CITY OF OAKLAND
CALIFORNIA

SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2006

CITY OF OAKLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2006

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FEDERAL AWARDS PROGRAMS

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Oakland, California (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Oakland Base Reuse Authority (OBRA), the Oakland Municipal Employees' Retirement System (OMERS) and the Oakland Police and Fire Retirement System (PFRS), which collectively represent the following percentages of assets, net assets and revenues/additions as of and for the year ended June 30, 2006:

Opinion Unit	Assets	Net Assets	Revenues/ Additions
Discretely presented component units (OBRA)	3.9%	9.9%	2.7%
Aggregate remaining fund information (OMERS and PFRS)	71.6%	73.0%	21.2%

Those financial statements were audited by other auditors whose reports thereon has 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 do not express such an 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress and the budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we 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 combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the schedule of expenditures of federal awards, supplemental schedules of revenue and expenditures prepared by the City's Community Services Department, and supplemental schedule of expenditures of Alameda County Awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, the State Department of Community Services and Development, and the County of Alameda, respectively, and are not a required part of the basic financial statements. Such information has 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.

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
December 6, 2006

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, 2006. 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 $690.5 million as of June 30, 2006, compared to $657.6 million at June 30, 2005. This represents a net growth of $32.9 million or 5% compared to the previous year. Assets increased by 3% or $68.0 million primarily as the result of the combined increase of $107.5 million in pooled and restricted cash and investments attributable to unspent bond proceeds and improved cash collections. Conversely, liabilities grew by 2% or $35.1 million compared to the prior fiscal year primarily as a result of new debts associated with the above unspent bond proceeds.

- The City's cumulative fund balances grew by 6.1% ($54.7 million) to $955.3 million compared to $900.6 million for the prior fiscal year. This growth is primarily attributed to: (1) the combined increase of $107.5 million or 13% in pooled and restricted cash and investments primarily attributable to unspent bond proceeds; (2) the 15.6% improvement in property taxes as a result of double digit increases in property valuation; and (3) offset by a modest 5.7% increase in overall governmental expenditures for is operations.

- As of June 30, 2006, the City had total long-term obligations outstanding of $1.9 billion compared to a similar amount outstanding for the prior fiscal year for a minimal increase of only 1%. Of this amount, $358.0 million is general obligation bonds backed by the full faith and credit of the City. The remaining $1.5 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, 2006 was $59.4 million compared to $46.3 million for the previous year, an increase of $13.1 million or 28%. 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 2006.

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

Notes to the Basic Financial Statements

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

Other Information

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

The combining statements referred to earlier in connection with non-major governmental funds, internal service funds, and fiduciary funds are immediately following the required supplementary information along with budgetary 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, 2006 by $690.5 million compared to $657.6 million as of June 30, 2005, an increase of $32.9 million. The largest portion of the City's net assets (62%) reflects its investment in capital assets of $430.2 million, an increase of $12.2 million (3%) net of related debt, compared to the previous fiscal year. The increase is attributed to new additions net of the annual deductions for asset retirements and for depreciation expense. Of the remaining balance, (39%) reflects $267.8 million in resources that are subject to external restrictions on how they may be used. The net deficit of ($7.5) million is primarily attributed to ongoing projects related governmental activities.

City of Oakland's Net Assets
June 30, 2006
(In Thousands)

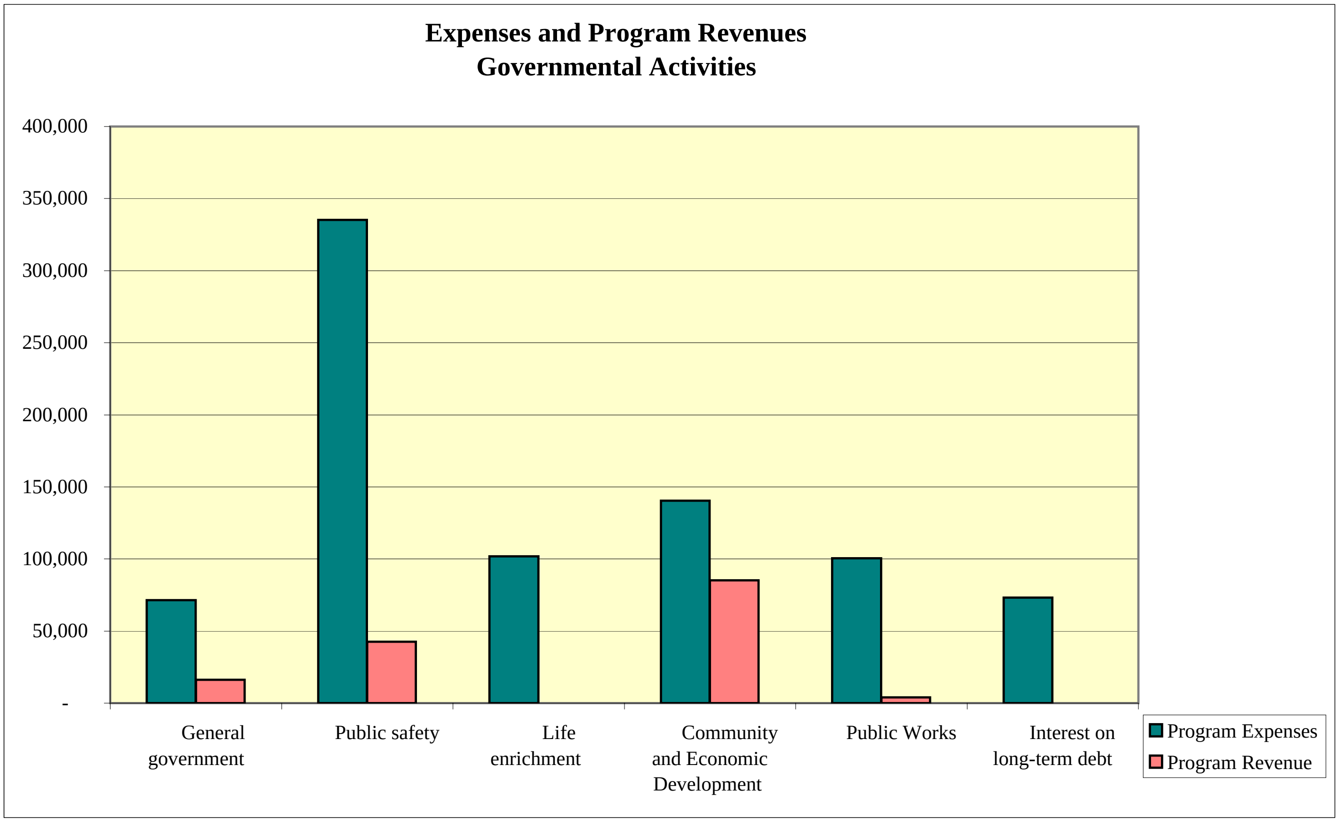
	Governmental Activities		Business-Type Activities		Totals	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Assets:						
Current and other assets	$1,723,502	$1,651,554	$ 54,508	$ 61,075	$1,778,010	$1,712,629
Capital assets	835,991	839,375	127,221	121,240	963,212	960,615
TOTAL ASSETS	2,559,493	2,490,929	181,729	182,315	2,741,,222	2,673,244
Long-term liabilities outstanding	1,815,189	1,794,616	68,475	70,814	1,883,664	1,865,430
Other liabilities	165,070	149,248	1,986	991	167,056	150,239
TOTAL LIABILITIES	1,980,259	1,943,864	70,461	71,805	2,050,720	2.015,669
Net assets:						
Invested in capital assets, net of related debt	319,932	310,633	110,279	107,396	430,211	418,029
Restricted net assets:						
Debt service	27,470	28,375	-	-	27,470	28,375
Pension obligations	153,735	175,247	-	-	153,735	175,247
Urban redevelopment and housing	82,940	84,752	-	-	82,940	84,752
Other purposes	3,679	4,041	-	-	3,679	4,041
Unrestricted	(8,522)	(55,983)	989	3,114	(7,533)	(52,869)
TOTAL NET ASSETS	$ 579,234	$ 547,065	$ 111,268	$ 110,510	$ 690,502	$ 657,575

Governmental activities. The City's change in net assets of $32.9 million for the year ended June 30, 2006 compared to $101.8 million for the previous fiscal year represents a net decrease of $60.0 million. The key elements of this decrease are listed below.

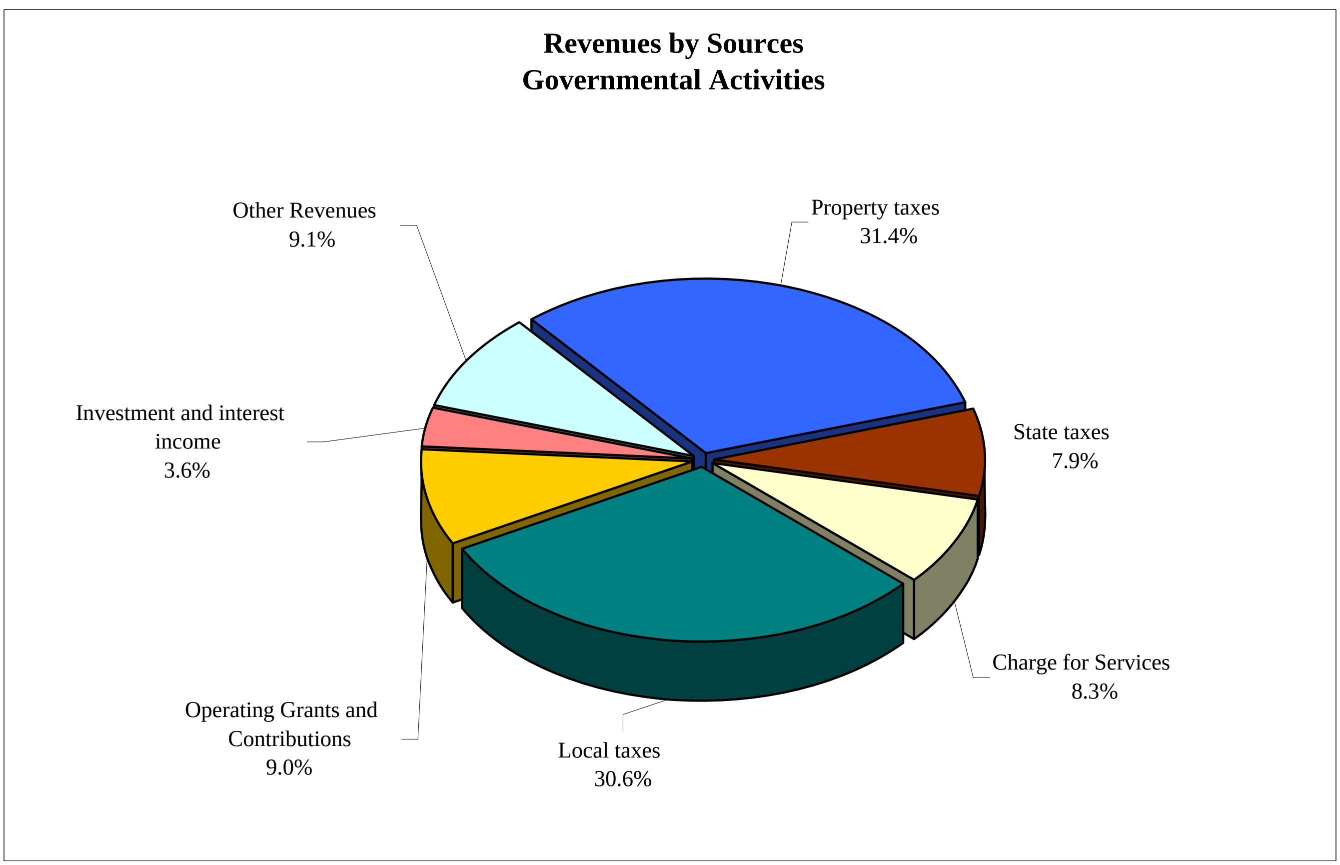
Changes in Net Assets
June 30, 2006
(In Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Revenues:						
Program revenues:						
Charges for services	$ 70,711	$ 111,467	24,875	$ 24,496	95,586	$ 135,963
Operating grants and contributions	77,154	74,694	-	-	77,154	74,694
General revenues:						
Property taxes	268,693	234,127	-	-	268,693	234,127
State taxes	67,304	68,451	-	-	67,304	68,451
Local taxes	261,815	251,301	-	-	261,815	251,301
Interest and investment income	30,406	46,063	1,996	707	32,402	46,770
Other	78,053	84,850	62	-	78,115	84,850
TOTAL REVENUES	854,136	870,953	26,933	25,203	881,069	896,156
Expenses:						
General government	71,471	65,865	-	-	71,471	65,865
Public safety	335,171	319,908	-	-	335,171	319,908
Life enrichment	101,902	96,649	-	-	101,902	96,649
Community & economic development	140,351	117,689	-	-	140,351	117,689
Public works	100,448	107,457	-	-	100,448	107,457
Interest on long-term debt	73,224	62,238	-	-	73,224	62,238
Sewer	-	-	24,841	21,337	24,841	21,337
Parks and recreation	-	-	734	160	734	160
TOTAL EXPENSES	822,567	769,806	25,575	21,497	848,142	791,303
Change in net assets before transfers	31,569	101,147	1,358	3,706	32,927	104,853
Transfers	600	621	(600)	(621)	-	-
Change in net assets	32,169	101,768	758	3,085	32,927	104,853
Net assets at beginning of year	547,065	445,297	110,510	107,425	657,575	552,722
NET ASSETS AT END OF YEAR	$ 579,234	$ 547,065	111,268	$110,510	690,502	$ 657,575

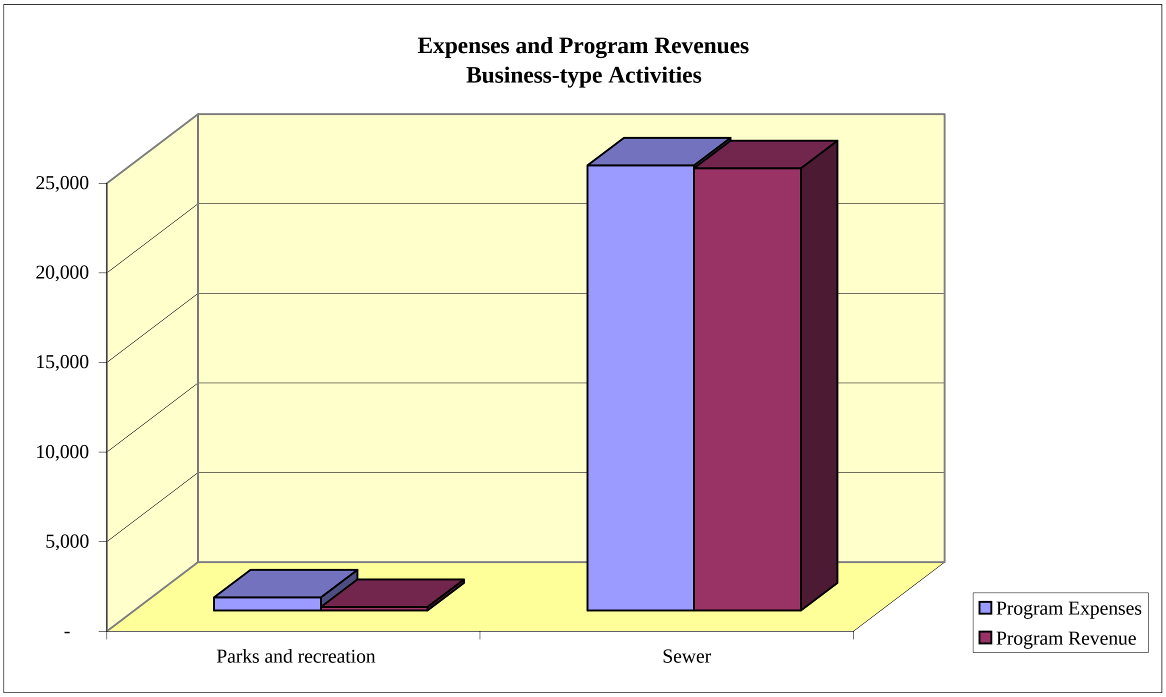
The City's change in net assets was $32.9 million for the year ended June 30, 2006 compared to $104.9 million as of June 30, 2005. The decrease of $71.9 million (69%) is attributed to the increase in expenses of 7% or $56.8 million and the decline in revenues of 2% or $15.1 million attributed primarily to the decline in fair value for he City's pension annuity. Significant elements that make up this decrease are itemized below.

