

CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY CLERK
CITY OF OAKLAND
2005 APR 13 PM 6:19

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Finance and Management Agency
DATE: April 26, 2005

RE: **FISCAL YEAR 2003-2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR), THE OAKLAND REDEVELOPMENT AGENCY (ORA) FINANCIALS AND THE INDEPENDENT AUDIT REPORT**

SUMMARY

The Finance and Management Agency is pleased to present to the City Council the attached Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Financials, and the Independent Audit Report. The CAFR incorporates the Oakland Municipal Employees' Retirement System (OMERS), the Police and Fire Retirement System (PFRS), the Oakland Redevelopment Agency (ORA), the Oakland Base Reuse Authority (OBRA) and the Port of Oakland financial statements. The Independent Audit Report outlines the auditor's responsibility, provides advice on accounting policies and contains recommendations that are currently being implemented and are designed to improve operational efficiencies and further strengthen internal controls.

FISCAL IMPACT

This is an informational report only. There is no fiscal impact.

BACKGROUND

The Comprehensive Annual Financial Report is presented in three sections:

- **Introductory Section:** This section includes information about the organizational structure of the City, including an overview of the City and its economy, general government operations, enterprise and internal service fund operations and debt administration. This section also has summarized data reflecting the City's financial condition and the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting.
- **Financial Section:** This section includes the Management's Discussion and Analysis, as required by GASB 34, and provides financial highlights and an analytical overview of the City's financial activities. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations. The fund financial statements present financial information for

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April 26, 2005

each of the City's major funds, as well as non-major governmental and fiduciary funds. Major individual governmental funds and a major individual enterprise fund are reported as separate columns in the fund financial statements. Capital Assets, including infrastructure, and the liability for the City's long-term debt are included in the Statement of Net Assets.

These financial statements include the financial activities of the Oakland Municipal Employees' Retirement System (OMERS), the Police and Fire Retirement System (PFRS), the Oakland Redevelopment Agency (ORA), the Port of Oakland, and the Oakland-Alameda County Coliseum Authority. Also included in the financial section of the CAFR is the Independent Auditor's Report that states, in the opinion of the auditors, the financial statements accurately represent the financial condition of the City as of June 30, 2004.

Macias, Gini and Company, an accounting firm engaged by the City in June 2004, performed the audit of the City of Oakland's financial records. The audits of the OMERS, PFRS, and the Oakland Redevelopment Agency were jointly performed by Macias, Gini & Company and Williams, Adley & Company. A separate audit of the Port of Oakland was conducted by Macias, Gini & Company.

- **Statistical Section:** This section provides ten years of summary financial data, as well as demographic, economic and statistical information related to the City and its operations.

The Independent Audit Report is presented in three sections:

- **Required Communications:** This section required by professional auditing standards, outlines the auditor's responsibility, provides advice on accounting policies, evaluates accounting estimates, proposes audit adjustments and outlines difficulties in performing the audit. There are no reportable conditions.
- **Current Year Recommendations and Management Responses:** This section contains recommendations that are currently being implemented and are designed to improve operational efficiencies and further strengthen internal controls.
- **Passed Journal Entries:** This section outlines accounting entries recommended by the independent auditor. However, these entries have no significant impact on the Comprehensive Annual Financial Report (CAFR).

RECOMMENDATION(S) AND RATIONALE

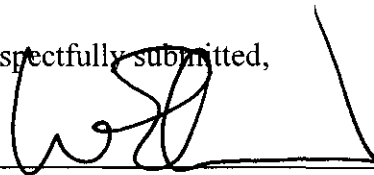
Staff recommends that the City Council accept the June 30, 2004 City of Oakland Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Financials, and the Independent Audit Report

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ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the City Council accept the June 30, 2004 City of Oakland Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Financials, and the Independent Audit Report.

Respectfully submitted,



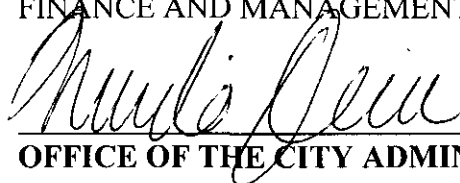
William E. Noland
Director, Finance and Management Agency

Reviewed by: LaRae Brown
Controller

Prepared by: Ace Tago
Assistant Controller

Attachments

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:



OFFICE OF THE CITY ADMINISTRATOR

**CITY OF OAKLAND,
CALIFORNIA**

Report to City Council

For the Year Ended June 30, 2004

CITY OF OAKLAND
Report to City Council
For the Year Ended June 30, 2004

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To the City Council of the
City of Oakland

In planning and performing our audit of the basic financial statements of the City of Oakland (City) and the Oakland Redevelopment Agency (ORA) for the year ended June 30, 2004, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on internal control. We did not audit the financial statements of the Oakland Base Reuse Authority (OBRA), which are included in the City's basic financial statements. In addition, we issued a separate Report to the Board of Directors for the Port of Oakland. Accordingly, this report does not cover these entities.

During our audit we noted certain matters involving internal controls and their operations, and are submitting for your consideration related recommendations designed to help the City make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the City. The information contained herein does not affect our report dated February 4, 2005, on the basic financial statements of the City. In addition, we previously reported on the City's internal control in our report dated February 4, 2005, issued in accordance with *Government Auditing Standards*.

We will review the status of the comments during our next audit engagement. We have already discussed our recommendations with various City personnel and would be pleased to discuss them further, to perform any additional study of these matters, or to assist you in implementation upon request. Additionally, we have included in this letter a summary of communications with the City Council, as required by professional auditing standards.

The accompanying communications and recommendations are intended solely for the information and use of the City Council, the Finance Committee and City management and others within the City and are not intended to be and should not be used by anyone other than these specified parties.

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
February 4, 2005

CITY OF OAKLAND
Report to City Council
For the Year Ended June 30, 2004

REQUIRED COMMUNICATIONS

Professional auditing standards require auditors to communicate with the audit committee or its equivalent, on a number of subjects. The following information satisfies these requirements, and is solely for use of the City Council, the Finance Committee and management.

I. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and OMB A-133

As stated in our engagement letter with the City dated June 25, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered 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 U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

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 grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

II. Significant Accounting Policies and Unusual Transactions

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City and ORA are described in Note 2 to the financial statements. As discussed in Note 20, the City restated the ORA Fund's beginning fund balance to remove amounts owed to the City's General Fund, as these amounts will not be collected in the near future.

CITY OF OAKLAND
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REQUIRED COMMUNICATIONS (Continued)

The Oakland Base Reuse Authority (OBRA) is a joint powers authority (JPA) established to assure the effective transition of military facilities in Oakland that have been or may be selected for closure. Effective July 1, 2003, the OBRA 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 Council. Accordingly, the relationship with the City has changed from that of a joint venture to that of a discretely presented component unit, which is now reported in the government-wide financial statements.

In addition, the City presents the Port of Oakland (Port) in a unique manner as compared to other local governmental entities with port operations. All local government entities we sampled reflect their ports as departments of the organization rather than as a discretely presented component unit. Some of these ports have similar management structures with a Board of Commissioners appointed by the sponsoring city's mayor/city council to oversee the operations of the port. Management's representation to us was that the Port operates with a separate legal standing (i.e. using its own corporate powers) under the Charter, which would allow for this presentation. In addition, the City Attorney's Office has represented that the Port operates very similar to a corporation with the Charter acting as its Articles of Incorporation and By-Laws. Ultimately, the City's presentation of the Port makes it less comparable to other cities that have port operations, thus, being a unique presentation.

We noted no other transactions entered into by the City during the fiscal year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. There have been new accounting and reporting pronouncements that will affect the City's reporting in subsequent years, which are summarized as follows:

- In November 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City's fiscal year ending June 30, 2006.
- 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 to OPEB trust funds included in the financial reports of plan sponsors or employers. This statement is effective for the City's fiscal year ending June 30, 2007.

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REQUIRED COMMUNICATIONS (Continued)

- In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement No.1*. This statement amends the portions of *NCGA Statement 1, Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the City's fiscal year ending June 30, 2006.

- 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 December 2004, GASB issued Statement No. 46, *Net Assets Restricted By Enabling Legislation—an Amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions. This statement is effective for the City's fiscal year ending June 30, 2006.

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Report to City Council
For the Year Ended June 30, 2004

REQUIRED COMMUNICATIONS (Continued)

III. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Estimated claims liabilities
- Estimated allowance for losses on accounts and loans receivable
- Useful life estimates for capital assets
- Net pension assets

Management's judgments and estimates were based on the following:

- Reserves for estimated claims liabilities were based on actuarial evaluations using historical loss, other data and attorney judgment about the ultimate outcome of the claim
- The allowance for losses on accounts receivable was based on management's estimate regarding the likelihood of collectibility
- Estimated allowance for losses on loans receivable was based on the types of loan (e.g., forgivable, deferred, grant or amortizing) and management's estimate regarding the likelihood of collectibility based on loan provisions and collateral
- The estimated useful lives of capital assets were based on management's estimate of the economic life of the assets.
- Net pension assets was based on actuarial assumptions used to compute the City's annual required contributions

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

CITY OF OAKLAND
Report to City Council
For the Year Ended June 30, 2004

REQUIRED COMMUNICATIONS (Continued)

IV. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City and ORA's financial reporting process (that is, cause future financial statements to be materially misstated). Adjustments were identified and proposed by us to adjust the allowance for doubtful accounts and to record the effect on revenue of amounts received within the City's established period of availability under the modified accrual basis of accounting. These adjustments, in our judgment, indicate matters that could have a significant effect on the City's financial reporting process.

In addition, the attached schedules starting on page 12 summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VI. Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

VII. Major Issues Discussed with Management Prior to Our Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

VIII. Difficulties in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

CITY OF OAKLAND
Report to City Council
For the Year Ended June 30, 2004

CURRENT YEAR RECOMMENDATIONS AND MANAGEMENT RESPONSES

Unresolved Reconciliation Activity with Cash with City Treasury (OMERS)

At June 30, 2004, the cash and investment balance with the City Treasury for the Oakland Municipal Employees Retirement System (OMERS) was reported as \$215,162 while the OMERS general ledger reported the balance as \$143,046. Neither the City Treasury nor OMERS were able to provide an explanation of the differences. Although the dollar amount of this difference is not material, it should be reconciled and resolved. We recommend the City investigate and resolve this difference. In addition, the City should incorporate monthly procedures to identify and resolve reconciling items in a timely manner. Failure to resolve these differences in a timely manner could make them increasingly difficult to resolve and may result in potential errors or fraud going undetected.

Management Response:

This difference has been resolved and the OMERS and the City's general ledgers are now in agreement.

Accounts Receivable Collectability

At year-end, the City had approximately \$11.4 million in accounts receivable aged in excess of one year. Most of these receivables are small amounts that are more than two years old. The City has included these amounts in its allowance for doubtful accounts, as it is the City's policy to obtain City Council approval prior to the write-off of these accounts. As a result, the City is not pursuing collection activities on these accounts. We recommend the City establish a clearly defined accounting policy requiring periodic maintenance of these receivables, including the review of all receivables over 30 days old, distribution of late notices to improve collections, and eventual write-off for those deemed uncollectible.

Management Response:

A comprehensive review of all of the City's outstanding receivables is already in progress and the findings will form the basis for the systematic revision of its receivable policy and processes.

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For the Year Ended June 30, 2004

Grants Receivable and Deferred Revenue

For purposes of revenue recognition, the City considers revenues to be available if they are collected within 120 days after year-end. As a result, receivables that are not collected within the availability period are not recognized as revenues and, instead, are reported as deferred revenues. Based on our audit of the City's year-end grants receivable accruals, we concluded that it was necessary to adjust the grants receivable to agree with the corresponding deferred revenues and to recognize the revenues that were collected within the availability period. We recommend that the City analyze its receivables and deferred revenues to ensure proper reporting of assets, liabilities and revenue recognition.

