methods used to determine the funded status is shown below:

Method/Assumptions	Retirement Program
Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	32 Years as of the Valuation Date
Asset Valuation Method	15 Years Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 13.15% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

Miscellaneous Plan

As of June 30, 2007, the most recent actuarial valuation date, the Miscellaneous Plan was 83.7% funded. The actuarial accrued liability for benefits was $1,617,214,275, and the actuarial value assets was $1,353,435,664, resulting in an unfunded actuarial accrued liability (UAAL) of $263,778,611. The annual covered payroll was $225,726,055, and the ratio of the UAAL to the annual covered payroll was 116.9%.

A summary of principal assumptions and methods used to determine the funded status is shown below:

Method/Assumptions	Retirement Program
Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	20 Years as of the Valuation Date
Asset Valuation Method	15 Years Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

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

(17) POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

Primary Government

Plan Description

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

Funding Policy

The City pays part of the health insurance premiums for all retirees from City employment receiving a pension annuity earned through City service and participating in a City-sponsored PERS health benefit plan on a pay-as-you-go basis. The City approximately paid $10,966,605 for retirees under this program for the year ended June 30, 2008.

Annual OPEB Cost and Net OPEB Obligation

The City implemented GASB 45 in fiscal year 2008 and elected to report a zero net OPEB obligation at the beginning of the transition year. The City's annual post employment benefit cost and net OPEB obligation for the plan as of and for the fiscal year ended June 30, 2008 using a 4.00% interest rate scenario, were as follows (in thousands):

Annual Required Contribution (ARC)	$	54,635
Contribution made		(10,967)
Increase in net OPEB obligation		43,668
Net OPEB obligation - beginning of year		-
Net OPEB obligation - end of year	$	43,668

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	$ 54,635	20.07%	$ 43,668

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $591,575,250 and the actuarial value assets was zero, resulting in an unfunded actuarial accrued liabilities (UAAL) of $591,575,250.

Actuarial Methods and Assumptions for OPEB Plans

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrual liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The more significant actuarial methods and assumptions used in the calculations of the annual OPEB cost, the annual required contribution, and the funded status and funding progress for the fiscal year ended June 30, 2008 as follows:

Method/Assumptions	**Retirement Program**
Valuation Date	July 1, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	30 Years as of the Valuation Date
Asset Valuation Method	5 Years Smoothed Market
Discount rate	4.00%
Salary Increases	2.50% per year growth
Inflation	3.00%
Demographic rate	Retirement benefit @ 3% 50 formula for Safety employees and @ 2.7% 55 formula for Miscellaneous employees
Health Care cost trends rate	8% from 2009-10, graded down 0.5% each year to an ultimate of 5.0% in 2015 premiums. Assume the flat dollar co-payment and additional reimbursement maximum for Miscellaneous employee's increases 5.0% annually.

Component Unit – Port of Oakland OPEB

Plan Description

The Port administers a single-employer defined benefit post-employment healthcare plan (Retiree Health Plan). The Retiree 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 Retiree Health Plan also includes dental, and vision benefits and reimbursement of Medicare Part B monthly insurance premium. The Retiree Health plan does not issue a separate financial report.

Funding Policy

Benefit provisions are established and may be amended through negotiations between the Port and the various bargaining units during each bargaining period.

As of June 30, 2008, there were approximately 408 employees who had retired from the Port and were in the Port's retiree benefit plan. The Port finances the plan on a pay-as-you-go basis. For the years ended June 30, 2008 the retiree benefit expense was $3,929 , or 34% of the actuarially required contributions to the Retiree Health Plan. The retiree benefit expense in fiscal year 2007 was $3,387.

Beginning in fiscal year 2008-2009, the Port intends to deposit funds into an Irrevocable Trust (California Employer's Retiree Benefit Trust Fund (CERBT)). CERBT was setup by the California Public Employee's Retirement System (CALPERS) for the purpose of receiving employer contributions to pre-fund health and other post-employment benefit costs for retirees and beneficiary. At June 30, 2008 the Port's CERBT was not established. Documents have been forward to CALPERS and proceeding through the approval process.

Eligible Retirees Defined

Employees 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 PERS retirement benefits in order to be classified as an Eligible Retiree.

Annual OPEB Cost and Net OPEB Obligation

The Port's annual other post employment benefit (OPEB) expense was calculated based on the annual required contribution (ARC) of the Port. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years.

Annual OPEB Cost and Net OPEB Obligation (continued)

The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed, and changes in the Port's net OPEB obligation:

Annual required contribution	$	11,683
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		11,683
Contribution made		(3,929)
Increase in net OPEB obligation		7,754
Net OPEB obligation - beginning of year		-
Net OPEB obligation - end of year	$	7,754

The Port's annual OPEB cost and net OPEB obligation are as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
06/30/2006	n/a	n/a	n/a
06/30/2007	n/a	n/a	n/a
06/30/2008	$11,683	34%	$7,754

Funding Status and Funding Progress

As of January 1, 2007, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $143,594, and the actuarial value of assets was $0, resulting in an unfunded accrued liability of $143,594.

Actuarial accrued liability (AAL)	$	143,594
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	143,594

Funded ratio (actuarial value of plan assets/AAL)		0%
Annual covered payroll (active plan members)	$	49,400
UAAL as a percentage of annual covered payroll		186%

Actuarial Methods and Assumptions

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

The actuarial assumptions included a discount rate of 7.75%, effective annual rate, if the OPEB liability was funded through CALPERS; and a rate of 4.50% if the liability was unfunded; an annual health cost trend rate of 9% in health premiums from 2007 to 2008; reduced to 8% the second year; and reduced by 1% per year to 5% per year in the fifth year and beyond. Annual salary increases were assumed at 3.25%. The demographic assumptions regarding turnover and retirement are based on statistics from reports for California PERS under a "2.7% @ 55" benefit schedule.