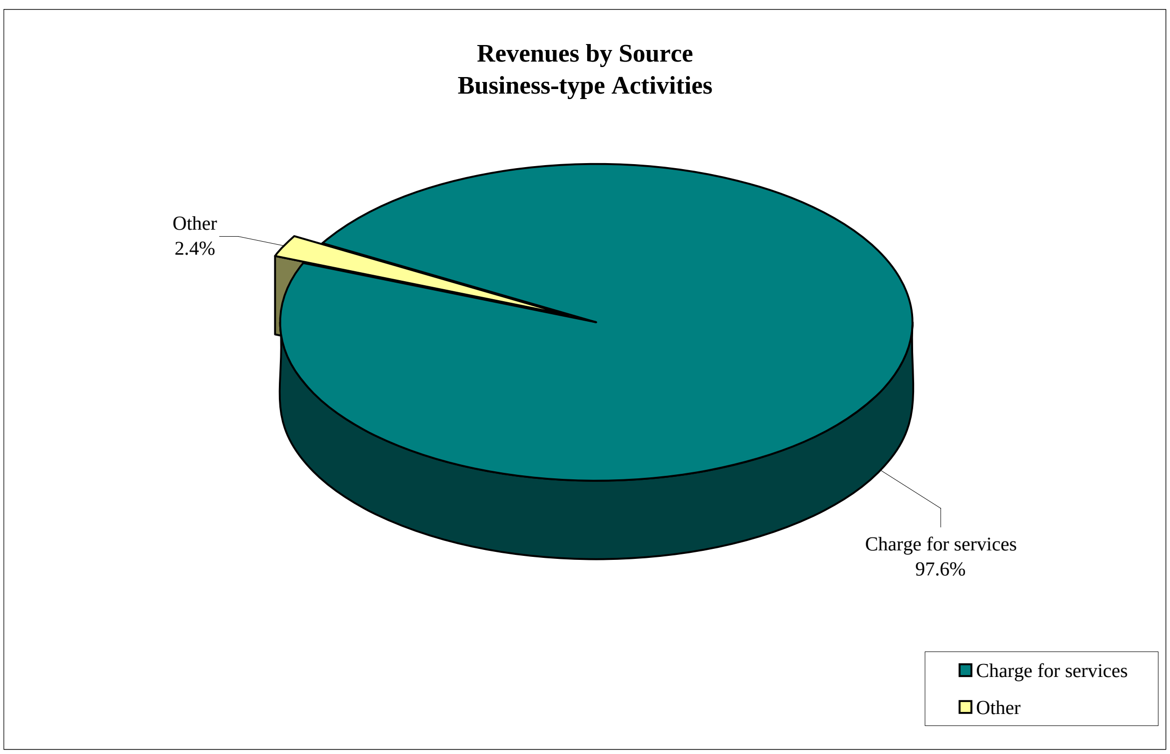


Expenses and Program Revenues
Governmental Activities
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
General government
Public safety
Life enrichment
Community and Economic Development
Public Works
Interest on long-term debt
Program Expenses
Program Revenue



Revenues by Sources
Governmental Activities
Other Revenues 9.1%
Property taxes 31.4%
Investment and interest income 3.6%
State taxes 7.9%
Charge for Services 8.3%
Operating Grants and Contributions 9.0%
Local taxes 30.6%


Expenses and Program Revenues
Business-type Activities
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
2.4%
Charge for services
97.6%
Charge for services
Other

- While the increases in property and local taxes of 15% and 4% respectively were driven by enhancement in assessed property valuation within the boundaries of the City of Oakland during fiscal year 2005-06, charges for services and other income declined by (30%) and (8%) respectively.

- The decrease in interest and investment income of $14.4 million or 31% is primarily attributable to the decline in fair value for the City's pension annuity.

- The increase of $15.3 million 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 and conduct police academies to train and certify new recruits.

- The increases in community & economic development and life enrichment expenses of $23.0 million and $5.3 million respectively are attributed to completed projects and costs related to continuing projects from previous years.

- Interest on long-term debt increased by 18% or $11.0 million due to defeasance and 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 $0.8 million compared to $3.1 million for the previous fiscal year. The decline of $2.3 million in net assets is attributable to a 7% or $1.7 million increase in revenues offset by a 19% or $4.1 million increase in sewer project related expenditures.

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.

The Oakland Redevelopment Agency had a fund balance of $321.7 million as of June 30, 2006 that represents an increase of 20% over the prior fiscal year. The net increase of $53.6 million was primarily related to the improvement in property tax revenues in the project areas and the remaining bond proceeds for the Low and Moderate Housing Project Area to be completed by fiscal year 2007.

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 $110.3 million as of June 30, 2006, compared to $107.4 million for the previous fiscal year. The

2.7% or $2.9 million increase is related to partial proceeds spent from a new debt issued to finance sewer projects. During the fiscal year, the City capitalized $6.0 million in sewer system completed projects, net of depreciation.

General Fund Budgetary Highlights

Differences between the original and the final amended expenditure budgets totaling $21.2 million were due primarily to the determination of actual project carryforwards for continuing appropriations for various multi-year projects, capital improvement projects, and other projects authorized by City Council. The original approved expenditure budget contained only estimates of project carryforwards.

Total general fund actual expenditures compared to the final amended expenditure budget showed net budget savings of $19.8 million for the year ended June 30, 2006, compared to $1.2 million in savings for the previous fiscal year. 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.

Actual revenues compared to the final amended general fund revenue budget exceeded projections by $16.3 million, compared to a favorable variance of $40.0 million for the previous fiscal year. The increase is primarily attributed to improved property taxes driven by a 42% improvement in assessed property valuation as reported by the County of Alameda.

Capital Assets

The City's capital assets, net of depreciation, totaled $963.2 million as of June 30, 2006 compared to $960.6 million as of June 30, 2005, an increase of .25%. Governmental activities additions of $64.7 million in capital assets included land acquisition and capitalization of infrastructure, facilities improvements, and furniture and equipment which met the City's threshold for capitalization. These additions were offset by retirements and depreciation, the net effect of which was a reduction of $3.4 million in capital assets for governmental activities. Business activities, primarily the sewer fund, increased its capital assets by $6.0 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, 2006. The projects include street construction, park construction, building improvements and sewer and storm drain improvements (in thousands).

	Spent to Date	Remaining Commitment
Infrastructure – streets	$ 102,904	$ 49,433
Infrastructure – parks	21,367	33,151
Facility improvements	31,601	72,359
Sewers and storm drains	17,487	54,372
Technology enhancements	17,234	6,756
Miscellaneous	15,014	11,513
TOTAL	$ 205,607	$ 227,584

Debt Administration

At the end of the current fiscal year, the City's debt limit (3.75% of property valuation, net of exemptions subject to taxation) was $918.5 million. The total amount of debt applicable to the debt limit was $358.1 million. The resulting legal debt margin was $560.4 million.

The City of Oakland's underlying ratings for its general obligation bonds as of June 30, 2006, were as follows:

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

As of June 30, 2006, the City had total long-term obligations outstanding of $1.88 billion compared to $1.86 billion outstanding for the prior fiscal year, an increase of .5%. Of this amount, $358.1 million is general obligation bonds backed by the full faith and credit of the City. The remaining $1.53 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, 2006
(In Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
General obligation bonds	$ 358,124	$ 349,486	$ -	$ -	$ 358,124	$ 349,486
Tax allocation bonds	319,115	270,085	-	-	319,115	270,085
Certificates of participation	49,154	50,195	-	-	49,154	50,195
Lease revenue bonds	346,110	366,245	-	-	346,110	366,245
Pension obligation bonds	341,475	366,405	-	-	341,475	366,405
Special assessment debt with government commitments	7,085	7,370	-	-	7,085	7,370
Accreted interest on appreciation bonds	85,884	70,811	-	-	85,884	70,811
Sewer-bonds & notes payable	-	-	65,765	67,985	65,765	67,985
Less: deferred amounts						
Bond issuance premiums	22,734	24,186	2,710	2,829	25,444	27,015
Bond refunding loss	(22,216)	(22,793)	-	-	(22,216)	(22,793)
Total Bonds Payable	1,507,465	1,481,990	68,475	70,814	$1,575,940	1,552,804
Notes payable	38,158	45,209	-	-	38,158	45,209
Other long-term liabilities	269,566	267,417	-	-	269,566	267,417
TOTAL OUTSTANDING DEBT	$1,815,189	$1,794,616	$68,475	$ 70,814	$1,883,664	$ 1,865,430

The City's overall total long-term obligations increased by $18.2 million compared to fiscal year 2005. The net increase is primarily attributable to (1) the issuance of General Obligations Bonds, Measure G, Series 2006 (the "2006 GO Bonds"), (2) the Agency issuance of the Subordinated Housing Set Aside Revenue Refunding Bonds, Series 2006A (the "Series 2006A Bonds"), and (3) the Agency's issuance of the federally taxable Subordinated Housing Set Aside Revenue Bonds, Series 2006A-T ("Series 2006A-T Bonds"). The notes payable and other long-term obligations increased basically because of the additional amounts provided for compensated absences, workers' compensation, and estimated claims payable for fiscal year 2006.

Summary of New Debt:

General Obligation Bonds, Measure G, Series 2006, (the "2006 GO Bonds"):
On June 29, 2006, the City issued $21,000,000 of General Obligation Bonds (Series 2006, Measure G) (the "2006 GO Bonds"). The 2006 GO Bonds were issued by the City to acquire, improve, construct and finance existing and additional facilities for the Oakland Museum of California and the Oakland Zoo. This issuance constitutes the second and final series of bonds to be issued from the total authorized amount of $59,000,000 of bonds duly approved by at least two-thirds of the voters voting on Measure G at the City election held on March 5, 2002. The 2006 GO Bonds are tax-

exempt with interest rates ranging from 4.500% to 5.000% and a final maturity of January 15, 2036.

Subordinated Housing Set Aside Revenue Refunding Bonds, Series 2006A
Subordinated Housing Set Aside Revenue Bonds, Series 2006A-T (Federally Taxable):
On April 4, 2006, the Redevelopment Agency of the City of Oakland ("Agency") issued $2,195,000 of Subordinated Housing Set Aside Revenue Refunding Bonds, Series 2006A ("Series 2006A Bonds") and $82,645,000 of Subordinated Housing Set Aside Revenue Refunding Bonds, Series 2006A-T ("Series 2006A-T Bonds"). All of the Series 2006A Bonds and a portion of the 2006A-T Bonds were issued for the purpose of providing funds to establish an irrevocable escrow to refund and defease certain of the Agency's Subordinated Housing Set Aside Revenue Bonds, Series 2000T. The remaining portion of the Series 2006A-T Bonds were issued to finance or refinance various redevelopment activities, including the development of low and moderate income housing within the Agency's project areas. The Series 2006A Bonds are tax-exempt with a final maturity of September 1, 2018; the interest rate of these bonds is 5.000%. The Series 2006A-T Bonds are federally taxable with a final maturity of September 1, 2036; the interest rates of these bonds range from 5.030% to 5.927%.

The refunding portion of this financing resulted in a gross cash flow savings of approximately $10.7 million. The net economic gain on the refunding portion of this financing is $1,437,419.

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 2005-06.

- The City of Oakland's unemployment rate dropped to 7.5% in July 2006 compared to an average unemployment rate of 7.9% for 2005.

- The annual rate of the Bay Area's consumer price index decreased slightly to 2.04% in October 2005 (2.09% in September 2005), while the U.S. City average decreased from 3.52% to 3.19%.

- Oakland's vacancy rate for class A and B office space has dropped to 7.5% for the 2005 third quarter compared to 10.2% for the 2004 third quarter. By comparison, the 2005 third quarter Class A vacancy rates for the City of San Francisco and the Silicon Valley were 13.1% and 13.9%, respectively.

- Average forecast residential rental and vacancy rates for 2006 were $1,236 per month and 6.0% respectively compared to $1,206 and 6.5% for 2005.

- For the 2005 third quarter, the average office space rental rate per square foot for the City ranged from $1.66 to $1.89 compared to $2.40 for San Francisco and $2.09 for the Silicon Valley.

- Oakland's gross metropolitan product, estimated at $105.8 billion for 2003, ranks in the top 20 metropolitan economies in the United States and the 51st largest economy in the world.

- Estimated population for January 1, 2005 is 412,318 with a total number of households of 150,790 and an average household size of 2.60 persons with a mean household income of $59,500.

- Electric utility rates for commercial range from 13.15 to 15.85 cents per kilowatt hour while industrial rates are from 8.87 to 12.82 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 2005-06 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.

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City of Oakland
Statement of Net Assets
June 30, 2006
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Port of Oakland	Oakland Base Reuse Authority
ASSETS					
Cash and investments	$ 368,492	$ 4,673	$ 373,165	$ 102,462	$ 6,317
Receivables (net of allowance for uncollectibles of $7,705 for City and $2,160 for component units):					
Accrued interest	1,887	-	1,887	989	-
Property taxes	20,513	-	20,513	-	-
Accounts receivable	51,037	2,962	53,999	33,241	-
Grants receivable	14,628	-	14,628	-	1,931
Due from component units	20,978	-	20,978	-	-
Internal balances	4,660	(4,660)	-	-	-
Due from other governments	4,892	-	4,892	-	-
Due from pension trust fund	3,658	-	3,658	-	-
Notes and loans receivable (net of allowance for				-	-
uncollectibles of $43,597 for the City)	204,270	-	204,270	-	-
Restricted assets:					
Cash and investments	566,037	50,846	616,883	260,647	4,095
Receivables	-	-	-	8,603	345
Inventories	850	-	850	-	-
Capital assets:				-	
Land and other assets not being depreciated	94,685	8,783	103,468	752,705	-
Facilities, infrastructures, and equipment, net of depreciation	741,306	118,438	859,744	1,318,440	-
Property held for resale	53,266	-	53,266		91,283
Unamortized bond issuance costs	23,849	687	24,536	-	-
Net pension asset	384,425	-	384,425	-	-
Other	60	-	60	102,767	-
TOTAL ASSETS	2,559,493	181,729	2,741,222	2,579,854	103,971
LIABILITIES					
Accounts payable and other current liabilities	131,338	1,945	133,283	42,760	428
Accrued interest payable	9,758	-	9,758	30,908	-
Due to other governments	278	-	278	-	-
Due to primary government	-	-	-	16,739	4,239
Unearned revenue	7,876	41	7,917	66,790	-
Matured bonds and interest payable	520	-	520	-	-
Other	15,300	-	15,300	43,844	458
Noncurrent liabilities:					
Due within one year	151,328	2,407	153,735	26,451	4,381
Due in more than one year	1,663,861	66,068	1,729,929	1,524,780	3,115
TOTAL LIABILITIES	1,980,259	70,461	2,050,720	1,752,272	12,621
NET ASSETS (deficit)					
Invested in capital assets, net of related debt	319,932	110,279	430,211	663,939	-
Restricted net assets:					
Debt service	27,470	-	27,470	114,377	-
Pension	153,735	-	153,735	-	-
Urban redevelopment and housing	82,940	-	82,940	-	85,033
Other purposes	3,679	-	3,679	-	-
Unrestricted net assets (deficit)	(8,522)	989	(7,533)	49,266	6,317
TOTAL NET ASSETS	$ 579,234	$ 111,268	$ 690,502	$ 827,582	$ 91,350

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

City of Oakland
Statement of Activities
For the Year Ended June 30, 2006
(In Thousands)

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units: Port of Oakland	Component Units: Oakland Base Reuse Authority
Primary government:									
Governmental activities:									
General government	$ 71,471	$ 16,266	$ 832	$ -	(54,373)	$ -	(54,373)		
Public safety	335,171	42,492	7,313	-	(285,366)	-	(285,366)		
Life enrichment	101,902	79	26,564	-	(75,259)	-	(75,259)		
Community and economic development	140,351	7,947	20,459	-	(111,945)	-	(111,945)		
Public works	100,448	3,927	21,986	-	(74,535)	-	(74,535)		
Interest on long-term debt	73,224	-	-	-	(73,224)	-	(73,224)		
TOTAL GOVERNMENTAL ACTIVITIES	822,567	70,711	77,154	-	(674,702)	-	(674,702)		
Business-type activities:									
Sewer	24,841	24,678	-	-	-	(163)	(163)		
Park and recreation	734	197	-	-	-	(537)	(537)		
TOTAL BUSINESS-TYPE ACTIVITIES	25,575	24,875	-	-	-	(700)	(700)		
TOTAL PRIMARY GOVERNMENT	$ 848,142	$ 95,586	$ 77,154	$ -	$ (674,702)	(700)	$ (675,402)		
Component units:									
Port of Oakland	$ 281,513	$ 267,461	$ -	$ 29,658				$ 15,606	
Oakland Base Reuse Authority	$ 8,037	$ 7,087	$ 2,004	$ -					$ 1,054
General revenues:									
Property taxes					268,693	-	268,693	-	-
State taxes					67,304	-	67,304	-	-
Local taxes					261,815	-	261,815	-	-
Interest and investment income					30,406	1,996	32,402	11,146	381
Other					78,053	62	78,115	37,714	63
Transfers					600	(600)	-	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					706,871	1,458	708,329	48,860	444
Changes in net assets					32,169	758	32,927	64,466	1,498
NET ASSETS - BEGINNING					547,065	110,510	657,575	763,116	89,852
NET ASSETS - ENDING					$ 579,234	$ 111,268	$ 690,502	$ 827,582	$ 91,350

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

CITY OF OAKLAND
Balance Sheet
Governmental funds
June 30, 2006
(In Thousands)

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	$128,760	$ -	$ 149,610	$ 18,202	$ 68,179	$ 364,751
Receivables (net of allowance for uncollectibles of $5,431):						
Accrued interest	1,194	42	36	133	482	1,887
Property taxes	7,982	830	8,143	-	3,558	20,513
Accounts receivable	45,096	1,397	1,259	-	3,141	50,893
Grants receivable	-	14,120	-	-	508	14,628
Due from component unit	18,438	-	-	-	2,540	20,978
Due from other funds	60,190	547	33,178	-	2,102	96,017
Due from other governments	-	-	4,892	-	-	4,892
Notes and loans receivable (net of allowance for uncollectibles of $43,597)	40,835	83,986	62,334	-	17,115	204,270
Restricted cash and investments	153,735	3,679	128,012	111,094	159,048	555,568
Property held for resale	-	-	53,266	-	-	53,266
Other	36	24	-	-	-	60
TOTAL ASSETS	$456,266	$ 104,625	$ 440,730	$ 129,429	$ 256,673	$1,387,723
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued liabilities	$101,796	$ 4,784	$ 16,480	$ 3,857	$ 2,918	$ 129,835
Due to other funds	27,348	9,674	2,121	-	13,947	53,090
Due to other governments	65	-	213	-	-	278
Deferred revenue	29,813	87,897	96,862	-	19,179	233,751
Matured bonds and interest payable	-	-	-	520	-	520
Other	10,725	-	3,311	612	285	14,933
TOTAL LIABILITIES	169,747	102,355	118,987	4,989	36,329	432,407
Fund balances (deficit)						
Reserved:						
Encumbrances	6,708	14,525	-	5,669	6,397	33,299
Long-term receivables	6,000	-	-	-	-	6,000
Debt service	2,443	-	-	-	149,388	151,831
Property held for resale	-	-	53,266	-	-	53,266
Capital projects	-	-	267,229	-	-	267,229
Pension obligations	119,000	-	-	-	-	119,000
Unreserved/(deficit) reported in:						
General fund	152,368	-	-	-	-	152,368
Special revenue funds	-	(12,255)	-	-	54,357	42,102
Capital project funds	-	-	1,248	118,771	10,202	130,221
TOTAL FUND BALANCES	286,519	2,270	321,743	124,440	220,344	955,316
TOTAL LIABILITIES AND FUND BALANCES	$456,266	$ 104,625	$ 440,730	$ 129,429	$ 256,673	$1,387,723

