NOTES TO BASIC FINANCIAL STATEMENTS

(1) ORGANIZATION AND DEFINITION OF REPORTING ENTITY

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

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

Blended Component Units

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

The Civic Improvement Corporation (Corporation) was created to provide a lease financing arrangement for the City. It is reported in other governmental funds.

The Oakland Joint Powers Financing Authority (JPFA) was formed to assist in the financing of public capital improvements. JPFA is a joint exercise agency organized under the laws of the State of California and is composed of the City and the Agency. JPFA transactions are reported in other governmental funds. Related debt is included in the long-term obligations of the City in the governmental activities column of the government-wide statement of net assets.

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Discretely Presented Component Units

The Port is a legally separate component unit established in 1927 by the City. Operations include the Oakland International Airport; the Port of Oakland Marine Terminal Facilities; and commercial real estate which includes Oakland Portside Associates (OPA), a California limited partnership, and the Port of Oakland Public Benefit Corporation (Port-PBC), a nonprofit benefit corporation. OPA and Port-PBC were dissolved effective June 30, 2004, and all assets were transferred to the Port. All interfund transactions have been eliminated. The Port is governed by a seven-member Board of Port Commissioners (the Board) that is appointed by the City Council, upon nomination by the Mayor. The Board appoints an Executive Director to administer operations. The Port prepares and controls its own budget, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port is required by City charter to deposit its operating revenues in the City treasury. The City is responsible for investing and managing such funds. The Port is presented in a separate column in the government-wide financial statements.

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

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

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

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

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

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

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

The County of Alameda is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law, and for remitting such amounts to the City. Property taxes are assessed and levied as of July 1 on all taxable property located in the City, and result in a lien on real property. Property taxes are then due in two equal installments, the first on November 1 and the second on February 1 of the following calendar year, and are delinquent after December 10 and April 10, respectively. General property taxes are limited to a flat 1% rate applied to the 1975-76 full value of the property, or 1% of the sales price of the property or of the construction value added after the 1975-76 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise a maximum of 2% per year. Taxes were levied at the maximum 1% rate during the year ended June 30, 2004.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial activities and resources of the general government except those required to be accounted for in another fund. These activities are funded principally by property taxes, sales and use taxes, business, utility and real estate transfer taxes, interest and investment income, and charges for services.

The **Federal/State Grant Fund** accounts for various Federal and State grants used or expended for a specific purpose, activity or program.

The **Oakland Redevelopment Agency Fund** accounts for federal grants, land sales, rents and other revenue relating to redevelopment projects. Expenditures are comprised of land acquisitions and improvements and all other costs inherent in redevelopment activities.

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

The City reports the following major enterprise fund:

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

Cash and Investments

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

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

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

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

Due From/Due To Other Funds and Internal Balances

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

Interest Rate Swap Agreements

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

Inter-fund Transfers

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

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

Bond Issuance Costs and Discounts/Premiums

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

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

Inventories

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

Capital Assets

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

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

The City has a collection of artwork presented for public exhibition and education that is being preserved for future generations. These items are protected, kept unencumbered, cared for and preserved by the City. The proceeds from the sale of any pieces of the collection are used to purchase other acquisitions for the collection. The collection is not capitalized as part of the capital assets of the City.

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

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

Property Held for Resale

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

Net Pension Asset

In February 1997, the City issued pension obligation bonds to reduce the actuarial accrued liability of the Police and Fire Retirement System (PFRS). The net pension asset represents a prepaid asset amortized over the same period used by the actuary at the time of the bond issuance, as it allows for the matching of the asset with the related pension obligation bond liability. See Note 15 for the accounting treatment of the net pension asset.

Compensated Absences

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

Retirement Plans

City employees participate in one of three defined benefit retirement plans: Oakland Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS), and California Public Employees' Retirement System (PERS). Employer contributions and member contributions made by the employer to the Plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the provisions of the Plans. Refer to Note 15 for additional information.

Refunding of Debt

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

Fund Balances

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

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

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

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

Portions of unreserved fund balances have been designated to indicate those portions of fund balances, which the City has tentative plans to utilize in a future period. These amounts may or may not result in actual expenditures.

Restricted Net Assets

Restricted net assets are those assets, net of their related liabilities, that have constraints placed on their use by laws, regulations, creditors, grantors, contributors, or by enabling legislation. Accordingly, restricted assets may include principal and interest amounts accumulated to pay debt service, unspent grant revenues, certain fees and charges, and restricted tax revenues.

Effects of New Pronouncements

In November 2003, 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 for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the City's fiscal year ending June 30, 2007.

In 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.

Use of Estimates

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

(3) CASH AND INVESTMENTS AND RESTRICTED CASH AND INVESTMENTS

Primary Government

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

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

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

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

The retirement systems' investment policies authorize investment in the domestic stocks and bonds, U.S. equities, international equities. U.S. fixed income, mortgage loans and real estate. The systems' investment portfolios are managed by external investment managers. During the year ended June 30, 2004, the number of external investment managers was six for the PFRs and one for the OMERS.

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

	Primary Government				Port	OBRA
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total		
Cash and investments	$ 236,448	$ 4,570	$ 27,537	$ 268,555	$ 97,616	$ 5,936
Restricted cash and investments	430,214	—	659,955	1,090,169	501,515	10,690
Restricted securities lending collateral	—	—	43,556	43,556	—	—
TOTAL	$ 666,662*	$ 4,570	$ 731,048	$1,402,280	$ 599,131	$ 16,626
Deposits	$ 75,029	$ 4,570	$ 38,414	$ 118,013	$ 143,255	$ 2,386
Investments	591,633	—	692,634	1,284,267	455,876	14,240
TOTAL	$ 666,662*	$ 4,570	$ 731,048	$1,402,280	$ 599,131	$ 16,626

*$666,662 consists of all governmental funds and the internal service funds.

Deposits - Primary Government

At June 30, 2004, the carrying amount of the City's deposits was $118,012,555 and the bank balance was $117,526,555. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, $3,125,122 was FDIC insured and $114,401,433 was collateralized with securities held by the pledging financial institution in the City's name, in accordance with Section 53652 of the California Government Code.

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

Investments - Primary Government

The City's investments are categorized to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered, or securities held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments, with the securities held by the counter-party's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments, with the securities held by the counter-party or by its trust department or agent but not in the City's name. There were no investments classified as Category 2 or 3 at June 30, 2004.

At June 30, 2004, investments included the following (in thousands):

	Category 1
Subject to Custodial Credit Risk Categorization	
Federal agency issues	$ 371,228
Commercial paper	23,715
Corporate stocks and bonds	607,503
Investments made with securities lending cash collateral:	
Cash	3,556
Repurchase agreement	40,000
Total	$1,046,002
Investments Not Subject to Custodial Credit Risk Categorization	
Real estate mortgage loans/investments	$ 72
Local Agency Investment Fund (LAIF)	192,407
Life Insurance Annuity Contracts	138,000
Mutual Funds	2,015
Investments lent to broker-dealers with cash collateral:	
Bonds	31,860
Corporate stocks	10,623
Total	$ 374,977
TOTAL INVESTMENTS	$1,420,979
Less: Port of Oakland cash and investments in the City Treasury	(136,712)
TOTAL PRIMARY GOVERNMENT INVESTMENTS	$1,284,267

As of June 30, 2004, the City's investment in LAIF is $192.4 million. The total amount invested by all public agencies in LAIF at that date is approximately $57.6 billion. Of that amount, over 98.4% is invested in non-derivative financial products and 1.6% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the City's position in the pool.

Securities Lending Transactions

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

Metropolitan West Securities, Inc. (MetWest) administers the securities lending program. MetWest is responsible for maintaining an adequate level of collateral in an amount equal to at least 102% (105% for international) of the market value of loaned U.S. government securities. Collateral received may include cash, letters of credit, or securities. If securities collateral is received, PFRS cannot pledge or sell the collateral securities unless the borrower defaults.

At year-end, PFRS had no credit risk exposure to securities borrowers because the amounts PFRS owed to borrowers exceeded the amounts the borrowers owed to PFRS. PFRS' contract with MetWest requires it to indemnify PFRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay PFRS for income distributions by the securities' issuers while the securities are on loan.