Management Response:

There was a 100% staff turnover in the Grants Accounting Section of the Accounting Division due to retirement. Management ensures that this finding is a non-recurring transaction in the future.

Labor and Cost Distribution

During our audit we reviewed the City's labor and cost distribution system to ensure that appropriate controls are provided for the collection, maintenance and management of labor costs based on classifications and coding structures specified by the City for purposes of reporting to other systems. The City's payroll systems (TAMS Payroll System and Oracle Financial System) have the capabilities to accumulate costs information for use in budgeting, performance management and other needed management processes. However, TAMS is a system that has a cumbersome process for entering the City's 1,100 payroll labor distributions and cost elements. As a result, the City has had to develop inefficient workarounds between TAMS and Oracle to capture the 1,100 payroll elements because the TAMS payroll application is no longer supported by its vendor. These workarounds are developed in-house, which can be costly. The City is working on plans to implement the Oracle payroll module by early 2005, but no specific date had been established at the time of our review. We recommend that upon approval for the purchase of the Oracle payroll module, the City should establish a timeframe for implementing and training employees on the new Oracle payroll module to help eliminate the need for the workarounds.

Management Response:

The City's current plans are to install and implement the Oracle payroll module by July 1, 2005.

CITY OF OAKLAND
Report to City Council
For the Year Ended June 30, 2004

Payroll Process

During our payroll testing of forty items we noted that the City does not maintain complete current payroll records for all of its employees. For example, we noted that three items did not have documentation of pay rates agreed to by the seasonal employees or its bargaining unit and one item did not have an updated personnel action form showing the employee's current pay rate. The City should maintain complete and current documentation in personnel files that will provide information to management for planning and evaluation of personnel. Documentation with approval (personnel department and the employee) of pay rate changes will also improve controls over the payroll process.

Management Response:

Management agrees with the finding and will refer the matter to the appropriate department for corrective action.

Cash and Investment Submission Date

The City's Investment Policy requires that the Director of Financial Services Agency/Treasurer render a quarterly investment report for the City and the Agency to the City Council within 30 days following the period being reported as required by the California Government Code Section 53646 (the Code). During our review of the March 31, 2004 Investment Report, we noted that while the Investment Report was dated April 29, 2004, the City Council actually received this report on May 25, 2004. The investment policy currently contains a requirement that cannot be followed due to the City requirement to meet the Sunshine Ordinance, which requires all documents to be available to the public prior to City Council meetings. The City should consider amending its investment policy to allow for enough time for the Investment Report to be completed and the Sunshine Ordinance to be met before presenting its investment Report to the City Council.

Management Response:

The City normally receives trustee statements between fifteen and thirty days following the end of the month. After reconciling the statements and preparing the report to get on the Committee calendar to meet the City's Sunshine Ordinance, three to four weeks will have gone by. Recently, the State approved the permanent suspension of the California Government Code Section 53646 mandate and therefore the above finding is no longer valid. The City will, however, review its existing investment policy to reflect a more realistic timeline to meet its operational needs and legal requirements under the Sunshine Ordinance.

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Post-retirement Health Care Benefits

During fiscal year 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* which establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and 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. These rules will apply to the City's post-retirement healthcare benefits described in Note 16 of the Comprehensive Annual Financial Report effective for the fiscal year ended June 30, 2008.

Under the new rules, the City will be required to recognize the cost of benefits when earned by employees rather than when paid or provided. The costs will be measured and accrued based upon periodic actuarial valuations similar to current practice with pension plans. The actuarial valuations will provide information on annual required contributions (ARC) to fund the plan. If the City fails to fund the plan, based on the actuarially determined ARC, it will be required to report a liability on the face of the financial statements for the "underpayment". Under the new rules, government employers wishing to advance fund these plans are required to make "irrevocable transfers" to a trust arrangement.

There are a number of other important financial statement implications that should be considered including: (1) how the discount rate will be impacted depending on the funding approach, (2) the size of the potential "net OPEB obligation" based on the City's intent to advance fund in the future, and (3) ultimately how credit analysts will use this new information to evaluate the City's creditworthiness.

We encourage the City take the following steps prior to the effective date of these new rules:

- Consult with your actuary to quantify the potential impacts of the new rules;
- Research opportunities to reduce costs; and
- Start/continue dialogue between affected parties (e.g., finance, labor groups, benefits staff and governing board).

Management Response:

Management agrees with the recommendation and plans to pursue discussions with the appropriate parties prior to the GASB Statement No. 43 June 30, 2007, implementation date

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Computer Operations

The City maintains a water fire suppression system for the computer equipment, rather than a recommended halon suppression system. The City opted against halon suppression because of environmental concerns. However, should a fire occur and appropriate high temperatures are reached, the water suppression system will activate causing significant damage to the City's IT hardware. We recommend that the City's IT Division consider installing a halon suppression system.

Management Response

Starting in the 1960s, Halon 1301 was the principal agent used in clean agent extinguishing systems. However, Halon was found to have a high ozone depletion potential which resulted in the banning of Halon manufacturing in 1994. There is no ban on the use of Halon, however, and many Halon systems are still in service.

Status

No actions have been taken by the City to address this recommendation. However, the City has removed their primary server from the room and placed it in the emergency operations center (EOC) at 1605 Martin Luther King. The relocated server at the EOC is operating as the primary server while the server equipment at the 8th floor of 150 Frank Ogawa Plaza is used as back up and for testing. Also, there are now two printers at the EOC to print checks in case of an emergency.

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PRIOR YEAR RECOMMENDATIONS AND MANAGEMENT RESPONSES

Prior Year Recommendation	Status
1. The Finance and Management Agency emphasize to the Revenue Division and CEDA to communicate all relevant accounting data and to reconcile all subsidiary ledgers on a timely basis.	Implemented
2. The City conduct a periodic analysis of the historical collectibility of outstanding notes and loans to determine whether the allowance being used is appropriate or whether it needs to be updated from time to time.	Implemented
3. The City consider assigning the servicing procedures to staff of the Finance and Management Agency in order to work with CEDA to ensure that notes and loans are properly reported in accordance with GAAP.	Implemented
4. The City use the proper definitions of reserved fund balances and designated fund balances to more appropriately classify its fund balances in future financial statements.	Implemented
5. The IT Division and the Finance and Management Agency should develop internal procedures to immediately notify the IT Division when Finance employees leave the City or transfer to another department.	Implemented
6. The City's IT Division consider installing a halon suppression system	See current year recommendation

City of Oakland
Summary of Uncorrected Misstatements
Fund Statements
June 30, 2004

Impact of Adjustments on Fund Financial Statement Captions (\$000) - Increase (Decrease)

Description (Nature) of Audit Difference	Statement of Net Assets			Statement of Revenues, Expenditures and Changes of Fund Balances/Net Assets						
	Assets	Liabilities	Net Assets	Revenues	Expenses	Other	Changes of Net Assets			
							Current Year	Prior Year	Total	
GENERAL FUND										
To correct improperly excluded invoice	\$ -	\$ 687	\$ (687)	\$ -	\$ 687	\$ -	\$ (687)	\$ -	\$ (687)	
To adjust the City's pooled investments to Market Value	850		850	850					850	
Total	\$ 850	\$ 687	\$ 163	\$ 850	\$ 687	\$ -	\$ 163	\$ -	\$ 163	
Financial statement amounts	\$ 406,628	\$ 173,320	\$ 233,308	\$ 461,237	\$ 413,191	\$ (67,856)	\$ (19,810)	\$ -	\$ (19,810)	
Impact as a percentage of fs amounts	0.21%	0.40%	0.07%	0.18%	0.17%	0.00%	-0.82%		-0.82%	
FEDERAL & STATE GRANT FUND										
To adjust the City's pooled investments to Market Value	\$ (159)	\$ -	\$ (159)	\$ (159)	\$ -	\$ -	\$ (159)	\$ -	\$ (159)	
To correct an amount recorded per invoice	(180)	(180)	-	-	-	-	-	-	-	
To propose a write-off	(75)		(75)		(75)		75		75	
Total	\$ (414)	\$ (180)	\$ (234)	\$ (159)	\$ (75)	\$ -	\$ (84)	\$ -	\$ (84)	
Financial statement amounts	\$ 110,295	\$ 133,418	\$ (23,123)	\$ 77,168	\$ 78,213	\$ -	\$ (1,045)	\$ -	\$ (1,045)	
Impact as a percentage of fs amounts	-0.38%	-0.13%	0.00%	-0.21%	-0.10%	0.00%	0.00%		0.00%	
OAKLAND REDEVELOPMENT AGENCY										
To properly adjust interest income that was misstated in the prior year.	\$ -	\$ -	\$ -	\$ 369	\$ -	\$ -	\$ 369	\$ (369)	\$ -	
To write-off old accounts receivable	(58)		(58)		58		(58)		(58)	
Total	\$ (58)	\$ -	\$ (58)	\$ -	\$ 58	\$ -	\$ (58)	\$ -	\$ (58)	
Financial statement amounts	\$ 295,537	\$ 85,932	\$ 209,605	\$ 67,146	\$ 65,552	\$ -	\$ 1,594	\$ -	\$ 1,594	
Impact as a percentage of fs amounts	-0.02%	0.00%	-0.03%	0.00%	0.09%	#DIV/0!	-3.64%		0.00%	
OTHER GOVERNMENTAL FUNDS										
To adjust the City's pooled investments to Market Value	\$ 440	\$ -	\$ 440	\$ 440	\$ -	\$ -	\$ 440	\$ -	\$ 440	
To correct client JE #30		2,659					(2,659)		(2,659)	
Total	\$ 440	\$ 2,659	\$ 440	\$ 440	\$ -	\$ -	\$ 440	\$ (2,659)	\$ (2,219)	
Financial statement amounts	\$ 151,759	\$ 35,930	\$ 115,829	\$ 90,130	\$ 170,484	\$ 71,542	\$ (8,812)	\$ -	\$ (8,812)	
Impact as a percentage of fs amounts	0.29%	7.40%	n/a	0.49%	0.00%	0.00%	0.00%		0.00%	
SEWER SERVICE FUND										
To correct accounts receivable	\$ -	\$ -	\$ -	\$ (381)	\$ -	\$ -	\$ (381)	\$ (381)	\$ (762)	
To adjust the City's pooled investments to Market Value	(59)		(59)	(59)			(59)		(59)	
Total	\$ (59)	\$ -	\$ (59)	\$ (440)	\$ -	\$ -	\$ (440)	\$ (381)	\$ (821)	
Financial statement amounts	\$ 120,769	\$ 20,157	\$ 100,612	\$ 22,590	\$ 20,228	\$ (969)	\$ 1,393	\$ -	\$ 1,393	
Impact as a percentage of fs amounts	-0.05%	0.00%	n/a	-1.95%	0.00%	0.00%	0.00%		0.00%	
PRIVATE PURPOSE TRUST FUND										
To adjust the City's pooled investments to Market Value	\$ 36	\$ -	\$ 36	\$ 36	\$ -	\$ -	\$ 36	\$ -	\$ 36	
Total	\$ 36	\$ -	\$ 36	\$ 36	\$ -	\$ -	\$ 36	\$ -	\$ 36	
Financial statement amounts	\$ 4,896	\$ 12	\$ 4,884	\$ 79,466	\$ 73,770	\$ -	\$ 5,696	\$ -	\$ 5,696	
Impact as a percentage of fs amounts	0.74%	0.00%	n/a	0.05%	0.00%	0.00%	0.00%		0.00%	