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

City of Oakland
Reconciliation of the Government Funds Balance Sheet to the
Statement of Net Assets for Governmental Activities
June 30, 2006
(In Thousands)

Fund balance - total governmental funds	$	955,316
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resource and therefore, are not reported in the funds.		811,264
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.		23,849
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.		384,425
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.		(9,758)
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.		225,875
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(1,797,414)
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.		(14,323)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$	579,234

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, 2006
(In Thousands)

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Property	$ 151,754	$ -	$ 89,337	$ -	$ 27,270	$ 268,361
State:						
Sales and use	44,875	-	-	-	11,969	56,844
Motor vehicle in-lieu	2,984	-	-	-	-	2,984
Gas	-	-	-	-	7,476	7,476
Local:						
Business license	43,790	-	-	-	-	43,790
Utility consumption	48,770	-	-	-	-	48,770
Real estate transfer	79,483	-	-	-	-	79,483
Transient occupancy	11,690	-	-	-	-	11,690
Parking	8,469	-	-	-	6,727	15,196
Voter approved special tax	-	11,095	-	-	20,633	31,728
Franchise	12,152	-	-	-	-	12,152
Licenses and permits	18,975	-	-	-	31	19,006
Fines and penalties	23,888	118	-	-	1,461	25,467
Interest and investment income	3,808	3,538	7,320	4,274	11,781	30,721
Charges for services	66,849	177	-	-	3,685	70,711
Federal and state grants and subventions	3,587	65,233	-	139	4,819	73,778
Other	17,075	4,196	6,663	2	19,622	47,558
TOTAL REVENUES	538,149	84,357	103,320	4,415	115,474	845,715
EXPENDITURES						
Current:						
Elected and Appointed Officials:						
Mayor	1,654	3	-	300	190	2,147
Council	2,604	-	-	447	1,244	4,295
City Manager	9,930	691	-	816	2,152	13,589
City Attorney	9,459	382	-	-	3,021	12,862
City Auditor	1,157	-	-	-	4	1,161
City Clerk	1,547	-	-	-	70	1,617
Agencies/Departments:						
Personnel Resource Management	4,436	-	-	-	77	4,513
Information Technology	8,891	6	-	330	-	9,227
Financial Services	22,780	171	-	5	1,225	24,181
Police Services	179,201	3,915	-	6	4,846	187,968
Fire Services	101,247	1,141	-	828	7,946	111,162
Life Enrichment:						
Parks and Recreation	14,136	72	-	20	3,068	17,296
Library	11,120	11,477	-	14	331	22,942
Museum	-	-	-	-	267	267
Aging & Health and Human Services	5,926	28,058	-	19	12,578	46,581
Cultural Arts and Museum	6,748	-	-	84	-	6,832
Community and Economic Development	20,592	23,729	75,456	2,466	13,318	135,561
Public Works	32,621	2,381	-	8,842	35,972	79,816
Other	16,992	-	3,689	-	2,367	23,048
Capital outlay	573	6,295	-	12,918	5,228	25,014
Debt service:						
Principal repayment	-	500	10,325	605	61,153	72,583
Bond issuance costs	-	-	2,111	385	-	2,496
Interest charges	-	806	16,259	78	51,884	69,027
TOTAL EXPENDITURES	451,614	79,627	107,840	28,163	206,941	874,185
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	86,535	4,730	(4,520)	(23,748)	(91,467)	(28,470)
OTHER FINANCING SOURCES (USES)						
Proceeds from bonds issuance	-	-	84,840	21,000	-	105,840
Premiums on issuance of bonds	-	-	124	204	-	328
Payment to refunding bond escrow agent	-	-	(27,853)	-	-	(27,853)
Property sale proceeds	3,040	-	1,033	-	189	4,262
Transfers in	2,608	-	-	241	98,794	101,643
Transfers out	(97,501)	-	-	(3,300)	(242)	(101,043)
TOTAL OTHER FINANCING SOURCES (USES)	(91,853)	-	58,144	18,145	98,741	83,177
NET CHANGE IN FUND BALANCES	(5,318)	4,730	53,624	(5,603)	7,274	54,707
Fund balances (deficit) - beginning	291,837	(2,460)	268,119	130,043	213,070	900,609
FUND BALANCES - ENDING	$ 286,519	$ 2,270	$ 321,743	$ 124,440	$ 220,344	$ 955,316

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 Balance of Governmental Funds to the Statement of Activities of Governmental Activities
For the Year Ended June 30, 2006
(In Thousands)

Net change in fund balance - total governmental funds	$ 54,707
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.	(1,321)
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.	19,353
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.	(5,105)
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.	(7,778)
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.	946
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.	
Principal payments	72,583
Payments to escrow agent for refunded debt	27,853
Issuance of bonds and notes	(105,840)
Premium on bond proceeds	(328)
Amortization of bond premiums	1,780
Amortization of refunding loss	(2,945)
Additional accrued and accreted interest calculated on bonds and notes payable	(17,964)
Reductions on other long-term liability for mandated Alameda County environmental clean-up health costs	3,180
The net loss of activities of internal service funds is reported with governmental activities	(6,952)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 32,169

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, 2006
(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	$ -	$ 4,673	$ 4,673	$ 3,741
Accounts receivables (net of uncollectibles of $1,926 and $348) for the enterprise funds and internal service funds, respectively)	2,930	32	2,962	144
Inventories	-	-	-	850
Restricted cash and investments	50,846	-	50,846	10,469
Total current assets	53,776	4,705	58,481	15,204
Noncurrent Assets:				
Capital assets:				
Land and other assets not being depreciated	8,565	218	8,783	310
Facilities and equipment, net of depreciation	116,724	1,714	118,438	24,417
Total capital assets	125,289	1,932	127,221	24,727
Unamortized bond issuance costs	687	-	687	-
Total noncurrent assets	125,976	1,932	127,908	24,727
TOTAL ASSETS	179,752	6,637	186,389	39,931
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	1,945	-	1,945	1,503
Due to other funds	4,660	-	4,660	34,609
Deferred revenue	41	-	41	-
Other payables	-	-	-	367
Bonds, notes payables	2,407	-	2,407	4,890
Total current liabilities	9,053	-	9,053	41,369
Noncurrent Liabilities:				
Bonds, notes and other payables	66,068	-	66,068	12,885
Total noncurrent liabilities	66,068	-	66,068	12,885
TOTAL LIABILITIES	75,121	-	75,121	54,254
NET ASSETS				
Invested in capital assets, net of related debt	108,347	1,932	110,279	6,952
Unrestricted (deficit)	(3,716)	4,705	989	(21,275)
TOTAL NET ASSETS (DEFICIT)	$ 104,631	$ 6,637	$ 111,268	$ (14,323)

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, 2006
(In Thousands)

	Business-type Activities Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
OPERATING REVENUES				
Rental	$ -	$ 197	$ 197	$ -
Sewer services	24,678	-	24,678	-
Charges for services	-	-	-	34,964
Other	-	-	-	6,464
TOTAL OPERATING REVENUES	24,678	197	24,875	41,428
OPERATING EXPENSES				
Personnel	12,941	-	12,941	15,903
Supplies	440	-	440	6,107
Depreciation and amortization	3,614	152	3,766	4,353
Contractual services and supplies	1,401	64	1,465	7,462
Repairs and maintenance	57	-	57	1,957
General and adminsitrative	2,061	2	2,063	3,710
Rental	1,252	11	1,263	1,578
Other	-	505	505	6,349
TOTAL OPERATING EXPENSES	21,766	734	22,500	47,419
OPERATING INCOME (LOSS)	2,912	(537)	2,375	(5,991)
NONOPERATING REVENUES (EXPENSES)				
Interest and investment income	1,834	162	1,996	(315)
Interest expense	(3,075)	-	(3,075)	(1,108)
Other, net	62	-	62	462
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,179)	162	(1,017)	(961)
INCOME (LOSS) BEFORE TRANSFERS	1,733	(375)	1,358	(6,952)
Transfers out	(600)	-	(600)	-
Change in net assets	1,133	(375)	758	(6,952)
Net Assets - Beginning	103,498	7,012	110,510	(7,371)
NET ASSETS - ENDING	$ 104,631	$ 6,637	$ 111,268	$ (14,323)

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, 2006
(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	$ 24,959	$ -	$ 24,959	$ 34,913
Cash received from tenants for rents	-	197	197	-
Cash from other sources	-	-	-	6,464
Cash paid to employees for services	(12,941)	-	(12,941)	(15,903)
Cash paid to suppliers for goods & services	(4,216)	(582)	(4,798)	(26,252)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	7,802	(385)	7,417	(778)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payment of interfund loans	(91)	-	(91)	4,473
Federal and state grants	62	-	62	-
Transfers out	(600)	-	(600)	-
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	(629)	-	(629)	4,473
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(9,746)	(1)	(9,747)	(2,290)
Proceeds from sales of property				5
Long-term debt:				
Costs of issuance	29	-	29	-
Repayment of long-term debt	(2,339)	-	(2,339)	(5,615)
Interest paid on long-term debt	(3,075)	-	(3,075)	(830)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(15,131)	(1)	(15,132)	(8,730)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income received	1,834	162	1,996	(593)
Rental income	-	-	-	457
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,834	162	1,996	(136)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,124)	(224)	(6,348)	(5,171)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	56,970	4,897	61,867	19,381
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 50,846	$ 4,673	$ 55,519	$ 14,210
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	$ 2,912	$ (537)	$ 2,375	$ (5,991)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Depreciation and amortization	3,614	152	3,766	4,353
Changes in assets and liabilities:				
Receivables	281	-	281	(63)
Inventories	-	-	-	12
Accounts payable and accrued liabilities	962	-	962	911
Deferred revenue	33	-	33	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 7,802	$ (385)	$ 7,417	$ (778)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS				
Cash and investments	-	4,673	4,673	3,741
Restricted cash and investments	50,846	-	50,846	10,469
TOTAL	$ 50,846	$ 4,673	$ 55,519	$ 14,210

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, 2006
(In Thousands)

	Pension Trust Funds	Private Purpose Trust Fund
ASSETS		
Cash and investments	$ 3,844	$ 5,701
Receivables:		
Accrued interest and dividends	2,601	21
Investments and contributions	79,461	-
Restricted:		
Cash and investments	634,763	-
Securities lending collateral	57,659	-
TOTAL ASSETS	778,328	5,722
LIABILITIES		
Accounts payable and accrued liabilities	126,018	36
Due to other funds	3,658	-
Securities lending collateral	57,659	-
Other	-	7
TOTAL LIABILITIES	187,335	43
NET ASSETS		
Net assets held in trust	$ 590,993	$ 5,679

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, 2006
(In Thousands)

	Pension Trust Funds	Private Purpose Trust Fund
ADDITIONS:		
Contributions:		
Member contributions	$ 25	$ -
City contributions	-	120
Total contributions	25	120
Trust receipts	-	807
Investment income:		
Net appreciation in fair value of investments	25,644	-
Interest	13,888	131
Dividends	4,898	-
Securities lending	2,020	-
TOTAL INVESTMENT INCOME	46,450	131
Less investment expenses:		
Investment expenses	(2,008)	-
Borrowers rebates and other agent fees on securities lending transactions	(1,911)	-
Total investment expenses	(3,919)	-
NET INVESTMENT INCOME	42,531	131
TOTAL ADDITIONS	42,556	1,058
DEDUCTIONS:		
Benefits to members and beneficiaries:		
Retirement	43,878	-
Disability	26,249	-
Death	2,191	-
TOTAL BENEFITS TO MEMBERS AND BENEFICIARIES	72,318	-
Administrative expenses	1,080	5
Change in payable to City	1,587	-
Police services	-	150
TOTAL DEDUCTIONS	74,985	155
Change in net assets	(32,429)	903
NET ASSETS - BEGINNING	623,422	4,776
NET ASSETS - ENDING	$ 590,993	$ 5,679

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

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(1) ORGANIZATION AND DEFINITION OF REPORTING ENTITY

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

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

Blended Component Units

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

The Civic Improvement Corporation (Corporation) was created to provide a lease financing arrangement for the City. 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. 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.

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

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

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

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

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 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, 2006.

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; and acquisition of inventory provided to various City departments on a cost reimbursement basis.

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

> The **Private Purpose Trust Fund** accounts for the operations of the Youth Opportunity Program and certain gifts that are not related to Agency projects or parks, recreation and cultural activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the 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, the Port, and the OBRA 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 occur between individual funds for goods provided or services rendered. In the fund financial statements, these receivables and payables are classified as "due from other funds" or "due to other funds." In the government-wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Net receivables and payables between the governmental activities and business-type activities are classified as internal balances.

Interest Rate Swap Agreements

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

Inter-fund Transfers

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

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

Bond Issuance Costs and Discounts/Premiums

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

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

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

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

Retirement Plans

City employees participate in one of three defined benefit retirement plans: Oakland Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS), and California Public Employees' Retirement System (PERS), 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.

Refunding of Debt

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

Fund Balances

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

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 $94,174,096 reserved for low and moderate housing projects.

6. **Reserve for Pension Obligations –** This fund balance is reserved for the City's obligations under its pension plans.

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, regulations, creditors, grantors, contributors, or by enabling legislation. Accordingly, restricted assets may include principal and interest amounts accumulated to pay debt service, unspent grant revenues, certain fees and charges, and restricted tax revenues.

Effects of New Pronouncements

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

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.

In September 2006, the GASB issued Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this Statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. The requirements of this Statement are effective for financial statement periods beginning after December 15, 2006.

In November 2006, the 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.

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

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

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

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

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, 2006, 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				Port	OBRA
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total		
Cash and investments	$ 368,492	$ 4,673	$ 9,545	$ 382,710	$ 102,462	$ 6,317
Restricted cash and investments	566,037	50,846	634,763	1,251,646	260,647	4,095
Restricted securities lending collateral	—	—	57,659	57,659	—	—
TOTAL	$ 934,529*	$55,519	$ 701,967	$1,692,015	$ 363,109	$ 10,412
Deposits				$ 17,553	$ 13,071	$ 2,470
Investments				1,674,462	350,038	7,942
TOTAL				$1,692,015	$ 363,109	$ 10,412

*$934,529 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, 2006, the carrying amount of the City's deposits was $17.6 million and the bank balance was $17.0 million. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, $0.6 million was FDIC insured and $16.4 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. 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, 2006, approximately 63% 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, 2006 (in thousands):

Pooled Investments

		Ratings as of Fiscal Year Ended 06-30-06		
	Fair Value	AAA/Aaa	A1/P1/F-1	Not Rated
U.S. Govt. Agency Securities	$ 231,353	$ 231,353	$ -	$ -
U.S. Govt. Ag. Security Disc.	44,275	2,929	41,346	-
Corporate Bond	2,995	-	2,995	-
Money Market Funds	58,438	58,438	-	-
Local Agency Investment Fund (LAIF)	66,109	-	-	66,109
Commercial Paper	60,990	-	60,990	-
Total Investment Pool	**$ 464,160**	**$ 292,720**	**$ 105,331**	**$ 66,109**

Restricted Investments

		Ratings as of Fiscal Year Ended 06-30-06			
	Fair Value	AAA/Aaa	AA/Aa2	A1/P1/F1	Not Rated
U.S. Govt. Ag. Securities	$ 3,005	$ 3,005	$ -	$ -	$ -
Commercial Paper	53,949	-	-	53,949	-
Corporate Bonds	3,000	-	-	3,000	-
U.S. Treasury Strips	23,246	-	-	-	23,246
LAIF	32,182	-	-	-	32,182
Money Market Funds	118,296	118,296	-	-	-
Local Govt. Bonds	117,374	-	-	-	117,374
Investment Agreement	219,175	95,469	123,706	-	-
Annuity	119,000	-	-	-	119,000
Total	**$ 689,227**	**$ 216,770**	**$ 123,706**	**$ 56,949**	**$291,802**

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. The JPFA's investment in the City of Oakland General Obligation Refunding Bonds, Series 2005 in the amount of $117,374,000 and the guaranteed non-participating annuities in New York Life Insurance Company in the amount of $119,000,000 represents 10.2% and 10.3% of the total City portfolio respectively, at June 30, 2006. The City also has U.S. Government Securities with Federal National for $85,896,084 and Federal Home Loan Bank for $117,539,277 that represents 5.0% and 6.9% of the total City portfolio respectively, at June 30, 2006. The City also has Investment Agreements with the following; AIG Matching Funding Corporation $123,706,007, FSA Capital Management $40,261,907 and IXIS Capital Markets Inc $ 55,207,075, representing 19.0% of the total City portfolio at June 30, 2006.

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

Pooled Investments

	Fair Value	% of Portfolio
U.S. Govt. Agency Securities	$ 231,353	49.84%
U.S. Govt. Ag. Security Disc.	44,275	9.54%
Corporate Bond	2,995	0.65%
Money Market Funds	58,438	12.59%
LAIF	66,109	14.24%
Commercial Paper	60,990	13.14%
TOTAL	**$ 464,160**	**100.00%**

Restricted Investments

	Fair Value	% of Portfolio
U.S. Govt. Ag. Securities	$ 3,005	0.44%
Commercial Paper	53,949	7.83%
Corporate Bond	3,000	0.44%
U.S. Treasury Strips	23,246	3.37%
LAIF	32,182	4.67%
Money Market Funds	118,296	17.16%
Local Government Bonds	117,374	17.03%
Investment Agreement	219,175	31.80%
Annuity	119,000	17.27%
TOTAL	**$ 689,227**	**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.

