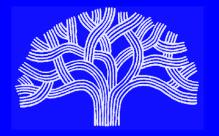


MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM



ANNUAL REPORT

Fiscal Years Ending June 30, 2008 and June 30, 2007



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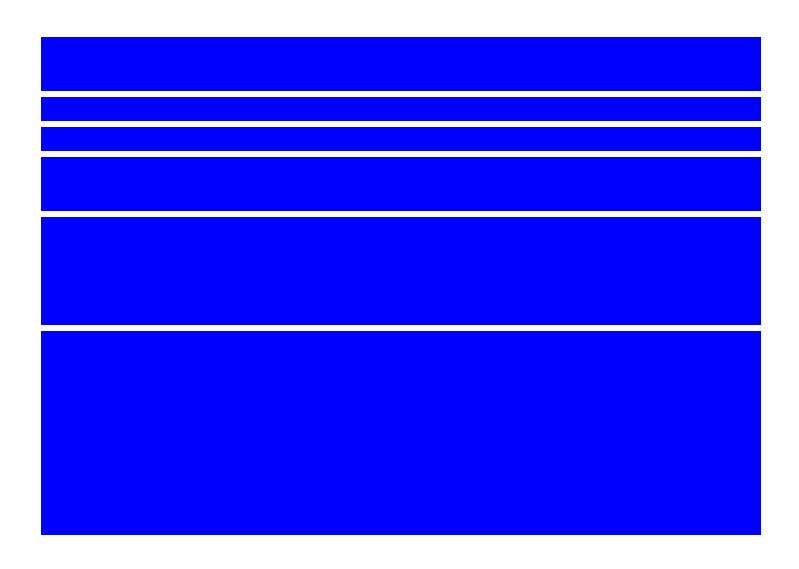
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SECTION 1 INTRODUCTION



CITY OF OAKLAND



150 FRANK H.OGAWA PLAZA, 3RD FLOOR · OAKLAND, CALIFORNIA 94612-2021

Finance and Management Agency
Office of Personnel Resource Management
Retirement Systems

(510) 238-3307 FAX (510) 238-7129 TDD (510) 839-6451

June 1, 2009

Oakland City Council 1 Frank H. Ogawa Plaza Oakland CA 94612

Honorable Mayor Dellums and Members of the City Council:

I am pleased to present the annual report for the Oakland Municipal Employees' Retirement System for the fiscal years ended June 30, 2007 and June 30, 2008. Prepared in compliance with Ordinance Number 713 C.M.S., this report includes the Plan's financial information, investment performance, actuarial valuations and statistical information for the years ended June 30, 2007 and June 30, 2008.

The members of the Board express their appreciation to the Mayor and City Council, City Administrator, City Attorney, the various City Agencies and Departments, and the members of their staff for their cooperation and assistance over the past year.

Respectfully submitted,

Carl Gilmore, President

Oakland Municipal Employees' Retirement System

Board of Trustees

CITY OF OAKLAND



150 FRANK H.OGAWA PLAZA, 3RD FLOOR · OAKLAND, CALIFORNIA 94612-2021

Finance and Management Agency Office of Personnel Resource Management Retirement Systems (510) 238-3307 FAX (510) 238-7129 TDD (510) 839-6451

June 1, 2009

Board of Trustees Oakland Municipal Employees' Retirement Board 150 Frank H. Ogawa Plaza, Suite 3332 Oakland CA 94612

Board of Trustees:

It is my pleasure to submit to you the Annual Financial Report of the Oakland Municipal Employees' Retirement System for the fiscal years ended June 30, 2007 and June 30, 2008.

ACCOUNTING SYSTEM

The report has been prepared in compliance with Ordinance Number 713 C.M.S., and in accordance with generally accepted accounting principles for public retirement systems as prescribed by the Governmental Accounting Standards Board (GASB). It also substantially conforms to the standards established by the Government Finance Officers Association.

The method for recording revenues and expenses is on an accrual basis. Revenue is taken into account when earned, regardless of the date of collection, and expenses are recorded when the corresponding liabilities are incurred instead of when payment is made. Amortization of bond premiums and discounts are over the life of the security and actuarial reserves are funded via the full funding method.

RESTRICTED BONDS

Elections were held in 1970 and 1973 resulting in the transfer of 1,527 Oakland Municipal Employees' Retirement System (OMERS) members to the California Public Employees' Retirement System (PERS). In 1975, 244 employees elected to transfer from OMERS to PERS. On July 4, 1981, six additional members elected to transfer to PERS and \$264,758 in accumulated retirement contributions and interest was transferred to PERS.

As a temporary measure, the City loaned OMERS \$15.5 million in 1974 and \$1.8 million in 1976 to pay the costs associated with the transfers to PERS. As a result, OMERS restricted bonds with a market value of \$15.2 million in 1974 and \$1.8 million in 1976 to ensure repayment of the loans. On April 1, 1992, OMERS fully redeemed the outstanding 1974 revenue bonds. The related securities (\$4,925,000) together with the reserve funds (\$500,000) established from the bond proceeds were transferred to OMERS' unrestricted investment portfolio.

REVENUES

Revenues for the Retirement System are generated by contributions from the members and investment income. The last active OMERS employee transferred to CalPERS in FY 2004. As a result, there are no longer any more active member contributions. The net investment income (loss) was \$1,086,317 and \$(787.169) for the fiscal years ending June 30, 2007 and June 30, 2008. Since July 1, 1994, no City contributions have been required and based on the July 1, 2007 actuarial valuation, there are no requirements for City contributions per the actuarial valuation of July 1, 2007.

EXPENSES

The principal expense of the Retirement System relates to the purpose for which it was created, namely the payment of retirement benefits. Consequently, payment of retirement benefits mandated by the plan, refund of contributions to terminated employees, investment advisory fees, administrative operating costs and staff costs comprise the total expenses.

RESERVES AND FUNDING

Net assets decreased by \$723,914 from June 30 2006 to June 30, 2007 and increased by \$2,288,384 from June 30, 2007 to June 30, 2008. As of the last Actuarial valuation, dated July 1, 2007, the actuarial present value of benefits was \$9.371 million and the plan was 124.7% funded.

