

# Oakland Police & Fire Retirement System



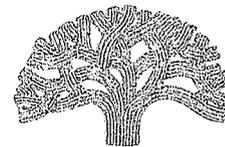
2001-2002 Annual Report



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CITY OF OAKLAND



150 FRANK H. OGAWA PLAZA, SUITE 3341 • OAKLAND, CALIFORNIA 94612-2021

Office of Personnel

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February 1, 2003

**HONORABLE CITY COUNCIL**  
1 Frank H. Ogawa Plaza  
Oakland, CA 94612

Mayor Brown and Members of the City Council,

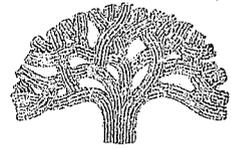
The fifty-first Annual Report of the Oakland Police and Fire Retirement System for the fiscal year ended June 30, 2002 is hereby submitted. This report contains the last ten years of historical data on the System.

This year's assets have decreased by \$154.9 million for a total of \$672.7 million at year-end. The decrease is due primarily to the net depreciation in the fair market value of investments.

Member contributions to the System totaled \$297,645. Due to the issuance of the Pension Obligation Bond in 1997, the next City contribution is deferred until July 2011.

Respectfully submitted,

  
Robert Crawford, President  
Police and Fire Retirement Board



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February 1, 2003

**BOARD OF TRUSTEES**

Oakland Police and Fire Retirement Board  
150 Frank H. Ogawa Plaza, Suite 3341  
Oakland, CA 94612

Trustees,

Submitted herewith, is the Annual Financial Report of the Oakland Police and Fire Retirement System for the year ending June 30, 2002. In addition, this report contains historical data back to 1993.

**ACCOUNTING SYSTEM**

The accompanying financial statement has been prepared in compliance with Section 2600 of the City Charter and in accordance with the accounting and reporting principles set forth in Governmental Accounting Standards Board Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. This Statement establishes financial reporting standards for defined benefit plans and for the notes to the financial statements of defined contribution plans of state and local government entities.

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.

**REVENUES**

Revenue for the plan is generated by contributions from the members and investment income. Contribution and investment income net of money managers fees for June 30, 2002 totaled \$(18,975,240). Effective July 1, 1998, the City contribution rate is 60.49% of earned salaries subject to retirement and member contributions were unchanged. However, due to the issuance of the Pension Obligation Bond, the next City contribution is deferred until July 2011.

**EXPENSES**

The principal expenses of the retirement system relate to the purpose for which it is created namely the payment of benefits, which totaled \$66 million. Consequently, recurring benefit payments mandated by the plan, refund of contributions to terminate employees, investment advisory fees and administrative expenses comprise the total expenses.

**RESERVES AND FUNDING**

The actuarial requirement of the City for benefits is \$871.1 million as of July 1, 2002. This is the difference between the actuarial present value of benefits and the actuarial present value of future member contributions. The actuarial present value of future City contributions is \$202.4 million. The funding status will be monitored with each future actuarial valuation. However, the next decision on City's contribution is scheduled to be made with the July 1, 2010 actuarial valuation effective July 1, 2011.

As of the July 1, 2002 valuation date, all of the active Fire Members elected to transfer their pension coverage from PFRS to the California Public Employees' Retirement System (CalPERS). Liabilities in PFRS have been reduced approximately \$92.6 million because benefits will no longer be paid from PFRS for these transferring members.

**INVESTMENTS**

The System adopted an Investment Policy this fiscal year, which includes an asset allocation plan. The plan consist of five asset classes; Large, Mid, and Small Capitalization Domestic Stocks, International Stocks, and Fixed Income Instruments. In addition, the Policy also allocates among the different investment management styles. The styles for stocks are Active Core, Growth, Value, Market Capitalization, Mid/Small Capitalization and International Equity. The styles for fixed income are Intermediate Maturity Core and Enhanced Core. The Investment Policy will be use as a guideline for all investment activities.

Equity and Fixed Investments Income decreased by \$ 17.9 million and totaled \$(19.3) million for the fiscal year ended. GASB Statement No. 25 requires that investments be reported at fair value. The new appreciation (depreciation) in fair value of investments held by OPFRS is recorded as an increase (decrease) in investment income based on the valuation of investments at year-end.