The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2006, the City's pooled portfolio had an average day to maturity of 273 days and had the following investments and original maturities (in thousands):

Pooled Investments

			Maturity		
	Fair Value	Interest Rates (%)	12 Months or Less	1 - 3 Years	3 - 5 Years
U.S. Govt. Agency Securities	$ 231,353	2.19 – 11.89	$ 93,389	$ 135,073	$ 2,891
U.S. Govt. Ag. Security Disc.	44,275	4.46 – 5.31	44,274	-	-
Corporate Bond	2,995	5.19	2,995	-	-
Money Market Funds	58,438	4.86 – 5.10	58,439	-	-
LAIF	66,109	4.77	66,109	-	-
Commercial Paper	60,990	4.26 – 6.08	60,990	-	-
TOTAL	**$ 464,160**		**$ 326,196**	**$ 135,073**	**$ 2,891**

Restricted Investments

	Fair Value	Interest Rates (%)	Maturity 12 Months or Less	1 - 3 Years	3 - 5 Years	5 Years +
U.S. Govt. Agency Securities	$ 3,005	5.46	$ 3,005	$ -	$ -	$ -
Commercial Paper	53,949	0.00 – 13.70	53,949	-	-	-
Corporate Bond	3,000	7.18	-	-	-	3,000
U.S. Treasury Strips	23,246	4.17 – 5.54	2,135	3,931	3,556	13,624
LAIF	32,182	1.00 – 4.70	32,182	-	-	-
Money Market Funds	118,296	1.14 – 5.00	118,296	-	-	-
Local Government Bonds	117,374	4.86	5,290	11,411	12,663	88,010
Investment Agreement	219,175	3.53 – 5.20	18,484	200,691	-	-
Annuity	119,000	5.40	-	-	-	119,000
TOTAL	**$ 689,227**		**$ 233,341**	**$ 216,033**	**$ 16,219**	**$ 223,634**

Foreign Currency Risk: The possibility that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect a deposit/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, 2006, the City's investment in LAIF is $98.3 million ($66.1 million in pooled investments and $32.2 million in restricted investments). The total amount invested by all public agencies in LAIF at that date is approximately $16.3 billion. Of that amount, over 97.4% is invested in non-derivative financial products and 2.6% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the City's position in the pool.

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. It is not possible to disclose relevant information about the OMERS separate portion of the investment pool. As of June 30, 2006, the OMERS's share of the City's investment pool totaled $374,610.

Investments

OMERS investment policy authorizes investment in domestic common stocks and bonds. During the year ended June 30, 2006, OMERS investment portfolio was managed by one external investment manager.

OMERS investment policy states that the fixed income portfolio shall be 100% investment grade with a focus on capital preservation and income generation. The policy also limits the duration of the fixed income investments to within a range of 1.5 years to that of the Lehman Aggregate Bond Index. The portfolio concentrations are limited to 5% of a single issuer. This provision does not apply to U.S. Government securities.

OMERS investment policy on equity investment states that, on a total equity portfolio basis, concentration in any one industry should not exceed 40% and the investments in any single company should not exceed 7% of the total market value of the individual manager's portfolio. The total portfolio should not contain greater than 5% of the outstanding shares of any company, or 10% of the average daily shares traded for that single company, whichever is smaller.

Interest Rate Risk: This risk is the risk that changes in interest rates will adversely affect the fair value of an investment. OMERS investment policy limits the duration of the fixed income investments to within a range of 1.5 years to that of the Lehman Aggregate Bond Index. As of June 30, 2006 the duration for the OMERS fixed income investments was 4.95, while the duration of the Lehman Aggregate Bond Index was 4.16.

As of June 30, 2006, OMERS had the following investments and maturities (in thousands):

Fixed Investments	Fair Value	Modified Duration (Year)
U.S. Government bonds	$ 1,225	8.86
Corporate bonds	484	2.31
Bonds mutual funds	2,094	2.52
Total Fixed Investments	**$ 3,803**	**4.53**
Other Investment		
Domestic equities	4,497	
Total Investment	**$ 8,300**	

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The table below shows OMERS credit risk as of June 30, 2006:

S & P or Moody's Rating	Fair Value	Fair Value as a Percentage of Total Fixed Maturity Fair Value
AAA	$ 2,520	66.3%
AA	1,283	33.7%
Total Fixed Investments	**$ 3,803**	**100%**
Other Investment		
Domestic equities	4,497	
Total Investment	**$ 8,300**	

Concentration of Credit Risk: This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2006, the investment portfolio contained the following concentration of investments in a single issuer (other than those issued or explicitly guaranteed by the U.S. government, or mutual funds) that represented 5 percent or more of OMERS investments (in thousands):

Investments	Amount
Capstead Mortgage Corp.	$ 417
Varian Medical System, Inc	379
Nordic American Tanker Shipping, LTD	365
Total	$ 1,161

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, 2006, the PFRS share of the City's investment pool totaled $3,471,130.

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, 2006, the number of external investment managers was nine.

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 core style managers to invest in securities rated "BBB" or higher (investment grade using Standard & Poor's or Moody's ratings). The policy also allows enhanced core style managers to invest in securities with a minimum rating of B or higher (non investment grade using Standard & Poor's or Moody's ratings) as long as the portfolio maintains an average credit quality of BBB.

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, 2006 the duration for PFRS fixed income investment portfolio was 4.28 years, excluding the fixed income short-term investments and securities lending investments.

As of June 30, 2006, PFRS had the following fixed income investments and maturities (in thousands):

Fixed Income Investments	Fair Value	Modified Duration (Year)
U.S. Govt. Agencies	$ 112,331	4.0
U.S. Govt. Agencies (short-term)	31,045	0.0
U.S. Govt. Bond	50,027	7.6
Other Govt. Bonds	1,378	7.3
Corporate Bonds	104,756	4.2
Total Fixed Income Investments	**$ 299,537**	**4.3**

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The following table provides information as of June 30, 2006 concerning credit risk of fixed income securities (in thousands):

S&P or Moody's Rating	Fair Value	Fair Value as a Percentage of Total Fixed Maturity Fair Value
AAA	$ 232,132	77.50%
AA	9,738	3.25%
A	22,119	7.38%
BBB	25,217	8.42%
BB	2,344	0.78%
B	7,856	2.62%
Not Rated	131	0.04%
Total Fixed Investments	**$ 299,537**	**100.0%**

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, 2006, 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, 2006:

	Total
Foreign currency:	
Australian Dollar	$ 2,024
British Pound Sterling	11,380
Canadian Dollar	1,850
Danish Krone	1,021
Euro	18,182
Hong Kong Dollar	2,639
Japanese Yen	12,226
Norwegian Krone	346
Singapore Dollar	1,097
Swedish Krona	227
Swiss Franc	6,199
Total Foreign Currency	**$ 57,191**

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% (105% for international) of the market value of loaned U.S. government securities. Collateral received may include cash, letters of credit, or securities. If securities collateral is received, PFRS cannot pledge or sell the collateral securities unless the borrower defaults.

As of June 30, 2006, 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, 2006 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	$ 45,681
Corporate bonds	1,439
U.S. equity	10,539
Total Securities Lent	57,659
Type of Collateral Received	
Cash Collateral	
Cash	582
Corporate bonds	25,000
Repurchase agreement	34,000
Total Collateral Received	$ 59,582

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, 2006:

Securities Name	**Coupon Rate**	**Fair Value (in millions)**	**Percent of account Market value**
Commercial Mortgage Pass-Through	3.25%	1.19	0.83%

Discretely Presented Component Units

Port of Oakland

The Port's cash, cash equivalents, investments and deposits consisted of the following at June 30, 2006 (in thousands):

Bank Deposit	
Cash on hand and at bank	$ 17
Bank deposit – escrow in-lieu of retentions	13,057
Investments	350,035
Total Cash, Cash Equivalents, Investments and Deposits	$ 363,109

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, dates 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, 2006 the Port had the following investments (in thousands):

			Maturities		
	Fair Value	Credit Rating	Less than 1 Year	1 - 5 Years	5 or More Years
U.S. Treasury Note	$ 11,778	N/A	$ 11,778	$ -	$ -
Federal Agency Securities	237	Aaa	130	107	-
Commercial Paper	574	A-1+	574	-	-
Government Securities Money Market Mutual Funds	7,662	Aaa	7,662	-	-
Guaranteed Investment Contracts	195,788	Not Rated	-	144,253	51,535
Bank Investment Contract	28,996	Not Rated	-	-	28,996
City Investment Pool	105,000	Aaa	105,000	-	-
Total Investments	**$ 350,035**		**$ 125,144**	**$ 144,360**	**$ 80,531**

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. Treasury & 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	% of Investment
Bayerische LandesBank Girozentrale	Bank Investment Contract	8.28%
FSA Capital Management Services LLC	Guaranteed Investment Contract	4.42%
AMBAC Capital Funding, Inc	Guaranteed Investment Contract	18.92%
CDC Funding Corp	Guaranteed Investment Contract	18.86%
XL Asset Funding Company I LLC	Guaranteed Investment Contract	12.01%
City Investment Pool	City Pool	30.00%

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, 2006 is 273. The maximum maturity for any one investment may not exceed 5 years. Authorized investments included federal agency obligations, repurchase agreements, reverse repurchase agreements, secured obligations and agreements, state investment pool (Local Agency Investment Fund), bonds of the City or its agencies, State of California bonds, bankers' acceptances, commercial paper, medium-term corporate bonds and notes, negotiable certificates of deposit, certificates of deposit, and money market mutual funds. All investments deposited in the City Treasury are insured or registered, or held by the City or its agent in the City's name. The City's investment pool is rated annually.

Custodial Credit Risk

For deposits, 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. The carrying amount of Port bank investment contracts was $28,996 as of June 30, 2006, of which $100,000 was insured. The remaining balance of $28,896 as of June 30, 2006, was exposed to custodial credit risk because they are neither insured nor 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.

Deposits and Investments

The carrying amount of Port deposits with banks and cash on hand was $13.1 million on at June 30, 2006. Bank balances and escrow deposits of $13.1 million at June 30, 2006, respectively, are insured or collateralized with securities held by the pledging financial institution's trust departments in the Port's name.

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

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

Oakland Base Reuse Authority (OBRA)

Cash and investments at June 30, 2006 consist of the following (in thousands):

	Fair Value
Unrestricted investments	$ 6,317
Restricted:	
Deposits	2,470
Investments	1,625
	4,095
Total	$ 10,412

Deposits

At June 30, 2006, the carrying amount of OBRA's deposits was $2.5 million and the bank balance was $3.9 million. Deposits include checking accounts, interest earning savings accounts, money market accounts, and non-negotiable certificates of deposit. Of the bank balance, $0.1 million was FDIC insured and $3.8 million was collateralized with securities held by the pledging financial institution in OBRA's name, in accordance with Section 53652 of the California Government Code.

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

Investments

OBRA's governing body has adopted the same investment policy as adopted by the Oakland City Council. Accordingly, all cash and investments are invested in accordance with this policy. The Authority had no investments subject to categorization at June 30, 2006.

Investments consisted of the following fair value at June 30, 2006 (in thousands):

	Fair Value	Credit Risk	Effective Duration
Money market funds	$ 6,317	Unrated	-
Deposits with banks	2,470	Unrated	-
Local Agency Investment Fund	1,625	Unrated	-
Total cash and investments	$ 10,412		

(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, 2006, is as follows (in thousands):

DUE FROM/DUE TO OTHER FUNDS:

Receivable Fund	Payable Fund	Amount
General Fund	Federal/State Grant Fund	$ 6,598
	Oakland Redevelopment Agency	19
	Other Governmental Funds	10,646
	Sewer Service Fund	4,660
	Internal Service Funds	34,609
	Pension Trust Funds	3,658
TOTAL		60,190
Federal/State Grant Fund	Other Governmental Funds	547
Oakland Redevelopment Agency	General Fund	27,348
	Federal/State Grant Fund	3,076
	Other Governmental Funds	2,754
TOTAL		33,178
Other Governmental Funds	Oakland Redevelopment Agency	2,102
TOTAL		$ 96,017

INTERFUND TRANSFERS:

TRANSFERS OUT	TRANSFERS IN General Fund	Municipal Capital Improvement	Other Governmental Funds	Total Governmental
General Fund	$ -	$ -	$ 97,501	$ 97,501
Municipal Capital Improvement Fund	2,007	-	1,293	3,300
Other Governmental Funds	1	241	-	242
Sewer Service Fund	600	-	-	600
Total	**$ 2,608**	**$ 241**	**$ 98,794**	**$ 101,643**

The $97.5 million transferred from the General Fund consists of transfers made to provide funding for the following:

- $9.2 million for the Kids' First Children's Program;
- $6.4 million for special refunding revenue bonds; and
- $81.9 million for debt service payments.

The $1.3 million transferred from Municipal Capital Improvement Fund to Other Governmental Funds is to consolidate the retired 1994 Fire Area underground capital fund and the 1994 Rockridge Area capital fund to Other Assessment Bond Fund.

The $2.0 million transferred from the Municipal Capital Improvement Fund to the General Fund is for lease support of capital facilities.

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

INTERFUND LOANS:

Certain interfund loans made from the General Fund to the 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:

Oakland Center Project	$ 13,338
City Center Garage/Central District	17,843
Stanford/Adeline	302
West Oakland	190
Total	$ 31,673

(5) MEMORANDUMS OF UNDERSTANDING

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

Payments for Special Services are treated as a cost of Port operations and have priority over certain other expenditures of Port revenues. At June 30, 2006, $16,739,000 in Special Services expenses has been accrued as a current liability by the Port and as a receivable by the City.

The Port's legal counsel advised the Port that payments to the City for General Services and Lake Merritt tideland trust purposes are payable only to the extent the Port determines annually that surplus monies are available. Subject to final approvals by the Port and the City, and subject to availability of surplus monies, the Port will reimburse the City annually for General Services and Lake Merritt tideland trust properties. At June 30, 2006, $1,302,000 and $532,000 have been accrued by the Port as a current liability and by the City as a receivable for General Services and Lake Merritt Tideland Trust properties, respectively.

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

(6) NOTES AND LOANS RECEIVABLE

The composition of the City's notes and loans receivable as of June 30, 2006, 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	$ 26,972	$ 3,076	$ -	$ 799	$ 30,847
Loans to Oakland Hotel Association, LTD	12,038	-	-	-	12,038
Community Development Block Grant	-	63,978	-	-	63,978
Economic Development Loans and Other	1,932	22,078	100,510	16,484	141,004
Less: Allowance for uncollectible accounts	(107)	(5,146)	(38,176)	(168)	(43,597)
TOTAL LOANS, NET	**$ 40,835**	**$ 83,986**	**$ 62,334**	**$ 17,115**	**$ 204,270**

(7) CAPITAL ASSETS

Primary Government

Capital assets activity of the primary government for the year ended June 30, 2006, is as follows (in thousands):

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 77,142	289	874	$ 76,557
Museum Collections	150	137	-	287
Construction in progress	23,410	16,904	22,473	17,841
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	100,702	17,330	23,347	94,685
Capital assets, being depreciated:				
Facilities and improvements	656,086	20,599	-	676,685
Furniture, machinery and equipment	167,605	4,770	17,415	154,960
Infrastructure	377,109	21,976	-	399,085
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	1,200,800	47,345	17,415	1,230,730
Less accumulated depreciation:				
Facilities and improvements	226,831	19,896	-	246,727
Furniture, machinery and equipment	115,889	12,132	17,402	110,619
Infrastructure	119,407	12,671	-	132,078
TOTAL ACCUMULATED DEPRECIATED	462,127	44,699	17,402	489,424
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	738,673	2,646	13	741,306
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 839,375	$ 19,976	$ 23,360	$ 835,991

(continued)

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Business-type activities:				
Sewer fund:				
Capital assets, not being depreciated:				
Land	$ 4	$ -	$ -	$ 4
Construction in progress	4,780	8,851	5,070	8,561
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	4,784	8,851	5,070	8,565
Capital assets, being depreciated:				
Facilities and improvements	306	-	-	306
Furniture, machinery and equipment	749	6	-	755
Sewer and storm drains	176,184	5,960	-	182,144
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	177,239	5,966	-	183,205
Less accumulated depreciation:				
Facilities and improvements	50	21	-	71
Furniture, machinery and equipment	712	11	-	723
Sewer and storm drains	62,104	3,583	-	65,687
TOTAL ACCUMULATED DEPRECIATED	62,866	3,615	-	66,481
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	114,373	2,351	-	116,724
SEWER FUND CAPITAL ASSETS, NET	119,157	11,202	5,070	125,289
Other Proprietary Funds:				
Capital assets, not being depreciated:				
Land	218	-	-	218
Capital assets, being depreciated:				
Facilities and improvements	2,179	-	-	2,179
Furniture, machinery and equipment	453	-	-	453
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	2,632	-	-	2,632
Less accumulated depreciation:				
Facilities and improvements	337	145	-	482
Furniture, machinery and equipment	430	6	-	436
TOTAL ACCUMULATED DEPRECIATED	767	151	-	918
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	1,865	(151)	-	1,714
OTHER PROPRIETARY FUND CAPITAL ASSETS, NET	2,083	(151)	-	1,932
TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 121,240	$ 11,051	$ 5,070	$ 127,221

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

Governmental Activities:	
General Government	$ 5,126
Public Safety:	
Police Services	1,023
Fire Services	2,289
Life Enrichment	11,812
Community and Economic Development	2,701
Public Works	17,395
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	4,353
TOTAL	$ 44,699

Business-Type Activities:	
Sewer	$ 3,615
Parks and Recreation	151
TOTAL	$ 3,766

Construction Commitments

The City has active construction projects as of June 30, 2006. The projects include street construction, park construction, building improvements and sewer and storm drain improvements (in thousands).