There are no restrictions on the amount of securities that may be lent.

At present, the custodians are investing the cash collateral received for securities lent for periods averaging one week or less which generally matches the term of the period of the security loans.

As of June 30, 2004, PFRS had securities on loan with a market value of approximately $42,482,919 for cash collateral of $43,555,666.

Derivatives

The City's investment policy permits investments in certain derivatives. There were no derivatives included in the investment pool during the year ended June 30, 2004.

Discretely Presented Component Units

Port of Oakland

The Port's cash and investments are reported as follows at June 30, 2004 (in thousands):

Cash and investments:	
Cash and investments with the City	$ 93,920
Cash on hand	3
Cash in bank accounts	3,693
TOTAL CASH AND INVESTMENTS	97,616
Restricted cash and investments:	
Unexpended bond proceeds restricted for construction	220,346
Unexpended bond proceeds and reserve deposits with fiscal agents	199,840
Deposits in escrow	3,026
Cash and investments with City:	
Passenger and customer facility charges	41,860
Other	933
Restricted deposits with fiscal agents for current debt service	35,510
TOTAL RESTRICTED CASH AND INVESTMENTS	501,515
TOTAL	$599,131

The carrying amount of Port cash and investments is as follows at June 30, 2004 (in thousands):

Cash on hand and at bank	$ 3,696
Government securities money market mutual funds	37,107
U.S. Treasury obligations	11,833
Guaranteed investment contracts	406,936
Cash and investments with the City of Oakland	136,712
Escrow in-lieu of retentions	2,847
TOTAL	$599,131

Cash and Investments With the City of Oakland

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

Restricted Cash and Investments

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

Deposits and Investments

The carrying amount of Port deposits with banks and fiscal agents was $5,248,000 at June 30, 2004. Bank balances of $3,931,000 at June 30, 2004, are insured or collateralized with securities held by the pledging financial institution's trust departments in the Port's name. The difference between the carrying amount and the bank balance was primarily due to deposits in transit and outstanding checks.

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

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

Oakland Base Reuse Authority

Deposits

At June 30, 2004, the carrying amount of OBRA's deposits was $2,385,761 and the bank balance was $2,440,458. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, $100,000 was FDIC insured and $2,340,458 was collateralized with securities held by the pledging financial institution in OBRA's name, in accordance with Section 53652 of the California Government Code.

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

Investments

OBRA's Governing Body has adopted the same investment policy as adopted by the Oakland City Council. Accordingly, all cash and investments are invested in accordance with this policy. The Authority had no investments subject to categorization at June 30, 2004.

Investments consisted of the following at June 30, 2004:

	Amounts
Investments not subject to custodial credit risk categorization:	
Unrestricted, money market mutual funds	$ 5,936
Restricted, Local Agency Investment Fund	8,304
	$14,240

(4) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash and interfund loans. The amounts due from the Oakland Redevelopment Agency (Agency) are related to advances and interfund loans made by the City for projects, loans and services. The receivable amounts in the Agency relate to project advances made by the Agency for the City. The composition of interfund balances as of June 30, 2004, is as follows (in thousands):

DUE FROM/DUE TO OTHER FUNDS:

Receivable Fund	Payable Fund	Amount
General Fund	Federal/State Grant Fund	$ 19,808
	Oakland Redevelopment Agency	1,367
	Other Governmental Funds	9,185
	Sewer Service Fund	12,678
	Internal Service Funds	21,964
	Pension Trust Funds	2,376
Federal/State Grant Fund	Oakland Redevelopment Agency	3,151
Oakland Redevelopment Agency	General Fund	23,571
	Federal/State Grant Fund	2,894
	Other Governmental Funds	2,984
Other Governmental Funds	Oakland Redevelopment Agency	4,679
TOTAL		$104,657

INTERFUND TRANSFERS:

	TRANSFERS IN			
TRANSFERS OUT	General Fund	Municipal Capital Improvement Fund	Other Governmental Funds	Total
General Fund	$ —	$ —	$ 79,580	$ 79,580
Municipal Capital Improvement Fund	5,700	—	743	6,443
Other Governmental Funds	—	8,781	—	8,781
Sewer Service Fund	600	—	—	600
TOTAL	$ 6,300	$ 8,781	$ 80,323	$ 95,404

The $79.5 million transfer from the general fund consists of transfers made to provide funding for the following:

$ 8.6 million for the Kids' First Children's Program
$15.3 million for special refunding revenue bonds
$55.6 million for debt service payments

The $5.7 million transfer from the capital projects fund to the general fund is for the Oakland Convention Center operations while $.7 million to other governmental funds is for debt service payments.

The $8.8 million transfer from the other governmental funds is to provide funding for the Convention Center surety bond.

The $.6 million transfer from the sewer service fund is to provide funds for City-wide lease payments.

INTERFUND LOANS:

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

Oak Center Project	$ 13,038,000
City Center Garage	18,586,000
Total	$ 31,624,000

(5) MEMORANDUMS OF UNDERSTANDING

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

Payments for Special Services are treated as a cost of Port operations and have priority over certain other expenditures of Port revenues. At June 30, 2004, $23,697,000 in Special Services expenses has been accrued as a current liability by the Port and as a receivable by the City.

The Port's legal counsel advised the Port that payments to the City for General Services and Lake Merritt tideland trust purposes are payable only to the extent the Port determines annually that surplus monies are available. Subject to final approvals by the Port and the City, and subject to availability of surplus monies, the Port will reimburse the City annually for General Services and Lake Merritt tideland trust properties. At June 30, 2004, $1,048,000 and $560,000 have been accrued by the Port as a current liability and by Oakland as a receivable for General Services and Lake Merritt tideland trust properties, respectively.

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

(6) NOTES AND LOANS RECEIVABLE

The composition of the City's notes and loans receivable as of June 30, 2004, is as follows (in thousands):

Type of Loan	General Fund	Federal/State Grant Fund	Oakland Redevelopment Agency	Other Governmental Funds	Total Governmental Funds/ Governmental Activities
Pass-through loans	$ 23,196	$ 2,894	$ —	$ 799	$ 26,889
Loans to Oakland Hotel Assoc. Ltd	12,038	—	—	—	12,038
Community Development Block Grant	—	66,329	—	—	66,329
Economic Development loans and other	1,932	12,357	46,425	13,846	74,560
Less: Allowance for uncollectible accounts	(107)	(4,766)	(574)	(168)	(5,615)
TOTAL LOANS, NET	$ 37,059	$ 76,814	$ 45,851	$ 14,477	$ 174,201

(7) CAPITAL ASSETS

Primary Government

Capital assets activity of the primary government for the year ended June 30, 2004, is as follows (in thousands):

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 75,206	$ 1,398	$ —	$ 76,604
Construction in progress	2,576	8,464	3,957	7,083
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	77,782	9,862	3,957	83,687
Capital assets, being depreciated:				
Facilities and improvements	638,514	7,067	—	645,581
Furniture, machinery and equipment	153,101	9,047	1,861	160,287
Infrastructure	335,128	18,801	—	353,929
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	1,126,743	34,915	1,861	1,159,797
Less accumulated depreciation:				
Facilities and improvements	187,234	20,007	—	207,241
Furniture, machinery and equipment	90,722	12,715	858	102,579
Infrastructure	96,670	10,962	—	107,632
TOTAL ACCUMULATED DEPRECIATION	374,626	43,684	858	417,452
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	752,117	(8,769)	1,003	742,345
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 829,899	$ 1,093	$ 4,960	$ 826,032

(continued)