INVESTMENTS

The Actuarial assumed rate of return for the plan is 8%. The realized rate of return on the market value for the current and previous fiscal years are as follows:

	Total Returns %			
	1 Year	3 Year		
Total Fund	-9.0%	1.9%		

BOARD OF ADMINISTRATION

In accordance with Section 2602 of the Oakland City Charter, the Retirement System is administered by a seven-member Board of Administration composed of the Budget and Finance Director, the City Auditor, three (3) members elected from the active, retired and deferred membership of the Retirement System, a resident representative of a life insurance company and an officer of a local bank On March 26, 1996, Measure H was approved by the voters in the Primary Election. This measure amended Section 2002 of the Charter of the City of Oakland to provide that in the event that less than three members of the OMERS are elected to serve in the three seats of the OMERS Board designated for such members, the retirement system members may elect widows, widowers and beneficiaries to the vacant seats designated for active, retired and deferred members of the retirement system. As of June 30, 2008, there was one vacancy on the Board from the elected member category.

PROFESSIONAL SERVICES

The Board of Trustees appointed investment professionals and consultants to provide professional services that are essential in making investments and developing a sound retirement plan. A list of these consultants is contained in this report.

ACKNOWLEDGEMENTS

The compilation of this report reflects the combined efforts of the Retirement System Administrative staff, the Board of Trustees and various professional consultants. Its intent is to provide complete and reliable information to the beneficiaries of the Plan and to serve as a basis for making management decisions and to ensure compliance with legal provisions affecting the administration of the Plan.

Respectfully submitted,

Yvonne S. Hudson

Manager, Retirement and Benefits

Gronne S. Audson

City of Oakland

MEMBERS OF THE BOARD OF ADMINISTRATION



Henry Cotten Insurance Representative



Carl E. Gilmore President **Bank Representative**



William C. Russell Vice President **Retired Representative**



Courtney Ruby City Auditor



Legal Advisor Tracy Chriss Deputy City Attorney



William E. Noland **City Treasurer** (Succeeded by Joseph T. Yew, Jr. on February 17, , 2009)



Erling Horn
Retired Representative (Retired from board service on April 15, 2009)

CITY OF OAKLAND RETIREMENT SYSTEMS



(left to right): Téir Jenkins, Retirement System Accountant; David Low, Administrative Assistant II; Sandra Tong, Accountant II; Yvonne Hudson, Retirement and Benefits Manager; Carol Kolenda, Benefits Representative

PROFESSIONAL SERVICES

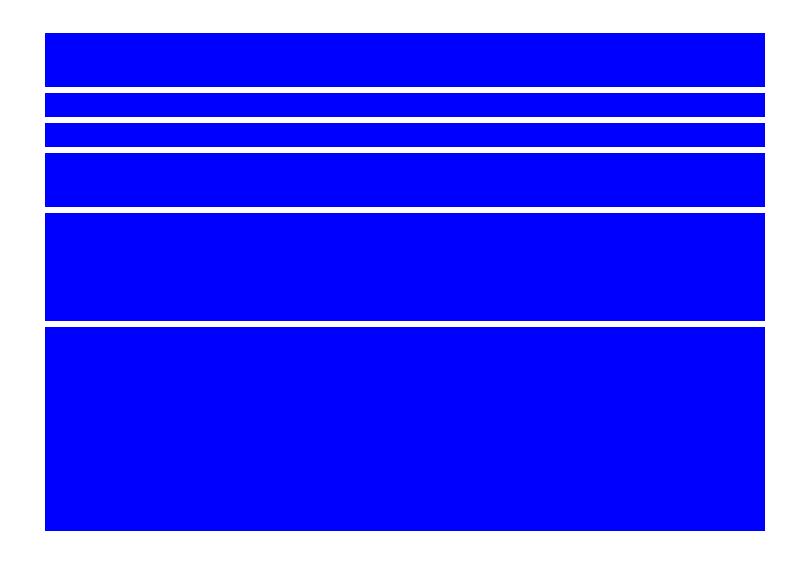
Over the past year the Board of Administration has engaged the following consultants to assist in making investments and in developing a sound retirement plan:

Actuary	Bartel Associates, LLC
Auditors	Macias, Gini & Company, LLP
	Yano Accountancy Corporation
Custodial Service	Bank of New York

A complete list of Investment Professionals is included on page 36 of this Annual Report.

The Board meets bi-monthly on the last Thursday and holds special meetings as they are necessary. The meetings are currently held at 1 Frank H. Ogawa Plaza, Oakland, California 94612. Members of the Retirement Plan and the general public may attend any of the meetings. Current OMERS Board minutes and agendas are available online at www.oaklandnet.com.

SECTION 2 FINANCIAL



INDEPENDENT ACCOUNTANTS' REPORT

Nano Accountancy Corporation

Litigation and Financial Consulting • Forensic Accounting Certified Public Accountants

Independent Accountants' Report

The Board of Administration of the Oakland Municipal Employees' Retirement System

We have audited the accompanying statement of plan net assets of the Oakland Municipal Employees' Retirement System (the System), a pension trust fund of the City of Oakland, California (the City), as of June 30, 2008 and 2007, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2, the financial statements of the System are intended to present only the plan net assets and changes in plan net assets of the System. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2008 and 2007, and changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

YEARS ENDED JUNE 30, 2008 AND 2007

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the System's basic financial statements. The introduction, and investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introduction, and investment, actuarial and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

pano accountancy Componation

Oakland, California November 21, 2008

Vano Accountancy Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

s management of the Oakland Municipal Employees' Retirement System (the System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with the System's financial statements that follow this section. This management's discussion and analysis are presented in the following sections:

- Organizational Overview
- Overview of the Financial Statements
- Financial Analysis: 2008 vs. 2007
- Financial Analysis: 2007 vs. 2006
- Requests for Additional Information

ORGANIZATIONAL OVERVIEW

The City of Oakland City Charter (Oakland Charter) established the System and provides for its funding. Accordingly, the System is an integral part of the City of Oakland (City) and its operations have been reported as a Pension Trust Fund in the City's basic financial statements. The System is a closed single- employer, defined benefit pension plan that provides service and disability retirement, and survivor benefits for eligible employees of the City. The System covers the City's non-uniformed employees hired prior to September 1970 who have not elected to transfer to the California Public Employees' Retirement System (CalPERS). The System is governed by a seven-member Board of Administration composed of the City Treasurer, the City Auditor, three members elected from the retired and deferred membership of the System, and a Mayor appointed representative of a local life insurance company and a local bank in accordance with Section 2002 of the Oakland Charter.