Impact of Adjustments on Government-Wide Statement Financial Statement Captions (\$000) - Increase (Decrease)

Description (Nature) of Audit Difference	Statement of Net Assets			Statement of Activities						
	Assets	Liabilities	Net Assets	Program Revenues	Expense	General and Other	Changes of Net Assets			
							Current Year	Prior Year	Total	
GOVERNMENTAL ACTIVITIES										
To recognize revenue for funds received due to adjustment of interest rate swap	\$ -	\$ (407)	\$ 407	\$ -	\$ -	\$ 326	\$ 326	\$ 81	\$ 407	
To record the liability for environmental remediation		2,251	(2,251)		2,251		(2,251)		(2,251)	
To recognize the repayment of interfund payables from the prior year.					(3,184)		3,184	(3,184)		
Total	\$ -	\$ 1,844	\$ (1,844)	\$ -	\$ (933)	\$ 326	\$ 1,259	\$ (3,103)	\$ (1,844)	
Financial statement amounts	\$ 2,274,737	\$ 1,829,440	\$ 445,297	\$ 154,163	\$ 717,601	\$ 594,914	\$ 31,476	\$ -	\$ 31,476	
Impact as a percentage of fs amounts	0.00%	0.10%	-0.41%	0.00%	-0.13%	0.05%	4.00%		-5.86%	

CITY OF OAKLAND

CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2004

PREPARED BY THE FINANCE AND MANAGEMENT AGENCY

WILLIAM E. NOLAND • DIRECTOR
LARA E. BROWN • CONTROLLER

PRINTED ON RECYCLED PAPER

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2004

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INTRODUCTORY SECTION



**FINANCE AND MANAGEMENT AGENCY
ACCOUNTING DIVISION**

150 FRANK H. OGAWA PLAZA, SUITE 6353
OAKLAND, CALIFORNIA 94612
(510) 238-3264

March 4, 2005

Citizens of the City of Oakland
The Honorable Mayor and
Members of the City Council

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Oakland, California (City). The Finance and Management Agency has prepared this report to present the financial position and the changes in financial position for the fiscal year ended June 30, 2004, and the cash flows of its proprietary fund types for the year then ended. The basic financial statements and supporting schedules have been prepared in compliance with Section 809 of the City Charter, with California Government Code Sections 25250 and 25253, and in accordance with generally accepted accounting principles (GAAP) for local governments as established by the Governmental Accounting Standards Board (GASB).

Our Comprehensive Annual Financial Report is presented in three sections:

The **Introductory Section** includes the transmittal letter, information about the organizational structure of the City, the profile of the government, information useful in assessing the financial condition of the City, and the Government Finance Officers Association's (GFOA) Certificate of Achievement.

The **Financial Section** is prepared in accordance with the GASB 34 requirements by including the Management's Discussion and Analysis (MD&A), the Basic Financial Statements including notes and the Required Supplementary Information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental, and fiduciary funds. Also included in this section is the Independent Auditors' Report on the basic financial statements.

The **Statistical Section** includes ten years of unaudited summary financial data, debt computations, and a variety of demographic, economic and social information that may be of interest to potential investors in the City's bonds and to other inquiring readers.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP, and to comply with laws and regulations. Because the cost of internal

controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by a group of independent auditing firms that are licensed certified public accountants. The objective of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2004, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2004. The Independent Auditors Report is presented as the first component of the Financial Section of this report.

GASB Statement No. 34 (GASB 34) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

The Reporting Entity and Its Services

The City has defined its reporting entity in accordance with generally accepted accounting principles that provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. This Basic Financial Statements presents information on the activities of the City and its component units.

GASB 34, Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments, retains many of the most popular features of the traditional reporting for state and local governments. It also incorporates these important new features:

- Government-wide financial reporting;
- Management's Discussion and Analysis (MD&A);
- Separate presentation of major funds; and
- Expanded budgetary reporting.

Moreover, GASB 34 requires that states and local governments annually disclose the full net value of all capital assets, including infrastructure assets, in order to comply with generally accepted accounting principles.

GAAP require that the component units be separated into blended or discretely presented units for reporting purposes. Although legally separate entities, blended component units are, in substance, part of the City's operations. Therefore, they are reported as part of the Primary Government. The discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City operations.

Accordingly, we have included the operations of the Oakland Municipal Employees' Retirement System (OMERS), the Police and Fire Retirement System (PFRS), and the Oakland

Redevelopment Agency (Agency) as blended component units. The operations of the Port of Oakland (including the Oakland International Airport) and the Oakland Base Reuse Authority (OBRA) are presented discretely. The Oakland-Alameda County Coliseum Authority (Authority) is a Joint Venture owned and operated by the City and the County of Alameda.

The Oakland Housing Authority, the Oakland Unified School District, and the Peralta Community College District were not included because they have limited relationships with the City and, therefore, did not meet the criteria for inclusion in the reporting entity. The City is also represented in six regional agencies that are excluded from the City's reporting entity. These agencies are the San Francisco Bay Area Rapid Transit District (BART), Alameda-Contra Costa Transit District (AC Transit), Bay Area Air Quality Management District, Association of Bay Area Governments (ABAG), East Bay Regional Park District, and the East Bay Municipal Utility District.

Profile of the Government

The City of Oakland was chartered as a city in 1854. It is situated on the eastern side of the Oakland/San Francisco Bay in the County of Alameda. Its western border offers nineteen miles of coastline, while the rolling hills to the east present views of the Bay and the Pacific Ocean. In between are traditional, well-kept neighborhoods, a progressive downtown that is experiencing a tremendous surge in growth, and superior cultural and recreational amenities. It is the administrative site for the County of Alameda, the regional seat for the federal government, the district location of primary state offices, and the transportation hub of commerce for the Bay Area.

In November 1998, the citizens of Oakland passed Measure X changing the form of government from Council-City Administrator to Mayor-Council through a charter amendment. Legislative authority is vested in the City Council and executive authority is vested in the Mayor. The City Administrator, appointed by and under the direction of the Mayor, has administrative authority to manage the day-to-day administrative and fiscal operations of the City. The City Auditor and the City Attorney are both elected officials and serve four-year terms.

The Mayor and City Council is the governing body of the City and comprises eight elected officials. One Council member is elected "at large", while the other seven Council members represent specific districts. The Mayor and City Council are elected to serve four-year terms.

On March 2, 2004, the citizens of Oakland passed Measure P: (1) to repeal the sunset provision of Measure X passed in November 1998 to retain the Mayor-Council form of government; (2) to change the term limit for Mayor from two terms to two consecutive terms; (3) to reduce the number of votes needed for the City Council to pass an ordinance on reconsideration from six votes to five votes; (4) to eliminate the prohibition on paying the Mayor more than the City Administrator; (5) to remove the rule that the Mayor vacates his or her office by missing ten consecutive City Council meetings; (6) to require the Mayor to advise the City Council before removing the City Administrator; and (7) to change the title of the City Administrator to "City Administrator".

The City provides a full range of services contemplated by statute or charter, including those functions delegated to cities under state law. These services include public safety (police and

fire), sanitation and environmental health enforcement, recreational and cultural activities, public improvements, planning, zoning, and general administrative services.

The City's budget is a detailed operating plan that identifies estimated costs in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be carried out during the fiscal year; (2) the estimated revenue available to finance the operating plan; and (3) the estimated spending requirements for the operating plan. The budget represents a process wherein policy decisions by the Mayor and the City Council are adopted, implemented and controlled. The notes to the required supplementary information summarizes the budgetary roles of various City officials and the timetable for their budgetary actions according to the City Charter. On June 29, 2004, the City Council, during its mid-cycle review, approved the City's revised budget for fiscal year 2004-05.

The City Charter prohibits expending monies for which there is no legal appropriation. Therefore, the City is required to adopt budgets for all City funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, although for management purposes, the line item budget is controlled at the departmental level within funds. The City Administrator is authorized to administer the budget and may transfer monies from one activity, program or project to another within the same agency and fund. Supplemental appropriations or transfers of appropriations between funds or agencies must be approved by the City Council.

The City also maintains an encumbrance accounting system to provide budgetary controls for governmental funds. Encumbrances which would result in an overrun of an account balance are suspended in the system until additional funding is made available via budget change requests or withdrawn due to lack of funding. Encumbrances outstanding at June 30 and carried forward are reported as reservations of the appropriate governmental fund's fund balance since they do not constitute expenditures or liabilities. Encumbrances that do not lapse but are brought forward to the new fiscal year are incorporated as part of the budget adopted by City Council for that year.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy. The City of Oakland has transformed itself into one of the most desirable communities to live and to do business in the country. Testimony to this transformation is well publicized in various magazines and comments by public officials. For example, the City is:

- "...4th Best commercial real estate market in the country" (Moody's Investors 2003)
- "...8th Best Place for Business in the U.S." (Forbes 2002 Annual Survey);
- "...7th Most Creative City in America" (Carnegie Mellon);
- "...6th Best City to live in the U.S." (Money, Dec. 2002);
- "...leader among America's top ten technology cities." (Newsweek, April 30, 2001); and
- "...uniquely positioned as an excellent point for international business." (Mickey Kanter, former U.S. Secretary of Commerce)

These statements are testimony to the City's vibrancy, its business-friendly public policies, its well educated (ranked 8th as most educated in the nation) and skilled labor force, its incentive-driven environment within which to do business, and a City administration under Mayor Jerry Brown's leadership that enthusiastically supports and embraces sustainable economic development. Moreover, transportation systems such as four freeways (I-880, I-580, Hwy. 13, and Hwy. 24), railroad, trucking, shipping (4th largest port in the nation), air transportation, and public transit converge in the City of Oakland to make it the hub of interstate and international commerce on the West Coast. Its strategic location and proximity to Silicon Valley and to highly acclaimed institutions of higher learning provide excellent synergy for collaborative research and innovation for improved business products and services.

Oakland occupies 56 square miles of land with nineteen miles of coastline to the west and magnificent rolling hills to the east. It is the eighth largest city in California with a population of 411,600. Its economy ranks in the top 20 economies in the United States and the 84th largest in the world. Some of the diverse attributes which helped Oakland survive the dot.com bust are:

- Featured as among 10 top technology cities in the future (Newsweek, April 2001)
- Oakland ranked nation's #1 office market through 2005 (Landauer OM Index);
- Commercial building permits issued in 2003 valued at \$278.9 million, 25.5% increase;
- Ranked 3rd in the nation in percentage of women-owned businesses;

Two primary engines that drive the economies of the City in particular and Northern California in general are the Port of Oakland and the Oakland International Airport. Both entities celebrated their 75th anniversaries in 2002 with pride and enthusiasm in meeting the challenges of the new century. Both are investing billions of dollars in major expansion programs in anticipation of the new challenges. Finally, both entities have significant impacts on the City's and the region's economies. For example, in 2003, the Port of Oakland moved \$1.2 billion in agricultural goods. The Port is the primary seaport for more than 70% of California wine, dried fruits, and other edible exports.

In a recent article by the San Francisco Chronicle headlined, "*It's full steam ahead at the Port of Oakland*," it declared a booming business at the Port benefiting businesses and jobs in 2003. Those benefiting are dockworkers, truckers, rail companies, the California Central Valley farmers, and shipping companies. Ranked the 4th busiest port in the nation, the Port of Oakland handled 99% of Northern California's ocean container cargo with a remarkable growth of 13.8% in containers handled compared to 2002. Part of this tremendous growth is driven by China's booming manufacturing trade and other economies in the Far East.