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Business-type activities:				
Sewer fund:				
Capital assets, not being depreciated:				
Land	$ 4	$ —	$ —	$ 4
Construction in progress	2,041	5,201	4,360	2,882
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	2,045	5,201	4,360	2,886
Capital assets, being depreciated:				
Facilities and improvements	305	1	—	306
Furniture, machinery and equipment	749	—	—	749
Sewers and storm drains	167,313	5,818	—	173,131
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	168,367	5,819	—	174,186
Less accumulated depreciation:				
Facilities and improvements	10	20	—	30
Furniture, machinery and equipment	697	4	—	701
Sewers and storm drains	55,199	3,405	—	58,604
TOTAL ACCUMULATED DEPRECIATION	55,906	3,429	—	59,335
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	112,461	2,390	—	114,851
SEWER FUND CAPITAL ASSETS, NET	114,506	7,591	4,360	117,737
Other proprietary funds:				
Capital assets, not being depreciated:				
Land	218	—	—	218
Capital assets, being depreciated:				
Facilities and improvements	2,043	136	—	2,179
Furniture, machinery and equipment	434	19	—	453
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	2,477	155	—	2,632
Less accumulated depreciation:				
Facilities and improvements	50	141		191
Furniture, machinery and equipment	424	—	—	424
TOTAL ACCUMULATED DEPRECIATION	474	141	—	615
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	2,003	14	—	2,017
OTHER PROPRIETARY FUND CAPITAL ASSETS, NET	2,221	14	—	2,235
TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 116,727	$ 7,605	$ 4,360	$ 119,972

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

Governmental activities:	
General government	$ 3,819
Public safety:	
Police services	989
Fire services	2,698
Life enrichment	11,973
Community and economic development	2,470
Public works	16,291
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	5,444
TOTAL	$43,684
Business-type activities:	
Sewer	$ 3,429
Golf	141
TOTAL	$ 3,570

Construction Commitments

The City has active construction projects as of June 30, 2004. The projects include street construction, park construction, building improvements and sewer and storm drain improvements (in thousands).

	Spent to date	Remaining Commitment
Infrastructure – streets	$ 19,026	$ 56,423
Infrastructure – parks	4,231	—
Facility improvements	6,036	19,000
Sewers and storm drains	6,837	20,341
TOTAL	$ 36,130	$ 95,764

Discretely Presented Component Units

Port of Oakland

Capital assets activity for the Port for the year ended June 30, 2004, is as follows (in thousands):

	Balance July 1, 2003	Increases	Decreases	Transfer of Completed Construction	Balance June 30, 2004
Capital assets, not being depreciated:					
Land	$ 226,823	$ 36,127	$ 1,624	$ —	$ 261,326
Construction in progress	302,559	139,239	56,644	(146,994)	238,160
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	529,382	175,366	58,268	(146,994)	499,486
Capital assets, being depreciated:					
Facilities and improvements	524,731	—	20,046	42,852	547,537
Container cranes	160,959	—	10,607	1,869	152,221
Systems and structures	976,935	—	14,080	101,769	1,064,624
Other equipment	35,629	2,270	(357)	504	38,760
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	1,698,254	2,270	44,376	146,994	1,803,142
Less accumulated depreciation:					
Facilities and improvements	225,062	21,523	9,100	—	237,485
Container cranes	48,858	6,195	8,703	—	46,350
Systems and structures	195,928	34,696	6,118	—	224,506
Other equipment	20,672	2,755	339	—	23,088
TOTAL ACCUMULATED DEPRECIATION	490,520	65,169	24,260	—	531,429
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	1,207,734	(62,899)	20,116	146,994	1,271,713
TOTAL CAPITAL ASSETS, NET	$1,737,116	$ 112,467	$ 78,384	$ —	$1,771,199

The capital assets, net on lease at June 30, 2004, consist of the following (in thousands):

Land	$ 107,174
Container cranes	158,715
Facilities and improvements	689,556
Total	955,445
Less accumulated depreciation	(179,732)
Capital assets, net on lease	$ 775,713

Construction in progress decreased in fiscal 2004 as a result of a decision made by the Port to abandon further design and development of the Airport parking garage and certain other design work at the Airport. Advanced planning, engineering and development costs incurred to date for the terminal and parking garage projects and other capital projects were written down, by approximately $58 million in fiscal year 2004 and are reported as abandoned projects and impaired assets.

Leases

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

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

A summary of revenues from long-term leases for the year ended June 30, 2004, is as follows (in thousands):

Minimum non-cancelable rentals, including preferential assignments	$ 93,711
Contingent rentals in excess of minimums	10,456
Secondary use of facilities leased under preferential assignments	3,922
	$108,089

Minimum future rental revenues for years ending June 30 under non-cancelable operating leases having an initial term in excess of one year are as follows (in thousands):

2005	$107,953
2006	110,851
2007	113,164
2008	112,829
2009	108,350
2010-2014	466,113
2015-2019	346,528
2020-2024	13,051
2025-2029	12,728
2030-2034	11,487
Thereafter	38,181
	$1,441,235

Oakland Base Reuse Authority

Capital asset activity for OBRA during the year ended June 30, 2004 consisted of the following (in thousands):

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, being depreciated:				
Facilities and structures	$ —	$ 1,000	$ —	$ 1,000
Leasehold improvements	249	207	—	456
Total capital assets, being depreciated	249	1,207	—	1,456
Less accumulated depreciation for:				
Facilities and structures	—	314	—	314
Leasehold improvements	25	140	—	165
Total accumulated depreciation	25	454	—	479
Total capital assets, being depreciated, net	$ 224	$ 753	$ —	$ 977

(8) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES PAYABLE

Accounts payable and accrued liabilities payable as of June 30, 2004, for the City's individual major funds, nonmajor funds in the aggregate, business-type activities – enterprise fund and internal service funds, are as follows (in thousands):

	Accounts Payable	Checks Payable	Accrued Payroll/ Employee Benefits	Total
Governmental funds:				
General	$ 19,592	$ 3,449	$ 91,110	$ 114,151
Federal/state grant fund	3,150	—	1,062	4,212
Oakland Redevelopment Agency	4,214	—	—	4,214
Municipal Capital Improvement Fund	924	—	271	1,195
Other governmental funds	5,039	—	260	5,299
Governmental activities-				
Internal service funds	1,356	—	67	1,423
TOTAL	$ 34,275	$ 3,449	$ 92,770	$ 130,494
Business-type activities – Enterprise Funds:				
Parks and Recreation	$ 21	$ —	$ —	$ 21
Sewer service	355	—	682	1,037
TOTAL	$ 376	$ —	$ 682	$ 1,058

Accounts payable and accrued liabilities for the pension trust funds at June 30, 2004, are as follows (in thousands):

Accounts payable	$ 6
Investment payable	118,342
Accrued investment management fees	386
Member benefits payable	5,896
TOTAL ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 124,630

(9) DEFERRED REVENUE

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

At June 30, 2004, the various components of deferred revenue and unearned revenue reported were as follows:

	Unavailable	Unearned
Major funds:		
General Fund	$ 23,473	$ 8,160
Federal and State Grants Funds	105,551	953
Oakland Redevelopment Agency	70,526	—
Municipal Capital Improvement Fund	21	
Non-major Funds:		
Other Governmental Funds	15,908	—
TOTAL GOVERNMENTAL ACTIVITIES	$ 215,479	$ 9,113

(10) PROPERTY HELD FOR RESALE

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

	July 1, 2003	Purchases	Sales	June 30, 2004
Property held for resale	$71,925	$ 1,898	$ 2,322	$71,501

Discretely Presented Component Unit

Oakland Base Reuse Authority

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

	July 1, 2003	Conveyance	Transfer	June 30, 2004
Property held for resale	$ —	$ 85,028	$ 5,250	$79,778

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

OBRA recorded capital contributions of $74,407,184 and payable of $5,400,000 to the Workforce Collaborative during the year ended June 30, 2004 to reflect the conveyance of the land. All expenditures directly associated with the conveyance of the EDC property incurred prior to August 7, 2003 were included in other assets, and transferred to property held for resale on this date. OBRA incurred property-related expenditures between August 7, 2003 and June 30, 2004 that have been recorded in property held for resale.

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

(11) TAX AND REVENUE ANTICIPATION NOTES PAYABLE

The City issued tax and revenue anticipation notes in advance of property tax collections. The notes were used to satisfy General Fund obligations and carried an approximate effective interest rate of .92%. Principal and interest were paid on June 30, 2004.