The System's funding policy provides for periodic employee and City contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified in the City Charter. The System no longer receives employee contributions as all members of the System have retired or transferred to CalPERS. The City is not currently making employer contributions because of the System's over-funded status.

The System uses the Aggregate Cost Method to determine City contributions and the Entry Age Normal Cost Method for its actuarial calculations. Under this method, the Present Value of Projected Benefits (PVPB) is the present value of all future benefits for current plan participants. The Actuarial Accrued Liability (AAL) represents the portion of the PVPB attributable to past service. The AAL is recognized over service through the date a participant is expected to commence benefits.

The System's current membership is 61, which include 28 retirees, 22 beneficiaries, and 11 Alameda County Health Department transferees.

The following are the significant assumptions used to compute contribution requirements:

- 8.0% investment rate of return
- 3.0% future benefit increases
- 3.25% inflation rate

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts – management discussion and analysis (this section), the financial statements and required supplementary information. The financial statements include *Statements of Plan Net Assets*; *Statements of Changes in Plan Net Assets*; and the *Notes to Financial Statements*.

The Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets report information to assist readers in determining whether the System's finances as a whole have improved or deteriorated as a result of the year's activities. These statements report the net assets of the System and the activities that cause the changes in the net assets during the year, respectively.

The *Statements of Plan Net Assets* present information on all System assets and liabilities, including the difference between the reported as net assets held in trust for pension benefits. Over time, increases or decreases in net assets held in trust for pension benefits may serve as a useful indicator of whether the financial condition of the System is improving or deteriorating.

While the *Statements of Plan Net Assets* provide information about the nature and amount of resources and obligations at year-end, the *Statements of Changes in Plan Net Assets* present the results of the System's activities during the fiscal year and information as to how the net assets

held in trust for pension benefits have changed during the year. The *Statements of Changes in Plan Net Assets* measure the results of the System's investment performance as well as any additions from contributions and deductions for payment of benefits and administrative expenses. The *Statements of Changes in Plan Net Assets* can be used as indicators of how the System has progressed to or regressed from the twin goals of fully funding all current and past service costs along with having sufficient additional revenue to pay for current refunds of contributions and administrative and investment expenses.

The *Notes to Financial Statements* and *Required Supplementary Information* provide explanations and other information that is helpful to a full understanding of the data provided in the financial statements. The *Notes to Financial Statements* and *Required Supplementary Information* are found starting on page 24 and on Page 31, respectively.

FINANCIAL ANALYSIS: 2008 vs. 2007

Table 1 summarizes the System's plan net assets as of June 30, 2008 and 2007:

Table 1: Summary of Plan Net Assets as of June 30, 2008 and 2007

	Jun	e 30	Change	Э
	2008	2007	Dollars	%
Assets:				
Cash and cash equivalents	\$ 647,326	\$ 155,483	\$ 491,843	316.3
Receivables	11,687	12,175	(488)	(4.0)
Investments	6,871,530	9,288,801	(2,417,271)	(26.0)
Total assets	7,530,543	9,456,459	(1,925,916)	(20.4)
Liabilities:				
Other liabilities	77,110	85,873	(8,763)	(10.2)
Payable to the City of Oakland	-	4,205,537	(4,205,537)	(100.0)
Total liabilities	77,110	4,291,410	(4,214,300)	(98.2)
Net assets held in trust				
for pension benefits	<u>\$ 7,453,433</u>	<u>\$ 5,165,049</u>	\$ 2,288,384	44.3

Total assets decreased \$1,925,916 from June 30, 2007 to June 30, 2008. The main source of this decrease was due to a reduction in the System's investment portfolio. The reduction in the value of System's investment portfolio coincided with an overall downturn in the U.S. financial markets.

Liabilities decreased by \$4,214,300 from June 30, 2007 to June 30, 2008. Substantially all of this decrease was due to the decrease in payable to the City of Oakland. The amount payable

to the City of Oakland is based on an agreement between the Retirement System and the City that net assets, which exceed 125% of the actuarially determined present value of liabilities, shall be recorded as a payable to the City. As of the new actuary valuation dated July 1, 2007, the actuarially determined value of assets as a percentage of the actuarial accrued liability was 124.7%. As a result, the payable to the City of Oakland was \$0 as of June 30, 2008. In comparison, the payable to the City of Oakland was \$4,205,537 as of June 30, 2007. The reduction of the funding ratio to below 125% was primarily based on a difference in the treatment of the present value of liabilities for future administrative expenses.

As a result of the above changes in both assets and liabilities, net assets held in trust increased \$2,288,384 from June 30, 2007 to June 30, 2008.

Table 2 summarizes changes in the System's plan net assets for the years ended June 30, 2008 and 2007:

Table 2: Summary of Changes in Plan Net Assets for the years ended June 30, 2008 and 2007

_	June 3	30	Change		
	2008	2007	Dollars	%	
Additions:					
Investment income	\$ (787,169)	\$1,086,317	\$(1,873,486)	(172.5)	
Deductions and Transfers:					
Benefits to Members					
and Beneficiaries	806,340	917,630	(111,290)	(12.1)	
Administrative expenses	323,644	344,917	(21,273)	(6.2)	
Change in payable to					
the City of Oakland	(4,205,537)	547,684	(4,753,221)	867.9	
Total deductions and transfers	(3,075,553)	1,810,231	(4,885,784)	(269.9)	
Change in net assets held					
in trust for pension benefits	\$2,288,384	\$ (723,914)	\$ 3,012,298	416.1	

The System investment (losses) income during the years ended June 30, 2008 and 2007 were \$(787,169) and \$1,086,317, respectively. The actual returns for these two years were -9.0% and 13.5%, respectively, which compares to benchmark returns of -5.3% and 14.7%, respectively, and actuarially assumed annual returns of 8.0% for both years. As of June 30, 2008 and 2007, the System's investment portfolio consists of shares of two commingled fund investments, the Western Asset Core Bond Fund and the American Century Equity Fund.