	Spent to Date	Remaining Commitment
Infrastructure – streets	$ 102,904	$ 49,433
Infrastructure – parks	21,367	33,151
Facility improvements	31,601	72,359
Sewers and storm drains	17,487	54,372
Technology Enhancements	17,234	6,756
Miscellaneous	15,014	11,513
TOTAL	$ 205,607	$ 227,584

Discretely Presented Component Units

Port of Oakland

Capital assets activity for the Port for the year ended June 30, 2006, is as follows (in thousands):

	Balance July 1, 2005	Additions	Adjustment and Retirements	Transfer of Completed Construction	Balance June 30, 2006
Capital assets, not being depreciated:					
Land	$ 324,175	$ 7,329	$ 483	$ -	$ 331,987
Construction in progress	371,079	209,479	520	(160,360)	420,718
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	695,254	216,808	1,003	(160,360)	752,705
Capital assets, being depreciated:					
Facilities and improvements	578,958	828	(2,110)	20,047	597,743
Container cranes	152,773	-	-	17,601	170,374
OMERSs and structures	1,051,930	-	(100)	109,282	1,161,112
Other equipment	36,645	2,111	(131)	13,430	52,055
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	1,820,306	2,959	(2,341)	160,360	1,981,284
Less accumulated depreciation:					
Facilities and improvements	258,918	25,658	1,618	-	282,958
Container cranes	52,408	6,082	-	-	58,490
OMERSs and structures	258,297	39,180	9	-	297,468
Other equipment	20,068	3,975	115	-	23,928
TOTAL ACCUMULATED DEPRECIATION	589,691	74,895	1,742	-	662,844
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	1,230,615	71,936	(599)	160,360	1,318,440
TOTAL CAPITAL ASSETS, NET	$1,925,869	$ 144,872	$ 404	$ -	$2,071,145

The capital assets on lease at June 30, 2006, consist of the following (in thousands):

Land	$ 232,302
Container cranes	170,374
Building and other facilities	974,881
Total	1,377,557
Less accumulated depreciation	(300,983)
Capital assets, net, on lease	$ 1,076,574

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, 2006, is as follows (in thousands):

Minimum non-cancelable rentals, including preferential assignments	$111,142
Contingent rentals in excess of minimums	18,409
Secondary use of facilities leased under preferential assignments	3,861
Total	$133,412

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
2007	$ 120,622
2008	126,518
2009	124,995
2010	112,687
2011	100,261
2012 – 2016	415,852
2017 – 2021	79,392
2028 – 2026	17,986
2027 – 2031	16,871
2032 – 2036	15,220
2037 – 2041	14,500
2042 – 2046	10,622
Thereafter through 2071	32,291
	$ 1,187,817

Oakland Base Reuse Authority (OBRA)

Capital asset activity for OBRA during the year ended June 30, 2006 consisted of the following (in thousands):

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, being depreciated:				
Facilities and structures	$1,000	$ -	$ -	$ 1,000
Leasehold improvements	458	-	1	457
Total capital assets, being depreciated	1,458	-	1	1,457
Less accumulated depreciation for:				
Facilities and structures	657	343	-	1,000
Leasehold improvements	310	147	-	457
Total accumulated Depreciation	967	490	-	1,457
Total capital assets, being depreciated, net	$ 491	$ 490	$ 1	$ -

(8) PROPERTY HELD FOR RESALE

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

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Property held for resale	$ 57,738	$ -	$ 4,472	$ 53,266

The decrease in the Property held for resale represents the sale of the Acorn Shopping Center located at 900 Market Street, Oakland California, the sale of 1072 and 1074 55th Street, and conveyance of a portion of the block bounded by the 8th Street, 9th Street, Jefferson Street and Clay Street in Oakland to certain developer. The sales of these properties produced a gain in the amount of $1,024,081.

Discretely Presented Component Unit

Oakland Base Reuse Authority (OBRA)

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

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Property held for resale	$ 89,408	$ 1,875	$ -	$ 91,283

On August 7, 2003, the Army conveyed approximately 366 acres of Oakland Army Base (the EDC property), plus certain buildings and improvements, to OBRA. The conveyance from the Army is treated as a donation; accordingly, the land conveyed to OBRA was recorded at its total estimated fair market value of $81,775,000. As part of the conveyance agreement, OBRA agreed to pay the Oakland Army Base Workforce Development Collaborative (Workforce Collaborative) an amount to be negotiated. OBRA and the Workforce Collaborative finalized an agreement on December 14, 2004, which provided that OBRA, the Agency and the Port would pay a total of $10,800,000 to the Workforce Collaborative. Under a separate agreement between OBRA and the Port dated July 31, 2003, the two parties agreed to each pay 50 percent of the $10,800,000 liability.

OBRA recorded capital contributions of $73,407,184 and payable of $5,400,000 to the Workforce Collaborative during the year ended June 30, 2004 to reflect the conveyance of the land. All expenditures directly associated with the conveyance of the EDC property incurred prior to August 7, 2003 were included in other assets, and transferred to property held for resale on this date. OBRA incurred property-related expenditures between August 7, 2003 and June 30, 2004 that have been recorded in property held for resale.

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

On September 1, 2004, OBRA purchased certain parcels of land with an aggregate area of 19.32 acres adjacent to the former OAB for a total of $10,600,000. Immediately after purchasing this property, OBRA transferred 2.51 acres to the Port for total consideration of $1,427,000. Additionally, approximately $1,900,000 in environmental remediation costs incurred during the fiscal year ended June 30, 2006 have been added to property held for resale.

(9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES PAYABLE

Accounts payable and accrued liabilities payable as of June 30, 2006, 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	$ 20,885	13,263	$ 67,648	$ 101,796
Federal/state grant fund	3,715	-	1,069	4,784
Oakland Redevelopment Agency	16,480	-	-	16,480
Municipal Capital Improvement Fund	3,770	-	87	3,857
Other governmental funds	2,845	-	73	2,918
TOTAL	47,695	13,263	68,877	129,835
Governmental activities- Internal service funds	1,360	-	143	1,503
TOTAL	$ 49,055	$13,263	$ 69,020	$ 131,338
Business-type activities – Enterprise Funds:				
Sewer Service	$ 1,168	$ -	$ 777	$ 1,945

Accounts payable and accrued liabilities for the pension trust funds and private purpose trust funds at June 30, 2006, are as follows (in thousands):

Accounts payable	$ 5
Investment payable	119,257
Accrued investment management fees	723
Member benefits payable	6,033
Total Pension Trust Funds Accounts Payable and Accrued Liabilities	126,018
Private Purpose Trust Fund Accounts Payable	36
Total Accounts Payable and Accrued Liabilities	$ 126,054

(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, 2006, the various components of deferred revenue and unearned revenue reported were as follows:

	Unavailable	**Unearned**
Major Funds:		
General Fund	$ 22,810	$ 7003
Federal and State Grants Fund	87,024	873
Oakland Redevelopment Agency	96,862	-
Non-major Funds:		
Other Governmental Funds	19,179	-
TOTAL GOVERNMENTAL ACTIVITIES	$ 225,875	$ 7,876

(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 4.00%. Principal and interest were paid on June 30, 2006.

The short-term debt activity for the year ended June 30, 2006, is as follows (in thousands):

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax and Revenue Anticipation Notes	$ —	$ 70,000	$(70,000)	$ —

(12) LONG-TERM OBLIGATIONS

Long-term Obligations

The following is a summary of long-term obligations for the year ended June 30, 2006 (in thousands):

Governmental Activities

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
General obligation bonds (A)	2036	2.50 – 5.00%	$ 358,124
Tax allocation bonds (B)	2037	2.50 – 8.03%	319,115
Certificate of participation (C)	2015	4.00 – 6.55%	49,154
Lease revenue bonds (C)	2026	3.60 – 5.50%	346,110
Pension obligation bonds (D)	2022	6.09 – 7.31%	341,475
Accreted interest (C) & (D)			85,884
City guaranteed special assessment district bonds (D)	2024	4.60 – 6.70%	7,085
Notes payable (C) & (E)	2016	1.70 – 8.27%	17,940
Capital Leases (C) & (E)	2016	3.54 – 5.52%	20,218
Accrued vacation and sick leave (C)			33,709
Self – Insurance liability for workers' compensation (C)			100,493
Estimated claims payable (C)			44,945
Estimated environmental cost (B) & (C)			2,319
Pledge obligation for Coliseum Authority debt (C)			88,100
GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS			1,814,671
DEFERRED AMOUNTS:			
Bond issuance premiums			22,734
Bond refunding loss			(22,216)
GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS, NET			$ 1,815,189

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

Entity and Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Sewer fund – Notes payable	2014	3.00 – 3.50%	$ 4,925
Sewer fund – Bonds	2029	3.00 – 5.25%	60,840
Unamortized Bond Premium			2,710
BUSINESS-TYPE ACTIVITIES - TOTAL LONG-TERM OBLIGATIONS			$ 68,475

Component Unit – Port of Oakland

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Parity bonds	2033	3.00 – 6.00%	$ 1,395,464
Notes and Loans	2030	3.31 – 5.12%	156,632
Total			1,552,096
Self – Insurance liability for workers' compensation			5,829
Total			1,557,925
Unamortized bond discount and premium, net			(1,838)
Deferred loss on refunding			(4,856)
COMPONENT UNIT TOTAL LONG-TERM OBLIGATIONS			$ 1,551,231

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, 2006, the City's debt limit (3.75% of valuation subject to taxation) was $918,508,985. The total amount of debt applicable to the debt limit was $358,124,189. The resulting legal debt margin was $560,384,796.

Interest Rate Swaps

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"). However, the Swap associated with the 1998 Lease Revenue Bonds still 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, 2006 of $119,300,000. The notional amount of the swap declines through 2021. Under the Swap, the City pays the counterparty a fixed payment of 5.6775% and receives a variable payment computed at 65% of LIBOR rate (total rate not to exceed 12%). The City's payments to the counterparty under the Swap agreement are insured by the third party bond insurer.

Fair Value. Because interest rates have declined since the execution of the Swap, the Swap had a negative fair value of $14,350,780 as of June 30, 2006. 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, 2006. 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.

Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds (Oakland Administration Buildings), 2004 Series A-1/A-2

Objective of the Interest Rate Swap. On May 21, 2004, the City entered into a synthetic fixed rate swap ("2004 Swap") with Bank of America, N.A. and UBS AG ("Counterparties") in connection with the $117,200,000 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds, 2004 Series A-1 and A-2 (the "2004 Lease Revenue Bonds"). Under the terms of the 2004 Swap, (the City pays the Counterparties a fixed rate of 3.533% through the end of the swap agreement in 2026 and receives a variable rate based on 58% of 1-month LIBOR plus 35 basis points.)

The 2004 Swap effectively allowed the City to lock in the low long-term interest rates available in the marketplace at that time

Terms. The 2004 Swap terminates on August 1, 2026, and has a notional amount as of June 30, 2006 of $109,200,000. The notional amount of the swap declines through 2026.

Fair Value. As of June 30, 2006, the interest rate swap with Bank of America, N.A. had an outstanding notional amount of $54,600,000 and had a positive far value of $236,190. As of June 30, 2006, the interest rate swap with UBS AG had an outstanding notional amount of $54,600,000 and a positive fair value of $222,339. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk. The issuer and the counterparty take a credit risk to each other over the life of the swap agreement. This is the risk that either the issuer or the counterparty will fail to meet its contractual obligations under the swap agreement. The counterparties were rated as follows as of June 30, 2006: Bank of America, N.A. (Aa1 by Moody's Investors Service, AA by Standard and Poor's and AA- by Fitch), and UBS AG (Aa2 by Moody's Investors Service, AA+ by Standard and Poor's, and AA+ by Fitch).

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 that the counterparty, the City, the bond insurer for the Bonds, and a third party collateral agent are to execute a collateral agreement establishing the type of collateral, the amount of collateral, the collateral agent, and the terms of the collateral agreement.

Basis Risk. Another risk associated with the synthetic fixed rate swap is basis risk. This is the risk that as the City receives a floating rate index on the swap to offset the variable rate it pays on its underlying variable rate bonds, these two variable rate cash flows could potentially mismatch. The swap agreement provides that the payment received by the City shall be at 58% of 1-month LIBOR plus 35 basis points.

Termination Risk. An interest rate swap has some degree of termination risk. Linked to counterparty risk, a termination of the swap will result in a payment being made or received by the City depending on the then prevailing interest rate environment. The City may terminate the swap if the counterparty fails to perform under the terms of the contract. The City may also terminate the swap if the counterparty fails to execute a collateral agreement satisfactory to the City and the bond insurer if the counterparty's ratings fall below "A3" by Moody's Investors Service or "A-" by Standard and Poor's. The termination events are bilateral agreements between the City and the counterparties. If the swap is terminated, the variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt. The following table presents the estimated debt service requirements for the 2004 Lease Revenue Bonds. It is assumed that the interest rate on the 2004 Lease Revenue Bonds and the variable rate portion of the 2004 Swap (58% of LIBOR) averages 3.500% through the maturity date of both the 2004 Series A Bonds and the Swap (August 21, 2026).

Year Ending June 30	Principal	Interest*	Net Interest Rate Swap Payment*	Total Debt Service
2007	$ 3,475,000	$ 3,563,966	$ 35,962	$ 7,074,928
2008	3,575,000	3,788,661	34,814	7,398,475
2009	3,750,000	3,311,570	33,449	7,095,019
2010	3,875,000	3,511,207	32,390	7,418,597
2011	4,050,000	3,051,247	31,108	7,132,355
2012	4,175,000	3,204,060	29,768	7,408,828
2013	4,375,000	2,758,504	28,176	7,161,680
2014	4,525,000	2,618,933	26,939	7,170,872
2015	4,675,000	2,713,538	25,443	7,413,981
2016	4,875,000	2,295,859	23,896	7,194,755
2017	5,050,000	2,343,383	22,040	7,415,423
2018	5,275,000	1,950,866	20,612	7,246,478
2019	5,450,000	1,951,238	18,868	7,420,106
2020	5,675,000	1,575,030	17,065	7,267,095
2021	5,900,000	1,385,422	14,903	7,300,325
2022	6,125,000	1,307,813	13,235	7,446,048
2023	6,375,000	967,846	11,209	7,354,055
2024	6,600,000	827,862	9,100	7,436,962
2025	6,875,000	514,163	6,585	7,395,748
2026	7,125,000	312,135	4,642	7,441,777
2027	7,400,000	26,255	2,285	7,428,540
TOTAL	$ 109,200,000	$ 43,979,558	$ 442,489	$ 153,622,047

*Numbers of estimates; subject to change based on prevailing market conditions. The calculation above assumes to have a 3.500% interest rate and 3.556% swap rate.

Changes in Long-term Obligations

The changes in long-term obligations for the year ended June 30, 2006, are as follows (in thousands):

Governmental Activities					
	Balance at July 1, 2005	**Additional Obligations, Interest Accretion and Net Increases**	**Current Maturities, Retirements and Net Decreases**	**Balance at June 30, 2006**	**Amounts Due Within One Year**
Bonds Payable					
General obligation bonds	$ 349,486	$ 21,000	$ 12,362	$ 358,124	$ 12,910
Tax allocation bonds	270,085	84,840	35,810	319,115	12,040
Certificates of participation	50,195	2,203	3,244	49,154	3,359
Lease revenue bonds	366,245	-	20,135	346,110	21,005
Pension obligation bonds	366,405	-	24,930	341,475	27,850
City guaranteed special assessment district bonds	7,370	-	285	7,085	285
Accreted interest on appreciation bonds	70,811	18,882	3,809	85,884	-
Less deferred amounts:					
Bond issuance premiums	24,186	328	1,780	22,734	1,770
Bond refunding loss	(22,793)	(2,368)	(2,945)	(22,216)	(2,404)
TOTAL BONDS PAYABLE	1,481,990	124,885	99,410	1,507,465	76,815
Notes payable	18,440	-	500	17,940	850
Capital leases	26,769	-	6,551	20,218	5,722
TOTAL NOTES & LEASES	45,209	-	7,051	38,158	6,572
Other Long-Term Liabilities					
Accrued vacation & sick leave	31,503	54,430	52,224	33,709	26,112
Pledge Obligation for Coliseum Authority debt	91,150	-	3,050	88,100	2,750
Estimated environmental cost	5,499	-	3,180	2,319	997
Self-insurance worker's compensation	96,166	21,039	16,712	100,493	19,063
Estimated claims payable	43,099	7,189	5,343	44,945	19,019
TOTAL OTHER LONG-TERM LIABILITIES	267,417	82,658	80,509	269,566	67,941
TOTAL GOVERNMENTAL ACTIVITIES – LONG TERM OBLIGATIONS	$ 1,794,616	$ 207,543	$ 186,970	$ 1,815,189	$ 151,328

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, 2006, $17,775,000 of capital leases related to the internal service funds are included in the above amounts.