The rate of return on the portfolio for the current and previous fiscal year is as follows:

**YIELDS**

<u>Portfolio</u>	<u>Market</u>
6/30/01	(0.6)%
6/30/02	(2.3)%

The Portfolio's holdings and comments from our investment advisors are included in this report.

## TAX INFORMATION

The Internal Revenue Service has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code and is therefore not subject to tax under present income tax laws. Accordingly, no provision for income taxes has been made in the accompanying financial statements, as the Plan is exempt from Federal and State income taxes under the provisions of the Internal Revenue Code, Section 501 and California Revenue and Taxation Code, Section 23701, respectively.

Effective January 1, 1993, a 20% withholding tax is mandatory on lump sum distributions of interest earnings from the dependent's portion of contributions. Active members of the Oakland Police and Fire Retirement System will be affected by this law if they are eligible to receive their dependent's portion at retirement.

Payments received under 2608 (service) of the Oakland City Charter are taxable to the recipient, since the retirement allowance is based on age and length of service. Under 2610 (a) (disability), retirement allowances are not taxable; except that the portion of a retiree's retirement allowance in excess of 50% of the compensation attached to the rank is taxable.

## PROFESSIONAL SERVICES

The system hired five new fund managers in fiscal year 1997/1998 for the management of the additional funds received from the Pension Obligation Bond proceeds. There are eight fund managers. In fiscal year 2000/2001, Tiffany Capital was liquidated and State Street Global Advisors (Index Fund) was hired. On June 20, 2002, Deutsche Asset Management formerly known as Scudder, Stevens and Clark, Inc. was terminated, although the liquidation of assets did not occur until July 2002. A list of fund managers is contained in this report on page 6.

## ACKNOWLEDGMENTS

The compilation of this report reflects the combined efforts of the Retirement Administrative Staff, the Board of Trustees and various professional consultants. Its intent is to provide complete and reliable information as a basis for making management decisions, to ensure compliance with legal provisions, and to provide responsible stewardship for assets contributed by the members and the City.

Respectfully submitted,

  
Walter L. Johnson, Sr.  
Director, Office of Personnel  
Secretary to the Board

**OAKLAND POLICE AND FIRE RETIREMENT SYSTEM**

**BOARD OF ADMINISTRATION**

The retirement system is administered by a seven-member Board of Administration, composed of the Mayor or his designate, an appointed life insurance executive, an appointed senior officer of a local bank, an appointed community representative, two City employee members elected by members of the System, and one retired employee elected by the retired members of the System in accordance with section 2601 of the Oakland City Charter.

As of June 30, 2002, the Board members were as follows:

<b>ROBERT CRAWFORD</b>	<b>PRESIDENT</b> , Police Representative Term expires 8/31/03
<b>CRUZ ARELLANES, JR.</b>	<b>VICE PRESIDENT</b> , Fire Representative Term expires 8/31/05
<b>DOLORES BLANCHARD</b>	Asst. City Manager, Ex-Officio
<b>VACANT</b>	Insurance Representative
<b>JAMIE GODFREY</b>	Bank Representative Elected Term expires 8/31/01
<b>HADWICK THOMPSON</b>	Community Representative Term expires 8/31/03
<b>JAMES F. COOPER</b>	Police/Fire Representative Term expires 8/31/06

## ADMINISTRATIVE STAFF

<b>WALTER L. JOHNSON, SR.</b>	Director of Office of Personnel & Secretary to the Board.
<b>JIM BROWN</b>	Assistant to the Director
<b>BARBARA PARKER</b>	Legal Counsel

The Board of Administration engages the following consultants to assist in making investments and in developing a sound retirement plan:

<b>ACTUARY</b>	Milliman USA
<b>AUDITOR</b>	Yano Accountancy Corporation
<b>CUSTODIAL SERVICE</b>	Bank of New York
<b>INVESTMENT COUNSEL</b>	
<b>Domestic Equity</b>	Ariel Capital Management, Inc. McCullough, Andrews & Cappiello, Inc. Rhumbline Advisers State Street Global
<b>Domestic Fixed</b>	Reams Asset Management Seneca Capital Management
<b>International Equity</b>	Invista Capital Management Zurich, Scudder Investment, Inc.
<b>MEASUREMENT SERVICE</b>	Watson/Wyatt Investment Consulting, Inc

## ADMINISTRATIVE SUPPORT STAFF

Renald A. Abellera	Jennifer Foster
Gloria Alcala	Sharon Holman

The Board meets on the last Wednesday of each month and holds special meetings as the necessary. The meetings are currently held at **1 Frank H. Ogawa Plaza, Hearing Room #4, Oakland, California 94612**. Member of the Retirement Plan and the general public may attend any of the meetings.

## SUMMARY OF RETIREMENT SYSTEM PLAN

### PURPOSE

The Oakland Police and Fire Retirement Fund was created pursuant to Article 26 of the Charter of the City of Oakland. Its purpose is to provide a sound and efficient system for the payment of retirement allowances and disability and death benefits to the members of the Police and Fire Departments.

### ADMINISTRATION

The Oakland Police and Fire Retirement System is governed by a board of seven trustees – four are appointed by the Mayor, with the approval of the City Council, two are elected from the active members of the two departments and one is elected from the retired members of the system. Trustees receive no compensation. The Director of Retirement Systems is selected by the Board of Trustees and is charged with all administrative functions and supervision of the Oakland Police and Fire Retirement System employees. The Board also appoints a secretary, medical and investment counsel, an actuary and an auditor. The City Treasurer and Bank of New York are the custodians of the retirement fund.

### SERVICE RETIREMENT

- |    |                      |   |
|----|----------------------|---|
| A. | Eligibility          | (i) 20 years of service regardless of age,<br>(ii) 25 years of service, or<br>(iii) 20 years of service and age 55.   |
| B. | Benefit              | (i) 50% pay + 1 2/3% of salary x years of service after first eligible to 10 years<br>(ii) If less than 20 years of service, benefit reduced proportionately. |
| C. | Salary               | Current salary attached to final 3-year average <u>rank</u> including holiday and uniform allowances. Longevity and line-up pay to police only.               |
| D. | Spouse's Continuance | (i) For duty death – 100%<br>(ii) For non-duty death – 2/3<br>(iii) Married one year prior to retirement.   |
| E. | Refund               | If no dependent on retirement, then refund of "dependent" contributions plus interest.  |

**SUMMARY OF RETIREMENT SYSTEM PLAN - continued**

**EARLY RETIREMENT**

- |    |                      |   |
|----|----------------------|---|
| A. | Eligibility          | 20 years of service.  |
| B. | Benefit              | 40% pay + 2% for each additional year of service beyond 20 years, not to exceed an additional 5 years   |
| C. | Salary               | Current salary attached to final 3-year average <u>rank</u> including holiday and uniform allowances. Longevity and line-up pay to police only. |
| D. | Spouse's Continuance | See Service Retirement  |

**SPOUSE OF SERVICE-CONNECTED DEATH**

- |    |  |   |
|----|--|---|
| A. | Eligibility                            | Immediate   |
| B. | Benefit                                | (i) Same as spouse's continuance for service retirement, if service retirement conditions are met.<br>(ii) If not, then 50% salary. |
| C. | Minimum                                | (i) 50% salary.   |
| D. | Children's Continuance (under 18)      | (i) 1 child – 25% spouse benefit<br>(ii) 2 children – 40% spouse benefit<br>(iii) 3 or more – 50% spouse benefit.                   |
| E. | Maximum Benefit of Spouse and Children | 75% salary for average rank. Adopted children 5 years prior to retirement.  |

**SPOUSE OF ACTIVE NON-DUTY DEATH**

- |    |             |  |
|----|-------------|--|
| A. | Eligibility | 10 years service   |
| B. | Benefit     | (i) If service retirement conditions met, then 2/3 of service retirement benefit.<br>(ii) If 10 years service, but service retirement conditions not met, 33 1/3% of service retirement benefit. |
| C. | Children    | See Service-Connected Death.   |

SUMMARY OF RETIREMENT SYSTEM PLAN - continued

**DEATH BENEFIT (DEATH OF ACTIVE WITH NO DEPENDENTS)**

- A. Eligibility Immediate, but only if no dependents.
- B. Benefits
  - (i) If service retirement contributions plus interest, and
  - (ii) 1/12 of salary x service to a maximum of 6 years.