The System's benefit expenses for the year ended June 30, 2008 was \$806,340, a decrease of \$111,290 from the prior year. This decrease reflects the ongoing reduction in the System's membership.

FINANCIAL ANALYSIS: 2007 vs. 2006

Table 3 summarizes the System's plan net assets as of June 30, 2007 and 2006:

Table 3: Summary of Plan Net Assets as of June 30, 2007 and 2006

_	June	30	Change		
	2007	2006	Dollars	%	
Assets:					
Cash and deposits	\$ 155,483	\$ 1,291,678	\$ (1,136,195)	(88.0)	
Receivables	12,175	42,292	(30,117)	(71.2)	
Investments	9,288,801	8,300,179	988,622	11.9	
Total assets	9,456,459	9,634,149	(177,690)	(1.8)	
Liabilities:					
Other liabilities	85,873	87,333	(1,460)	(1.7)	
Payable to the City of Oakland	4,205,537	3,657,853	547,684	15.0	
Total liabilities	4,291,410	3,745,186	546,224	14.6	
Net assets held in trust					
for pension benefits	<u>\$ 5,165,049</u>	<u>\$ 5,888,963</u>	<u>\$ (723,914)</u>	(12.3)	

Total assets decreased by \$177,690 from June 30, 2006 to June 30, 2007. This decrease was less than expected because of the investment return during the year of 13.5%, compared to the expected annual return of 8.0%.

Total liabilities increased by \$546,224. The principal reason for this increase was the \$547,684 increase in payable to the City of Oakland. This increase was due to the much greater than expected investment income during the year and its related impact on the excess of actuarially-determined assets over actuarially-determined net present value of benefit liabilities.

Accordingly, net Assets held in Trust for pension benefits decreased \$723,914 from June 30, 2006 to June 30, 2007.

Table 4 summarizes changes in the System's plan net assets for the years ended June 30, 2007 and 2006:

Table 4: Summary of Changes in Plan Net Assets for the years ended June 30, 2007 and 2006

	June 30		Change	9
	2007	2006	Dollars	%
Additions:				_
Investment income	\$ 1,086,317	\$ 226,352	\$ 859,965	379.9
				_
Deductions and transfers:				
Benefits to members and beneficiaries	917,630	966,746	(49,116)	(5.1)
Administrative expenses	344,917	307,626	37,291	12.1
Change in payable to the City of Oakland	547,684	(286,873)	834,557	290.9
Total deductions and transfers	1,810,231	987,499	822,732	83.3
Change in net assets held in trust for pension benefits	\$ (723,914)	<u>\$ (761,147)</u>	<u>\$ 37,233</u>	<u>4.9</u>

Investment income for the years ended June 30, 2007 and 2006 was \$1,086,317 and \$226,352, respectively. The System's total annual returns for the two years were 13.5% and 2.6%, respectively. This compares to benchmark returns for these two years of 14.5% and 4.8%, respectively, and actuarially assumed returns of 8.0% for both years.

Benefits to members and beneficiaries for the year ended June 30, 2007 were \$917,630, a decrease of \$49,116 from the prior year. This decrease reflects the System's continually declining membership. The increase (decrease) in the change in payable to the City of Oakland for the years ended June 30, 2007 and 2006 were \$547,684 and \$(286,873), respectively. This reflects the higher (lower) than expected investment income for the two years.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the System's finances and to account for the money that the System receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City of Oakland Office of Personnel Retirement Systems 150 Frank H Ogawa Plaza Oakland, CA 94612

Statements of Plan Net Assets June 30, 2008 and 2007

_	June 30		
	2008	2007	
Assets			
Cash held by City Treasury	\$ 647,326	\$ 155,483	
Receivables:			
Interest receivable	1,066	63	
Investments receivable			
	10,621	12,112	
Total receivables	11,687	12,175	
Investments, at fair value:			
Short-term investments	23,487	14,663	
Mutual funds	6,848,043	9,274,138	
Total investments	6,871,530	9,288,801	
Total assets	<u>7,530,543</u>	<u>9,456,459</u>	
Liabilities			
Accounts payable	5,198	-	
Benefits payable	61,291	72,315	
Investments payable	10,621	12,113	
Accrued investment management fees	-	1,445	
Payable to City of Oakland	-	4,205,537	
Total liabilities	77,110	4,291,410	
	,.10		
Net assets held in trust for pension benefits	<u>\$ 7,453,433</u>	<u>\$ 5,165,049</u>	

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets Years Ended June 30, 2008 and 2007

Net assets held in trust for pension benefits:

Beginning of year

End of year

June 30 2008 2007 **Additions** Investment income: Net (depreciation) appreciation \$(1,041,334) 773,652 Interest 90,093 8,400 Dividends 267,600 266,713 Total investment income (765, 334)1,130,459 Less: Investment expenses (44,142)(21,835)Net investment income and total additions (787, 169)1,086,317 **Deductions and Transfers** Benefits to members and beneficiaries: Retirement 681,165 788,735 Disability 120,175 127,895 Death 5,000 1,000 Total benefits to members and beneficiaries 806,340 917,630 Administrative expenses 323,644 344,917 Transfers - Change in payable to City of Oakland (4,205,537)547,684 Total deductions and transfers (3,075,553)1,810,231 2,288,384 (723,914)Change in net assets

See accompanying notes to financial statements.

5,165,049

\$ 7,453,433

5,888,963

\$ 5,165,049

Notes to Basic Financial Statements

Years Ended June 30, 2008 and 2007

1. DESCRIPTION OF THE OAKLAND MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

The Oakland Municipal Employees' Retirement System (the System) is a closed, single-employer defined benefit plan established by the City of Oakland (the City) Charter. The System is governed by a board of seven trustees, composed of the City Treasurer, the City Auditor, three members elected by the retired and deferred membership of the System, and a Mayor appointed representative of a local life insurance company and a local bank in accordance with Section 2002 of the Oakland Charter. Trustees receive no compensation. The System covers the City's non-uniformed employees hired prior to September 1970 who have not transferred to the State of California Public Employees' Retirement System (CalPERS).