Business-Type Activities

	Balance at July 1, 2005	Current Maturities, Retirements and Net Decreases	Balance at June 30, 2006	Amounts Due Within One Year
Sewer fund – Notes payable	$ 5,655	$ 730	$ 4,925	$ 754
Sewer fund – Bonds	62,330	1,490	60,840	1,535
Unamortized Bond Premium	2,829	119	2,710	118
Total	$ 70,814	$ 2,339	$ 68,475	$ 2,407

Component Unit – Port of Oakland

	Balance at July 1, 2005	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements and Net Decreases	Balance at June 30, 2006	Amounts Due Within One Year
Parity bonds	$ 1,410,431	$ -	$ 14,967	$ 1,395,464	$ 19,892
Notes and loans	157,135	-	503	156,632	185
Total	1,567,566	-	15,470	1,552,096	20,077
Self-Insurance workers' compensation	4,600	2,263	1,034	5,829	5,829
Unamortized bond discount/ premium, net	(891)	769	1,716	(1,838)	909
Deferred loss on refunding	(5,220)	-	(364)	(4,856)	(364)
TOTAL DEBT	$ 1,566,055	$ 3,032	$ 17,856	$ 1,551,231	$ 26,451

Repayment Schedule

The annual repayment schedules for all long-term debt as of June 30, 2006, are as follows (in thousands):

	2007	2008	2009	2010	2011	2012 - 2016	2017-2021	2022-2026	2027-2031	2032-2036	Total
Governmental-type Activities:											
General obligation bonds:											
Principal	$ 12,910	$ 13,686	$ 14,340	$ 15,006	$ 15,762	$ 90,046	$101,895	$ 45,489	$ 32,520	$16,470	$ 358,124
Interest	16,702	16,595	16,014	15,398	14,688	61,281	38,294	17,286	9,010	1,550	206,818
Certificates of participation:											
Principal	3,359	5,300	5,620	5,965	6,415	22,495	-	-	-	-	49,154
Interest	3,618	1,840	1,627	1,377	1,116	2,033	-	-	-	-	11,611
Lease revenue bonds:											
Principal	21,005	21,925	22,970	23,755	25,225	131,930	47,725	44,175	7,400	-	346,110
Interest	14,207	13,709	12,332	11,682	10,259	33,724	14,475	5,826	28	-	116,242
Pension obligation bonds:											
Principal	27,850	30,920	34,250	37,860	14,959	94,953	74,840	25,843	-	-	341,475
Interest	8,118	6,091	3,833	1,321	25,347	109,037	161,810	78,907	-	-	394,464
Special assessments bonds:											
Principal	285	305	315	340	345	1,700	1,905	1,890	-	-	7,085
Interest	373	358	342	325	307	1,245	771	204	-	-	3,925
Tax allocation bonds:											
Principal	12,040	11,625	12,250	11,630	13,565	71,495	96,925	49,995	16,880	22,710	319,115
Interest	17,759	18,628	17,967	17,280	16,464	60,581	37,824	15,211	9,101	3,818	214,633
Notes payable:											
Principal	850	810	1,435	2,015	2,180	8,750	1,900	-	-	-	17,940
Interest	1,108	1,051	995	936	871	2,312	59	-	-	-	7,332
Capital leases											
Principal	5,722	3,626	3,608	2,351	1,442	2,405	1,064	-	-	-	20,218
Interest	788	575	422	290	197	402	104	-	-	-	2,778
TOTAL PRINCIPAL	$ 84,021	$ 88,197	$ 94,788	$ 98,922	$ 79,893	$423,774	$ 326,254	$167,392	$ 56,800	$ 39,180	$1,459,221
TOTAL INTEREST	$ 62,673	$ 58,849	$ 53,532	$ 48,609	$ 69,249	$270,615	$253,337	$117,434	$ 18,139	$ 5,368	$957,803

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

	2007	2008	2009	2010	2011	2012 - 2016	2017-2021	2022-2026	2027-2031	2032-2036	Total
Business-type Activities:											
Sewer revenue bonds:											
Principal	$ 1,535	$ 1,585	$ 1,630	$ 1,710	$ 1,800	$ 10,420	$ 13,180	$ 16,770	$12,210	-	$ 60,840
Interest	2,946	2,900	2,852	2,771	2,685	11,992	9,232	5,650	1,241	-	42,269
Sewer notes payable:											
Principal	754	780	806	833	861	891	-	-	-	-	4,925
Interest	160	135	109	82	54	51	-	-	-	-	591
TOTAL PRINCIPAL	$ 2,289	$ 2,365	$ 2,436	$ 2,543	$ 2,661	$ 11,311	$ 13,180	$ 16,770	$12,210	-	$ 65,765
TOTAL INTEREST	$ 3,106	$ 3,035	$ 2,961	$ 2,853	$ 2,739	$ 12,043	$ 9,232	$ 5,650	$ 1,241	-	$ 42,860

Component Unit – Port of Oakland

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2006, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2007	$ 20,077	$ 76,777	$ 96,854
2008	28,300	76,502	104,802
2009	33,655	75,712	109,367
2010	36,583	74,757	111,340
2011	194,225	67,118	261,343
2012 – 2016	254,708	298,711	553,419
2017 – 2021	294,046	223,646	517,692
2022 – 2026	288,395	148,423	436,818
2027 – 2031	319,142	63,754	382,896
2032 – 2033	82,965	4,200	87,165
SUBTOTAL	1,552,096	1,109,600	2,661,696
Unamortized bond (discount) premium, net	(1,838)	-	(1,838)
Self-insurance workers' compensation	5,829	-	5,829
Deferred loss on refunding	(4,856)	-	(4,856)
TOTAL	$ 1,551,231	$ 1,109,600	$ 2,634,380

Net interest costs of $14,710,000 were capitalized in fiscal 2006. These amounts represented capitalized interest expense of $21,430,000, net of interest revenue of $6,720,000 for fiscal 2006.

Component Unit – Oakland Base Reuse Authority

Note Payable
OBRA has a non-interest bearing note payable for $8,200,000, with the following principal amounts due on the following dates:

Date	Principal	Interest	Total
November 17, 2006	$ 1,481,909	$ 518,091	$ 2,000,000
May 17, 2007	2,898,675	101,325	3,000,000
November 17, 2007	2,147,518	52,482	2,200,000
November 17, 2008	967,133	32,867	1,000,000
TOTAL	$ 7,495,235	$ 704,765	$ 8,200,000

The note payable is collateralized by 19.32 acres of property described in Note 8. Payments are applied first to any expenses in connection with the note before the principal is reduced. There are no prepayment penalties and the note is not assumable.

Notes payable activity for the year ended June 30, 2006 consisted of the following:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Note Payable	$ 7,495,235	$ -	$ -	$ 7,495,235

The above note was discounted at the rate of 3.37% for the year ended June 30, 2005. The discounting resulted in the deduction of $704,765 against Property Held for Resale and a similar deduction in notes payable. In addition, OBRA accrued interest expense of $418,651 for the year ended June 30, 2006 related to the above liability.

Current Year Long-Term Debt Financings

City of Oakland General Obligation Bonds
Series 2006, Measure G

On June 29, 2006, the City issued $21,000,000 of General Obligation Bonds (Series 2006, Measure G) (the "2006 GO Bonds"). The 2006 GO Bonds were issued by the City to acquire, improve, construct and finance existing and additional facilities for the Oakland Museum of California and the Oakland Zoo. This issuance constitutes the second and final series of bonds to be issued from the total authorized amount of $59,000,000 of bonds duly approved by at least two-thirds of the voters voting on Measure G at the City election held on March 5, 2002. The 2006 GO Bonds are tax-exempt with interest rates ranging from 4.500% to 5.000% and a final maturity of January 15, 2036.

Redevelopment Agency of the City of Oakland
Subordinated Housing Set Aside Revenue Refunding Bonds, Series 2006A
Subordinated Housing Set Aside Revenue Bonds, Series 2006A-T (Federally Taxable)

On April 4, 2006, the Redevelopment Agency of the City of Oakland ("Agency") issued $2,195,000 of Subordinated Housing Set Aside Revenue Refunding Bonds, Series 2006A ("Series 2006A Bonds") and $82,645,000 of Subordinated Housing Set Aside Revenue Refunding Bonds, Series 2006A-T ("Series 2006A-T Bonds"). All of the Series 2006A Bonds and a portion of the 2006A-T Bonds were issued for the purpose of providing funds to establish an irrevocable escrow to refund and defease certain of the Agency's Subordinated Housing Set Aside Revenue Bonds, Series 2000T. The remaining portion of the Series 2006A-T Bonds were issued to finance or refinance various redevelopment activities, including the development of low and moderate income housing within the Agency's project areas. The Series 2006A Bonds are tax-exempt with a final maturity of September 1, 2018; the interest rate of these bonds is 5.000%. The Series 2006A-T Bonds are federally taxable with a final maturity of September 1, 2036; the interest rates of these bonds range from 5.030% to 5.927%.

The refunding portion of this financing resulted in a gross cash flow savings of approximately $2,800,968. The net economic gain on the refunding portion of this financing is $2,033,773.

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, 2006, the amount of defeased debt outstanding but removed from the City's government-wide financial statements amounted to $231.6 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, 2006, is (in thousands):

	Authorized and Issued	Maturity	Outstanding at June 30, 2006
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	885
City of Oakland Health Facility Revenue Bonds (Children's Hospital Medical Center of Northern CA California), 1988	23,000	07/01/08	6,095
Oakland JPFA Revenue Bond 2001 Series A Fruitvale Transit Village (Fruitvale Development Corporation)	19,800	07/01/33	17,800
Oakland JPFA Revenue Bond 2001 Series B Fruitvale Transit Village (La Clinica De La Raza Fruitvale Health Project, Inc.)	5,800	07/01/33	5,700
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			**$ 269,625**

(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	$ 57,308
Carryforward for Continuing projects	16,006
Lighting and Landscaping Assessment District gap funding	4,300
General Fund fiscal year 2007 budget allocation	15,310
Total designations	92,924
Unreserved/undesignated fund balance	59,444
Total General Fund unreserved fund balance	$ 152,368

(14) SELF-INSURANCE

Changes in the balances of claims liabilities for all self-insured claims for the years ended June 30, 2006 and 2005, are as follows (in thousands):

Workers' Compensation

	2006	2005
Unpaid claims, beginning of fiscal year	$ 96,166	$ 94,874
Current year claims and changes in estimates	21,039	21,465
Claims payments	(16,712)	(20,173)
Unpaid claims, end of fiscal year (Note 12)	$ 100,493	$ 96,166

General Liability

	2006	2005
Unpaid claims, beginning of fiscal year	$ 43,099	$ 48,716
Current year claims and changes in estimates	7,189	1,356
Claims payments	(5,343)	(6,973)
Unpaid claims, end of fiscal year (Note 12)	$ 44,945	$ 43,099

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; employees 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, 2006, the amount of liability determined to be probable of occurrence is approximately $44,945,000. Of this amount, claims and litigation approximating $19,019,000 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 of the City and the Agency or changes in financial position.

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

Workers' Compensation

The City is self-insured for workers' compensation. Payment of claims is provided through annual appropriations, which are based on claim payment experience and supplemental appropriations. Of the $100,493,000 in claims liabilities as of June 30, 2006, approximately $19,063,000 is estimated to be due within one year.

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 aggregate
Products & Completed Operations	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence/annual aggregate
Employment Practices Liability	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence/annual aggregate
Workers' Compensation	up to $1,000,000	$1,000,000 to $100,000,000 per occurrence/ annual aggregate

Discretely Presented Component Unit

Workers' Compensation

The Port is exposed to risk of loss related to injuries of employees. The Port is self-insured and self-administered for workers' compensation up to a maximum of $1,000,000 per accident. The Port carries commercial insurance for claims in excess of $1,000,000 per accident. 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, 2006 and include an estimate of claims that have been incurred but not reported. There were no workers' compensation claims paid in fiscal year ended 2006, 2005 and 2004 above the $1,000,000 per accident limit. Changes in the reported liability resulted from the following (in thousands):

	2006	2005
Workers' compensation liability at beginning of fiscal year	$ 4,600	$ 3,000
Current year claims and changes in estimates	2,263	2,596
Claims payments	(1,034)	(996)
Workers' compensation liability at end of fiscal year	$ 5,829	$ 4,600

General Liability

The Port maintains general liability insurance in excess of specified deductibles. For the airport, coverage is provided in excess of $250,000 in the aggregate up to a maximum of $200,000,000. For the harbor area and the Port's real estate holdings, coverage is provided in excess of $1,000,000 per occurrence up to an aggregate amount of $150,000,000 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. Amounts have been accrued as part of environmental and other liabilities. 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:

	2006	2005
General Liability at beginning of year	$ 3,539	$ 4,685
Current year claims and changes in estimates	3,544	2,592
Vendor payments	(3,097)	(3,738)
Workers' compensation liability at end of fiscal year	$ 3,986	$ 3,539

(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. Certain revenues collected from Raiders football operations consisting of revenues from the sale of seat rights, as well as annual seat maintenance fees, a portion of net parking and concession revenues and concessionaires' initial fees, may be used toward meeting this liability. In the event that such football revenues are insufficient to make base rental payments, the City and the County are obligated to make up the shortfall in the base rental payments from their respective General Funds. The City and the County each have covenanted to appropriate $11 million annually to cover such shortfalls in revenue; however, the City and the County are jointly and severally liable to cover such shortfall, which means that the City could have to pay up to $22 million annually in the event of default by the County.

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

Under the Warriors Agreements, the Arena Bonds 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 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.

On September 27, 1997, the City of Oakland, the County of Alameda, and the Oakland-Alameda County Coliseum Authority, collectively known as the "East Bay Entities", filed suit against the Oakland Raiders and A.D. Football, Inc. (collectively, "Raider Management") for breach of contract, declaratory relief and interference with prospective economic advantage. The suit asks for compensatory and punitive damages with regards to revenues lost as a result of actions by Raider Management, and for declaratory relief concerning (1) the parties' rights, duties and obligations under the Master Agreement concerning the naming rights for the Stadium, (2) whether Raider Management's claims of fraudulent inducement have merit and whether Raider Management has the right to rescind or terminate the Master Agreement, and (3) under the Visiting Team Share Agreement concerning the reimbursement of legal fees and costs Raider Management filed a cross-complaint seeking the right to rescind the Master Agreement and seeking damages for breaches of the Master Agreement and for fraudulent inducement. In a series of decisions, the court has ruled that (1) the Raiders Management cannot rescind or terminate its lease; and (2) the East Bay Entities do not have claims for damages; and (3) Coliseum, Inc. was the only East Bay entity against which the fraud claims could be tried. Raider Management increased their claim against the East Bay Entities for damages to $1.1 billion related to claims of fraudulent inducement. Prior to the trial, Raider Management agreed to arbitrate all breach of contract claims, leaving Coliseum, Inc as the only defendant at trial. At the conclusion of the trial, the jury found no liability on the fraud claims, but did award the Raiders damages of $34 million for negligent misrepresentation. This judgment has been entered only against Coliseum, Inc. Attorneys for the Oakland-Alameda County Coliseum, Inc. have filed an appeal of that decision. The judgment has been fully stayed pending the outcome of the appeal. A decision on the appeal is expected on October 2006. The Raiders and the East Bay Entities have executed a stand-still agreement providing for a 90-day negotiation period after the filing of the court of appeal decision during which the parties will attempt to reach a settlement without further litigation concerning the execution of the judgment. On November 17, 2006, the Third Appellate District of the California Court of Appeal overturned this entire verdict and ordered the Raiders to pay the Coliseum, Inc costs of the appeal. The Raiders and the Coliseum Inc subsequently agreed that the Raiders would waive all rights to further appeals in return for the Coliseums Inc waving the Raiders paying the costs of appeal.

On March 28, 2006, the East Bay Entities and the Raiders entered into the settlement agreement and mutual release of all claims between the Raiders and the East Bay Entities, except for the outstanding $34 million judgment against Coliseum Inc. The claims released included all the claims referred to arbitration as described in the previous paragraph as well as additional claims. The settlement agreement required the Authority to wind down and dissolve Oakland Football Marketing Association (OFMA). There will be no remarketing of Personal Seat Licenses (PSLs) after the 2005 football season and the Authority will require no other charges incident to the ownership of PSLs. The Raiders will assume all marketing tasks previously performed by OFMA. The Authority will have no right or obligation to sell, market, or collect revenue from the sale or marketing of tickets for the Raiders football games, but will receive all parking revenues and share concession revenues and club fees with the Raiders. After payment of $1 million for the Raiders start-up costs related to marketing, the Authority has no obligation whatsoever to pay marketing costs. In addition, the Authority has no past or future obligation to pay taxes, dues or assessments on the Raiders practice facility property and the Raiders executed and recorded a deed of trust in favor of the East Bay Entities on the practice facility property.

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
2007	$ 5,500	$ 6,606	$ 3,000	$ 7,766
2008	5,800	6,289	3,100	7,575
2009	6,200	5,924	3,300	7,377
2010	6,700	5,563	3,600	7,166
2011	7,100	5,212	3,900	6,936
2012-2016	41,400	21,933	23,700	30,617
2017-2021	52,000	13,915	33,200	21,871
2022-2026	51,500	3,982	47,100	9,529
Total	$ 176,200	$ 69,424	$120,900	$ 98,837

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, 2006, the City made contributions of $11,150,000 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 $20.5 million appropriated in the General Fund as part of the above agreements, it is estimated that the City may have to contribute $11,150,000 for the 2006-07 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 $88,100,000. 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, 2005	July 01, 2005	June 30, 2005

Significant actuarial assumptions

	PFRS	OMERS	PERS
Investment rate of return	8.0%	8.0%	7.75%
Payroll growth	3.0%	3.0%	3.25%
Inflation rate	3.5%	3.5%	3.00%

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, 2006, 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 years ended June 30, 2006 and 2005, 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 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, 2006, were as follows:

Pension assets, beginning of year	**$ 392,202,699**
Plus interest on pension asset	31,376,216
Less adjustment to the annual required contribution	(39,154,478)
Plus pension contribution	-
Pension asset, end of year	**$ 384,424,437**

The following table shows the City's annual pension cost and the percentage contributed for the fiscal year 2006 and each of the three preceding years:

Fiscal Year Ended June 30	Annual Pension Cost	Percentage (%) Contributed	Net Pension Asset
2004	6,367,485	-	381,369,695
2005	10,833,004	164%	392,202,699
2006	7,778,262	-	384,424,436

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

Oakland Municipal Employees Retirement System (OMERS)

OMERS provides death, disability and service retirement benefits to participants of the plan. Members who complete at least 20 years of service and have reached the age of 52, or who complete at least 5 years of service and reach the age of 60, are eligible for retirement benefits. The retirement allowance is calculated on a basis which takes into account the final three-years' average compensation, age and the number of years of service. Benefit provisions and all other requirements are established by the Charter. The June 30, 2006, 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, 2006, 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.

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 18.552% for non-safety employees and 29.711% 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 2005-06, the City's annual pension cost of $94,967,434 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2003, 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 3.0%. 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
2004	$ 48.4	100%	$ -
2005	87.4	100	-
2006	95.0	100	-

(17) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

The City pays part of the health insurance premiums for all retirees from City employment receiving a pension annuity earned through City service and participating in a City-sponsored PERS health benefit plan on a pay-as-you-go basis. Approximately $2,978,954 was paid on behalf of 806 retirees under this program for the year ended June 30, 2006.

(18) COMMITMENTS AND CONTINGENT LIABILITIES

Construction Commitments

Primary Government

The City has committed to funding in the amount of $232,566,302 to a number of capital improvement projects for fiscal years 2005-06 to 2006-07.

Discretely Presented Component Unit

The Port anticipates spending $473,645,000 through June 2009 for its capital improvement program. The most significant Aviation projects are the terminal expansion and renovation, apron reconstruction, parking, roadway and security improvements. The most significant Maritime projects are the 50-foot channel deepening; acquisition and conversion of Oakland Army Base; 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, 2006, the Port has firm commitments for the acquisition and construction of assets as follows (in thousands):

Maritime	$ 92,108
Aviation	130,212
Commercial real estate	596
Total	$ 222,916

The most significant projects for which the Port has contractual commitments are airport terminal expansion of $80,509,000; and modernization of maritime wharfs and terminals new cranes of $77,654,000.