(18) COMMITMENTS AND CONTINGENT LIABILITIES

Construction Commitments

Primary Government

The City has committed to funding in the amount of $180,320,388 to a number of capital improvement projects for fiscal year 2009 through fiscal year 2012.

Discretely Presented Component Unit

The Port anticipates spending $470,829,000 commencing fiscal year 2008 through June 2010 for its capital improvement program. The most significant Aviation projects are the terminal renovation and retrofit; paving/reconstruction of parking, roadway, ground access, aprons and taxiways; installation of passenger boarding bridges,; and air cargo relocation. The most significant Maritime projects are the 50-foot channel deepening; Berth 30-32 improvements, 7th Street upgrade separation and relocation; and the modernization, expansion, and renovation of wharves and terminals.

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

As of June 30, 2008, the Port had contracts for the acquisition and construction of assets as follows (in thousands):

Maritime	$	39,682
Aviation		52,811
Commercial real estate		502
Total	$	92,995

The most significant projects for which the Port has contractual commitments are airport terminal expansion of $34,488,000; and modernization of maritime wharfs and terminals and new cranes of $20,132,000.

Power Purchases

The Port purchases electrical power for resale and self-consumption at the Airport, and at Port Maritime facilities located at the former Navy Fleet and Industrial Supply Center Oakland and the former Oakland Army Base. After power requirements are determined, the Port commits and enters into purchase contracts, in advance, with power providers. The price is fixed at the time the Port enters into the contract. At June 30, 2008, the total purchase commitment was approximately $7,761,000 for 182 megawatts.

Other Commitments and Contingencies

Primary Government

As of June 30, 2008, the Agency has entered into contractual commitments of approximately $65,884,000 for materials and services relating to various projects. These commitments and future costs will be funded by future tax increment revenue and other sources.

At June 30, 2008, the Agency was committed to fund $60,011,000 in loans and had issued $1,648,000 in letters of credit in connection with several low and moderate-income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City.

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

Uptown Project Environmental Remediation

The Uptown Project area demolition, management and removal of structures and debris will include the handling of building materials that contain asbestos and lead-based paints. The Developer is responsible for managing the remediation contractor to assure the proper management and disposal of the hazardous materials in conformance with all the laws applicable to Environmental Hazard Abatement Activities. As of June 30, 2008, the total liability outstanding in connection with the Agency's environmental remediation activities was $433,000.

Fox Court Environmental Remediation

The Fox Court demolition, management and removal of structures and debris will include the handling of building materials that contain asbestos and lead-based paints. The Developer is responsible for managing the remediation contractor to assure the proper management and disposal of the hazardous materials in conformance with all the laws applicable to Environmental Hazard Abatement Activities. As of June 30, 2008, the total liability outstanding in connection with the Agency's environmental remediation activities was $380,000.

Oakland Base Reuse Authority (OBRA) Environmental Remediation

Land conveyed to OBRA from the Army may be subject to environmental remediation as required by Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, OBRA then, and subsequently the Agency and the Port are responsible for the first $13.0 million of environmental remediation costs; including environmental remediation insurance. OBRA has received a federal grant of $13 million to pay for the above-mentioned environmental remediation costs including $3.5 million insurance premium. Of the $13.0 million grant, $11.0 million has been spent of which $10.3 million has been reimbursed and received as of June 30, 2008. The remaining $2.0 million of grant expenditures will be shared equally between the Agency and the Port.

The next $11.5 million of environmental remediation costs are to be shared equally by Agency and the Port. As a result, the Agency will have as its share in the remaining Oakland Army Base remediation costs, a total of $6.7 million. The next $9.0 million will be paid from insurance proceeds from the environmental remediation policy. If subsequent environmental remediation is required after the initially-required remediation is complete, then the environmental site liability policy will cover up to $30 million in additional environmental remediation-related costs. The Agency and the Port have agreed to share equally in any environmental remediation-related costs above $21 million that are not covered by insurance.

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

Discretely Presented Component Unit

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

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

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

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

A summary of the environmental liability accounts, included within the financial statements at June 30, 2008, is as follows (in thousands):

Environmental remediation	$	11,534
Miscellaneous compliance		123
Total environmental liabilities	$	11,657

(19) RELATED PARTY TRANSACTIONS

The Fox Oakland Theater, Inc. ("FOT") is a 501(C)(3) organization set up by and for the benefit of the Agency and the City. FOT was set up to renovate the Fox Theater. The Agency transferred the Fox Theater property to FOT in August 2006 through a long-term lease and a Disposition and Development Agreement ("DDA") which included a $25,500,000 loan. The Fox Theater property was held by the Agency as property held for resale. It was transferred to a capital asset due to the long-term lease which was valued at $6,500,000 in the lease and DDA. All FOT board members are City employees and there is no direct staff for FOT. FOT set up a for profit entity, Fox Theater Manager, Inc ("FT Manager"), and then two LLCs managed by FT Manager, Fox Theater Landlord LLC and

Fox Theater Master Tenant LLC. These new entities were used to syndicate Historic and New Markets Tax Credits. The Fox Theater property was transferred to the LLCs in December 2006, but the loan remains with FOT and is unsecured.

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

As of June 30, 2008, the following funds reported deficits in fund balance/net assets (in thousands):

Special Revenue:	
ORA Projects	$ (3,630)
State Gas Tax	(13)
Landscape & Lighting Assessment District	(4,033)
Debt Service:	
Lease Financing	(504)

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

Internal Service:	
Facilities	$ (26,610)
Equipment	(4,557)
Central Stores	(3,650)
Purchasing	(1,477)
Radio	(440)

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

As of June 30, 2008, the following funds reported expenditures in excess of budgets (in thousands):

Special Revenue:	
Landscape & Lighting Assessment District	$ (784)

The excess of expenditures of budget in Landscape & Lighting Assessment District is attributed to ongoing project costs that will eventually be distributed to their appropriate funding sources.