Downtown Oakland remains the largest center for office development in the East Bay with 15.3 million square feet of office space and 70,000 day time workers. The Shorenstein Company recently completed a 20-story, 450,000 square foot office tower in the City Center that is occupied by various businesses. In a recent announcement, the Ask Jeeves company has agreed to move its operations from Emeryville to Oakland. It signed a lease to occupy 55,803 square feet and will occupy the fourth and fifth floors along with the plaza level in the new tower.

The Community and Economic Development Agency (CEDA) is also working in coordination with the Oakland Commerce Corporation to develop and implement the new Retail Retention

Program. This program will provide technical assistance to assist in the retention and expansion of the 50 top income and top employing retailers, the five retailers with the most growth and the five with the largest decline in sales, and key retailers within target industries to strengthen these industries.

In fiscal year 2002-03, CEDA initiated the Oakland C.A.R.E.S. (Creation, Attraction, Retention and Expansion Services) for Business Program. This program assists existing and new Oakland businesses to increase sales, reduce costs and add more value to their products and services. The City also offers specialized technical assistance to targeted industry groups. These industry groups (Software/Multimedia, Telecommunications, Biotechnology, Transportation, and Food Processing) were chosen for their importance to the local economy and for their potential for growth.

The City's One-Stop Small Business Center (OSSBC) is a focal point for lending and technical assistance efforts surrounding Oakland's Enhanced Enterprise Community and manages the City's contract with the Oakland Business Development Corporation (OBDC), a non-profit local development corporation. Loan recipients include various types of businesses such as a neighborhood market, a bicycle parts and accessories retailer, a clothing store, a restaurant and an art supply store.

Long-term Financial Planning

Mayor's 10K Project: A major initiative launched by Mayor Jerry Brown when he took office in 1999, the 10K Downtown Housing Initiative, is realizing its goal of attracting 10,000 new residents to downtown Oakland by encouraging the development of 6,000 market-rate housing units. A near perfect climate, California's best mass transit system, a central Bay Area location and a growing downtown workforce all contribute to make downtown Oakland a great place to live.

As of July 2004, the 10K Downtown Housing Initiative has resulted in the start and completion of 35 residential projects with 4,969 units. Fifteen projects (1,471 units) have been completed, five projects (350 units) are in construction, thirteen projects (1,436 units) have received planning approvals, and two projects (1,712 units) are in the planning process. The Initiative has literally altered Oakland's skyline with the construction of the Essex on Lake Merritt, the first high-rise residential construction in downtown Oakland in 20 years. To achieve the goal of 10,000 new residents, fewer than 1,200 more units are required.

Cash Management Policies and Practices

To maximize interest income and maintain liquidity, the City pools operating cash of both the City and Port and invests these monies in securities of various maturities. These monies and operating funds of the Redevelopment Agency and the Oakland Base Reuse Authority are invested pursuant to the City's Investment Policy in compliance with Section 53601 of the California Government Code, the Nuclear Free Zone and Linked Banking Ordinances, and the Tobacco Divestiture Resolution. The objectives of the Investment Policy are to preserve capital, provide adequate liquidity to meet cash disbursements of the City, and to reduce overall portfolio needs while maintaining market-average rates of return. Investments are secured by collateral as required under law, with maturity dates staggered to ensure that cash is available when needed.

The City Council receives quarterly reports on the performance of the City's pooled investment program.

The permitted investments include U.S. Treasury notes (with certain restrictions), federal agency issues, bankers' acceptances, commercial paper, corporate stocks and bonds with ratings of A1 or P1 by either Standard and Poor's or Fitch's, negotiable certificates of deposit, Local Agency Investment Fund, and repurchase agreements.

Risk Management

To finance its risks of general liability and workers' compensation, the City maintains a program of self-insurance, supplemented with commercial insurance of limited coverage, that is sufficient to protect resources at the lowest reasonable cost. The City does maintain commercial fire insurance policies on all of its buildings. Additionally, the City insures for the perils of earthquake and flood on the Henry J. Kaiser Convention Center and the George F. Scotlan Memorial Convention Center.

The City Attorney represents the City in all of its legal matters, including claims investigation, civil litigation, and disposition of claims and lawsuits.

Insurance to protect and indemnify the City against the risks of general liability and property damage is required in virtually all of its public works, contractor-supplied, and professional services contracts.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Oakland for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

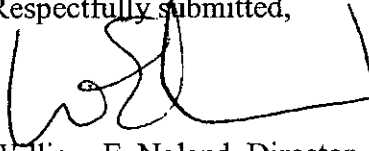
The Certificate of Achievement is valid for a period of one year only. The City of Oakland has received a Certificate of Achievement for 15 of the last 16 years. The City's Fiscal Year 2003-04 CAFR will be submitted to GFOA for consideration for the Certificate of Achievement for Excellence in Financial Reporting.

Acknowledgements

I would like to express my appreciation to the entire staff of the Finance and Management Agency, and most particularly the Accounting Division, for their professionalism, dedication, and efficiency in the preparation of this report. I also thank Macias, Gini & Company LLP for their assistance and guidance. Finally, I would like to thank the Mayor, members of the City

Council, and the City Administrator for their interest and continuing support in planning and conducting the City's financial operations in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. E. Noland', written over a rectangular box.

William E. Noland, Director
Finance and Management Agency

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Oakland,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



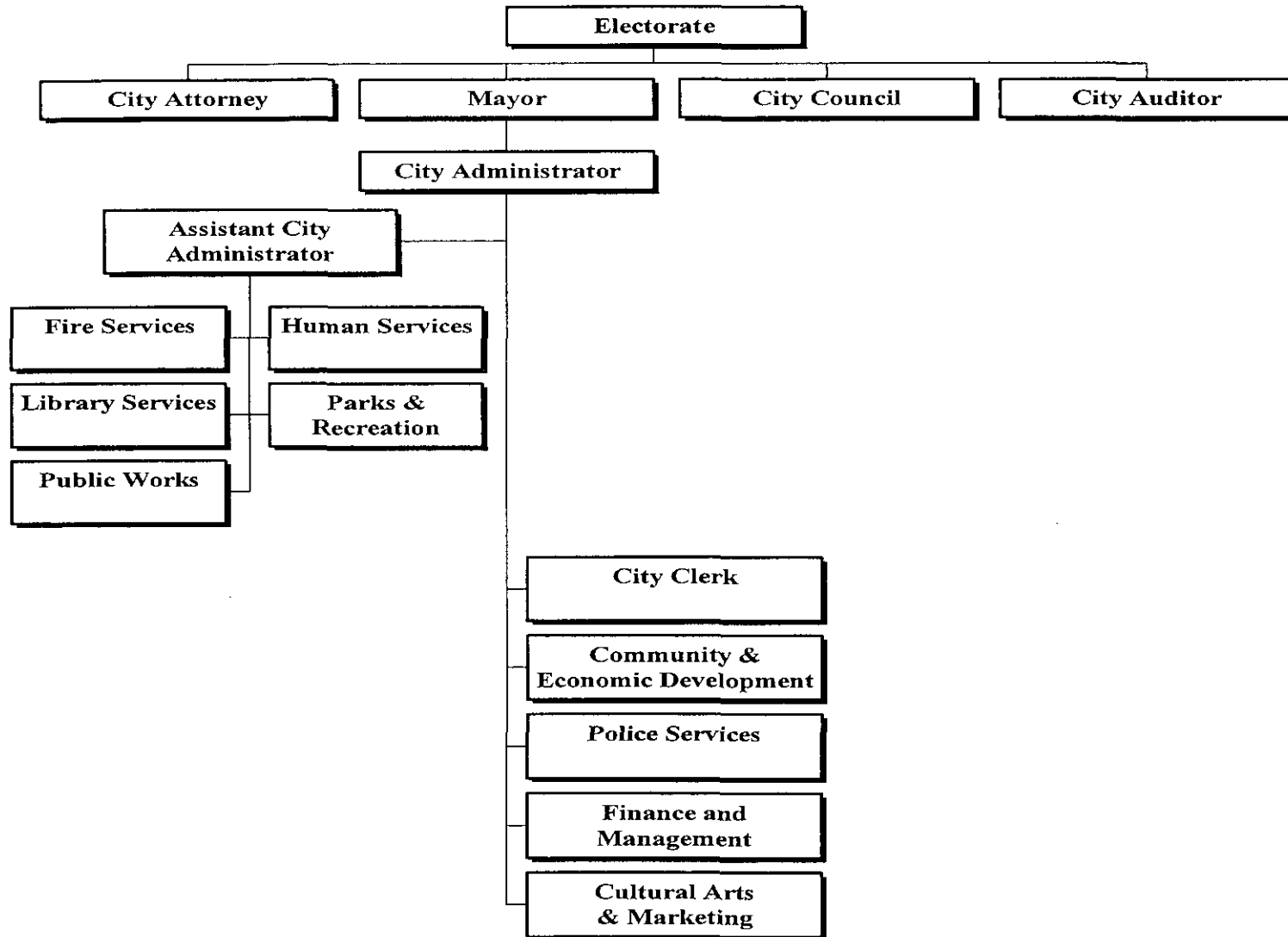
Nancy L. Zielle

President

Jeffrey R. Emer

Executive Director

City of Oakland Organization Chart



**DIRECTORY OF CITY OFFICIALS
MAYOR/COUNCIL FORM OF GOVERNMENT
June 30, 2004**

MAYOR

Jerry Brown

MEMBERS OF THE CITY COUNCIL

Ignacio De La Fuente, *President (District 5)*
Henry Chang, Jr., *Vice-Mayor (At Large)*

District 1 – Jane Brunner
District 4 – Jean Quan

District 2 – Danny Wan
District 6 – Desley Brooks

District 3 – Nancy Nadel
District 7 – Larry Reid

COUNCIL APPOINTED OFFICERS

Deborah A. Edgerly, *City Administrator*

Ceda Floyd, *City Clerk*

ELECTED OFFICERS

John Russo, *City Attorney*
Roland Smith, *City Auditor*

AGENCY & DEPARTMENT DIRECTORS

Raul Godinez
Public Works

Audree Jones-Taylor
Parks & Recreation

Carmen Martinez
Library Services

Gerald A. Simon
Fire Services

William E. Noland
Finance & Management

Richard Word
Police Services

Dennis Power
Museum

Andrea Youngdahl
Human Services

Dan Vanderpriem/Claudia Cappio
Community & Economic Development

**CITY OF OAKLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

PROJECT TEAM

William E. Noland
Director
Finance and Management Agency

LaRae Brown
Controller

AUDIT/FINANCIAL STATEMENT COORDINATOR

Ace A. Tago, Assistant Controller

FINANCIAL STATEMENT PREPARATION

CAFR Section Leaders

Mercy David
Accountant III (GL Lead)

Bruce Levitch
Accountant III

Theresa Woo
Accountant III

Accounting Team (GL, ORA & GRANTS)

Myrna Bangloy
Ponce Flores
David Warner
Lani Pallotta

Esther Concepcion
Ming Emperador
Connie L. Chu

Carol Hoomanawanui
Norma Torres
Marilyn Tran

ADMINISTRATIVE SUPPORT

Novette G. Flores, Administrative Assistant

SPECIAL ASSISTANCE

Donna Treglown
David Jones

Kathleen Larson
Katano Kasaine

Sharon Holman

SPECIAL ASSISTANCE – DEPARTMENTS & OFFICES

City Administrator's Office

City Attorney's Office

FMA-Treasury Division

Community & Economic Development Agency

Risk Management

FINANCIAL SECTION



MACIAS GINI & COMPANY^{LLP}

Mt. Diablo Plaza
2175 N. California Boulevard, Ste. 645
Walnut Creek, California 94596

925.274.0190 PHONE
925.274.3819 FAX

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, 2004, 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), which represent 4%, 11%, and 22%, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units. 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 OBRA, 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. 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 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 report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report 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, 2004 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 February 4, 2005, 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 read in conjunction with this report in considering 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 introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we and the other auditors express no opinion on them.