The short-term debt activity for the year ended June 30, 2004, is as follows (in thousands):

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax and Revenue Anticipation Notes	$—	$ 76,325	$ (76,325)	$—

(12) LONG-TERM OBLIGATIONS

Long-term Obligations

The following is a summary of long-term obligations for the year ended June 30, 2004 (in thousands):

Governmental Activities			
Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
General obligation bonds (A)	2032	4.25-8.50%	$ 232,045
Tax allocation bonds (B)	2033	4.00-8.03%	235,555
Certificates of participation (C)	2015	2.25-6.45%	59,594
Lease revenue bonds (C) (includes accreted interest)	2026	2.25-5.90%	386,200
Pension obligation bonds (D) (includes accreted interest)	2022	5.63-7.31%	436,873
City guaranteed special assessment district bonds (D)	2024	3.70-6.70%	7,940
Notes payable (C) & (E)	2016	4.11-14.48%	46,153
Accrued vacation and sick leave (C)			37,436
Self-insurance liability for workers' compensation (C)			94,874
Estimated claims payable (C)			48,716
Pledge obligation for authority debt (C)			93,950
GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS			1,679,336
DEFERRED AMOUNTS:			
Bond issuance premiums			$ 11,830
Bond refunding loss			(20,333)
GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS, NET			$1,670,833

Debt service payments are made from the following sources:

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

Business-Type Activities			
Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
Sewer fund – notes payable	2014	3.0-3.5%	$ 6,362
BUSINESS-TYPE ACTIVITIES – TOTAL LONG-TERM OBLIGATIONS			$ 6,362

Component Unit - Port of Oakland			
Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
Parity bonds	2032	2.75-8.00%	$ 1,418,586
Notes and loans	2029	1.25-6.80%	194,983
			1,613,569
Self-insurance liability for workers' compensation			3,000
Total			1,616,569
Unamortized bond discount and premium, net			(99)
Deferred loss on refunding			(5,584)
COMPONENT UNIT TOTAL LONG-TERM OBLIGATIONS			$ 1,610,886

Debt Compliance

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

Legal Debt Limit and Legal Debt Margin

As of June 30, 2004, the City's debt limit (3.75% of valuation subject to taxation) was $860,823,608. The total amount of debt applicable to the debt limit was $232,045,000. The resulting legal debt margin was $628,778,608.

Interest Rate Swaps

Oakland Joint Powers Financing Authority Lease Revenue Bonds, 1998 Series A1/A2

Objective of the interest rate swap. As a means to lowering its borrowing costs, the City of Oakland (the "City") entered into a Forward Swap (the "Swap") in connection with its $187,500,000 Oakland Joint Powers Financing Authority (the "Authority") Lease Revenue Bonds, 1998 Series A1/A2. The intent of the interest rate swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 5.6775% through the end of the swap agreement in 2021. On April 25, 2000, the Swap was assigned to Goldman Sachs Mitsui Marine Derivative Products, U.S., L.P (the "Counterparty") in the notional amount of $170,000,000. On March 21, 2003, the City amended the swap agreement to change the index on which the Swap is based from the Bond Market Association index to a rate equal to 65% of the 1-month London Interbank Offer Rate (the "65% of LIBOR Rate"). This amendment resulted in the City receiving approximately $5,975,000 from Goldman Sachs reflecting the change in market value. Furthermore, the funds received and the change in the Swap index should result in a lower cost of borrowing when used in combination with the Bonds, and will enhance the relationship between risk and return with respect to the City's overall bond program. As of June 30, 2004, the notional amount to be amortized was $137,500,000 and the amount of outstanding bonds was $152,100,000. A third party bond insurer insures the interest and principal payments on the bonds.

Terms. The bonds mature on July 31, 2021, and are subject to mandatory tender on August 1, 2008. The swap agreement terminates on July 31, 2021, and has a notional amount as of June 30, 2004 of $137,500,000. The notional amount of the swap and the par amount of the Bonds each decline according to the same schedule through 2021. The Swap was entered into at the same time the Bonds were issued (January 1997). Under the Swap, the Authority pays the counterparty a fixed payment of 5.6775% and receives a variable payment computed at 65% of LIBOR rate (total rate not to exceed 12%). The Authority then pays the bondholder a tax-exempt variable rate of interest. The Authority's payments to the counterparty under the swap agreement are insured by the third party bond insurer.

Fair Value. Because interest rates have declined since the execution of the Swap, the Swap had a negative fair value of $23,909,103 as of June 30, 2004. As the coupons on the Bonds adjust as LIBOR adjusts, the Bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the Swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the Swap.

Credit Risk. The issuer and the counterparty take a credit risk to each other over the life of the swap agreement. This is the risk that either the issuer or the counterparty will fail to meet its contractual obligations under the swap agreement. The Counterparty was rated AAA by Moody's Investors Service, and AA+ by Standard and Poor's as of June 30, 2004. To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's the swap agreement provides the counterparty, the City, the bond insurer for the Bonds and a third party collateral agent to execute a collateral agreement within 30 days of such a downgrade.

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

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

The counterparty may terminate the Swap if both the City and the bond insurer fail to perform under the terms of the contract. The counterparty also may terminate the Swap upon the occurrence of the following events: 1) the bond insurer falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's; and 2) the City falls below "BAA3" by Moody's Investors Service or "BBB-" by Standard and Poor's. If the Swap is terminated, the variable rate Bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the Swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the Swap's fair value.

Swap Payments and Associated Debt. Under rates as of June 30, 2004, debt service requirements of the variable-rate Bonds and net swap payments, *assuming current interest rates remain the same* through the July 2021 termination date of the Swap and the mandatory tender date on the Bonds, are as follows (in thousands):

Year ending June 30	Principal	Interest	Interest Rate Swap, Net	Total Debt Service*
2005	$ 9,200,000	$ 3,318,750	$ 4,555,148	$ 17,073,898
2006	9,000,000	3,114,000	4,243,245	16,357,245
2007	8,900,000	2,912,625	3,936,484	15,749,109
2008	8,700,000	2,714,625	3,634,864	15,049,489
2009	8,500,000	2,521,125	3,340,099	14,361,224
2010	8,300,000	2,332,125	3,052,189	13,684,314
2011	8,100,000	2,147,625	2,771,134	13,018,759
2012	7,900,000	1,967,625	2,496,934	12,364,559
2013	7,700,000	1,792,125	2,229,589	11,721,714
2014	7,500,000	1,621,125	1,969,099	11,090,224
2015	7,300,000	1,454,625	1,715,464	10,470,089
2016	7,100,000	1,292,625	1,468,684	9,861,309
2017	6,800,000	1,136,250	1,230,473	9,166,723
2018	6,700,000	984,375	999,116	8,683,491
2019	6,500,000	835,875	772,901	8,108,776
2020	6,500,000	689,625	550,114	7,739,739
2021	6,400,000	544,500	329,040	7,273,540
2022	21,000,000	40,688	109,680	21,150,368
TOTALS	$ 152,100,000	$ 31,420,313	$ 39,404,257	$222,924,570

* Calculated at a fixed swap interest rate of 5.677% and using 2.25% as the variable rate on the Series 1998 A/1 & A/2 Bonds.

Administration Building

Objective of the 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 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 of LIBOR (58%) plus a margin (35 basis points) versus a straight percentage of LIBOR to reduce the basis risk in a lower rate environment (current environment).

Terms. The bonds mature on August 1, 2026, and are subject to optional redemption while any Auction Rate is in effect with respect to a Series of the 2004 Series A Bonds equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The swaps terminate on August 1, 2026, and have a total notional amount of $117,200,000 as of June 30, 2004. The trade date of the swap was May 21, 2004, and became effective on June 10, 2004, at which time the bonds were issued. Under the swap, the City pays the counterparties a fixed rate of 3.533% and receives a variable payment computed at 58% of 1-month LIBOR plus 35 basis points. The Authority then pays the bondholder a tax-exempt variable rate of interest.

Fair Value. As of June 30, 2004, the interest rate swap with Bank of America, N.A. (notional amount of $58,600,000) had a negative fair value of $942,013 and the interest rate swap with UBS AG (notional amount of $58,600,000) had a negative fair value of $951,381. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk. The issuer and the counterparty take a credit risk to each other over the life of the swap agreement. This is the risk that either the issuer or the counterparty will fail to meet its contractual obligations under the swap agreement. The counterparties were rated as follows as of June 30, 2004: Bank of America, N.A. (Aa1 by Moody's Investors Service and AA- by Standard and Poor's), and UBS AG (Aa2 by Moody's Investors Service and AA+ by Standard and Poor's).