The System is exempt from the regulations of the Employee Retirement Income Security Act of 1974 (ERISA). The System is also exempt from federal income taxes and California franchise tax.

System Membership

At June 30, 2008 and 2007, there were no active employees 61 and 67 retirees and beneficiaries receiving benefits, respectively.

Basic Benefit Provisions

The City Charter establishes plan membership, contribution, and benefit provisions. The System provides that any member who completes at least 20 years of service and has attained age 52 or completes at least five years of service and attains age 60 is eligible for retirement benefits. The member shall receive a service retirement allowance that is calculated on a basis that takes into account the final three years average compensation, age, and the number of years of service. In addition, the System provides disability, death and survivors benefits for the members.

Upon the retiree's death, payments are continued to the retiree's eligible spouse at the 50% level. The plan provides an automatic cost-of-living adjustment based on changes in the CPI up to a maximum of 3% per year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The System is reported as a pension trust fund in the City's basic financial statements. The financial statements of the System present only the financial activities of the System and are not intended to present the financial position and changes in financial position of the City in conformation.

mity with accounting principles generally accepted in the United States of America.

Measurement Focus and Basis of Accounting

The financial statements are prepared on a flow of economic resources measurement focus using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due, pursuant to formal commitments as well as statutory or contractual requirements, and benefits and refunds are recognized when payable under plan provisions.

Methods Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The System adopted Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures – an amendment to GASB Statement No. 3, effective July 1, 2004. GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources represent significant assets of the System, and these resources are necessary to carry out fiduciary responsibilities. Some key changes with GASB Statement No. 40 include disclosure of:

- Common deposit and investment risks related to credit risk;
- Concentration of credit risk:
- Interest rate risk:
- Foreign currency risk;
- Investments that have fair values that are highly sensitive to changes in interest rates;
- Deposit and investment policies related to those risks.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to Basic Financial Statements

3. CONTRIBUTIONS

All active non-uniformed City employees hired prior to September 1970 have transferred to CalPERS or retired. Accordingly, the System did not receive any employee contributions during the years ended June 30, 2008 and 2007, and will not receive any employee contributions in the future.

The City contributes, at a minimum, such amounts as are necessary, determined on an actuarial basis, using the aggregate actuarial cost method, to provide assets sufficient to meet benefits to be paid to plan members. The contributions are established using various assumptions as to inflation, rate of return on investments and mortality. Administrative costs are prefunded through City contribution rates.

There was no unfunded actuarial accrued liability as of July 1, 2007 (the last actuarial valuation date).

4. CASH AND INVESTMENTS

Investment Policy

The System's investment policy authorizes investment in domestic common stocks and bonds. The investment policy states that the asset allocation of the System's investment portfolio shall be 70% Domestic Equities and 30% Domestic Fixed Income. As of June 30, 2008, the System's investment portfolio consists of shares of two commingled fund investments (Funds). The System is invested in the Western Asset Core Bond Fund and the American Century Equity Fund. Specific guidelines for the Funds are detailed in the prospectus, or Declaration of Trust, for each individual Fund.

The following summarizes the System's investment allocation at June 30, 2008:

	Fair Value	Investment Allocation
Equity Investments		
American Century Equity Mutual Fund	\$4,615,802	67.4%
Fixed Investments		
Western Asset Core Bond Mutual Fund	\$2,232,241	32.6%
Total Investments	<u>\$6,848,043</u>	100.0%

Years Ended June 30, 2008 and 2007

Cash and Cash Equivalents

As of June 30, 2008 and 2007, cash and cash deposits consisted of cash in treasury held in the City's cash and investment pool. These funds are invested according to the investment policy adopted by the City Council. Interest earned on these pooled accounts is allocated monthly to all funds based on the average daily cash balance maintained by the respective funds. It is not possible to disclose relevant information about the System's separate portion of the investment pool. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2008 basic financial statements. A copy of that report may be obtained by contacting the City Treasurer. As of June 30, 2008, the System's share of the City's investment pool totaled \$647,326.

Credit Risk

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

Custodial Credit Risk

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

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

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

Notes to Basic Financial Statements

investments that are not registered in the name of System and are either held by the counterparty or the counterparty's trust department or agent but not in the System's name.

5. PAYABLE TO THE CITY OF OAKLAND

The payable to the City represents an actuarial determined surplus of funds in excess of that required to fulfill all liabilities for retirement allowances for the remaining System members. Once the System terminates, the remaining assets will be either transferred to the City or to CalPERS to cover the benefits for participants that transferred from the System to CalPERS in prior years. As of June 30, 2008 and 2007 the Payable to the City was \$0 and \$4,205,537 respectively.

6. ACTUARIAL ASSUMPTIONS AND FUNDED STATUS

The System adopted GASB Statement No. 50, *Pension Disclosure – an amendment to GASB Statements No. 25 and No. 27, effective July 1, 2007.* GASB Statement No. 50 is designed to inform financial statement users further about the System's funded status and actuarial assumptions.

Information regarding the funded status of the system as of the most recent valuation date is shown below.

Dollars in Thousands									_	
Actuarial Valuation Date	Acc Lia	uarial crued bility (AL)	٧	ctuarial alue of ssets (b)	F	Over- unded AAL (a)-(b)	Funde Ratio (b)÷(a)	Covered Payroll (c)	AAL as a Percentage of Covered Payroll ((a)-(b))÷(c)
7/1/2007	\$	7,516	\$	9,371	\$	(1,855)	124.	7%	\$ -	n/a

The System is not required to make any payments due to its funded status.

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

Years Ended June 30, 2008 and 2007

A summary of the actuarial methods and assumptions used to calculate the Annual Required Contribution (ARC) for the current year follows:

Actuarial Cost Method	Entry Age Normal Cost Method
Asset Valuation Method	Market Value
Investment Rate of Return	8.00%
Inflation Rate	3.25%
Cost - of - Living Adjustment	3.00%
Amortization Method	n/a *
Amortization Period	n/a *

*Not Applicable because the System is in a surplus position.

7. RESERVES

Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. The System's major reserves are as follows:

Retired Member Contribution Reserve represents the total accumulated transfers from active member contributions and investments, less payments to retired members.