(21) SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On July 9, 2008, the City issued the 2008-2009 Tax and Revenue Anticipation Notes in the principal amount of $105,705,000. These notes were issued in two series. The Series A Notes, in the principal amount of $70,000,000, were issued to finance General Fund expenditures; Series A Notes are tax-exempt with an interest rate of 3.00%. The Series B Notes, in the principal amount of $35,705,000, were issued to prepay the City's annual contribution to the California Public Employees Retirement System for fiscal year 2008-2009; Series B Notes are taxable with an interest rate of 3.75%. Both series of notes will mature on July 17, 2009.

Educational Revenue Augmentation Funds (ERAF)

On September 23, 2008, AB 1389 was signed into law requiring redevelopment agencies statewide to shift a one-time $350,000,000 of property tax increment to the State's Educational Revenue Augmentation Fund (ERAF) as a way to reduce the State's $24.3 billion budget deficit for fiscal year 2008-09. The ERAF money will then be paid to schools and community colleges, relieving the State of payments. The Agency's share of the revenue shift is $8,500,000 and payments is to be made by May 10, 2009.

Recent changes in the Economic Environment and its impact to the City

The recent turmoil in the financial market has been unprecedented. With such volatility in the market due to uncertainty in the global financial market, the City Council on October 21, 2008 authorized the Finance & Management Agency's investment staff to invest in United States Treasury Securities for a not-to-exceed period of 60 days to further diversify its portfolio, thus reducing its risks and exposure to the depressed financial markets. The ability to invest in US Treasuries will also provide liquidity and safety of the portfolio. Currently, there is no loss in asset value for the City. The Finance & Management Agency's investment staff continues to focus investment decisions in accordance with the City Council Investment Policy's primary investment priorities of safety, liquidity and yield in that order.

For the quarter ended September 30, 2008, the Police and Fire Retirement System total annual portfolio return was negative 10.7 percent. This return was below the policy benchmark of negative 8.8 percent for the same quarter. However, the market continued to be volatile and the investment portfolio had additional losses. The impact of the losses is still not available.

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REQUIRED SUPPLEMENTARY INFORMATION

PERS ACTUARIAL VALUATION

SCHEDULE OF FUNDING PROGRESS

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

Public Safety Retirement Plan (Police and Fire)

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2005	$ 820,642,031	$ 602,422,608	$ 218,219,423	73.4%	$ 122,893,613	177.6%
7/1/2006	907,421,303	678,599,629	228,821,674	74.8%	124,174,590	184.3%
7/1/2007	989,095,209	757,340,889	231,754,320	76.6%	127,434,797	181.9%

Miscellaneous Retirement Plan

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2005	$ 1,397,236,509	$ 1,156,704,781	$ 240,531,728	82.8%	$ 206,261,519	116.6%
7/1/2006	1,507,980,747	1,250,681,091	257,299,656	82.9%	217,024,554	118.6%
7/1/2007	1,617,214,275	1,353,435,664	263,778,611	83.7%	225,726,055	116.9%

City Other Post Employment Benefits (OPEB)

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2006	N/A	N/A	N/A	N/A	N/A	N/A
7/1/2007	N/A	N/A	N/A	N/A	N/A	N/A
7/1/2008	$ 591,575,250	-	$ 591,575,250	0.0%	N/A	N/A

Port of Oakland Post Employment Benefits (OPEB)

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
1/1/2007	$ 143,594,000	-	$ 143,594,000	0.0%	$ 49,400,000	291%

PERS ACTUARIAL VALUATION

SCHEDULE OF FUNDING PROGRESS

Oakland Municipal Employees' Retirement System - Pension

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2007 *	$ 7,516,000	$ 9,371,000	$ (1,855,000)	124.7%	-	N/A

Oakland Police and Fire Retirement System - Pension

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2007 *	$ 888,100,000	$ 566,000,000	$ 322,100,000	63.7%	$ 400,000	80525%

* The plans used the aggregate actuarial cost method to determine annual required contributions in prior fiscal years. Beginning with the July 1, 2007 actuarial valuation, the entry age normal cost method was used as a surrogate method to meet the disclosure requirements of GASB Statement No. 50.