To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's the swap agreement provides the counterparty, the City, the bond insurer for the Bonds, and a third party collateral agent are to execute a collateral agreement establishing the type of collateral, the amount of collateral, the collateral agent, and the terms of the collateral agreement.

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

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

Swap Payments and Associated Debt. The following table presents the estimated debt service requirements for the 2004 Series A Bonds. Under rates as of June 30, 2004, debt service requirements of the variable-rate bonds and net swap payments, assuming current interest rates remain the same through the August 21, 2026, maturity date.

Year Ending June 30	Principal	Interest	Interest Rate Swap, Net	Total Debt Service*
2005	$ 4,650,000	$ 910,979	$ 1,663,812	$ 7,224,791
2006	3,350,000	1,385,937	2,531,276	7,267,213
2007	3,475,000	1,343,281	2,453,368	7,271,650
2008	3,575,000	1,299,218	2,372,893	7,247,111
2009	3,750,000	1,253,437	2,289,278	7,292,715
2010	3,875,000	1,205,781	2,202,238	7,283,020
2011	4,050,000	1,156,250	2,111,775	7,318,025
2012	4,175,000	1,104,843	2,017,886	7,297,730
2013	4,375,000	1,051,406	1,920,288	7,346,694
2014	4,525,000	995,781	1,818,694	7,339,476
2015	4,675,000	938,281	1,713,676	7,326,958
2016	4,875,000	878,593	1,604,663	7,358,257
2017	5,050,000	816,562	1,491,369	7,357,932
2018	5,275,000	752,031	1,373,509	7,400,541
2019	5,450,000	685,000	1,251,084	7,386,084
2020	5,675,000	615,468	1,124,092	7,414,560
2021	5,900,000	543,125	991,963	7,435,088
2022	6,125,000	467,968	854,698	7,447,666
2023	6,375,000	389,843	712,010	7,476,854
2024	6,600,000	308,750	563,901	7,472,651
2025	6,875,000	224,531	410,083	7,509,615
2026	7,125,000	137,031	250,273	7,512,305
2027	7,400,000	46,250	84,471	7,530,721
TOTALS	$ 117,200,000	$ 18,510,346	$33,807,300	$ 169,517,646

*Calculated at a fixed swap interest of 3.533% and using 1.25% as the variable rate on the Series 2004A Bonds. Actual debt service may be higher or lower than the synthetic rate.

Changes in Long-term Obligations

The changes in long-term obligations for the year ended June 30, 2004, are as follows (in thousands):

Governmental Activities

	Balance at July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements and Net Decreases	Balance at June 30, 2004	Amounts Due Within One Year
Bonds Payable					
General obligation bonds	$ 167,350	$ 71,450	$ 6,755	$ 232,045	$ 6,320
Tax allocation bonds	246,660	—	11,105	235,555	9,830
Certificates of participation	59,115	—	4,335	54,780	4,585
Lease revenue bonds	382,645	117,200	113,645	386,200	22,005
Pension obligation bonds	408,849	—	20,025	388,824	22,420
City guaranteed special assessment district bonds	8,463	—	523	7,940	530
Accreted interest on appreciation bonds	38,259	14,604	—	52,863	—
Less deferred amounts:					
Bond issuance premiums	12,366	587	1,123	11,830	1,095
Bond refunding loss	(19,924)	(2,960)	(2,551)	(20,333)	(2,672)
TOTAL BONDS PAYABLE	1,303,783	200,881	154,960	1,349,704	64,113
Notes payable	49,448	3,927	7,222	46,153	7,662
Other Long Term Liabilities					
Accrued vacation and sick leave	32,798	30,502	25,864	37,436	26,525
Self-insurance workers' compensation	91,367	21,181	17,674	94,874	24,384
Pledge obligation for authority debt	96,590	—	2,640	93,950	2,800
Estimated claims payable	49,569	7,452	8,305	48,716	17,196
TOTAL OTHER LONG TERM LIABILITIES	270,324	59,135	54,483	274,976	70,905
TOTAL GOVERNMENTAL ACTIVITIES – LONG TERM OBLIGATIONS	$1,623,555	$ 263,943	$ 216,665	$1,670,833	$ 142,680

Internal service funds predominantly serve the governmental funds and therefore, the long-term liabilities of these funds are included as part of the above totals for governmental activities. At June 30, 2004, $22.3 million of notes payable related to the internal service funds are included in the above amounts.

Business-Type Activities

	Balance at July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements and Net Decreases	Balance at June 30, 2004	Amounts Due Within One Year
Sewer fund – notes payable	$ 7,045	$—	$683	$6,362	$706

Component Unit - Port of Oakland

	Balance at July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements and Net Decreases	Balance at June 30, 2004	Amounts Due Within One Year
Parity bonds	$1,427,827	$ —	$ 9,241	$1,418,586	$ 8,155
Notes and loans	197,879	1,307	4,203	194,983	37,852
Self-insurance workers' compensation	3,000	1,184	1,184	3,000	3,000
TOTAL	1,628,706	2,491	14,628	1,616,569	49,007
Unamortized bond discount/premium, net	796	(34)	861	(99)	789
Deferred loss on refunding	(5,948)	—	(364)	(5,584)	(364)
TOTAL DEBT	$1,623,554	$ 2,457	$ 15,125	$1,610,886	$49,432

Repayment Schedule

The annual requirements to amortize all long-term debt as of June 30, 2004, are as follows (in thousands):

	2005	2006	2007	2008	2009	2010-2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2038	Total
Government-type Activities:												
General obligation bonds:												
Principal	$ 6,320	$ 6,540	$ 6,770	$ 7,095	$ 7,450	$ 43,755	$ 54,340	$ 50,275	$ 26,830	$ 22,670	$ —	$ 232,045
Interest	11,981	11,689	11,384	11,068	10,723	47,502	34,654	19,185	9,674	2,718	—	170,578
Certificates of participation:												
Principal	4,585	4,465	4,749	5,300	5,620	26,675	8,200	—	—	—	—	59,594
Interest	1,898	1,718	3,068	3,007	1,693	4,423	332	—	—	—	—	16,139
Lease revenue bonds:												
Principal	22,005	20,885	21,305	21,625	22,070	118,915	73,420	64,575	21,400	—	—	386,200
Interest	16,382	16,818	15,772	14,831	13,736	51,067	24,879	9,380	1,153	—	—	164,018
Pension obligation bonds:												
Principal	22,420	25,020	27,850	30,920	34,250	133,550	97,879	64,984	—	—	—	436,873
Interest	11,534	9,928	8,118	6,091	3,833	54,344	125,226	138,606	—	—	—	357,680
City guaranteed special assessment bonds:												
Principal	530	285	285	305	320	1,745	1,745	2,170	555	—	—	7,940
Interest	411	390	377	361	345	1,447	981	449	13	—	—	4,774
Tax allocation bonds:												
Principal	9,830	10,325	10,920	11,165	11,775	67,915	82,155	19,815	5,065	6,590	—	235,555
Interest	13,396	12,876	12,301	11,674	11,038	44,423	22,146	4,022	2,422	901	—	135,199
Notes payable:												
Principal	7,662	6,335	6,958	4,111	4,155	16,932	—	—	—	—	—	46,153
Interest	1,473	1,168	1,228	469	284	3,557	—	—	—	—	—	8,179
TOTAL PRINCIPAL	$ 73,352	$ 73,855	$ 78,837	$ 80,521	$ 85,640	$409,487	$317,739	$201,819	$ 53,850	$ 29,260	$ —	$1,404,360
TOTAL INTEREST	$ 57,075	$ 54,587	$ 52,248	$ 47,501	$ 41,652	$206,763	$208,218	$171,642	$ 13,262	$ 3,619	$ —	$ 856,567

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

	2005	2006	2007	2008	2009	2010-2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2038	Total
Business-type Activities:												
Sewer Notes												
Principal	$ 706	$ 730	$ 755	$ 780	$ 806	$ 2,585	$ —	$ —	$ —	$ —	$ —	$ 6,362
Interest	223	185	160	135	109	188	—	—	—	—	—	1,000

Component Unit - Port of Oakland

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2004, are as follows (in thousands):

Fiscal year ending	Principal	Interest	Total
2005	$ 46,005	$ 79,566	$ 125,571
2006	165,424	77,083	242,507
2007	20,052	76,779	96,831
2008	28,301	76,504	104,805
2009	33,656	75,714	109,370
2010-2014	227,486	329,242	556,728
2015-2019	288,111	255,545	543,656
2020-2024	274,998	177,958	452,956
2025-2029	315,115	98,252	413,367
2030-2033	214,421	19,634	234,055
SUBTOTAL	1,613,569	1,266,277	2,879,846
Unamortized bond (discount) premium, net	(99)	—	(99)
Current maturities of long term debt and amortization	(46,432)	—	(46,432)
Deferred loss on refunding	(5,584)	—	(5,584)
TOTAL	$1,561,454	$1,266,277	$2,827,731

Net interest costs of $16,307 were capitalized in fiscal 2004, following the capitalization of interest revenue of $13,574. Total capitalized interest expense amounted to $29,881 for fiscal 2004.