Power Purchases

The Port of Oakland 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. The Port determines needs and commits to purchase contracts with power providers in advance. The total purchase commitment at June 30, 2006 is approximately $6,087,000.

Other Commitments

Primary Government

As of June 30, 2006, the Agency has entered into contractual commitments of $48,785,204 for materials and services relating to various projects. These commitments and future costs will be funded by current available funds, tax increment revenue and other sources.

At June 30, 2006, the Agency was committed to fund $40,548,443 in loans and had issued $1,648,600 in letters of credit in connection with several low and moderate-income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City.

The State of California adopted legislation mandating that local government shifts a portion of their property tax revenue share to the Educational Revenue Augmentation Fund (ERAF) to support public schools. In May 2006, the Agency paid $4,669,336 to Alameda County for the fiscal year 2005-06 ERAF shift.

The City is also liable for environmental remediation cost of about $2,319,000 as of June 30, 2006 for the Agency's Uptown Project and its Edgewater Service Center.

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, 2006, is as follows (in thousands):

Environmental remediation	$ 6,419
Miscellaneous compliance	199
Total environmental liabilities	$ 6,618

Oakland Base Reuse Authority

Commitments and Contingencies

Environmental Remediaton

Land conveyed to OBRA from the Army may be subject to environmental remediation as required by Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, OBRA is responsible for the first $13.0 million of environmental remediation costs; including environmental remediation insurance. OBRA has received a federal grant of $13 million to pay for the above-mentioned environmental remediation costs. Of this grant amount, $5 million has been received.

The next $11.5 million of environmental remediation costs are to be shared equally by OBRA and the Port. The next $9 million will be paid from insurance proceeds from the environmental remediation policy. If subsequent environmental remediation is required after the initially-required remediation is complete, then the environmental site liability policy will cover up to

$30 million in additional environmental remediation-related costs. OBRA and the Port have agreed to share equally in any environmental remediation-related costs above $21 million that are not covered by insurance.

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

Other Commitments and Contingencies

Under a separate agreement between the OBRA and Port dated July 31, 2003, the two parties each agreed to pay fifty percent (50%) of certain EDC property-related acquisition and remediation costs. Accordingly, OBRA has recorded a liability of $5,400,000 to reflect its share of the total $10,800,000 payable to the Workforce Collaborative. As of June 30, 2006, the OBRA's share of the remaining liability to the Workforce Collaborative is $456. The Port, on the other hand, paid the Oakland Redevelopment Agency its 50% share of $5,400,000 as of August 7, 2006. These funds will be paid to the Collaborative when final arrangements are completed.

(19) DEFICIT FUND BALANCES/NET ASSETS

As of June 30, 2006, the following funds reported deficits in fund balance/net assets (in thousands):

Special Revenue - ORA Projects	$ (4,091)
Debt Service – Lease Financing	(442)

The ORA projects fund deficit is expected to be cured by reimbursements from the Agency. The Lease Financing deficit will be cleared by transferring in sufficient funds to cover debt service payments.

Internal Service:	
Facilities	$ (18,179)
Central Stores	(6,493)

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

(20) SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On July 18, 2006, the City issued tax and revenue anticipation notes payable of $75,000,000. The notes were issued to satisfy General Fund obligations and carried an effective interest rate of approximately 4.50%. Principal and interest are due and payable on July 17, 2007.

Tax Exempt Lease Financing

The City Council approved resolution #79904 C.M.S. on May 16, 2006 authorizing the City, through the Oakland Joint Powers Financing Authority (JPFA), to exercise the option to purchase real estate property located at 450 Lancaster Street for use by the Oakland Museum of California through tax exempt lease financing not to exceed $5,000,000. The JPFA will lease the property to the Oakland Museum for its use and title to the property will transfer to the City at the conclusion of the financing period. Lease payments not to exceed $40,000 per month will continue to be made from the City's general fund revenues. The tax exempt lease financing was completed on July 21, 2006 with lease financing principal of $4,940,000.

Redevelopment Agency of the City of Oakland Central City East Redevelopment Project Tax Allocation Bonds Series 2006A-TE & Series 2006A-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland ("Agency") issued $13,780,000 of Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-TE (the "Series 2006A-TE Bonds") and $62,520,000 of Central City East Redevelopment Project Tax Allocation Bonds, Series 2006A-T (Federally Taxable) (the "Series 2006A-T Bonds"). The collective Series 2006A-TE Bonds and Series 2006A-T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency's Central City East Redevelopment Project Area. The Series 2006A-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rate of these bonds is 5.000%. The Series 2006A-T Bonds are federally taxable with a final maturity of September 1, 2034; the interest rates of these bonds range from 5.263% to 5.537%.

The Series 2006A-TE Bonds and Series 2006A-T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Central City East Redevelopment Project Area.

Redevelopment Agency of the City of Oakland
Coliseum Area Redevelopment Project Tax Allocation Bonds
Series 2006B-TE & Series 2006B-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland ("Agency") issued $28,770,000 of Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-TE (the "Series 2006B-TE Bonds") and $73,820,000 of Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2006B-T (Federally Taxable) (the "Series 2006B-T Bonds"). The collective Series 2006B-TE Bonds and Series 2006B-T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency's Coliseum Area Redevelopment Project Area as well as to refund all of the outstanding Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2003. The Series 2006B-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rates of these bonds range from 4.000% to 5.000%. The Series 2006B-T Bonds are federally taxable with a final maturity of September 1, 2035; the interest rates of these bonds range from 5.263% to 5.537%.

The Series 2006B-TE Bonds and Series 2006B-T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Coliseum Area Redevelopment Project Area.

Redevelopment Agency of the City of Oakland
Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds
Series 2006C-TE & Series 2006C-T (Federally Taxable)

On October 12, 2006, the Redevelopment Agency of the City of Oakland ("Agency") issued $4,945,000 of Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-TE (the "Series 2006C-TE Bonds") and $12,325,000 of Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds, Series 2006C-T (Federally Taxable) (the "Series 2006C-T Bonds"). The collective Series 2006C-TE Bonds and Series 2006C-T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency's Broadway/MacArthur/San Pablo Redevelopment Project Area. The Series 2006C-TE Bonds are tax-exempt with a final maturity of September 1, 2036; the interest rate of these bonds is 5.000%. The Series 2006C-T Bonds are federally taxable with a final maturity of September 1, 2032; the interest rates of these bonds range from 5.283% to 5.587%.

The Series 2006C-TE Bonds and Series 2006C-T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Broadway/MacArthur/San Pablo Redevelopment Project Area.

Oakland Base Reuse Authority

On August 7, 2006 OBRA was dissolved and all its assets and obligations were transferred to and were accepted by the Oakland Redevelopment Agency. Also transferred were the rights and obligations with respect to the balance of $1.05 million of a $2.4 million public works grant awarded by the United States Department of Commerce Economic Development Administration.

PERS ACTUARIAL VALUATION

SCHEDULE OF FUNDING PROGRESS

The schedule of funding progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

PUBLIC SAFETY RETIREMENT PLAN (POLICE AND FIRE)

Valuation Date July 1,	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (a-b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a-b)/c]
2003	$ 631,484,014	$ 454,728,659	$ 176,755,355	72.0%	$ 111,041,143	159.2%
2004	730,092,603	529,461,015	200,631,588	72.5%	115,452,259	173.8%
2005	820,642,031	602,422,608	218,219,423	73.4%	122,893,613	177.6%

MISCELLANEOUS RETIREMENT PLAN

Valuation Date July 1,	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) Liability (a-b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a-b)/c]
2003	$ 1,197,321,821	$ 1,010,654,872	$ 186,666,949	84.4%	$ 207,930,860	89.8%
2004	1,259,667,702	1,066,027,320	193,640,382	84.6%	216,320,251	89.5%
2005	1,397,236,509	1,156,704,781	240,531,728	82.8%	206,261,519	116.6%

(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 2004, the City Council approved the City's fourth two-year budget for fiscal years 2004-05 and 2005-06. 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 2005-06 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.

CITY OF OAKLAND
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2006
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
REVENUES				
Taxes:				
Property	$140,519	$ 140,520	$151,754	$ 11,234
State:				
Sales and use	42,425	42,424	44,875	2,451
Motor vehicle in-lieu	8,316	8,316	2,984	(5,332)
Local:				
Business license	45,960	45,960	43,790	(2,170)
Utility consumption	50,203	50,203	48,770	(1,433)
Real estate transfer	60,220	60,220	79,483	19,263
Transient occupancy	10,040	10,040	11,690	1,650
Parking	8,650	8,650	8,469	(181)
Franchise	12,231	12,231	12,152	(79)
Licenses and permits	16,724	16,717	18,975	2,258
Fines and penalties	25,390	25,391	23,888	(1,503)
Interest and investment income	-	-	3,243	3,243
Charges for services	65,968	66,126	66,849	723
Federal and state grants and subventions	1,396	2,256	3,587	1,331
Annuity income	13,500	13,500	-	(13,500)
Other	17,673	18,733	17,075	(1,658)
TOTAL REVENUES	519,215	521,287	537,584	16,297
EXPENDITURES				
Current:				
Elected and Appointed Officials-				
Mayor	2,189	2,191	1,654	537
Council	2,748	2,789	2,604	185
City Manager	10,534	10,828	9,930	898
City Attorney	9,126	9,201	9,459	(258)
City Auditor	1,291	1,295	1,157	138
City Clerk	2,234	2,523	1,547	976
Agencies/Departments:				
Personnel Resource Management	4,344	5,359	4,436	923
Information Technology	8,540	8,677	8,891	(214)
Financial Services	23,338	23,787	22,780	1,007
Police Services	171,532	175,269	179,201	(3,932)
Fire Services	104,320	104,760	101,247	3,513
Life Enrichment:				
Parks and Recreation	13,836	18,217	14,136	4,081
Library	11,428	11,736	11,120	616
Cultural Arts and Museum	7,062	6,494	6,748	(254)
Aging & Health and Human Services	5,079	6,896	5,926	970
Community and Economic Development	24,269	26,400	20,592	5,808
Public Works	36,406	39,459	32,621	6,838
Other	10,155	12,816	16,992	(4,176)
Capital outlay	19	1,094	573	521
Debt service:				
Principal repayment	1,281	1,115	-	1,115
Interest charges	466	523	-	523
TOTAL EXPENDITURES	450,197	471,429	451,614	19,815
EXCESS OF REVENUES OVER EXPENDITURES	69,018	49,858	85,970	36,112
OTHER FINANCING SOURCES (USES)				
Property sale proceeds	2,747	2,754	3,040	286
Transfers in	29,721	29,721	2,608	(27,113)
Transfers out	(104,202)	(109,219)	(97,501)	11,718
TOTAL OTHER FINANCING USES, NET	(71,734)	(76,744)	(91,853)	(15,109)
NET CHANGE IN FUND BALANCE	(2,716)	(26,886)	(5,883)	21,003
Fund balances - beginning	299,405	299,405	299,405	-
FUND BALANCES - ENDING	$296,689	$ 272,519	$293,522	$ 21,003

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

(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, 2006, was $565,306.

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	$ (5,883)
Amortization of debt service deposit agreement	565
Net change in fund balance – GAAP basis	$ (5,318)

The General Fund's fund balance on a Budgetary Basis is reconciled to that on a GAAP basis as of June 30, 2006, which is as follows (in thousands):

	General Fund
Fund Balance, June 30, 2006 - Budgetary Basis	$ 293,522
Unamortized debt service deposit agreement	(7,003)
Fund Balance, June 30, 2006 – GAAP Basis	$ 286,519

General Fund Budgetary Basis Fund Balance at June 30, 2006, is composed of the following (in thousands):

	General Fund
Reserved:	
Encumbrances	$ 6,708
Long-term receivables	6,000
Debt service	2,443
Pension obligations	119,000
Unreserved reported in:	
General fund	159,371
TOTAL FUND BALANCES	$ 293,522

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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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Oakland, California (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 6, 2006. We did not audit the financial statements of the Oakland Base Reuse Authority (OBRA), the Oakland Municipal Employees' Retirement System (OMERS) and the Oakland Police and Fire Retirement System (PFRS), which collectively represent the following percentages of assets, net assets and revenues/additions as of and for the year ended June 30, 2006:

Opinion Unit	Assets	Net Assets	Revenues/ Additions
Discretely presented component units (OBRA)	3.9%	9.9%	2.7%
Aggregate remaining fund information (OMERS and PFRS)	71.6%	73.0%	21.2%

Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 6, 2006.

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 6, 2006

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The Honorable Mayor and Members
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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, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Port of Oakland (Port), and the Oakland Base Reuse Authority (OBRA) that expended $26,305,245 and $2,003,789 in federal awards respectively, that are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2006. Our audit of compliance, described below, did not include the operations of the Port or OBRA because we audited and reported on the Port's compliance in accordance with OMB Circular A-133 separately, and because OBRA engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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

In our opinion, the City complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2006-01 through 2006-04.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-01 through 2006-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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
January 18, 2007

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2006

FEDERAL GRANTOR/PROGRAM 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-				
Food Stamps	10.551	FSOR-05-CA-1	$ 94,653	$ 82,000
Child & Adult Care Food Program	10.558	01-1135-1J	555,109	-
Summer Food Service Program for Children	10.559	01-80102V	247,831	176,287
Empowerment Zone Program	10.772	C14043	216	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			**897,809**	**258,287**
U.S. DEPARTMENT OF COMMERCE				
Economic Adjustment Assistance-				
EDA Brownfields Planning Grant	11.307	07-79-04941	12,106	-
TOTAL U.S. DEPARTMENT OF COMMERCE			**12,106**	**-**
U.S. DEPARTMENT OF DEFENSE				
Community Economic Adjustment Planning Assistance-				
Military Base Conversion	12.607	C749-03898	6,079	-
TOTAL U.S. DEPARTMENT OF DEFENSE			**6,079**	**-**
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT				
Community Development Block Grants/	14.218	B-01-MC-06-0013	10,720,575	5,112,922
Entitlement Grants		N/A	48,400	-
		CA004HG702	95,000	-
		CA004HG603	33,935	-
		B-81-AA-06-0038(4)	97,127	-
			10,995,037	5,112,922
Emergency Shelter Grants Program	14.231	S02-MC-06-0013	114,409	94,172
		S05-MC-60-0013	257,642	241,721
			372,051	335,893
Supportive Housing Program	14.235	CA01B402027-CA5063	211,336	204,580
		CA-39B02005	4,669	4,669
		CA01B02002	14,377	14,377
		CA01B402025-CA5065	1,475,876	1,419,857
		CA01B202026-CA5089	170,385	170,385
		CA01B402024-CA5089	117,950	111,049
		CA01B202016-CA5065	138,913	138,913
		CA01B03003	37,679	37,679
			2,171,185	2,101,509
HOME Investment Partnerships Program	14.239	M01-MC060208	627,170	-
		N/A	1,519,780	-
		N/A	125,000	125,000
		M99-MC60208	390,647	2,480
			2,662,597	127,480
Housing Opportunities for Persons with Aids	14.241	CA-H02-F001	268,242	268,242
		CA-H03-F001	1,367,133	1,264,164
		CAH04F001	533,637	498,779
			2,169,012	2,031,185
Community Development Block Grants/				
Economic Development Initiative	14.246	E95-EZ-06-0001	469,872	72,788

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS (Continued)
For the fiscal year ended June 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
Community Development Block Grants/ Section 108 Loan Guarentees	14.248	B93-MC-06-0013	$ 1,455,642	$ -
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	CALAG0033-95	339,191	339,191
TOTAL U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			**20,634,587**	**10,120,968**
U.S. DEPARTMENT OF THE INTERIOR				
Urban Park and Recreation Recovery Program	15.919	06CTY24800201	37,727	-
		06CTY24800101	424,600	13,249
TOTAL U.S. DEPARTMENT OF THE INTERIOR			**462,327**	**13,249**
U.S. DEPARTMENT OF JUSTICE				
Offender Re-entry Program	16.202	2002RE-CX-0055	435,396	234,946
DEA Oakland Area Violent Drug Task Force	16.220	N/A	589	-
Eastbay Human Trafficking	16.320	2005-VT-BX0009	139,209	41,500
Juvenile Accountability	16.523	IP000175503	1,503	-
Gang-Free Schools and Communities: Community-Based Gang Intervention	16.544	ATC020169	8,110	-
National Institute of Justice Research, Evaluation and	16.560	N/A	12,772	-
Development Project Grants		2004-DN-BX-K077	17,992	-
			30,764	-
Federal Surplus Property Transfer Program- Federal Asset Forfeiture	16.578	CA0010900	100,125	-
Local Law Enforcement Block Grants Program	16.592	02-LB-BX-2019	10,484	-
		03-LB-BX-1809	249,919	-
		N/A	102,250	-
		N/A	5,522	-
			368,175	-
Executive Office for Weed and Seed	16.595	2002-WS-QX-0091	187,123	78,944
		N/A	175,288	47,627
		N/A	3,494	3,494
			365,905	130,065
Bullet Proof Vest	16.607	PL 105-181	1,221	-
		2001BVP	36,663	-
		2004BVP	5,010	-
			42,894	-
Community Prosecution and Project Safe Neighborhoods	16.609	2003-GPCX0150	6,514	-
Public Safety Partnership and Community Policing Grants	16.710	98CLQX0160	474,952	254,169
COPS More 98 Award		2002HSWX0005	87,502	86,728
Creating Culture		2002CKWX0237	11,735	8,500
COPS Secure in School			574,189	349,397
Police Corps	16.712	2001 SHWX0375	106,503	-
Edward Byrne Memorial Grant	16.738	N/A	105,496	-