CITY OF OAKLAND
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
REVENUES				
Taxes:				
Property	$175,430	$ 175,429	$ 201,765	$ 26,336
State:				
Sales and use	48,964	48,964	53,090	4,126
Motor vehicle in-lieu	3,043	3,043	1,811	(1,232)
Local:				
Business license	47,920	47,920	52,542	4,622
Utility consumption	52,178	52,178	52,524	346
Real estate transfer	67,217	67,217	36,205	(31,012)
Transient occupancy	12,751	12,756	12,400	(356)
Parking	9,455	9,455	8,524	(931)
Franchise	13,480	13,482	13,791	309
Licenses and permits	1,240	1,241	1,612	371
Fines and penalties	26,656	27,906	21,653	(6,253)
Interest and investment income	-	-	10,374	10,374
Charges for services	62,088	61,208	55,048	(6,160)
Federal and state grants and subventions	1,500	1,583	5,935	4,352
Annuity income	13,200	13,200	2,495	(10,705)
Other	15,481	12,432	11,441	(991)
TOTAL REVENUES	550,603	548,014	541,210	(6,804)
EXPENDITURES				
Current:				
Elected and Appointed Officials-				
Mayor	3,233	3,259	3,172	87
Council	3,644	4,283	4,423	(140)
City Administrator	11,582	12,041	11,459	582
City Attorney	9,801	9,858	10,112	(254)
City Auditor	1,428	1,432	1,230	202
City Clerk	2,700	2,521	1,906	615
Agencies/Departments:				
Personnel Resource Management	6,154	6,689	6,135	554
Information Technology	11,066	11,688	11,263	425
Financial Services	26,939	29,151	26,658	2,493
Contracting and Purchasing	2,457	2,457	1,997	460
Police Services	193,673	194,781	203,954	(9,173)
Fire Services	110,924	110,898	106,006	4,892
Life Enrichment:				
Parks and Recreation	16,647	19,089	16,907	2,182
Library	12,743	12,966	11,817	1,149
Cultural Arts and Museum	6,278	6,449	6,561	(112)
Aging & Health and Human Services	6,575	8,285	6,334	1,951
Community and Economic Development	4,215	13,989	8,161	5,828
Public Works	38,746	37,008	32,499	4,509
Other	939	3,569	9,115	(5,546)
Capital outlay	-	7,521	6,718	803
Debt service:				
Principal repayment	2,268	1,665	1,069	596
Bond issuance costs	-	-	268	(268)
Interest charges	591	694	733	(39)
TOTAL EXPENDITURES	472,603	500,293	488,497	11,796
EXCESS OF REVENUES OVER EXPENDITURES	78,000	47,721	52,713	4,992
OTHER FINANCING SOURCES (USES)				
Property sale proceeds	707	707	4,044	3,337
Transfers in	51,523	62,872	3,600	(59,272)
Transfers out	(130,189)	(135,609)	(95,091)	40,518
TOTAL OTHER FINANCING USES, NET	(77,959)	(72,030)	(87,447)	(15,417)
NET CHANGE IN FUND BALANCE	41	(24,309)	(34,734)	(10,425)
Fund balances - beginning	288,372	288,372	288,372	-
FUND BALANCES - ENDING	$288,413	$ 264,063	$ 253,638	$ (10,425)

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

(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 2007, the City Council approved the City's two-year budget for fiscal years 2007-09. Although appropriations are adopted for a 24-month period, they are divided into two one-year spending plans. Agencies/departments ending the first year with budgetary non-project surplus, according to Council policy, will be allowed to carry-forward 1/3 for their operating budget, 1/3 for their capital spending, and 1/3 for reverting to the General Fund balance.

The final budgetary data presented in the required supplementary information reflects approved changes to the original 2007-08 budget. Certain projects are appropriated on a multi-year rather than annual basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations are carried forward to the following year with the approval of the City Administrator.

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

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

Budgetary Basis of Accounting

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

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

Major Funds

Federal and State Grants
Oakland Redevelopment Agency
Municipal Capital Improvement

Nonmajor Funds

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

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

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

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

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

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

> In October 2001, the City entered into a debt service deposit agreement with a third party whereby the City received approximately $9.6 million in exchange for forgoing its right to receive investment earnings on the amounts deposited with the trustee in advance of the date that the related debt was due to the bondholders. The compensation to the City was recorded as revenue in fiscal year 2002 when received on a budgetary basis. On a GAAP basis, the revenue was deferred and is being recognized over the 21-year life of the agreement. Amortization for the year ended June 30, 2008, was $510,835.

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

	General Fund
Net change in fund balance - Budgetary basis	$ (34,734)
Amortization of debt service deposit agreement	511
Net change in fund balance - GAAP basis	$ (34,223)

The General Fund's fund balance on a Budgetary Basis is reconciled to that on a GAAP basis as of June 30, 2008, which is as follows (in thousands):

	General Fund
Fund balance as of June 30, 2008 - Budgetary basis	$ 253,638
Unamortized debt service deposit agreement	(5,954)
Fund balance as of June 30, 2008 - GAAP basis	$ 247,684

General Fund GAAP Basis Fund Balance at June 30, 2008, is composed of the following (in thousands):

	General Fund
Reserved:	
Encumbrances	$ 6,193
Debt service	15,382
Pension obligations	105,000
Unreserved	121,109
TOTAL FUND BALANCES	$ 247,684

FEDERAL AWARDS PROGRAMS

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the business-type activities, the 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 17, 2008. We did not audit the financial statements of the Oakland Municipal Employees' Retirement System (OMERS) and the Oakland Police and Fire Retirement System (PFRS), which collectively represent 67%, 71% and (18)%, respectively, of the assets, net assets/fund balances, and revenues/additions of the aggregate remaining fund information as of and for the year ended June 30, 2008. We also did not audit the Oakland Redevelopment Agency (ORA) whose financial activities are included in the City's basic financial statements as a major fund and which represents 27%, 28% and 16%, respectively, of the assets, net assets, and revenues of the governmental activities as of and for the year ended June 30, 2008. The OMERS, PFRS and ORA financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. Our report contained an explanatory paragraph describing the City's adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27*, effective July 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-A and 2008-B to be significant deficiencies in internal control over financial reporting, as defined above.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-A and 2008-B to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated December 17, 2008.

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

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

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
December 17, 2008

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

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

Compliance

We have audited the compliance of the City of Oakland, California (City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Port of Oakland (Port), which expended $29,761,701 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2008. Our audit of compliance, described below, did not include the operations of the Port because we audited and reported on the Port's compliance in accordance with OMB Circular A-133 separately.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control