Employer Reserve represents the total accumulated employer contributions for retirement payments. Additions include contributions from the employer and investment earnings; deductions include payments to retired members.

The aggregate total of the System's major reserves as of June 30, 2008 and 2007 equals net assets held in trust for pension benefits and comprises the following:

	2008	2007
Retired member contribution reserve	\$ 753,565	\$ 802,314
Employer reserve	6,699,868	4,362,734
	\$ 7,453,433	\$ 5,165,048

8. ADMINISTRATIVE EXPENSES

The City provides the System with accounting and other administrative services. Staff salaries included in administrative expenses for the years ended June 30, 2008 and 2007 were \$251,595

Notes to Basic Financial Statements

and \$284,380, respectively. Other administrative expenses including accounting and audit services, legal fees, annual report and miscellaneous expense for the years ended June 30, 2008 and 2007 were \$72,049 and \$60,537, respectively.

9. SUBSEQUENT EVENT

Recent changes in the Economic Environment and its Impact to the System

The recent turmoil in the financial market has been unprecedented. In September 2008, the U.S. Treasury placed government sponsored enterprises Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) into conservatorship and committed to provide as much as \$100 billion to each company to backstop any shortfalls in capital through 2009, which protected the principal and interest payments on their debt (bonds issued). In addition, the federal government recently assumed control of American International Group Inc. (AIG), the largest insurance company in the U.S.; Lehman Brothers Holdings Inc. was seized by government regulators and its branches and assets sold to JPMorgan Chase & Co. On October 3, 2008, the President of the United States signed into law the \$700 billion Emergency Economic Stabilization Act of 2008 in an effort to address the economic crisis.

For the quarter ending September 30, 2008 the System's total annual portfolio return was -7.1%. This return was below the policy benchmark of -5.2% for the same quarter.

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2008

The information presented in the required supplementary schedule was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuary valuation date of July 1, 2007 is as follows:

Schedule I: Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Actuarial Liability Value of (AAL) Assets (a) (b)		Unfunded AAL (UAAL) (a)-(b)	Funded Ratio (b)÷(a)	Covered Payroll (c)	AAL as a Percentage of Covered Payroll ((a)-(b))÷(c)	
7/1/2003*	6,714	11,668	(4,954)	173.8%	0	n/a	
7/1/2005*	5,277	10,595	(5,318)	200.8%	0	n/a	
7/1/2007**	7,516	9,371	(1,855)	124.7%	0	n/a	

^{*} The aggregate actuarial cost method is used to calculate results.

Schedule II: Schedule of Employer Contribution

Years Ended June 30	Annual Required Contributions	Percentage Contributed
2004	0.0	100%
2005	0.0	100%
2006	0.0	100%
2007	0.0	100%
2008	0.0	100%

^{**} Revised actuarial assumptions and methods. The entry age normal cost method was used for disclosure and annual required contribution rates starting with the July 1, 2007 valuation.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

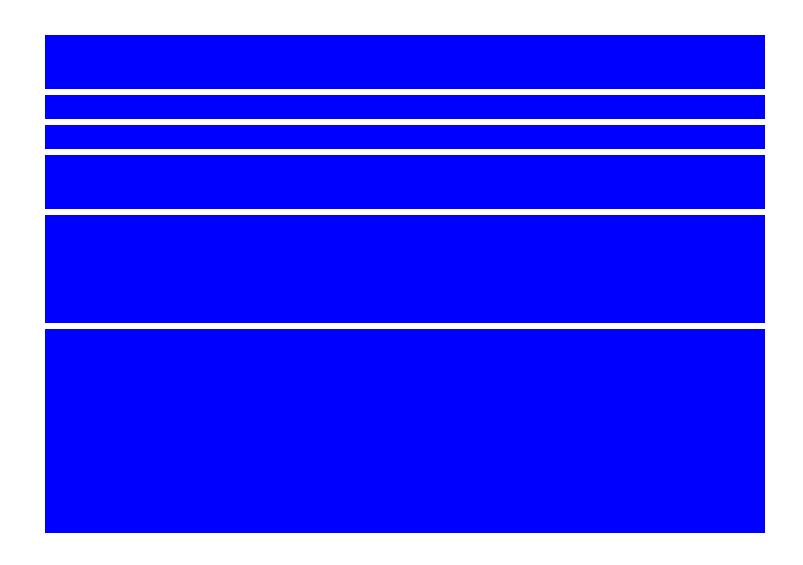
Year Ended June 30, 2008

A summary of the actuarial methods and assumptions used to calculate the Annual Required Contribution (ARC) for the current year follows:

Actuarial Cost Method	Entry Age Normal Cost Method
Asset Valuation Method	Market Value
Investment Rate of Return	8.00%
Inflation Rate	3.25%
Cost - of - Living Adjustment	3.00%
Amortization Method	n/a *
Amortization Period	n/a *

*Not Applicable because the System is in a surplus position.

SECTION 3 INVESTMENT



INVESTMENT CONSULTANT'S REPORT



April 20, 2009

Retirement Board City of Oakland Municipal Employees' Retirement System (OMERS) 150 Frank Ogawa Plaza, Suite 3341 Oakland, CA 94612

Dear Board Members:

This letter reviews the investment performance of the City of Oakland Municipal Employees' Retirement System ("System") for the fiscal year ended June 30, 2008. During this period of time, the OMERS total investment portfolio decreased by (9.0%). The portfolio is diversified into two major asset classes: domestic equity and domestic fixed income. The System has been effective in using its resources in a cost-effective manner to ensure that benefits continue to flow to plan participants.

Pension Consulting Alliance Inc. ("PCA") serves as OMERS' independent investment consultant and calculates performance. The performance data is provided by the System's custodian, The Bank of New York/Mellon. Performance calculations were consistent with GIPS Performance Presentation Standards.

Investment Results

		Annu	ıalized
	Fiscal Year Ended 6/30/2008	3 Years	Since May-03
Total Fund	-9.0	1.9	7.7
Policy Benchmark*	-5.3	4.4	6.9
Domestic Equity			
Total Domestic Equity	-12.3	2.9	14.0
Blended Benchmark	-13.1	4.4	8.7
Fixed Income			
Total Fixed Income	-1.4	0.7	1.7
BC Universal (blend)	7.1	4.1	4.1

^{*} The Total Policy benchmark consists of 70% S&P 500 and 30% Barclays Aggregate.