Macias, Gini & Company LLP

Certified Public Accountants

Walnut Creek, California

February 4, 2005

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, 2004. 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. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The City's total assets exceeded its total liabilities by \$552.7 million as of June 30, 2004, compared to \$519.9 million at June 30, 2003. This represents an increase of 6.3% (\$32.9 million) compared to the previous year.
- The City's cumulative fund balances grew by 6.5% (\$41.8 million) to \$687.3 million compared to \$645.5 million as restated, for last year. This growth is primarily attributed to the remaining bond proceeds from Measure DD and the Administration Building bond issues for City authorized projects that have yet to be implemented.
- At June 30, 2004, the unreserved fund balance for the general fund was \$222.5 million. Of this amount, \$39.8 million is undesignated and represents 8% of general fund expenditures, which is in excess of the City Council's unreserved fund balance policy of 7.5%.
- As of June 30, 2004, the City had total long-term obligations outstanding of \$1.68 billion compared to \$1.63 billion outstanding for the prior fiscal year, an increase of 3%. Of this amount, \$232.0 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.45 billion is comprised of various long term debt instruments including accruals of year-end estimates for other long term liabilities.

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 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 comparative schedules.

Government-wide Financial Analysis

This is the third year that the City has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements-and Management's Discussion and Analysis (MD&A) – for State and Local Governments*. As such, this year's MD&A provides a comparative analysis of government-wide data for two fiscal years.

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, 2004 by \$552.7 million compared to \$519.9 million as of June 30, 2003, an increase of \$32.9 million. The largest portion of the City's net assets (91%) reflects its \$503.0 million of investments in capital assets for governmental activities and business type activities net of related debt. The remaining (9%) reflects \$49.7 million in funding for debt service and other continuing development projects for the City.

City of Oakland's Net Assets
June 30, 2004
(In Thousands)

	Governmental Activities	Business-type Activities	2004 Total	2003 Total
Assets:				
Current and other assets	\$1,448,705	\$ (5,047)	\$1,443,658	\$1,354,894
Capital assets	<u>826,032</u>	<u>119,972</u>	<u>946,004</u>	<u>946,626</u>
TOTAL SSETS	<u>2,274,737</u>	<u>114,925</u>	<u>2,389,662</u>	<u>2,301,520</u>
Liabilities:				
Long-term liabilities outstanding	1,670,833	6,362	1,677,195	1,630,600
Other liabilities	<u>158,607</u>	<u>1,138</u>	<u>159,745</u>	<u>151,060</u>
TOTAL LIABILITIES	<u>1,829,440</u>	<u>7,500</u>	<u>1,836,940</u>	<u>1,781,660</u>
Net assets:				
Invested in capital assets, net of related debt	389,345	113,610	502,955	495,036
Restricted net assets:				
Debt service	70,562		70,562	70,562
Capital projects funds	31,048		31,048	95,743
Urban redevelopment and housing	189,555		189,555	238,187
Other purposes	24,861		24,861	24,861
Unrestricted	<u>(260,074)</u>	<u>(6,185)</u>	<u>(266,259)</u>	<u>(404,529)</u>
TOTAL NET ASSETS	<u>\$ 445,297</u>	<u>\$ 107,425</u>	<u>\$ 552,722</u>	<u>\$ 519,860</u>

The City's investment in capital assets of \$503.0 million, increased by \$7.9 million compared to the previous fiscal year, is attributed to the reduction of long term debt related to capital assets. The City's restricted net assets totaling \$316.0 million represents resources that are subject to external restrictions on how they may be used. The unrestricted deficit is primarily caused by the ORA, which issues bonds and other indebtedness to fund urban development and housing projects that are not capitalized as assets.

Governmental activities. The City's change in net assets of \$32.9 million for the year ended June 30, 2004 represents an increase of \$7 million compared to \$25.9 million for the prior fiscal year. The key elements of this increase are listed below.

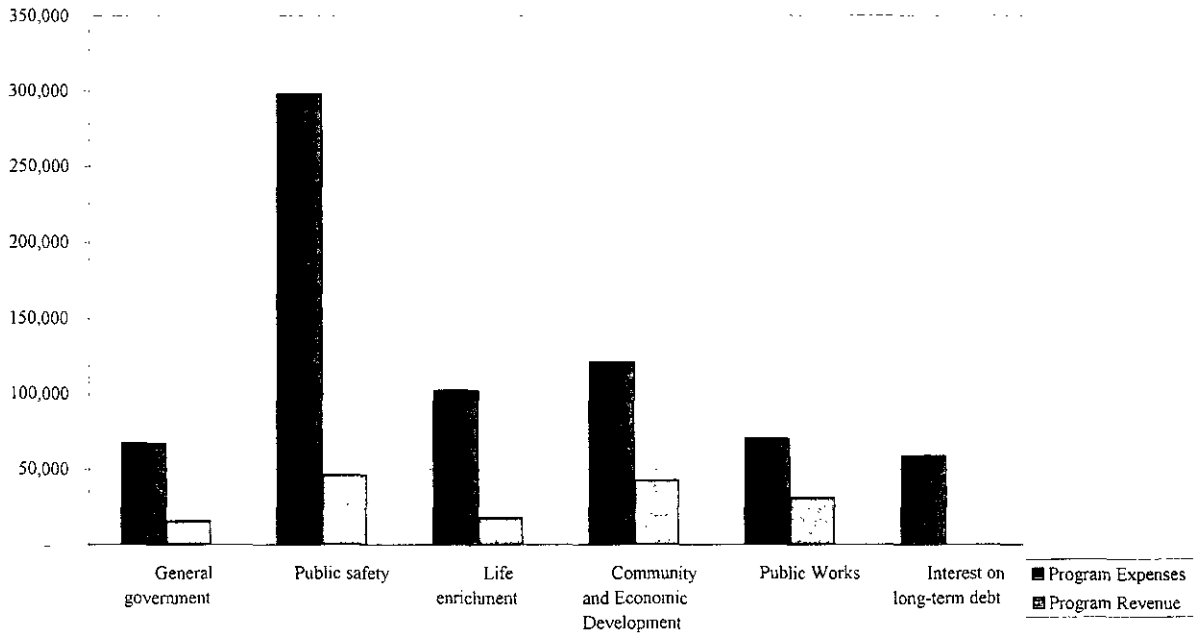
Changes in Net Assets
June 30, 2004
(In Thousands)

	Governmental Activities	Business-type Activities	2004 Total	2003 * Total
Revenues:				
Program revenues:				
Charges for services	\$ 64,832	\$ 22,648	\$ 87,480	\$ 115,773
Operating grants and contributions	78,965		78,965	79,803
Capital grants and contributions	10,366		10,366	9,262
General revenues:				
Property taxes	200,731		200,731	202,297
State taxes	72,906		72,906	79,444
Local taxes	197,873		197,873	199,720
Interest and investment income	5,566	94	5,660	33,375
Other	<u>117,238</u>	<u> </u>	<u>117,238</u>	<u>77,363</u>
TOTAL REVENUES	<u>748,477</u>	<u>22,742</u>	<u>771,219</u>	<u>797,037</u>
Expenses:				
General government	67,069		67,069	95,671
Public safety	297,869		297,869	302,273
Life enrichment	102,314		102,314	105,133
Community & economic development	121,160		121,160	110,400
Public works	70,369		70,369	83,548
Interest on long-term debt	58,020		58,020	56,072
Sewer		20,597	20,597	17,960
Parks and recreation	<u> </u>	<u>159</u>	<u>159</u>	<u>68</u>
TOTAL EXPENSES	<u>717,601</u>	<u>20,756</u>	<u>738,357</u>	<u>771,125</u>
Change in net assets before transfers	30,876	1,986	32,862	25,912
Transfers	<u>600</u>	<u>(600)</u>	<u> </u>	<u> </u>
Change in net assets	31,476	1,386	32,862	25,912
Net assets at beginning of year	<u>413,821</u>	<u>106,039</u>	<u>519,860</u>	<u>493,948</u>
NET ASSETS AT END OF YEAR	<u>\$445,297</u>	<u>\$ 107,425</u>	<u>\$ 552,722</u>	<u>\$ 519,860</u>

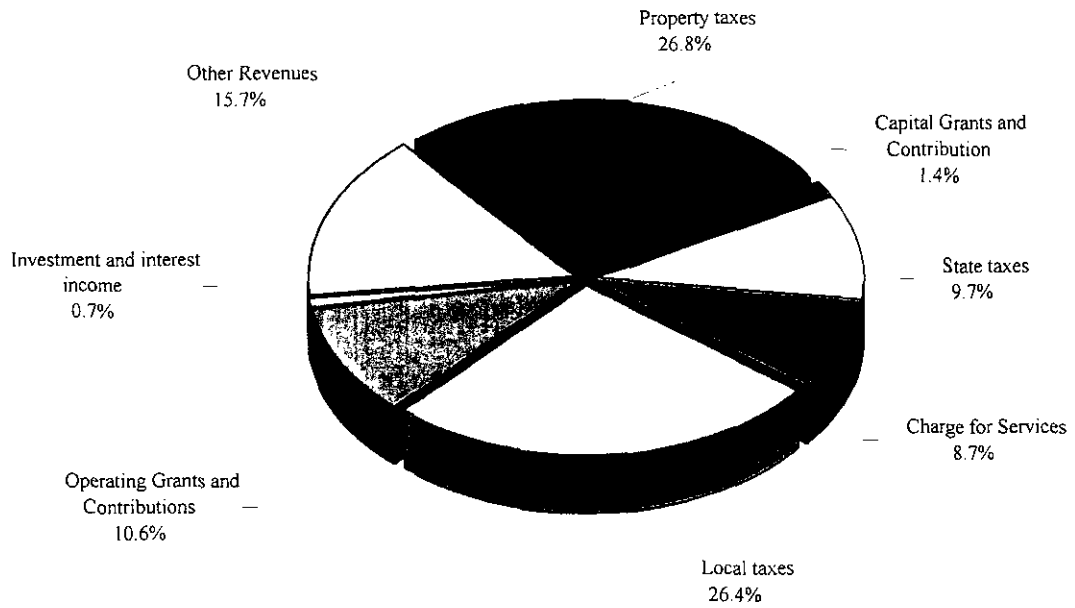
* Certain amounts have been reclassified to conform with current year presentation.

- The City's net assets increased by \$7.0 million to \$32.9 million for the year ended June 30, 2004 compared to \$25.9 million as of June 30, 2003. The increase of \$7.0 million is attributed primarily to the City's employees assuming 6% of their retirement contributions and other cost saving measures.
- State taxes declined by \$6.5 million primarily due to the reduction in motor vehicle in lieu taxes from the State.