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

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

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

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
February 6, 2009

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2008

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the State of California				
Department of Education-				
Child & Adult Care Food Program	10.558	01-1135-1J	$ 450,212	$ -
Summer Food Service Program for Children	10.559	01-80102V	248,662	155,006
TOTAL U.S. DEPARTMENT OF AGRICULTURE			**698,874**	**155,006**
U.S. DEPARTMENT OF COMMERCE				
Economic Adjustment Assistance-	11.307	07-39-02873	86,164	-
Oakland Brownfields		07-79-04941	11,363	-
Industrial District Strategy		07-79-06021	18,042	6,312
TOTAL U.S. DEPARTMENT OF COMMERCE			**115,569**	**6,312**
U.S. DEPARTMENT OF DEFENSE				
Environmental Services Cooperative Agreement	12.unknown	DASW01-02-2-0004	1,295,691	1,295,691
TOTAL U.S. DEPARTMENT OF DEFENSE			**1,295,691**	**1,295,691**
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT				
Community Development Block Grants/				
Entitlement Grants	14.218	B-01-MC-06-0013	9,849,618	3,905,306
		B-81-AA-06-0038(4)	56,599	-
			9,906,217	3,905,306
Emergency Shelter Grants Program	14.231	S02-MC-06-0013	712	651
		S05-MC-60-0013	5,777	5,704
		S06-MC-03-0013	122,160	103,581
		S-06-MC-03-0013	150,502	131,322
			279,151	241,258
Supportive Housing Program	14.235	CA01B502027-CA5063	5,464	-
		CA01B602020-CA5065	1,430,045	1,387,284
		CA-10B4012002	100,079	99,301
		CA-01B502018-CA5080	283,238	282,871
		CA-01B502022-CA-5089	120,037	114,925
		CA-01B602015-CA5063	150,540	144,928
		CA-01B602017-CA5080	525,420	500,607
		CA-01B202026-CA5089	11	-
		CA01B402024-CA5089	342	-
		CA01B502018-CA5080	95,881	84,852
			2,711,057	2,614,768
HOME Investment Partnerships Program	14.239	M01-MC060208	429,813	-
		Agreement	3,108,446	33,025
		M99-MC60208	405,975	-
			3,944,234	33,025
Housing Opportunities for Persons with Aids	14.241	CA-H03-F001	252,232	250,000
		CA-H01-F001	155,002	154,305
		CA-H06-F001	234,406	164,259
		CAH04F001	848,823	845,976
		CAH05F001	522,053	522,053
			2,012,516	1,936,593
Community Development Block Grants/ Economic Development Initiative	14.246	B94-MC-06-0013-A	537,343	253,887
Community Development Block Grants/ Section 108 Loan Guarentees	14.248	B93-MC-06-0013	1,344,075	-
TOTAL U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			**20,734,593**	**8,984,837**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2008

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF THE INTERIOR				
Urban Park and Recreation Recovery Program	15.919	06CTY24800201	$ 7,138	$ -
TOTAL U.S. DEPARTMENT OF THE INTERIOR			**7,138**	**-**
U.S. DEPARTMENT OF JUSTICE				
Offender Reentry Program	16.202	2002RE-CX-0055	282	-
Eastbay Human Trafficking	16.320	2005-VT-BX0009	266,310	137,554
Solving Old Cases	16.560	2007-DN-BX-K019	40,544	-
Federal Asset Forfeiture	16.578	CA0010900	615,919	151,609
Local Law Enforcement Block Grants Program	16.592	98-LB-VX-2565	6	-
		99-LB-VX-7889	25	-
		2006-DJ-BX-0716	363,012	354,915
			363,043	354,915
Executive Office for Weed and Seed	16.595	98-WS-Q8-0048	52	-
		2007-WS-Q7-0057	143,076	60,500
		2006-WS-Q6-0163	41,107	41,108
		2006-WS-Q6-0063	47,565	22,900
			231,800	124,508
Bullet Proof Vest	16.607	2007 BVP	6,650	-
		Agreement	98,792	-
		2007-CK-WX-0028	2,929	-
			108,371	-
Public Safety Partnership and Community Policing Grants	16.710			
COPS MORE 2001		2001CLWX0014	167	-
COPS More 98 Award		2001ULWX0022	464,015	-
COPS Secure in School		98CLWX0160	141,700	79,135
			605,882	79,135
Edward Byrne Memorial Grant	16.738	County Agreement	222,987	31,675
DNA Backlog Reduction	16.743	2007-DN-BX-K132	7,982	-
		2005-DN-BX-K066	33,950	-
		2006-DN-BX-K122	52,014	-
			93,946	-
SMART Grant	16.750	20008-DD-BX-0034	51,384	-
JAG	16.751	JAG-OPD-2007	277,970	80,000
TOTAL U.S. DEPARTMENT OF JUSTICE			**2,878,438**	**959,396**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2008

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF LABOR				
Passed Through the Senior Service America, Inc.				
Senior Community Service Employment Program	17.235	SSAI Agreement	$ 1,297,945	$ -
WIA Cluster:				
Passed Through the State of California Employment Development Department-				
WIA Adult Program	17.258	R760339	75,000	-
		R760339	22,310	22,310
		R865475	1,906,315	1,559,438
			2,003,625	1,581,748
WIA Youth Activities	17.259	R760339	337,447	337,447
		R865475	1,656,113	1,656,113
			1,993,560	1,993,560
WIA Dislocated Workers	17.260	R760339	490,029	490,029
		R865475	1,052,031	1,052,031
			1,542,060	1,542,060
Total WIA Cluster			5,539,245	5,117,368
WIA Incentive Grant	17.267	R760339	6,193	6,193
TOTAL U.S. DEPARTMENT OF LABOR			**6,843,383**	**5,123,561**
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through the State of California Department of Transportation-				
Highway Planning and Construction:	20.205			
Lake Merritt Canal Bridge		STPL-5012 (037)	66,893	-
Jackson Street Operation		CML- 5012(050)	964	-
Mandela Parkway TEA		STPLEE-5012 (065)	675,413	-
Sidewalk Repair STPL		STPL-5012(047)	2,123	-
Sidewalk Repair STPL		STPL-5012 (062)	439,734	-
Tunnel Rd Haz Mitigation		STPL 5012 (077)	51,897	-
Street Resurfacing STP Cycle 2		STPL 5012 (075)	983,812	-
Panoramic Way Slide		RPL-5012 (046)	346	-
Bridges- Hegenberger Seismic		STPLZ-5012 (027)	289,671	-
Bridges -Park, Leimert Seismic		STPLZ-5012 (025)	240,342	-
Bridges - 4 Seismic Retrofit		STPLZ 5012 (028)	176,455	-
REBA Resurfacing STP		STPL-5012 (051)	20,727	-
SRTS Cycle 1		STPL - 5012 (089)	21,140	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			**2,969,517**	**-**
ENVIRONMENTAL PROTECTION AGENCY				
Brownfields Training Research and Cleanup Cooperative Agreements				
	66.811	BL98968501-0	2,568	-
	66.818	BF 96901010	24,691	18,839
TOTAL ENVIRONMENTAL PROTECTION AGENCY			**27,259**	**18,839**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2008