A major factor influencing overall investment performance is the allocation of the OMERS' portfolio across major asset classes. The second quarter report for 2008 reflects a 70% / 30% domestic equity to domestic fixed income asset allocation policy. The portfolio's actual allocation was overweight domestic fixed income and underweight domestic equities.

Over the latest 1-year period, the OMERS investment portfolio produced an annualized return of minus (9.0%), underperforming its policy benchmark return of minus (5.3%) due to poor relative results by Western Asset, the System's current fixed income manager. Over the latest 3-year period, the OMERS portfolio produced an annualized return of 1.9%, trailing its benchmark return of 4.4% largely due to the longer-term performance results of McCullough, the plan's previous investment manager (Equity) and its value-orientation relative to the broad U.S. equity market.

Sincerely,

Pension Consulting Ollians, Inc

Pension Consulting Alliance

514 N.W. 11th Avenue • Suite 203 • Portland, OR 97209 • bus: (503) 226-1050 • fax: (503) 226-7702

Oakland Municipal Employees' Retirement System List of Investment Professionals

Domestic Equity Manager:

Custodian:

American Century Equity Mutual Fund

Bank of New York

Fixed Income Manager:

Investment Consultant:

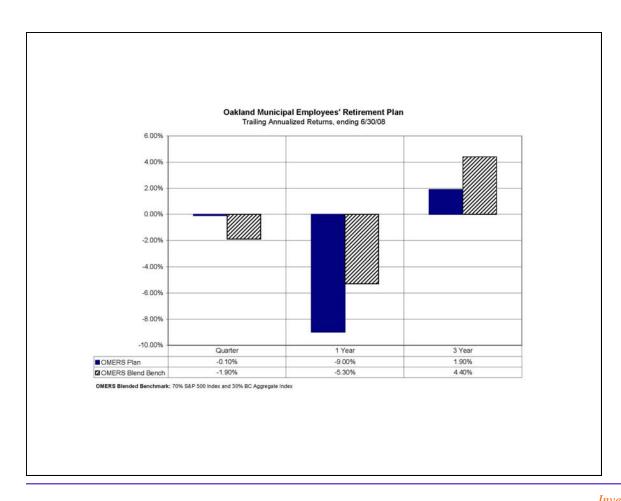
Western Asset Core Bond Mutual Fund

Pension Consulting Alliance

Oakland Municipal Employees' Retirement System Deductions by Type

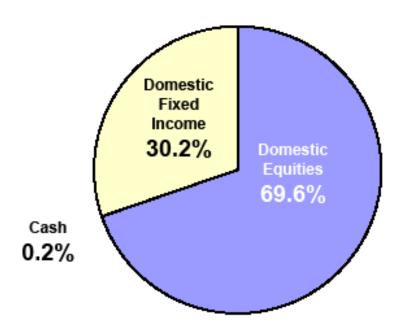
Fiscal Years Ending June 30

	2008	2007	2006
Investment Expenses			
Investment Managers Fees	\$ -	\$ 44,142	\$ 32,869
Custodian Fees	5,390	6,160	5,856
Investment Counsulting Fees	15,000	15,000	7,500
Total Investment Expenses	<u>\$ 20,390</u>	\$ 65,302	\$ 46,225



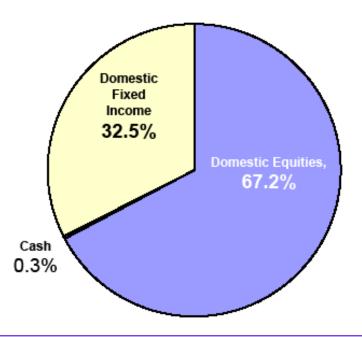
OMERS ASSET ALLOCATION

June 30, 2007



OMERS ASSET ALLOCATION

June 30, 2008



SECTION 4 ACTUARIAL



ACTUARY'S CERTIFICATION LETTER



May 1, 2009

Retirement Board

Oakland Municipal Employees' Retirement System
150 Frank H. Ogawa Plaza, 3rd Floor
Oakland, California 94612

Members of the Board:

The information that follows is based on our actuarial valuation of the retirement system as of July 1, 2007. Prior valuations were performed by Milliman Actuarial.

Our valuation was based on employee data furnished by the City and on the System's financial information. We reviewed the financial and employee data for reasonableness but otherwise have relied on the accuracy of the data supplied.

Actuarial assumptions and methods were reviewed as part of our valuation. Based on our review, we recommended a change in the method used to recognize future administrative costs and the cost-of-living increase assumption for certain retirees. With these changes, we believe our valuation assumptions represent reasonable expectations for the System's future experience with the exception of recent known investment experience from July 1, 2007 through the date of this letter. These assumption and method changes were adopted by the Board.

Our calculations provide information regarding the current funded status of the System, which as of July 1, 2007 was in a surplus position with a funded ratio (assets divided by present value of future benefits) of 124.7%. However this funded ratio and the other information provided in the actuarial section do not take into account the fund's investment returns since July 1, 2007. As of this writing we expect investment losses since that time will decrease the funded ratio significantly.

Retirement Board Oakland Municipal Employees' Retirement System May 1, 2009 Page 2



As members of the American Academy of Actuaries, meeting the Academy's qualification standards, we certify the actuarial results and opinions in this valuation. The actuarial assumptions, methods, and practices used conform to actuarial standards of practice. In addition, the assumptions used comply with the requirement of Governmental Accounting Standards Board Statement No. 25.

Sincerely,

John E. Bartel, ASA, MAAA, EA, FCA President

TR R. Bath

Marilyn Oliver, FSA, MAAA, EA, FCA Vice President

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SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

he City of Oakland City Charter (Oakland Charter) established the System and provides for its funding. Accordingly, the System is an integral part of the City of Oakland (City) and its operations are reported as a Pension Trust Fund in the City's basic financial statements. The System is a closed single-employer defined-benefit pension plan that provides service and disability retirement and survivor benefits for eligible employees of the City. The System covers the City's non-uniformed employees hired prior to September 1970 who have not elected to transfer to the California Public Employees' Retirement System (CalPERS). The System is administered by a seven-member Board of Administration that includes the City Treasurer, the City Auditor, three members elected from the active, retired and deferred membership of the System, and a Mayor-appointed representative of a local life insurance company and a local bank, in accordance with Section 2002 of the Oakland Charter.