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS (Continued)
For the fiscal year ended June 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
DNA Capacity Enhancement Program	16.741	2005-DA-BX-K024	$ 57,537	$ -
DNA Backlog Reduction	16.743	2004-DN-BX-K051	92,913	-
		2005-DN-BX-K066	6,920	-
			99,833	-
TOTAL U.S. DEPARTMENT OF JUSTICE			**2,442,742**	**755,908**
U.S. DEPARTMENT OF LABOR				
Senior Community Service Employment Program				
Passed Through the Senior Service America, Inc.	17.235	N/A	1,067,691	-
Passed Through the State of California				
Employment Development Department-				
WIA Adult Program	17.258	R069124	1,140,276	69,347
		R692491	329	-
		R692491	142,979	-
		R588740	111,143	111,143
		R692491	333,064	333,064
		R692491	1,168,400	1,168,400
		R692491	265,049	33,476
			3,161,240	1,715,430
WIA Youth Activities	17.259	R588740	379,938	378,938
		R692491	477,256	477,256
		R692491	1,413,818	1,413,818
			2,271,012	2,270,012
WIA Dislocated Workers	17.260	R588740	340,399	340,399
		R380522	39,077	39,077
		R692491	76,923	76,923
		R692491	441,701	441,701
		R692491	519,049	519,049
		R692491	239,712	-
		R692491	163,891	163,891
			1,820,752	1,581,040
Total WIA Cluster			7,253,004	5,566,482
Youth Opportunity Grants	17.263	AF-14153-04-60	250,000	-
TOTAL U.S. DEPARTMENT OF LABOR			**8,570,695**	**5,566,482**
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through the State of California				
Department of Transportation-				
Highway Planning and Construction:	20.205			
San Pablo Rehab		STPLMA 5012 (016)	438,917	-
Jackson Street Operation		CML- 5012(037)	146	-
Lower Grand Ped/Bulb out		CML5012 (058)	215,123	-
Lake Merritt Canal Bridge		STPL-5012(037)	63,526	-
Sidewalk Repair STPL		STPL-5012(047)	410,053	-
ADA Citywide Curb		STPL 5012 (033)	500	-
Bridges Hegenberger Seismic		STPLZ 5012 (025)	46,541	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			**1,174,806**	**-**
ENVIRONMENTAL PROTECTION AGENCY				
Brownfields Training Research and Cleanup Cooperative Agreements	66.811	BL98968501-0	1,892	-
TOTAL ENVIRONMENTAL PROTECTION AGENCY			**1,892**	**-**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS (Continued)
For the fiscal year ended June 30, 2006

FEDERAL GRANTOR/PROGRAM 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-116-01	$ 80,342	$ 80,342
		E-116-02	394,344	7,573
TOTAL U.S. DEPARTMENT OF EDUCATION			**474,686**	**87,915**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Funding:				
Comprehensive Community Mental Health Services				
for Children with Serious Emotional Disturbances	93.104	6 U79SM56051-02-1	630,292	559,445
		1U79 SM56051-01	487,747	446,798
			1,118,039	1,006,243
Head Start	93.600	09CH9006/35	11,625,686	2,525,496
		N/A	1,029,908	654,197
		N/A	549,965	505,484
		N/A	2,073,516	2,028,415
			15,279,075	5,713,592
Passed Through the State of California				
Department of Economic Opportunity:				
National Family Caregiver Support	93.052	N/A	1,292	-
		N/A	15,321	-
		N/A	303	-
		SE05-159	1,311	-
			18,227	-
Passed Through the State of California				
Department of Community Service and Development:				
Community Services Block Grant	93.569	04F-4515	10,091	-
		06F-4703	256,708	65,780
		05F-4629	400,891	189,122
			667,690	254,902
Passed Through the State of California				
Department of Aging:				
Medical Assistance Program (Medicaid)	93.778	N/A	5,350	5,350
		MS-0405-01	11,029	7,237
		MS-0506-01	1,558,427	324,863
			1,574,806	337,450
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			**18,657,837**	**7,312,187**
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES				
Training and Technical Assistance	94.009	90ET0105/01	3,238	-
Foster Grandparent Program	94.011	03SFPCA010	32,138	-
Senior Companion Program	94.016	03SCPCA007	295,737	-
TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES			**331,113**	**-**
U.S. DEPARTMENT OF HOMELAND SECURITY				
State Domestic Preparedness Equipment Support Program	97.004	2004-45OESID# 001-00000	4,503	-

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS (Continued)
For the fiscal year ended June 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
Urban Area Security Initiative	97.008	2004-14 OESID# 001-53000	$ 77,343	$ -
		2004-14 OESID# 001-53000	808	-
		2004-14 OESID# 001-53000	333,170	103,347
			92,896	-
		2004-14 OESID# 001-53000	97,891	891
			82,692	78,000
			71,333	71,333
		2005-15	6,567	-
			762,700	253,571
National Urban Search and Rescue (US&R) Response System	97.025	EMP-2003-CA-0047	355	-
		EMW-2003-CA-0300	410,268	-
		2005-15	70,738	-
		2005-15	595,861	286,775
			1,077,222	286,775
Metropolitan Medical Response System	97.071	EW-2004-GR-0606	1,320	-
		233-03-0095	58,845	-
			60,165	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			**1,904,590**	**540,346**
TOTAL FEDERAL AWARDS			**$ 55,571,269**	**$ 24,655,342**

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, 2006

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, 2006, except as described in Note 4 below. The City's reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

Note 2 – Basis of Accounting

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

Note 3 – Relationship to the Financial Statements

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

Note 4 – Discrete Component Units Federal Expenditures not included in the SEFA

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

Program Title	CFDA Number	Federal Expenditures
Department of Defense		
Environmental Services Co-operative Agreement	12	$ 305,026
Department of Transportation		
Airport Improvement Program	20.106	25,626,593
Port Security Grant	20.401	56,660
Total Department of Transportation		25,683,253
US Department of Homeland Security		
Homeland Security Grant Program	97.056	316,966
Total Federal Expenditures		$ 26,305,245

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

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

Program Title	CFDA Number	Federal Expenditures
Department of Commerce		
Economic Adjustment Assistance	11.307	$ 376,207
Department of Defense		
Environmental Services Co-operative Agreement	12.999	1,627,582
Total Federal Expenditures		$ 2,003,789

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. The following is a summary of the loan programs maintained by the City along with the outstanding loan receivable balances at June 30, 2006:

Program Title	CFDA#	Amount Outstanding	PY loans w/ continuing compliance requirements	New Loans
Economic Adjustment Assistance	11.307	$ 264,652	$ 264,652	$ -
Housing Development Grants	14.174*	20,655,137	20,655,137	-
Community Block Development Grants	14.218	21,812,439	21,812,439	-
Rental Housing Rehabilitation	14.230*	1,159,609	1,159,609	-
HOME Investment Partnerships Program	14.239	32,831,147	31,311,367	1,519,780
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	1,013,336	1,013,336	-
Community Block Development Grants Section 108 Loan Guarantees	14.248	11,105,971	10,955,971	150,000
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	119,824	119,824	-
Total		$ 88,962,116	$ 87,292,336	$ 1,669,780

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

CITY OF OAKLAND
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section I – Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

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

Identification of major programs:

CFDA Number	Program name
10.558	Child and Adult Care Food Program
14.248	Community Development Block Grant - Section 108 Loan Guarantees
15.919	Urban Parks & Recreation Recovery
17.258-260	WIA Cluster
93.600	Head Start
97.008	Urban Areas Security Initiative

Dollar threshold used to distinguish between Type A and Type B programs:	$1,667,138
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None

Section III Federal Award Findings and Questioned Costs

Finding No. 2006-01 Highway Planning and Construction (CFDA# 20.205)
U.S. Department of Transportation
Pass through by the State of California Department of Transportation

CRITERIA

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (OMB Circular A-133*)*, requires federal recipients to prepare an annual schedule of expenditures of federal awards with expenditures reported by federal program.

CONDITION

The schedule of expenditures of federal awards provided to the auditors, reported a net negative balance of $836,226 as current year expenditures for the Highway Planning and Construction grant. Upon investigation, we discovered that the Public Works Department had completed a reconciliation of its projects during the year, which required a journal entry to reduce the amount of expenditures reported during the year. The current year expenditures were reduced as amounts reported in the general ledger were total project costs and not the portion that represents eligible federal costs. These non-eligible federal costs include either 1) the City's portion of the project that represents the local match or 2) costs that exceed the project budget.

While the City may reconcile the project costs and properly submit reimbursements requests for only the eligible portion of the federal projects, on an annual reporting basis, the federal expenditures are being overstated. Therefore, the schedule of expenditures of federal awards has been misstated in prior years until the grant is closed out and the federal portion is calculated.

EFFECT

The City's schedule of expenditures of federal awards has not properly reported the federal portion of expenditures for this grant on an annual basis.

QUESTIONED COST

None. The City properly calculates the federal portion of the project costs before submitting reimbursement requests to the Department of Transportation.

RECOMMENDATION

We recommend the Public Works Department conduct an annual reconciliation of the Highway Planning and Construction grants in order to determine the eligible federal portion of project expenditures for purposes of reporting on the schedule of expenditures of federal awards.

MANAGEMENT RESPONSE:

The Public Works Agency has implemented procedures to transfer out ineligible costs of the Highway Planning and Construction grants at the time that the City of Oakland submits requests for reimbursement. In addition, a reconciliation of the project will be performed at the end of each fiscal year to confirm that the eligible portion of project expenditures are those that are reported.

Finding No. 2006-02 Head Start (CFDA# 93.600)
U.S. Department of Health and Human Services

CRITERIA

U.S. Office of Management and Budget Circular A-102, Grants and Cooperative Agreements with State and Local Governments (Common Rule) requires that non-federal entities receiving federal awards (e.g., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

CONDITION

During our testing of internal controls over payroll, we noted that, out of a sample size of 42, 2 employees did not have an approving signature from the department supervisor on the time cards.

EFFECT

Without adequate internal controls over the approval of time entry, cash payments to the employees could not be readily verified as authorized. Without proper approval, payroll costs may be incorrectly charged to federal programs.

QUESTIONED COSTS

Of the 42 time cards sampled, which totals $169,286, the questioned costs resulting from the 2 unapproved time cards amounts to $10,121.

RECOMMENDATION

We recommend the City enforce its policy on approval of timecards to ensure that the payroll costs are being appropriately charged to federal programs.

MANAGEMENT RESPONSE

The City of Oakland’s timecard review/approval process is migrating to an online system within its Oracle database (Oracle Time and Labor). This new process will electronically require supervisor review and approval of timecard reporting before any payroll disbursements can be made. Phased in implementation into the new system began in May 2006.

Finding No. 2006-03 Head Start (CFDA# 93.600)
U.S. Department of Health and Human Services

CRITERIA

In accordance with OMB Circular A-133, the City is responsible for conducting a determination of eligibility. In order to prove that a determination of eligibility was completed, the City must complete documents to ensure the eligibility determination was properly approved and that records are maintained.

CONDITION
During our eligibility testing, we noted that, out of the sample size of 40, 2 enrollment applications do not have the "Parent/Guardian Signature", which is required as part of the enrollment application.

EFFECT
Without a properly signed certification from the applicants, the City runs a risk of disbursing benefits to ineligible participants.

QUESTIONED COSTS
Of the 40 enrollment applications sampled, 2 of the enrollment applications did not have the appropriate "Parent/Guardian Signature". Therefore, 5% of the benefits related to the sampled enrollment applications may not be eligible for the reimbursement.

RECOMMENDATION
We recommend the Department strengthen its monitoring procedures over the eligibility determination process to ensure that the applications are properly completed and reviewed in accordance with the program guidelines.

MANAGEMENT RESPONSE
The Recruitment Coordinator will conduct a desk-top audit to ensure that proper signatures are on each application. Field staff will be provided a refresher training to ensure that they check each application for proper signatures.

Finding No. 2006-04 Urban Parks and Recreation Recovery Program (CFDA # 15.919)
U.S. Department of The Interior

CRITERIA
The Davis-Bacon Act requires that each contract over $2,000 to which the United States or the District of Columbia is a party for the construction, alteration, or repair of pubic buildings or public works shall contain a clause setting forth the minimum wages to be paid to various classes of laborers and mechanics employed under the contract. Under the provisions of Act, contractors and their subcontractors are to pay workers employed directly upon the site of work no less than the locally prevailing wage and fringe benefits paid on projects of a similar character. The Davis-Bacon Act directs the Secretary of Labor to determine such local prevailing wage rates.

CONDITION
During our review of contracts between the City and its primary contractors, we noted that the prevailing wage rate clause in the agreements only pertain to the primary contractor and its employees and does not include any representation on the primary contractor's subcontractors.

EFFECT
Without the primary contractors including the subcontractors as being subject to prevailing wages in its agreements with the City, they may not require their subcontractors to pay prevailing wage rates, in accordance with the Davis-Bacon Act.

QUESTIONED COST
N/A

RECOMMENDATION
We recommended the City require that subcontractors be included in the prevailing wage rate clauses of all construction agreements with primary contractors over $2,000 to guarantee that the primary contractors are aware of their responsibility to ensure that subcontractors are made aware of the prevailing wage rates.

MANAGEMENT RESPONSE
The Contract Compliance Office will work with the City Attorney's Office to ensure that the subcontractors are included in the prevailing wage rate clauses for all federally funded construction contracts in excess of $2,000. Inclusion of this provision will ensure that the primary contractors will monitor their subcontractors' compliance with the prevailing wage rates requirements.

CITY OF OAKLAND
Summary Schedule of Prior Audit Finding
For the Year Ended June 30, 2006

Reference Number:	**2005-01**
Federal Catalog Number:	**14.218 / Community Development Block Grants/Entitlement Grants**– Subrecipient Monitoring
Audit Finding:	During our testing of internal controls over and compliance with subrecipient monitoring requirements, we noted that 3 out of 20 subrecipient files had monitoring reports with no follow-up regarding the findings reported and recommendations made for improvement. Without timely follow up, the City cannot ensure that the subrecipients are complying with program requirements.
Status of Corrective Action:	Corrected.

CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICE AND DEVELOPMENT (CSD)
COMMUNITY SERVICE BLOCK GRANT (CSBG) CONTRACT NO. 06F-4703
For the Period January 1, 2006 to June 30, 2006

	Actual	Total Reported [1]	Total Budget
Revenue			
Grant Amount	$ 216,545	$ 234,800	$ 337,321
Interest Income	-	-	-
Total Revenue	216,545	$ 234,800	$ 337,321
Expenditures			
Personnel Costs:			
Salaries and Wages	$ 91,895	$ 88,240	$ 93,652
Fringe Benefits	45,057	43,241	47,656
Subtotal Personnel Costs	136,952	131,481	141,308
Non-Personnel Costs			
Travel	3,055	5,285	7,500
Consumable Supplies	104	1,683	1,750
Equipment Lease/Purchase	-	-	-
Consultant Services	-	-	-
Sub-Contractors	99,112	83,174	169,026
Other Costs	17,486	13,177	17,738
Subtotal Non-Personnel Costs	119,756	103,319	196,013
Total Expenditures	$ 256,708	$ 234,800	$ 337,321

[1] - The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2006 to June 30, 2006.

CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICE AND DEVELOPMENT (CSD)
COMMUNITY SERVICE BLOCK GRANT (CSBG) CONTRACT NO. 05F-4629
For the Period January 1, 2005 to June 30, 2006

	Jan. 1, 2005 through June 30, 2005	July 1, 2005 through Dec. 31, 2005	Jan. 1, 2006 through June 30, 2006	Total Actual	Total Reported [1]	Total Budget
Revenue						
Grant Amount	$ 279,702	$ 374,568	$ 26,323	$ 680,593	$ 680,593	$ 680,593
Interest Income	-	-	-	-	-	-
Total Revenue	$ 279,702	374,568	26,323	680,593	$ 680,593	$ 680,593
Expenditures						
Personnel Costs:						
Salaries and Wages	$ 78,174	$ 95,861	$ 1,931	$ 175,966	$ 186,280	$ 185,464
Fringe Benefits	25,759	47,611	960	74,330	73,849	91,518
Subtotal Personnel Costs	103,933	143,473	2,891	250,296	260,129	276,982
Non-Personnel Costs						
Travel	5,001	8,630	291	13,923	17,885	15,000
Consumable Supplies	1,270	2,361	-	3,631	3,483	3,500
Equipment Lease/Purchase	-	201	-	201	-	-
Consultant Services	-	-	-	-	4,774	9,486
Sub-Contractors	137,471	195,101	12,865	345,437	346,653	336,000
Other Costs	32,027	24,803	10,276	67,106	47,669	39,625
Subtotal Non-Personnel Costs	175,770	231,095	23,432	430,297	420,464	403,611
Total Expenditures	$ 279,702	$ 374,568	$ 26,323	$ 680,593	$ 680,593	$ 680,593

[1] - The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2005 to June 30, 2006.

CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF ALAMEDA COUNTY AWARDS
For the year ended June 30, 2006

ALAMEDA COUNTY AWARD/PROGRAM TITLE	CONTRACT NUMBER	EXHIBIT/PO NUMBER		EXPENDITURES
DEPARTMENT OF ADULT & AGING SERVICES				
Information and Assistance	C-93-1058	SE05-158	$	1,981
	C-93-1058	SE06-170		39,925
				41,906
Linkages/Respite	C-93-1058	SE04-146		(60)
	C-93-1058	SE05-156		730
	C-93-1058	SE06-206		264,074
				264,744
Senior Companion Program	C-93-1058	SE06-207		21,386
TOTAL DEPARTMENT OF ADULT & AGING SERVICES				**328,036**
HOUSING & COMMUNITY DEVELOPMENT DEPARTMENT				
Winter Shelter Program	C2004-799	N/A		40,454
	C2005-473	N/A		125,000
TOTAL HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT				**165,454**
PUBLIC HEALTH DEPARTMENT				
Tobacco Control Program	N/A	PHSVC-2917		16,574
TOTAL PUBLIC HEALTH DEPARTMENT				**16,574**
DEPARTMENT OF WORKFORCE & BENEFITS ADMINISTRATION				
Henry J. Robinson Multi-Service Center	C2002-552	SE06-MO44		237,770
TOTAL DEPARTMENT OF WORKFORCE & BENEFITS ADMINISTRATION				**237,770**
TOTAL ALAMEDA COUNTY AWARDS			**$**	**747,834**