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 5, 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.

Current Year Refunding

$58,600,000 Series A-1 & $58,600,000 Series A-2 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds (Oakland Administration Buildings), 2004 (Auction Rate Securities). The 2004 Bonds were issued by the Oakland Joint Powers Financing Authority on June 10, 2004, to refund and defease all of the Authority's outstanding Lease Revenue Bonds (Oakland Administration Buildings) Series 1996 which were issued to finance a portion of the design, construction, rehabilitation, and equipping of two buildings that are part of the administrative center of the City of Oakland, finance certain public capital projects of the City, pay the premium for a financial guaranty insurance policy and a debt service reserve surety bond, and pay certain of the costs of issuance.

The refunding resulted in the recognition of a deferred accounting loss of $2,960,000 for the fiscal year ended June 30, 2004. The City in effect reduced its aggregate debt service payments by approximately $4,114,150 over the next 22 years and obtained a net economic gain (difference between the present value of the old and the new debt service payments) of $2,959,649.

The bonds, insured by AMBAC Assurance Corporation, and rated Aaa/AAA, by Moody's and S&P, respectively, are limited obligations of the Authority payable solely from lease revenues from the City, as lessee, to the Authority, as lessor.

Prior Year's Debt Defeasance

In prior years, the City has defeased various bond issues by creating separate irrevocable escrow funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the escrow funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of June 30, 2004, the amount of defeased debt outstanding but removed from the City's government-wide financial statements amounted to $56.5 million.

Authorized and Unissued Debt

The net amount of authorized and unissued governmental activities – general obligation bonds as of June 30, 2004, was $21 million (Measure G). These bonds were authorized by the voters, in a City election, on March 5, 2002. The bonds are to be issued by the City to acquire, renovate, improve, construct, and finance existing and additional educational facilities for the Oakland Museum of California, the Oakland Zoo, and the Chabot Space and Science Center.

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

Conduit Debt

The following long-term debt has been issued by the City on behalf of named agents of the City. The bonds do not constitute an indebtedness of the City. The bonds are payable solely from revenue sources defined in the individual bond documents, and from other monies held for the benefit of the bond holders pursuant to the bond indentures. In the opinion of City officials, these bonds are not payable from any revenues or assets of the City, and neither the full faith and credit nor the taxing authority of the City, State or any political subdivision thereof is obligated for the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded. The debt issued and outstanding at June 30, 2004, follows (in thousands):

	Authorized and Issued	Maturity	Outstanding at June 30, 2004
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999A	$ 64,425	01/01/29	$ 63,425
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999B	15,720	01/01/29	15,720
City of Oakland Liquidity Facility Revenue Bonds (Association of Bay Area Governments), Series 1984	3,300	12/01/09	1,245
City of Oakland Health Facility Revenue Bonds (Children's Hospital Medical Center of Northern California), 1988	23,000	07/01/08	9,970
City of Oakland Refunding Revenue Bonds (Oakland YMCA Project), Series 1996	8,650	06/01/10	5,115
Oakland JPFA Revenue Bond 2001 Series A Fruitvale Transit Village (Fruitvale Development Corporation)	19,800	07/01/33	19,800
Oakland JPFA Revenue Bond 2001 Series B Fruitvale Transit Village (La Clinica De La Raza Fruitvale Health Project, Inc.)	5,800	07/01/33	5,800
TOTAL			$ 121,075

(13) SELF-INSURANCE

Changes in the balances of claims liabilities for all self-insured claims for the years ended June 30, 2004 and 2003, are as follows (in thousands):

	2004	2003
Workers' Compensation		
Unpaid claims, beginning of fiscal year	$ 91,367	$ 90,694
Current year claims and changes in estimates	21,181	15,598
Claim payments	(17,674)	(14,925)
Unpaid claims, end of fiscal year (see Note 12)	$ 94,874	$ 91,367
General Liability		
Unpaid claims, beginning of fiscal year	$ 49,569	$ 45,242
Current year claims and changes in estimates	7,452	13,395
Claims payments	(8,305)	(9,068)
Unpaid claims, end of fiscal year (Note 12)	$ 48,716	$ 49,569

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

Primary Government

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

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

Property Damage

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

General Liability

Numerous lawsuits are pending or threatened against the City. The City estimates that as of June 30, 2004, the amount of liability determined to be probable of occurrence is approximately $48,716,000. Of this amount, claims and litigation approximating $17,196,000 are estimated to be due within one year. The recorded liability is the City's best estimate based on available information and may be revised as further information is obtained and as pending cases are litigated. The City and the Agency are involved in various claims and litigation arising in the ordinary course of its activities. In the opinion of the Agency's in-house counsel, the City Attorney's Office for the City of Oakland, none of these claims are expected to have a significant impact on the financial condition of the City and the Agency or changes in financial position.

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

Workers' Compensation

The City is self-insured for workers' compensation. Payment of claims is provided through annual appropriations, which are based on claim payment experience and supplemental appropriations. Of the $94,874,000 in accrued liabilities, approximately $24,384,000 is estimated to be due within one year.

Insurance Coverage

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

Type of Coverage	Self-Insurance Retention	Insurance Authority/Purchase Insurance
General Liability	up to $2,000,000	$2,000,000 to $20,000,000 per occurrence
Automobile Liability	up to $2,000,000	$2,000,000 to $20,000,000 per occurrence
Public Officials Errors and Omissions	up to $2,000,000	$2,000,000 to $20,000,000 per occurrence/annual aggregate
Products & Completed Operations	up to $2,000,000	$2,000,000 to $20,000,000 per occurrence/annual aggregate
Employment Practices Liability	up to $2,000,000	$2,000,000 to $20,000,000 per occurrence/annual aggregate
Workers' Compensation	unlimited	

Discretely Presented Component Unit

Workers' Compensation

The Port is exposed to risk of loss related to injuries of employees. The Port is self-insured and self-administered for workers' compensation up to a maximum of $1 million per accident. Effective February 7, 1997, the Port carries commercial insurance for claims in excess of $1 million. The statutory limit on the Port's commercial insurance policy is $25 million.

Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses are based on actuarial estimates and include an estimate of claims that have been incurred but not reported, including allocated loss adjustment expenses. Changes in the reported liability resulted from the following (in thousands):

	2004	2003
Workers' compensation liability at beginning of fiscal year	$ 3,000	$ 3,000
Current year claims and changes in estimates	1,184	1,018
Claim payments	(1,184)	(1,018)
Workers' compensation liability at end of fiscal year	$ 3,000	$ 3,000

General Liability

The Port maintains general liability insurance in excess of specified deductibles. For the airport, coverage is provided in excess of $250,000 in the aggregate up to a maximum of $200,000,000. For the harbor area and the Port's real estate holdings, coverage is provided in excess of $1,000,000 per occurrence up to an aggregate amount of $150,000,000. Casualty losses are accrued when it is determined that a loss to the Port is probable and the amount is estimable. Amounts have been accrued as other liabilities.