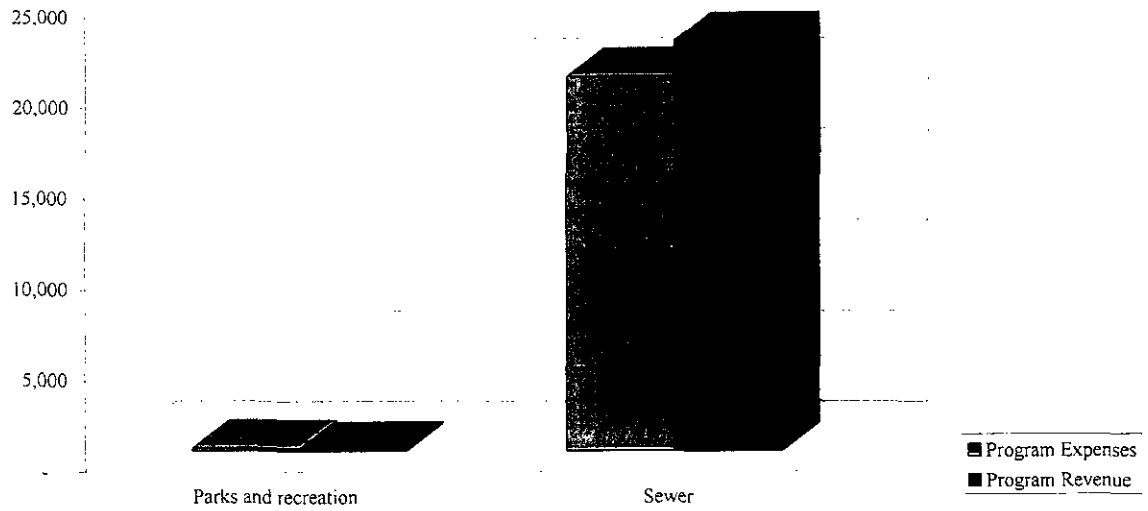
**Expenses and Program Revenues
Governmental Activities**



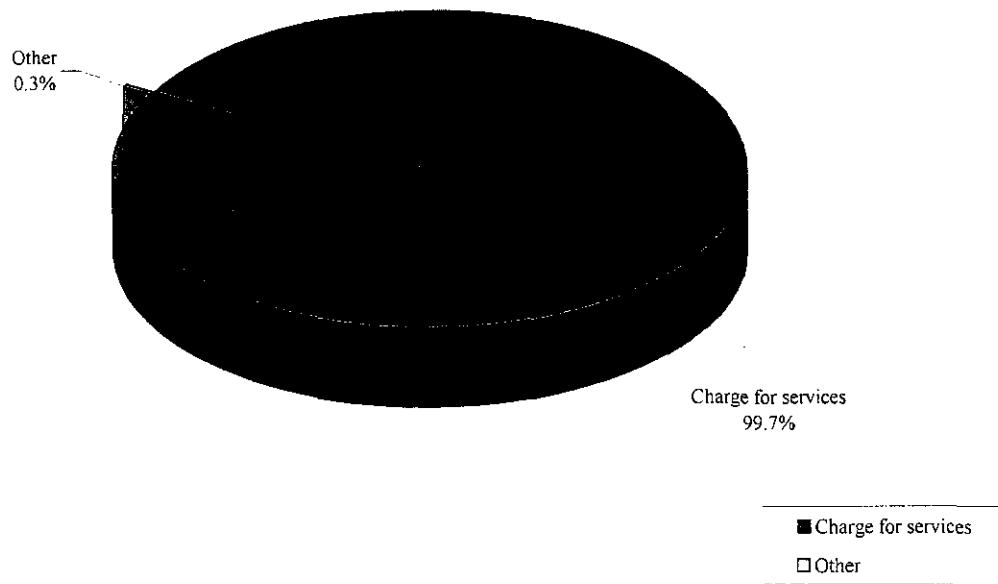
**Revenues by Sources
Governmental Activities**



**Expenses and Program Revenues
Business-type Activities**



**Revenues by Source
Business-type Activities**



- The reduction in interest and investment income of \$27.7 million is attributable to the decline in interest rates for the City's pension annuity and the reduction in fair value of investments.
- The increase of \$39.9 million in other revenues is attributed primarily to a revision of the City's allowance for doubtful accounts, as the City re-evaluated the collectibility of its long term notes receivables.
- The \$13.0 million reduction in public works expenditures reflects a backlog of work orders and capital improvement projects which are scheduled to be completed in the new fiscal year
- The increase of \$10.8 million in community and economic development expenditures is attributable to the completion of projects that were carried forward from the previous fiscal year.

Business-type activities. Business-type activities increased the change in its net assets by \$1.4 million for the year ended June 30, 2004. A key element of the increase for Business-type activities is attributed primarily to an 11% annual rate increase and the volume of billings for sewer services as a result of the surge in downtown housing development under the Mayor's 10 K Program. The 10K Program's goal is to develop housing to attract 10,000 new residents to downtown Oakland.

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.

As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$687.3 million compared to \$645.5 for the previous fiscal year, as restated. The majority of the \$41.8 million increase is attributed to the remaining bond proceeds from the Administration Building refunding and the partial issuance of Measure DD bonds for improvements to the Lake Merritt Project Area.

At June 30, 2004, the Federal/State Grant Fund ended with a negative fund balance of \$23.1 million compared to a negative fund balance of \$22.1 million for the previous fiscal year. The negative fund balance is due to City advances to pay for grant activities for which the City had recognized grants receivables but deferred revenues for billings to be reimbursed by the grantor agencies.

The Oakland Redevelopment Agency had a fund balance of \$209.6 million as of June 30, 2004 which represents an increase of .8% over the prior fiscal year. The net increase of

\$1.6 million was primarily related to the improvement in property tax revenues in the project areas.

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 \$113.6 million as of June 30, 2004, compared to \$110.5 for the previous fiscal year. During the fiscal year, the City capitalized \$3.1 million in sewer system completed projects, net of depreciation.

General Fund Budgetary Highlights

Differences between the original and the final amended expenditure budget totaling \$8.5 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 \$3.6 million for the year ended June 30, 2004, compared to \$21.1 million in savings for the previous fiscal year. The net savings is attributed to the assumption of the 6% contribution towards retirement by the City employees.

Actual revenues compared to the final amended general fund revenue budget fell below projections by \$3.2 million, compared to \$38.9 million for the previous fiscal year. While state taxes, real estate transfer taxes, fines and penalties, and other income accounted for an increase of \$31.5 million in revenues, this increase was offset by the shortfall in utility consumption tax of \$5.5 million driven by high energy prices, a reduction of \$7.6 million in interest and investment income due to the decline in interest rates for pension annuity, and \$8.4 million below projections for charges for services.

Capital Assets

The City's capital assets, net of depreciation, totaled \$946.0 million as of June 30, 2004 compared to \$946.6 million as of June 30, 2003, a decrease of .07%. Governmental activities additions of \$44.7 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 \$3.9 million in capital assets for governmental activities. Business activities, primarily the sewer fund, increased its capital assets by \$3.2 million net of retirements and depreciation.

During its mid-cycle review of the fiscal year 2004-05 budget, the City Council committed funding in the amount of \$64.1 million for a number of capital improvement projects. These projects are summarized below (in thousands).

Sewer projects	\$ 40,158
Transportation projects	11,647
Parks improvement projects	1,219
Multi-purpose reserve	7,783
Other projects	<u>3,309</u>
Total Commitments	<u>\$ 64,116</u>

Debt Administration

At the end of the current fiscal year, the City's debt limit (3.75% of \$23.0 billion property valuation net of exemptions subject to taxation) was \$860.8 million. The total amount of debt applicable to the debt limit was \$232.0 million. The resulting legal debt margin was \$628.8 million.

The City of Oakland's underlying ratings for its general obligation bonds as of June 30, 2004, were as follows:

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

As of June 30, 2004, the City had total long-term obligations outstanding of \$1.67 billion compared to \$1.63 billion outstanding for the prior fiscal year, an increase of 3%. Of this amount, \$232.0 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.4 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, 2004 (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 232,045	\$ 167,350	\$ —	\$ —	\$ 232,045	\$ 167,350
Tax allocation bonds	235,555	246,660	—	—	235,555	246,660
Certificates of participation	54,780	59,115	—	—	54,780	59,115
Lease revenue bonds	386,200	382,645	—	—	386,200	382,645
Pension obligation bonds	388,824	408,849	—	—	388,824	408,849
Special assessment debt with government commitment	7,940	8,463	—	—	7,940	8,463
Accreted interest on appreciation bonds	52,863	38,259	—	—	52,863	38,259
Sewer-notes payable	—	—	6,362	7,045	6,362	7,045

Less: Deferred amounts						
Bond issuance premiums	11,830	12,366		—	11,830	12,366
Bond refunding loss	<u>(20,333)</u>	<u>(19,924)</u>		<u>—</u>	<u>(20,333)</u>	<u>(19,924)</u>
Total bonds payable	1,349,704	1,303,783	6,362	7,045	1,356,066	1,310,828
Notes payable	46,153	49,448			46,153	49,448
Other long-term obligations	<u>274,976</u>	<u>270,324</u>		<u>—</u>	<u>274,976</u>	<u>270,324</u>
TOTAL OUTSTANDING DEBT	<u>\$1,670,833</u>	<u>\$1,623,555</u>	<u>\$ 6,362</u>	<u>\$ 7,045</u>	<u>\$1,677,195</u>	<u>\$1,630,600</u>

The City's overall total long term obligations increased by \$46.6 million compared to fiscal year 2003. The net increase is primarily attributable to the defeasance of the City's Administration Building issue and new bonds issued for Measure DD as detailed below offset by scheduled principal payments. 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 2004.

Summary of New Debt:

Administration Building Interest Rate Swap: The decline in interest rates in recent years provided the City an opportunity to lock in long-term interest rates. On May 21, 2004, the City entered into a floating-to-fixed rate ("fixed-payer") interest rate swap with the Bank of America, N.A. and UBS AG ("Counterparties"). The swap became effective on June 10, 2004, in conjunction with the issuance of the \$58,600,000 Series A-1 and \$58,600,000 Series A-2 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds, Oakland Administration Buildings (Auction Rate Securities).

The executed transaction consisted of a \$117,200,000, 22-year interest rate swap under which the City will pay the Counterparties a fixed rate of 3.533% and receive 58% of 1-month London Interbank Offer Rate (LIBOR) plus 35 basis points (100 basis points equals 1%).

The City was able to take advantage of current market conditions and create synthetic fixed-rate debt at a very favorable rate. In addition to the decline in the general level of interest rates and after careful review, the City elected to utilize percentage (58%) of LIBOR plus a margin (35 basis points) versus a straight percentage of LIBOR to reduce the basis risk in a lower rate environment (current environment).

General Obligation Bonds, Series 2003A (Measure DD): On August 6, 2003, the City issued \$71,450,000 of General Obligation Bonds, Series 2003A, Measure DD. The bonds have interest rates of 2.50% to 5.00% and mature in 2032. These bonds constitute a portion of the total authorized amount of \$198,250,000 bonds duly approved by at least two-thirds of the voters voting on Measure DD at the City election held on November 2, 2002.

These bonds provided funds to acquire and construct water quality improvements for and related to Lake Merritt, Lake Merritt Channel, the Estuary and creeks in Oakland; improve, renovate and construct youth and public recreational facilities; rehabilitate and

acquire parks, open space and other recreational, safety and maintenance facilities; and provide safe public access to Lake Merritt, Lake Merritt Channel and the Estuary.

GE Capital: On March 22, 2004, the City executed a note with a stated interest rate of 3.75% with GE Capital in the amount of \$3.9 million to fund the acquisition of a computer server. The General Fund and the Municipal Improvement Capital Fund will repay the note. The final payment will be made on April 7, 2009.

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 2004-05.