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF EDUCATION				
Passed Through the State of California				
State Library-				
Even Start: State Educational Agencies	84.213	E-116-00	$ 170,375	$ -
TOTAL U.S. DEPARTMENT OF EDUCATION			**170,375**	**-**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Comprehensive Community Mental Health Services				
for Children with Serious Emotional Disturbances	93.104	6 U79 SM56051-04-01	484,561	461,989
		5 U79 SM56051-04-05	490,464	458,573
			975,025	920,562
Head Start	93.600	09CH9006/36	1,234,437	661,522
		09CH9003/34	15	-
		09CH9006/37	13,508,181	4,685,925
			14,742,633	5,347,447
Passed Through the State of California				
Department of Economic Opportunity:				
National Family Caregiver Support	93.052	Agreement	15,173	-
		C93-1058	9	-
			15,182	-
Passed Through the State of California				
Department of Community Service and Development:				
Community Services Block Grant	93.569	06F-4703	395,850	199,085
		08F-4903	229,423	60,709
			625,273	259,794
Passed Through the State of California				
Department of Aging:				
Medical Assistance Program (Medicaid)	93.778	MS-0405-01	80	-
		MS-0708-01	1,775,027	314,894
		MS=0607-01	28,836	-
			1,803,943	314,894
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			**18,162,056**	**6,842,697**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2008

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES				
Foster Grandparent Program	94.011	06SFPCA009	$ 30,962	$ -
Senior Companion Program	94.016	06SCPCA005	299,909	-
TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES			**330,871**	**-**
U.S. DEPARTMENT OF HOMELAND SECURITY				
Urban Area Security Initiative	97.008	2004-14 OESID# 001-53000	92,449	-
		2005-15	1,047,004	82,045
			1,139,453	82,045
National Urban Search and Rescue (US&R) Response System	97.025	2005-15	110,164	-
		EMW-2006-CA-0198	400,816	85,153
		EMW-2007-CA-0157	624,952	234,063
			1,135,932	319,216
Disaster Grants - Public Assistance	97.036	FEMA 1628 DR OES ID 001-53000	263,825	-
		FEMA 1646 DR CA,OES ID 001-53000	777,709	457
		OES 98-01-089	7,517	-
			1,049,051	457
Homeland Security Cluster:				
Community Emergency Response Team	97.004	2004-45OESID#00100000(	14,806	-
Homeland Security Grant Program	97.067	006-0071	1,298,108	-
Total Homeland Security Cluster			1,312,914	-
Metropolitan Medical Response System	97.071	EMW 2004-GR-0606	211,684	
State Homeland Security Program	97.073	2006-0071	232,330	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			**5,081,364**	**401,718**
TOTAL FEDERAL AWARDS			**$ 59,315,128**	**$ 23,788,057**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

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, 2008, except as described in Note 4 below. The City's reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

Note 2 – Basis of Accounting

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

Note 3 – Relationship to the Financial Statements

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

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

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

Program Title	CFDA Number	Federal Expenditures
Department of Defense		
Environmental Services Cooperative Agreement - passed through from the Oakland Base Reuse Authority	12-UNKNOWN	$ 2,670,288
Department of Transportation		
Airport Improvement Program	20.106	26,657,328
Department of Homeland Security		
Port Security Grant Program	97.056	434,085
Total Federal Expenditures		$ 29,761,701

Note 5 – Loans Outstanding

The City participates in certain federal award programs of the U.S. Department of Housing and Urban Development (HUD) that sponsor revolving loan and loan guarantee programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. These repayments are made available for new loans. Of these revolving loan and loan guarantee programs, the HOME Investment Partnerships Program (CFDA No. 14.239) is the only loan program with continuing compliance requirements. The outstanding loans receivable balance at June 30, 2008 for this program is $43,948,461.

CITY OF OAKLAND
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section I – Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

CFDA Number	Program name
14.218	Community Development Block Grant
14.239	HOME Investment Partnerships Program
14.241	Housing Opportunity for Persons With AIDS
17.235	Senior Community Services Employment
20.205	Highway Planning and Construction
93.569	Community Services Block Grant
93.778	Medical Assistance Program
97.004/97.067	Homeland Security Cluster
97.036	Public Assistance Grants

Dollar threshold used to distinguish between Type A and Type B programs:	$1,779,454
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

Finding No. 2008-A – Material Weakness
Accounting for the City's Sewer Service Revenues

During our risk assessment of the City's internal controls, we identified sewer service revenues as a significant transaction stream. In our planning phase, we began the process of documenting our understanding of the collection of sewer service revenues by interviewing City departments responsible for the Sewer Service Enterprise Fund, being the Public Works Department and the Community and Economic Development Agency (CEDA). We also met with staff of the East Bay Municipal Utility District (EBMUD), the agency responsible for measuring usage for metered rates, preparing invoices, and collecting cash receipts on behalf of the City.