The System is exempt from the regulations of the Employee Retirement Income Security Act of 1974 (ERISA). The System is also exempt from federal income taxes and California franchise tax.

The System's funding policy provides for periodic employee and City contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The System no longer receives employee contributions as all members of the System have retired or transferred to CalPERS. The City is not currently making employer contributions because of the System's over-funded status.

The System uses the aggregate actuarial cost method for its actuarial calculations. Under this method, the excess of the actuarial present value of projected benefits of the group included in an actuarial valuation over the actuarial value of assets is allocated on a level basis over the earnings of the group between the valuation date and assumed exit date. The allocation is performed for the group as a whole, not as a sum of individual allocations. The portion of the actuarial present value allocated to a valuation year is called the normal cost. Under this method, the actuarial gains (losses), as they occur, reduce (increase) future normal costs. If the actuarial value of assets exceeds the actuarial present value of projected benefits, the normal cost is set equal to zero.

The following are the significant assumptions used to compute contribution requirements:

- 8.0% investment rate of return
- 3.0% cost-of-living adjustments
- 3.5% inflation rate

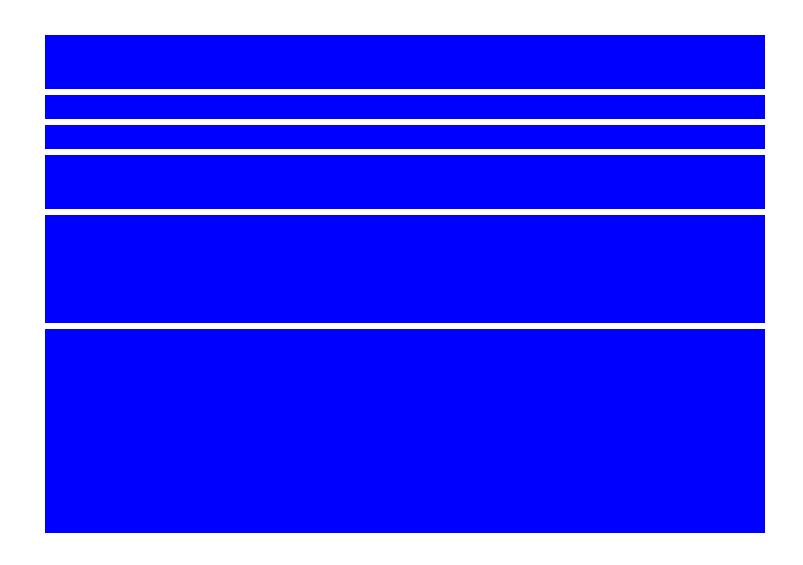
Following are valuation results. Administrative expenses were previously assumed to be paid from investment earnings in excess of the 8% investment return assumption. This assumption was changed in the 2007 actuarial valuation and it is now recognized explicitly. Budgeted 2007/08 administrative expenses will increase by 3.5% per year. However, by the time the population is half of what it currently is, 2/3rds of expenses are assumed to decrease in proportion to the population decrease, and the remaining 1/3rd increase at a flat 3.5%.

	amo	ounts in \$000's-			
	07/01/2005 ¹	07/01/2007	% chg		
Participant Counts					
Service Retirees	46	38	-17.4%		
Disability Retirees	3	3	0.0%		
Beneficiaries	41	29	-29.3%		
Total	90	70	-22.2%		
Demographic Information					
Average Age	87	88			
Annual Benefit Payments	\$1,010	\$858			
Budgeted Administrative Expenses	na	\$297			
Actuarial Liabilities					
Present Value of Projected Benefit Payments	\$5,277	\$4,241	-19.6%		
Present Value of Administrative Expenses	0²	3,275			
Total Actuarial Liabilities	\$5,277	\$7,516	69.2%		
Assets					
Actuarial Value (= Market Value)	10,595	9,371	-11.6%		
 Annual Rate of Return since prior valuation 	15.2%	7.1%			
Net of administrative expenses	13.0%	3.6%			
Plan Funded Status					
Total Actuarial Liability	5,277	7,516	69.2%		
Actuarial Value of Plan Assets	10,595	9,371	-11.6%		
Unfunded Actuarial Liability	(5,318)	(1,855)	-91.7%		
Funded Ratio	200.8%	124.7%			
Recommended City Contribution					
Annual Amount	\$ 0	\$ 0	0.0%		

¹ July 1, 2005 valuation performed by Milliman Consultants and Actuaries.

² Incorporated in 8% return assumption.

SECTION 5 STATISTICAL



Benefit Expense by Type Fiscal Years Ending June 30

	2007		2008	
Type of Retirees	# of Retirees	Yearly Gross Amount	# of Retirees	Yearly Gross Amount
Service Allowance *	57	\$ 788,735	52	\$ 681,165
Disability Allowance	10	127,895	<u>9</u>	120,175
TOTAL:	<u>67</u>	\$ 916,630	<u>61</u>	<u>\$ 801,340</u>
* Includes Death Allowance.				

Additions to Plan Net Assets by Source

Fiscal Years Ending June 30

Fiscal	Change in fair value			Investment	Total
Year	of investments	Interest	Dividends	expenses	Additions
2006	\$ (189,183)	\$ 132,412	\$ 315,992	\$ (32,869)	\$ 226,352
2007	773,652	90,093	266,713	(44,142)	1,086,317
2008	(1,041,334)	8,400	267,600	(21,835)	(787,169)

Deductions to Plan Net Assets by Type

Fiscal Years Ending June 30

Fiscal Year	Service Allowance Benefits	Disability Allowances Benefits	Death Benefits	Administrative Expenses	Changes in Payable to City of Oakland	Total Deductions
2006	\$ 831,644	\$ 133,102	\$ 2,000	\$ 307,626	\$ (286,873)	\$ 987,499
2007	788,735	127,895	1,000	344,917	547,684	1,810,231
2008	681,165	120,175	5,000	323,644	(4,205,537)	(3,075,553)