(14) JOINT VENTURE

Oakland-Alameda County Coliseum

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

In August 1995, the Authority issued $9,200,000 in Fixed Rate Refunding Lease Revenue Bonds and $188,500,000 in Variable Rate Lease Revenue Bonds (collectively known as the Stadium Bonds) to satisfy certain obligations of the Authority, the City, the County, the Corporation and Oakland-Alameda County Coliseum Inc. (Coliseum Inc.), which manages the operations of the Coliseum Complex, to finance the costs of remodeling the stadium portion of the Coliseum complex as well as relocating the Raiders football franchise to the City. In February 2004, the 1995 Fixed Rate Refunding Lease Revenue Bond was fully repaid by the Authority.

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

On May 25, 2000, the Authority issued $201,300,000 in series 2000 C and D Refunding Bonds to retire $181,900,000 of the 1995 Variable Rate Lease Revenue Stadium Bonds ($188,500,000 less $6,600,000 principal payment).

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

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

The Coliseum Authority entered into an agreement with the Oakland Coliseum Joint Venture to manage the entire Coliseum complex beginning July 1, 1998. On January 1, 2001, the Coliseum Authority terminated its agreement with Oakland Coliseum Joint Venture and reinstated its Operating Agreement with Oakland-Alameda County Coliseum, Inc. Oakland-Alameda County Coliseum, Inc. subcontracted all of the operations of the Coliseum Complex to Oakland Coliseum Joint Venture.

On September 27, 1997, the City of Oakland, the County of Alameda, and the Oakland-Alameda County Coliseum Authority, collectively known as the "East Bay Entities", filed suit against the Oakland Raiders and A.D. Football, Inc. (collectively, "Raider Management") for breach of contract, declaratory relief and interference with prospective economic advantage. The suit asks for compensatory and punitive damages with regards to revenues lost as a result of actions by Raider Management, and for declaratory relief concerning (1) the parties' rights, duties and obligations under the Master Agreement concerning the naming rights for the Stadium, (2) whether Raider Management's claims of fraudulent inducement have merit and whether Raider Management has the right to rescind or terminate the Master Agreement, and (3) under the Visiting Team Share Agreement concerning the reimbursement of legal fees and costs Raider management filed a cross-complaint seeking the right to rescind the Master Agreement and seeking damages for breaches of the Master Agreement and for fraudulent inducement. In a series of decisions, the court has ruled that (1) the Raiders Management cannot rescind or terminate its lease; and (2) the East Bay Entities do not have claims for damages. Raider Management increased their claim against the East Bay Entities to $1.1 billion for damages; and (3) Coliseum, Inc. was the only East Bay entity against which the fraud claims could be tried related to claims of fraudulent inducement. Prior to the trial, Raider Management agreed to arbitrate all breach of contract claims. At the conclusion of the trial, the jury found no liability on the fraud claims, but did award the Raiders damages of $35 million for negligent misrepresentation. This judgment has been entered only against Coliseum, Inc. Attorneys for the Oakland-Alameda County Coliseum, Inc. have filed an appeal of that decision. The judgment has been fully stayed pending the outcome of the appeal. The decision on the appeal is not expected until mid-2005.

In November 1998, the Authority brought an arbitration proceeding against the Golden State Warriors (the Warriors) to collect: (1) past due rents for use of the arena; (2) past due amounts of revenue sharing required by the License Agreement; and (3) facility use fees collected by the Warriors for the Authority. The arbitration demand also sought damages for the Warriors breach of the License Agreement for failure to sell seat rights in the new Arena, a major source of revenue to the Authority. The arbitrator found on October 6, 1999, that the Warriors owed more than $17 million to the Authority, net of some $720,000 in offsets granted to the Warriors. A second phase of the arbitration was decided in July 2000, when the arbitrator decided that the Warriors breached the License Agreement by failing to sell seat rights in the new Arena. However, the arbitrator awarded no damages to the Authority because he determined the damages could not be quantified. On March 22, 2001, the Superior Court confirmed the arbitrator's awards and entered a judgment against the Warriors for the full amount of the award. The Warriors appealed the judgment. Subsequent to June 30, 2002, the Warriors lost the appeal and the judgment was settled in favor of the Authority for the above-mentioned $17 million plus interest. A subsequent arbitration proceeding resulted in an award in favor of the Authority of approximately $3 million. In addition, additional arbitration claims had been filed by the Warriors and the Authority and the Warriors had made various other claims that had not yet been filed with an arbitrator. On September 25, 2003, the Authority approved a settlement that reconciled the various claims for back payments by both parties and settled outstanding claims. This settlement resulted in a net payment of approximately $5 million from the Authority to the Warriors.

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

For the period	Stadium Debt		Arena Debt	
ending June 30,	Principal	Interest	Principal	Interest
2005	$ 5,600	$ 7,276	$ 2,500	$ 8,097
2006	6,100	6,949	2,700	7,938
2007	5,500	6,606	3,000	7,766
2008	5,800	6,289	3,100	7,575
2009	6,200	5,924	3,300	7,377
2010-2014	37,500	24,794	20,700	33,360
2015-2019	47,400	17,340	29,100	25,729
2020-2024	60,000	8,151	40,900	14,991
2025-2026	13,800	320	20,800	2,039
TOTAL	$187,900	$83,649	$126,100	$114,872

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

Under the joint exercise of power agreement, which formed the Authority, the City is responsible for funding up to 50% of the Authority's operating costs and debt service requirements, to the extent such funding is necessary. During the year ended June 30, 2004, the City made contributions of $10,000,000 to fund its share of operating deficits and debt service payments of the Authority.

The Authority has anticipated a deficit for operating costs and repayment of its Stadium bonds, such that the City and County may have to contribute to base rental payments. Of the $20.5 million appropriated in the General Fund as part of the above agreements, it is estimated that the City may have to contribute $9,650,000 for the 2004-05 fiscal year. There are many uncertainties in the estimation of revenues for the Authority beyond one year into the future; therefore, the City has established a liability to fund the Authority deficit in the statement of net assets in an amount equal to its contingent share (50%) of the outstanding Stadium bonds in the amount of $93,950,000. The City has not established a contingent liability for the Arena Bonds because management is of the opinion that revenues from the Arena, including payments from the Warriors and revenues from Arena operations, will be sufficient to cover the debt payments.

(15) PENSION PLANS

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

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

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

As of June 30, 2004 and 2003, the investment portfolio contained the following concentration of investments in an organization (other than those issued or guaranteed by the U.S. government) that represented 5 percent or more of total System net assets:

Investments	2004
Collective Short-term Investment Fund	$1,925,620
PIMCO FDS Low Duration Funds	1,009,981
Vanguard Bond Index Funds	1,004,671
TOTAL	$3,940,272

No investments in any one non-federal organization represented 5% or more of PFRS net assets for pension benefits as of June 30, 2004.

	PFRS	OMERS	PERS
Type of plan	Single employer	Single employer	Agent multi-employer
Reporting entity	City	City	State
Last complete actuarial study	July 01, 2003	July 01, 2002	June 30, 2003

Significant actuarial assumptions

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the City's actuarial accrued liability.

	PFRS	OMERS	PERS
General wage increase:			
Inflation rate	3.5%	3.5%	3.0%
Average salary increases	4.5%	3.0%	3.2%
Investment rate of return	8.0%	8.0%	7.75%
Cost-of-living adjustments	—	—	2.0%

Police and Fire Retirement System

PFRS provides death, disability and service retirement benefits to uniformed employees and their beneficiaries. Members who complete at least 25 years of service, or 20 years of service and have reached the age of 55, or have reached the age of 65, are eligible for retirement benefits. The basic retirement allowance equals 50% of the compensation attached to the average rank held during the three years immediately preceding retirement, plus an additional allowance of 1-2/3% of such compensation for each year of service (up to ten) subsequent to: a) qualifying for retirement, and b) July 1, 1951. Early retirees will receive reduced benefits based on the number of years of service. Benefit provisions and all other requirements are established by the City Charter (Charter). The June 30, 2004, stand alone financial statements are available by contacting the City Manager's Office, One Frank Ogawa Plaza, Oakland, California 94612.

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

The City contributes, at a minimum, such amounts that are necessary, determined on an actuarial basis, to provide assets sufficient to meet benefits to be paid to PFRS members. The

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

For the year ended June 30, 2004, employee contributions to PFRS totaling $21,581 were made in accordance with actuarially determined contribution requirements.