We were unable to complete our documentation of internal controls over sewer service revenues, as we were unable to meet with CEDA staff. While we were able to document certain controls, such as the development of user rates and recording of receipts from EBMUD, we were not able to determine whether the City has adequate controls over the monitoring of EBMUD services. Due to a lack of cooperation by CEDA, we must assume that controls and control documentation do not exist. Therefore, internal controls over the collection of sewer service revenues is considered a material weakness, as we are unable to determine the adequacy of internal controls and whether or not they are operating effectively. We were able to mitigate this audit risk by conducting substantive procedures, which included confirming cash receipts with EBMUD and application of analytical procedures.

During our substantive procedures, we determined that the City did not have an adequate understanding of the EBMUD collection process and the timing of remittances to the City. Historically, the City accrues the July remittances from EBMUD. Upon further investigation, we discovered that the July remittances only included collections received through June 30. Therefore, billings through June 30 that were not yet received by EBMUD as of June 30 were not captured as accrued revenue in the City's financial statements. In addition, we discovered that EBMUD bills on a two-month cycle at the end of each billing period. Therefore, as of June 30, there existed sewer service revenues earned but not yet billed by EBMUD. As a result of our findings, the City was required to accrue $4,430,000 as a receivable at June 30, 2008, of which $576,000 was recorded as current year revenue and the difference of $3,854,000 as a restatement of beginning net assets to account for the accrual as of June 30, 2007.

We recommend the City document its internal controls over sewer service revenues, which include (1) performing risk assessments; (2) establishing controls, such as monitoring the billing and collecting activities performed by EBMUD; (3) establishing proper communication within the City Departments; and (4) establishing accrual procedures at year-end that capture all billed receivables and a basis for estimating the unbilled receivables. Maintaining proper internal controls over sewer service revenues will reduce the risk of misstatements and ensure accuracy in financial reporting by the City.

Management Response:
Recent departmental reorganizations have blurred the delineation of oversight responsibilities for monitoring sewer system revenues. Management plans to convene an inter-agency meeting among the Public Works Agency, Community and Economic Development Agency, and Finance and Management Agency to identify the most appropriate agency, or combination thereof, to monitor the sewer system revenues collected by East Bay Municipal Utility District on behalf of the City of Oakland. The inter-agency meeting will result in a monitoring process that will be implemented during fiscal year 2008-09.

Finding No. 2008-B – Material Weakness
Accounting for the City's Net Pension Asset

During our review of the Oakland Police and Fire Retirement System (PFRS) financial statements for the year ended June 30, 2008, we noticed a change in reporting of actuarial information. The FY2008 PFRS report disclosed a six-year trend of actuarial required contribution (ARC) requirements in its required supplementary information, which had previously been reported as zero in past PFRS reports.

Upon further investigation, it was determined that the past PFRS reports were incorrect and that there has been past ARC requirements for the City which were not communicated or considered in its calculation of the net pension asset on the statement of net assets of its governmental activities. The net pension asset is the result of City contribution to PFRS that exceeded the actuarially determined annual required contribution, which originated from the bond proceeds of the 1997 Pension Obligation Bonds. This amount should then be amortized along with impact of subsequent annual ARC requirements to recognize the effects of excess/deficient contributions as pension costs over time.

Upon recalculating the changes in the net pension asset as a result of incorporating past ARC requirements, we determined that the City overstated its net pension asset and an audit adjustment would be necessary to restate beginning net assets for the cumulative effect of the missing ARC amounts through June 30 2007 and to adjust the amount of pension cost for the year ended June 30, 2008. We submitted our recalculation supporting the audit adjustment to the PFRS actuary for confirmation. The restatement resulted in a reduction of beginning net assets (as of June 30, 2007) in the amount of $69,192,000 and increased annual pension cost to $31,551,000. It should be noted that the effect of the restatement and current year adjustment does not impact any City funds (i.e., fund balance) as it represents the cost of pension benefits over time using the economic resources measurement focus in the government-wide financial statements.

We recommend going forward that the City's Finance and Management Agency accounting and retirement staff work with the PFRS actuary to calculate the annual pension cost and changes to net pension assets.

Management Response:
Management concurs with the recommendation.

Section III Federal Award Findings and Questioned Costs

None

Reference Number:	2007-A
Audit Finding:	The City advanced funds to the Oakland Redevelopment Agency (the Agency), which in turn were used to make loans for redevelopment projects. The City decided to record an allowance for uncollectible loans to the Agency since they were determined likely to be uncollectible. The amounts that remain recorded on the books of the Agency represent perspective differences in the financial statements reported by the City compared to the stand-alone financial statements reported by the Agency. The Agency reports the interfund borrowing as a government-wide long-term liability, while the City discloses the loans in the footnotes but does not record them. These differences were not captured accurately in the City's financial statements. MGO recommended the City establish a process as part of the year-end close for capturing changes in the perspective differences and recording them accurately in the financial statements.
Status of Corrective Action:	The correction was made accordingly.

Reference Number:	2007-B
Audit Finding:	The City's General Fund has loaned $39,719,000 to the Equipment, Facilities and Central Stores internal service funds in order to cover the shortfall of charges to the General Fund, which have not adequately covered the operating and capital costs. The internal service funds have basically borrowed money to cover its full costs, as opposed to charging the departments using the services. The current loan balance from the General Fund represents an increase of $5,110,000 from fiscal year 2006 and $9,583,000 from fiscal year 2005, as the amount outstanding as of June 30, 2005 was $30,136,000. The City has attempted to cure the internal service fund deficits by increasing the charges to the departments; however, those increases have not kept up with the increases in actual costs. The Equipment, Facilities, and Central Stores internal service funds have net asset deficits of $1,841,000, $20,607,000, and $3,731,000, respectively. MGO recommended the City review its current budget repayment plan and revise it to cure the deficit over a reasonable period of time, such as three to five years.
Status of Corrective Action:	The City adopted the fiscal year 2007-2009 policy budget, which includes a rebalancing plan for internal service funds to be achieved by fiscal year 2015. Management will review the rebalancing plan during the mid-cycle budget review and recommend appropriate adjustments for the City Council's consideration.