- The City of Oakland's unemployment rate was 5.9% in January 2004, up from a revised 5.7% in December 2003. This compares with an unemployment rate of 6.1% for California and 5.6% for the nation during the same period.
- The increase in the Consumer Price Index for the Bay Area was 1.9% in 2004 compared to 1.8% in 2003.
- Oakland's vacancy rate for class A and B office space has dropped to 10.2% for the 2004 third quarter compared to 10.9% for the 2003 third quarter. By comparison, the 2004 third quarter Class A vacancy rates for the City of San Francisco and the Silicon Valley were 19.7% and 19.7%, respectively.
- For the 2003 fourth quarter, the average rental rate range per square foot for the City ranged from \$1.05 to \$2.66 compared to \$2.25 for San Francisco and \$2.52 for the Silicon Valley.
- Increases in expenditures due to new union contracts, CalPers pension rates, and healthcare costs have been factored into the City's Fiscal Year 2004-05 budget without raising or imposing new taxes.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

City of Oakland
Statement of Net Assets
June 30, 2004
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Port of Oakland	Oakland Base Reuse Authority
ASSETS					
Cash and investments	\$ 236,448	\$ 4,570	\$ 241,018	\$ 97,616	\$ 5,936
Receivables (net of allowance for uncollectibles of \$11,417)					
Accrued interest	1,199	-	1,199	619	-
Property taxes	10,225	-	10,225	-	-
Accounts receivable	57,974	3,061	61,035	42,113	544
Grants receivable	24,270	-	24,270	-	92
Due from component unit	25,769	-	25,769	-	-
Internal balances	12,678	(12,678)	-	-	-
Due from other governments	6	-	6	-	-
Due from pension trust fund	2,376	-	2,376	-	-
Notes and loans receivable (net of allowance for uncollectibles of \$5,615)	174,201	-	174,201	-	-
Restricted assets:					
Cash and investments	430,214	-	430,214	501,515	10,690
Receivables				6,285	
Inventories	1,206	-	1,206	-	-
Capital assets:					
Land and other assets not being depreciated Facilities, infrastructure, and equipment, net of depreciation	83,687	3,104	86,791	499,486	-
Property held for resale	742,345	116,868	859,213	1,271,713	977
Unamortized bond issuance costs	71,501	-	71,501	-	79,778
Net pension asset	19,209	-	19,209	-	-
Other	381,370	-	381,370	-	-
	59	-	59	116,366	-
TOTAL ASSETS	<u>2,274,737</u>	<u>114,925</u>	<u>2,389,662</u>	<u>2,535,713</u>	<u>98,017</u>
LIABILITIES					
Accounts payable and other current liabilities	130,494	1,058	131,552	41,386	532
Accrued interest payable	10,747	-	10,747	36,238	-
Due to other governments	2,548	-	2,548	-	5,400
Due to primary government	-	-	-	23,697	2,072
Unearned revenue	9,113	80	9,193	75,913	1,054
Matured bonds and interest payable	520	-	520	-	-
Other	5,185	-	5,185	38,780	697
Noncurrent liabilities:					
Due within one year	142,680	706	143,386	49,432	-
Due in more than one year	1,528,153	5,656	1,533,809	1,561,454	-
TOTAL LIABILITIES	<u>1,829,440</u>	<u>7,500</u>	<u>1,836,940</u>	<u>1,826,900</u>	<u>9,755</u>
NET ASSETS (deficit)					
Invested in capital assets, net of related debt	389,345	113,610	502,955	483,659	977
Restricted net assets					
Debt Service	70,562	-	70,562	175,229	-
Capital projects	31,048	-	31,048	-	-
Urban redevelopment and housing	189,555	-	189,555	-	81,349
Other purposes	24,861	-	24,861	-	-
Unrestricted net assets (deficit)	(260,074)	(6,185)	(266,259)	49,925	5,936
TOTAL NET ASSETS	<u>\$ 445,297</u>	<u>\$ 107,425</u>	<u>\$ 552,722</u>	<u>\$ 708,813</u>	<u>\$ 88,262</u>

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

City of Oakland
Statement of Activities
For the Year Ended June 30, 2004
(In Thousands)

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Port of Oakland	Oakland Base Reuse Authority
					Governmental Activities	Business-type Activities	Total		
Primary government:									
Governmental activities:									
General government	\$ 67,069	\$ 14,913	\$ 952	\$ -	\$ (51,204)	\$ -	\$ (51,204)		
Public safety	297,869	38,959	7,316	-	(251,594)	-	(251,594)		
Life enrichment	102,314	73	18,145	-	(84,096)	-	(84,096)		
Community and economic development	121,160	7,287	25,047	10,366	(78,460)	-	(78,460)		
Public works	70,369	3,600	27,505	-	(39,264)	-	(39,264)		
Interest on long-term debt	58,820	-	-	-	(58,820)	-	(58,820)		
TOTAL GOVERNMENTAL ACTIVITIES	<u>717,601</u>	<u>64,832</u>	<u>78,965</u>	<u>10,366</u>	<u>(563,438)</u>	<u>-</u>	<u>(563,438)</u>		
Business-type activities:									
Sewer	20,597	22,590	-	-	-	1,993	1,993		
Park and recreation	159	58	-	-	-	(101)	(101)		
TOTAL BUSINESS-TYPE ACTIVITIES	<u>20,756</u>	<u>22,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,892</u>	<u>1,892</u>		
TOTAL PRIMARY GOVERNMENT	<u>\$ 738,357</u>	<u>\$ 87,480</u>	<u>\$ 78,965</u>	<u>\$ 10,366</u>	<u>(563,438)</u>	<u>1,892</u>	<u>(561,546)</u>		
Component units:									
Port of Oakland	\$ 310,030	\$ 232,535	\$ 5,936	\$ 44,795				\$ (26,764)	
Oakland Base Reuse Authority	\$ 13,152	\$ 7,206	\$ -	\$ 77,624					\$ 71,678
General revenues:									
Property taxes					200,731	-	200,731		
State taxes					72,906	-	72,906		
Local taxes					197,873	-	197,873		
Interest and investment income					5,566	94	5,660	3,653	213
Other					117,238	-	117,238	12,874	-
Transfers					600	(600)	-	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					<u>594,914</u>	<u>(506)</u>	<u>594,408</u>	<u>16,527</u>	<u>213</u>
Changes in net assets					31,476	1,386	32,862	(10,237)	71,891
NET ASSETS - BEGINNING					<u>413,821</u>	<u>106,039</u>	<u>519,860</u>	<u>719,050</u>	<u>16,371</u>
NET ASSETS - ENDING					<u>\$ 445,297</u>	<u>\$ 107,425</u>	<u>\$ 552,722</u>	<u>\$ 708,813</u>	<u>\$ 88,262</u>

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

CITY OF OAKLAND
Balance Sheet
Governmental funds
June 30, 2004
(In Thousands)

	General	Federal/State Grant Funds	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 51,902	\$ -	\$ 99,485	\$ 24,297	\$ 57,264	\$ 232,948
Receivables (net of allowance for uncollectibles of \$10,033):						
Accrued interest	429	-	232	173	365	1,199
Property taxes	3,161	531	2,731	21	3,781	10,225
Accounts receivable	49,669	2,951	201	1	5,032	57,854
Grants receivable	-	24,248	-	-	22	24,270
Due from component unit	24,527	-	-	-	1,242	25,769
Due from other funds	67,378	3,151	29,449	-	4,679	104,657
Due from other governments	-	-	6	-	-	6
Notes and loans receivable (net of allowance for uncollectibles of \$5,615)	37,059	76,814	45,851	-	14,477	174,201
Restricted cash and investments	172,468	2,576	46,081	129,512	64,897	415,534
Property held for resale	-	-	71,501	-	-	71,501
Other	35	24	-	-	-	59
TOTAL ASSETS	\$406,628	\$ 110,295	\$ 295,537	\$ 154,004	\$ 151,759	\$1,118,223
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued liabilities	\$114,151	\$ 4,212	\$ 5,607	\$ 1,195	\$ 5,299	\$ 130,464
Due to other funds	23,571	22,702	9,197	-	12,169	67,639
Due to other governments	-	-	213	-	2,335	2,548
Deferred revenue	31,633	106,504	70,526	21	15,908	224,592
Matured bonds and interest payable	-	-	-	520	-	520
Other	3,965	-	389	612	219	5,185
TOTAL LIABILITIES	173,320	133,418	85,932	2,348	35,930	430,948
Fund balances (deficit)						
Reserved:						
Encumbrances	4,779	12,362	-	1,967	2,694	21,802
Long term receivables	6,000	-	-	-	2,659	8,659
Debt service	-	-	-	-	56,652	56,652
Property held for resale	-	-	71,501	-	-	71,501
Capital project	-	-	136,640	-	-	136,640
Unreserved/(deficit) reported in:						
General fund	222,529	-	-	-	-	222,529
Special revenue funds	-	(35,485)	-	-	40,189	4,704
Capital project funds	-	-	1,464	149,689	13,635	164,788
TOTAL FUND BALANCES (DEFICIT)	233,308	(23,123)	209,605	151,656	115,829	687,275
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$406,628	\$ 110,295	\$ 295,537	\$ 154,004	\$ 151,759	\$1,118,223

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

CITY OF OAKLAND
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets for Governmental Activities
June 30, 2004
(In Thousands)

Fund balances - total governmental funds	\$ 687,275
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	799,589
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.	19,209
Net pension asset is recognized in 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.	381,370
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(9,354)
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.	215,479
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(1,648,521)
Internal service funds are used by the City to charge the costs of providing supplies and services such as printing, reproduction, and mailing services, fleet and facilities management, and use of radio and communication equipment to individual funds. Assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	<u>250</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 445,297</u>

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

CITY OF OAKLAND
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004
(In Thousands)