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

The City's annual pension cost and prepaid asset, computed in accordance with GASB 27, "Accounting for Pensions by State and Local Governmental Employers," for fiscal year ended June 30, 2004, were as follows:

Pension asset, beginning of year		$387,737,180
Interest on pension asset	$ 31,018,975	
Adjustment to the annual required contribution	(37,386,460)	(6,367,485)
Pension asset, end of year		$381,369,695

The following table shows the City's annual pension cost and the percentage contributed for the fiscal year 2004 and each of the two preceding years:

Fiscal Year Ended June 30,	Annual Pension Cost	Percentage (%) Contributed	Net Pension Asset
2002	$5,459,093	—	$393,633,000
2003	5,895,820	—	387,737,180
2004	6,367,485	—	381,369,695

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

Oakland Municipal Employees Retirement System

OMERS provides death, disability and service retirement benefits to participants of the plan. Members who complete at least 20 years of service and have reached the age of 52, or who complete at least 5 years of service and reach the age of 60, are eligible for retirement benefits. The retirement allowance is calculated on a basis which takes into account the final three-years' average compensation, age and the number of years of service. Benefit provisions and all other requirements are established by the Charter. The June 30, 2004, stand alone financial statements are available by contacting by the City Manager's Office, One Frank Ogawa Plaza, Oakland, California 94612.

Employee contributions to OMERS totaling $6,857 were made during 2004 in accordance with actuarially determined contribution requirements. Employee contributions are refundable with interest at 4.5% per annum if an employee elects to withdraw from the plan upon termination of employment with the City. Because of the Retirement System's current funding status, the City is currently not required to make contributions to OMERS. The actuarial calculations are computed using the "aggregate cost method" and the asset valuation is on a market value basis. Under this method, the normal cost is the actuarial present value of a member's benefit divided by the member's expected future working lifetime. The funding of the unfunded actuarial accrued liability is based on a level percentage of payroll over a period ending July 1, 2020, as required by the City Charter.

California Public Employees Retirement System

Plan Description

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

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 7.438% for non-safety employees and 29.118% for police and fire employees, of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2003-04, the City's annual pension cost of $48,433,902 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2001, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service (average is 3.8%), and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends June 30, 2011.

Three-Year Trend Information for PERS
(in millions)

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	$26.9	100	—
2003	37.0	100	—
2004	48.4	100	—

OMERS had one active member transfer to PERS during 2004. As part of the transfer, $1,494,000 of assets were transferred to PERS to cover the liabilities that were assumed.

(16) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

The City pays part of the health insurance premiums for all retirees from City employment receiving a pension annuity earned through City service and participating in a City-sponsored PERS health benefit plan on a pay-as-you-go basis. Approximately $2,375,499 was paid on behalf of 936 retirees under this program for the year ended June 30, 2004.

(17) COMMITMENTS AND CONTINGENT LIABILITIES

Construction Commitments

Primary Government

The City has committed to funding in the amount of $64,115,918 to a number of capital improvement projects for fiscal years 2004-05 to 2005-06.

Discretely Presented Component Unit

The Port anticipates spending $763,300,000 through June 2007 for its capital improvement program. The most significant projects include expansion and improvements of the Airport's terminal, parking, roadway and security; construction of a shoreline park, the modernization of wharves and terminals, 50-foot deepening of the channel, and roadway improvements.

As of June 30, 2004, the Port has firm commitments for the acquisition and construction of assets as follows (in thousands):

Maritime	$ 69,004
Aviation	281,390
Commercial real estate	316
Total	$350,710

The most significant projects for which the Port has contractual commitments are airport terminal expansion of $253,000,000; and modernization of maritime wharves and terminals: new cranes and infrastructure of $48,000,000.

Power Purchases

The Port of Oakland purchases electrical power for resale and self-consumption at the Airport. The Port determines needs and commits to purchase contracts with power providers in advance. The total purchase commitment at June 30, 2004 is approximately $3.34 million.

Other Commitments

Primary Government

As of June 30, 2004, the Agency has entered into contractual commitments of $2,007,812 for materials and services relating to various projects. These commitments and future costs will be funded by currently available funds, tax increment revenue and other sources. The State of California adopted legislation mandating that local government shifts a portion of their property tax revenue share to the Educational Revenue Augmentation Fund (ERAF) to support public schools. For fiscal year 2004-05, the Agency included in its Adopted Budget an ERAF shift of $4,780,419.

At June 30, 2004, the Agency was committed to fund $17,373,456 in loans and had issued $1,648,600 in letters of credit in connection with several low and moderate-income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City.

Discretely Presented Component Unit

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

It is the Port's intent that its environmental compliance programs be compliant with regulatory and legal requirements while effectively managing financial resources. The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable generally accepted accounting principles in the United States of America, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination.

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

A summary of the environmental liability accounts, included within the financial statements at June 30, 2004, is as follows (in thousands):

Environmental remediation	$ 7,941
Miscellaneous compliance	311
Total environmental liabilities	$ 8,252

Oakland Base Reuse Authority

Commitments and Contingencies

Environmental Remediaton

Land conveyed to OBRA from the Army may be subject to environmental remediation as required by Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, OBRA is responsible for the first $13.0 million of environmental remediation costs; including environmental remediation insurance. OBRA has received a federal grant of $13.0 million to pay for the above-mentioned environmental remediation costs. Of this grant amount, $5.0 million has been received.

The next $11.5 million of environmental remediation costs are to be shared equally by OBRA and the Port. The next $9.0 million will be paid from insurance proceeds from the environmental remediation policy. If subsequent environmental remediation is required after the initially-required remediation is complete, then the environmental site liability policy will cover up to $30 million in additional environmental remediation-related costs. OBRA and the Port have agreed to share equally in any environmental remediation-related costs above $21.0 million that are not covered by insurance.

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

Oakland Army Base Workforce Development Collaborative

OBRA and the Port have agreed to share equally in certain expenses related to the conveyance of the EDC property. As of December 20, 2004, OBRA and the Port have paid a total of $5.7 million to the Workforce Collaborative. OBRA could incur liabilities of up to $2.55 million if the Port does not pay its share of the remaining $5.1 million due to the Workforce Collaborative. No provisions have been made to reflect any contingent liabilities should the Port not pay its share of post-conveyance liabilities.

(18) DEFICIT FUND BALANCES/NET ASSETS

As of June 30, 2004, the following funds reported deficits in fund balance/net assets (in thousands):

Federal/State Grant Fund	$ (23,123)
Special Revenue - ORA Projects	(3,481)

The City's federal/state grant fund deficit is expected to be cured through more timely drawdown and collection of federal/state funds. The ORA projects fund deficit is expected to be cured by reimbursements from the Agency.

Internal Service:	
Facilities	$ (10,783)
Central Stores	(5,101)

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

(19) SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On July 28, 2004, the City issued tax and revenue anticipation notes payable of $65,000,000. The notes were issued to satisfy General Fund obligations and carried an effective interest rate of approximately 1.44 %. Principal and interest are due and payable on July 27, 2005.

(20) RESTATEMENT OF NET ASSETS

The City's beginning fund balance for the Oakland Redevelopment Agency Governmental Fund (ORA Fund) reported on the statement of revenues, expenditures and changes in fund balances of the fund financial statements has been restated to reflect changes in interfund loans. During fiscal year 1998/99, the City determined that the City Center Garage Loan made from the City's General Fund to the ORA Fund was not expected to be repaid within a reasonable time, and decided to charge the loan balance to community and economic development expenditures in the General Fund and set up a corresponding deferred revenue balance to offset the interfund loan. Because of the uncertainties surrounding the repayment, it has been determined that it would be prudent to remove the interfund loan altogether in order to provide symmetry between the General Fund and the ORA Fund and restate beginning fund balance for the ORA Fund. Therefore, the following restatement of beginning fund balance has been made in the ORA Fund:

Fund Balance, as of beginning of the year	$ 189,425,000
Restatement to remove the interfund loan payable to the City	18,586,000
Fund Balance, as of beginning of the year, as restated	$ 208,011,000

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