CITY OF OAKLAND
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2008

Reference Number:	2007-01
Federal Catalog Number:	20.205 – Highway Planning and Construction
Audit Finding:	The schedule of expenditures of federal awards provided to the auditors reported a net negative of $1,509,748 as current year expenditures for the Highway Planning and Construction grant. MGO recommended the departments with programs and grants that have matching requirements use a separate account or project code to record the local match at the time of the transaction, rather than recording the matching during the closing of the projects.
Status of Corrective Action:	The net balance for the Highway Planning and Construction grant expenditures reported in the fiscal year 2008 schedule of expenditures of federal awards correction was positive, so the correction was made accordingly.

CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICE AND DEVELOPMENT (CSD)
COMMUNITY SERVICE BLOCK GRANT (CSBG)-CFDA NO. 93.569
CONTRACT NO. 08F-4903, PROJECT NO. 309110/20
For the Period January 1, 2008 to June 30, 2008

	Actual	Total Reported [1]	Total Budget
Revenue			
Grant Amount	$ 167,508	$ 167,508	$ 670,032
Interest Income	-	-	-
Total Revenue	$ 167,508	$ 167,508	$ 670,032
Expenditures			
Personnel Costs:			
Salaries and Wages	$ 100,759	$ 91,777	$ 175,156
Fringe Benefits	54,536	49,910	104,281
Subtotal Personnel Costs	155,295	141,687	279,437
Non-Personnel Costs			
Travel	4,708	5,262	15,000
Consumable Supplies	447	-	3,500
Equipment Lease/Purchase	-	5,138	-
Consultant Services	-	-	-
Sub-Contractors	60,709	77,388	337,713
Other Costs	8,264	251	34,382
Subtotal Non-Personnel Costs	74,128	88,039	390,595
Total Expenditures	$ 229,423	$ 229,726	$ 670,032

[1] - The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2008 to June 30, 2008.

CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICE AND DEVELOPMENT (CSD)
COMMUNITY SERVICE BLOCK GRANT (CSBG)-CFDA NO. 93.569
CONTRACT NO. 06F-4703, PROJECT NO. 265020/30
For the Period January 1, 2007 to June 30, 2008

	Jan. 1, 2007 through June 30, 2007	July 1, 2007 through Dec. 31, 2008	Jan. 1, 2008 through June 30, 2008	Total Actual	Total Reported 1	Total Budget
Revenue:						
Grant Amount	$ 250,292	$ 136,324	$ 275,473	$ 662,089	$ 662,088	$ 670,032
Interest Income	-	-	-	-	-	-
Total Revenue	$ 250,292	$ 136,324	$ 275,473	$ 662,089	$ 662,088	$ 670,032
Expenditures:						
Personnel Costs:						
Salaries and Wages	$ 91,907	$ 83,458	$ 8,589	$ 183,954	$ 196,375	$ 196,375
Fringe Benefits	46,298	37,763	1,216	85,277	86,847	86,847
Subtotal Personnel Costs	138,205	121,221	9,805	269,231	283,222	283,222
Non-Personnel Costs:						
Travel	8,536	7,998	996	17,530	11,857	11,857
Consumable Supplies	1,042	1,099	9,765	11,906	28,230	28,230
Equipment Lease/Purchase	-	80	-	80	-	-
Consultant Services	-	-	-	-	-	-
Sub-Contractors	77,804	94,863	104,222	276,889	330,155	330,155
Other Costs	48,881	24,396	21,405	94,395	16,568	16,568
Subtotal Non-Personnel Costs	136,263	128,436	136,388	400,800	386,810	386,810
Total Expenditures	$ 274,468	$ 249,657	$ 146,193	$ 670,031	$ 670,032	$ 670,032

1 - The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2007 to June 30, 2008.

CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF
ALAMEDA COUNTY AWARDS
For the year ended June 30, 2008

ALAMEDA COUNTY AWARD/PROGRAM TITLE	CONTRACT NUMBER	EXHIBIT/PO NUMBER		EXPENDITURES
DEPARTMENT OF ADULT & AGING SERVICES				
Senior Companion Program - FY07-08	SOCSA-900163	SE08-141	$	21,742
Linkages/Respite	C-93-1058	SE06-206		3,793
	SOCSA-900163	SE08-140		231,817
Information and Assistance	C-93-1058	SE06-170		504
Information and Assistance	SOCSA-900163	SE06-148		42,019
TOTAL DEPARTMENT OF ADULT & AGING SERVICES				**299,875**
HOUSING & COMMUNITY DEVELOPMENT DEPARTMENT				
Winter Shelter Program	C-2335	N/A		106,175
TOTAL HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT				**106,175**
OAKLAND PUBLIC LIBRARY				
A Quicker, Safer Trip To The Library Program	CONTRACT	1311		39,037
TOTAL DEPARTMENT OF PUBLIC WORKS				**39,037**
PUBLIC HEALTH DEPARTMENT				
Tobacco Control Program - FY 2006-07	CONTRACT	PHSVC-3526		16,554
Tobacco Control Program - FY 2007-08	CONTRACT	PHSVC-4305		22,630
TOTAL DEPARTMENT OF PUBLIC HEALTH				**39,184**
DEPARTMENT OF WORKFORCE & BENEFITS ADMINISTRATION				
Henry J. Robinson Multi-Service Center - FY 2006-08	SOCSA-6217	SE06-MO44		278,502
TOTAL DEPARTMENT OF WORKFORCE & BENEFITS ADMINISTRATION				**278,502**
TOTAL ALAMEDA COUNTY AWARDS			**$**	**762,773**