	General	Federal/State Grant Funds	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Property	\$ 109,927	\$ -	\$ 53,330	\$ -	\$ 37,389	\$ 200,646
State:						
Sales and use	36,464	-	-	-	11,296	47,760
Motor vehicle in-lieu	18,178	-	-	-	-	18,178
Gas	-	-	-	-	6,968	6,968
Local:						
Business license	44,223	-	-	-	-	44,223
Utility consumption	48,056	-	-	-	-	48,056
Real estate transfer	55,665	-	-	-	-	55,665
Transient occupancy	9,857	-	-	-	-	9,857
Parking	9,799	-	-	-	-	9,799
Voter approved special tax	-	5,205	-	-	-	5,205
Franchise	11,592	-	-	-	-	11,592
Licenses and permits	13,453	-	-	-	23	13,476
Fines and penalties	26,817	201	-	-	1,171	28,189
Interest and investment income (loss)	(5,100)	1,558	3,754	2,482	4,978	7,672
Charges for services	56,883	207	5,750	55	4,281	67,176
Federal and state grants and subventions	2,147	63,169	-	113	14,489	79,918
Other	23,276	6,828	4,312	4,657	9,535	48,608
TOTAL REVENUES	461,237	77,168	67,146	7,307	90,130	702,988
EXPENDITURES						
Current						
Elected and Appointed Officials						
Mayor	1,767	-	-	9	204	1,980
Council	2,265	7	-	313	1,021	3,606
City Manager	6,117	36	-	669	1,772	8,594
City Attorney	7,518	320	-	7	2,524	10,369
City Auditor	984	-	-	-	32	1,016
City Clerk	1,959	-	-	6	59	2,024
Agencies/Departments						
Personnel Resource Management	3,783	-	-	-	-	3,783
Information Technology	9,033	-	-	1,812	8	10,853
Financial Services	18,247	231	-	40	3,821	22,339
Police Services	160,114	4,989	-	-	1,072	166,175
Fire Services	87,516	693	-	885	2,448	91,542
Life Enrichment:						
Administration	1	-	-	-	-	1
Parks and Recreation	15,841	149	-	-	13,455	29,445
Library	10,497	7,454	-	116	393	18,460
Museum	7,822	-	-	263	242	8,327
Marketing	1,516	25	-	-	826	2,367
Aging & Health and Human Services	5,668	24,775	-	-	2,795	33,238
Cultural Arts	14	4	-	23	-	41
Community and Economic Development	20,152	22,467	38,813	155	11,201	92,788
Public Works	27,475	5,084	-	4,972	22,797	60,328
Other	20,103	945	-	1,500	7,824	30,372
Capital outlay	4,060	9,386	-	8,447	2,886	24,779
Debt service						
Principal repayment	390	961	11,105	495	48,880	61,831
Bond issuance costs	-	-	-	12,874	-	12,874
Interest charges	349	687	15,634	3	46,224	62,897
TOTAL EXPENDITURES	413,191	78,213	65,532	32,589	170,484	760,029
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	48,046	(1,045)	1,594	(25,282)	(80,354)	(57,041)
OTHER FINANCING SOURCES (USES)						
Issuance of refunding bonds	-	-	-	188,650	-	188,650
Proceeds from notes issuance	3,927	-	-	-	-	3,927
Premiums on issuance of bonds	-	-	-	587	-	587
Payment to refunding bond escrow agent	-	-	-	(96,395)	-	(96,395)
Property sale proceeds	1,497	-	-	-	-	1,497
Transfers in	6,300	-	-	8,781	80,323	95,404
Transfers out	(79,580)	-	-	(6,443)	(8,781)	(94,804)
TOTAL OTHER FINANCING SOURCES (USES)	(67,856)	-	-	95,180	71,542	98,866
NET CHANGE IN FUND BALANCES	(19,810)	(1,045)	1,594	69,898	(8,812)	41,825
Fund balances (deficit) - beginning, as originally reported	253,118	(22,078)	189,425	81,758	124,641	626,864
Restatement	-	-	18,586	-	-	18,586
Fund balances (deficit) - beginning, as restated	253,118	(22,078)	208,011	81,758	124,641	645,450
FUND BALANCES (DEFICIT) - ENDING	\$ 233,308	\$ (23,123)	\$ 209,605	\$ 151,656	\$ 115,829	\$ 687,275

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

CITY OF OAKLAND
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to the
Statement of Activities of Governmental Activities
Year Ended June 30, 2004
(In Thousands)

Net change in fund balances - total governmental funds	\$ 41,825
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 exceeded depreciation in the current period.	86
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	85
Revenues that do not provide current financial resources are not reported as revenues in the funds. This represents the change in the deferred amounts during the current period.	43,285
Some expenses such as claims and vacation and sick leave reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(13,336)
Amortization of the net pension asset reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in the governmental funds.	(6,367)
Some expenditures reported in the governmental funds pertain to the establishment of deferred revenue to offset long-term pass through loans when the loan funds are disbursed thereby reducing fund balance. In the government-wide statements, however, the issuance of long-term pass through loans does not affect the statement of activities.	5,414
Bond issuance costs are expended in governmental funds when paid, and are deferred and amortized over the life of the corresponding 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.	12,120
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 financial resources of 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	61,831
Payment to escrow agent for refunded debt	96,395
Issuance of bonds and notes	(191,990)
Premium on bond proceeds	(587)
Difference	<u>(34,351)</u>
Amortization of bond premiums	1,123
Amortization of refunding loss	(2,551)
Additional accrued and accreted interest calculated on bonds and notes payable	(8,932)
The net loss of activities of internal service funds is reported with governmental activities	<u>(6,925)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 31,476</u>

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

CITY OF OAKLAND
Statement of Net Assets
Proprietary Funds
June 30, 2004
(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	\$ -	\$ 4,570	\$ 4,570	\$ 3,500
Accounts receivables (net of uncollectibles of \$874 and \$510 for the enterprise funds and internal service funds, respectively)	3,032	29	3,061	120
Inventories	-	-	-	1,206
Restricted cash and investments	-	-	-	14,680
Total current assets	<u>3,032</u>	<u>4,599</u>	<u>7,631</u>	<u>19,506</u>
Noncurrent Assets:				
Capital assets:				
Land and other assets not being depreciated	2,886	218	3,104	310
Facilities and equipment, net of depreciation	114,851	2,017	116,868	26,133
Total noncurrent assets	<u>117,737</u>	<u>2,235</u>	<u>119,972</u>	<u>26,443</u>
TOTAL ASSETS	<u>120,769</u>	<u>6,834</u>	<u>127,603</u>	<u>45,949</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	1,037	21	1,058	1,423
Due to other funds	12,678	-	12,678	21,964
Deferred revenue	80	-	80	-
Bonds, notes and other payables	706	-	706	5,597
Total current liabilities	<u>14,501</u>	<u>21</u>	<u>14,522</u>	<u>28,984</u>
Noncurrent Liabilities:				
Bonds, notes and other payables	5,656	-	5,656	16,715
Total noncurrent liabilities	<u>5,656</u>	<u>-</u>	<u>5,656</u>	<u>16,715</u>
TOTAL LIABILITIES	<u>20,157</u>	<u>21</u>	<u>20,178</u>	<u>45,699</u>
NET ASSETS				
Invested in capital assets, net of related debt	111,375	2,235	113,610	4,131
Unrestricted (deficit)	<u>(10,763)</u>	<u>4,578</u>	<u>(6,185)</u>	<u>(3,881)</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$100,612</u>	<u>\$ 6,813</u>	<u>\$ 107,425</u>	<u>\$ 250</u>

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

CITY OF OAKLAND
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2004
(In Thousands)

	<u>Business-type Activities Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Sewer Service</u>	<u>Nonmajor Fund Parks and Recreation</u>	<u>Total</u>	<u>Internal Service Funds</u>
OPERATING REVENUES				
Rental	\$ -	\$ 58	\$ 58	\$ -
Sewer services	21,079	-	21,079	-
Charges for services	-	-	-	31,781
Other	1,511	-	1,511	104
TOTAL OPERATING REVENUES	<u>22,590</u>	<u>58</u>	<u>22,648</u>	<u>31,885</u>
OPERATING EXPENSES				
Personnel	11,008	11	11,019	14,319
Supplies	398	-	398	4,633
Depreciation and amortization	3,429	141	3,570	5,444
Contractual services and supplies	1,473	-	1,473	285
Repairs and maintenance	96	-	96	2,130
General and administrative	3,080	1	3,081	3,872
Rental	744	6	750	1,425
Other	-	-	-	5,783
TOTAL OPERATING EXPENSES	<u>20,228</u>	<u>159</u>	<u>20,387</u>	<u>37,891</u>
OPERATING INCOME (LOSS)	<u>2,362</u>	<u>(101)</u>	<u>2,261</u>	<u>(6,006)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest and investment income	-	94	94	116
Interest expense	(369)	-	(369)	(1,199)
Other, net	-	-	-	164
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(369)</u>	<u>94</u>	<u>(275)</u>	<u>(919)</u>
INCOME (LOSS) BEFORE TRANSFERS	1,993	(7)	1,986	(6,925)
Transfers out	(600)	-	(600)	-
Change in net assets	1,393	(7)	1,386	(6,925)
Net Assets - Beginning	99,219	6,820	106,039	7,175
NET ASSETS - ENDING	<u>\$ 100,612</u>	<u>\$ 6,813</u>	<u>\$ 107,425</u>	<u>\$ 250</u>

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, 2004
(In Thousands)

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Sewer Service</u>	<u>Nonmajor Fund Parks and Recreation</u>	<u>Total</u>	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers, including other funds and cash deposits	\$ 20,905	\$ (1)	\$ 20,904	\$ 31,904
Cash received from tenants for rents	-	58	58	
Cash paid to employees for services	(11,008)	(11)	(11,019)	(14,319)
Cash paid to suppliers for goods & services	(1,585)	14	(1,571)	(10,455)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>8,312</u>	<u>60</u>	<u>8,372</u>	<u>7,130</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out	(600)	-	(600)	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Acquisition of capital assets	(6,660)	(155)	(6,815)	(1,491)
Repayment of long-term debt	(683)	-	(683)	(5,383)
Interest paid on long-term debt	(369)	-	(369)	(1,199)
NET CASH USED IN CAPITAL FINANCING ACTIVITIES	<u>(7,712)</u>	<u>(155)</u>	<u>(7,867)</u>	<u>(8,073)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income received	-	94	94	116
Other investing activities	-	-	-	164
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>	<u>94</u>	<u>94</u>	<u>280</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	-	(1)	(1)	(663)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	-	4,571	4,571	18,843
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ -</u>	<u>\$ 4,570</u>	<u>\$ 4,570</u>	<u>\$ 18,180</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 2,362	\$ (101)	\$ 2,261	\$ (6,006)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Depreciation and amortization	3,429	141	3,570	5,444
Changes in assets and liabilities:				
Receivables	(1,565)	(1)	(1,566)	19
Inventories	-	-	-	(186)
Accounts payable and accrued liabilities	(4)	21	17	136
Deferred revenue	(120)	-	(120)	-
Due to other funds	4,210	-	4,210	7,723
Total adjustments	5,950	161	6,111	13,136
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 8,312</u>	<u>\$ 60</u>	<u>\$ 8,372</u>	<u>\$ 7,130</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS				
Cash and investments	\$ -	\$ 4,570	\$ 4,570	\$ 3,500
Restricted cash and investments	-	-	-	14,680
TOTAL	<u>\$ -</u>	<u>\$ 4,570</u>	<u>\$ 4,570</u>	<u>\$ 18,180</u>

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, 2004
(In Thousands)

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Fund</u>
ASSETS		
Cash and investments	\$ 22,664	\$ 4,873
Receivables:		
Accrued interest and dividends	2,274	23
Investments and contributions	71,683	-
Restricted:		
Cash and investments	659,955	-
Securities lending collateral	43,556	-
TOTAL ASSETS	<u>800,132</u>	<u>4,896</u>
LIABILITIES		
Accounts payable and accrued liabilities	124,630	5
Due to other funds	2,376	-
Securities lending collateral	43,556	-
Other	-	7
TOTAL LIABILITIES	<u>170,562</u>	<u>12</u>
NET ASSETS		
Net assets held in trust	<u>\$ 629,570</u>	<u>\$ 4,884</u>

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, 2004
(In Thousands)

	Pension Trust Funds	Private Purpose Trust Fund
ADDITIONS:		
Contributions:		
Member contributions	\$ 29	\$ -
City contributions	-	5,765
Total contributions	29	5,765
Trust receipts	-	547
Investment income:		
Net appreciation in fair value of investments	64,622	-
Interest	11,742	12
Dividends	4,669	-
Securities lending	633	-
TOTAL INVESTMENT INCOME	81,666	12
Less investment expenses:		
Investment expenses	(1,779)	-
Borrowers rebates and other agent fees on securities lending transactions	(450)	-
Total investment expenses	(2,229)	-
NET INVESTMENT INCOME	79,437	12
TOTAL ADDITIONS	79,466	6,324
DEDUCTIONS:		
Benefits to members and beneficiaries:		
Retirement	44,669	-
Disability	24,588	-
Death	2,119	-
TOTAL BENEFITS TO MEMBERS AND BENEFICIARIES	71,376	-
Administrative expenses	1,242	1
Change in payable to City	(522)	-
Transfer to CALPERS	1,494	-
Termination refunds of employees' contributions	180	-
Police services	-	1,862
TOTAL DEDUCTIONS	73,770	1,863
Change in net assets	5,696	4,461
NET ASSETS - BEGINNING	623,874	423
NET ASSETS - ENDING	\$ 629,570	\$ 4,884

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

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