**SERVICE-CONNECTED DISABILITY RETIREMENT**

- A. Eligibility One year from first day disabled.
- B. Benefits
  - (i) If service retirement conditions met, then benefit as for service retirement.
  - (ii) If service retirement conditions not met, then 75% of salary, reducing to 50% of salary when conditions would have been met.
- C. Spouse or Children See Service Retirement.

**NONSERVICE-CONNECTED DISABILITY RETIREMENT**

- A. Eligibility 5 years service
- B. Benefits
  - (i) If age 55 attained, benefits as for service retirement
  - (ii) If age less than 55, then 1 ½% of salary x years of service.
- C. Minimum 33 1/3% of salary
- D. Spouse of Children See Service Retirement, but in addition, if disabled member's death is duty related, then minimum 50% salary.
- E. Refund If no dependent on disablement, see Service Retirement Refund Benefit.

**DEATH AFTER RETIREMENT**

- A. Lump Sum \$1,000 cash to designated beneficiary if no qualifying dependent.
- B. Normal Service Retirement Two-thirds of allowance continues to surviving widow.
- C. Service-connected Disability Allowance equal to retirement allowance of member.

## **SUMMARY OF RETIREMENT SYSTEM PLAN - continued**

- D. Optional Payment Plans Member may elect to reduce monthly allowance in order to increase benefits to a survivor. Contact Retirement Office for details.

### **DEFERRED RETIREMENT**

- A. Eligibility 10 years service.
- B. Benefit Retirement allowed on or after 25<sup>th</sup> anniversary of the member's date of employment equal to 20% of the compensation attached to average rank held during 3 years preceding retirement, plus an additional allowance of 2% for each year of service beyond 10.

### **TERMINATION OF SERVICE**

- A. Eligibility Immediate
- B. Benefit Refund of member's contributions plus interest.

### **MEMBER CONTRIBUTIONS**

- A. Pre - 51 Members 5.5% of basic salary plus 1.5% of basic salary for dependent contributions.
- B. Post - 51 Members Range from 9.30% to 12.21% with maximum contribution rate of 13%.

### **CITY CONTRIBUTIONS**

Bond proceeds in the amount of \$417,173,300 were contributed in fiscal year 1997 and, as a result, no employer contributions are required through fiscal year 2011.

### **RAISES AFTER RETIREMENT**

Monthly benefits are related directly to the salary for the member's average rank and increase annually in direct relationship with the salary increases of active members for the rank.

### **AMENDMENTS EFFECTIVE JULY 1, 1976**

On June 8, 1976, Measure R was approved by the voters in a Special Election. This measure amended Section 2602, 2607, 2608, 2610, 2618 and 2619 of the Charter of the City of Oakland pertaining to the Oakland Police and Fire Retirement System. The amended Provisions:

- Limit the membership to only those police officers and firefighters employed before July 1, 1976.
- Eliminate additional City Contributions required by a prior 4% limit on assumed investment earnings of the system.
- Provide a maximum of one year from date of disability injury to date of service-connected disability retirement.
- Set a maximum of 13% salary on members' contributions
- Provide a nonservice-connected disability after 5 years of service (reduced from 10 years of service).
- Limit bonuses for years of service.
- Increase members' benefits to provide for vesting after ten years.
- Allow retirement after twenty years of service regardless of age.
- Require actuarial valuations at least once every three years instead of every five years.
- Amortize the City's unfunded contributions over a 40-year period and make certain technical charges.

### **AMENDEMENTS EFFECTIVE APRIL 19, 1983**

On April 19, 1983, Measure A was approved by the voters in the Municipal Nominating Election. This measure amended Section 2601-e and Subsections 6, 7, 7a, 7c, 7d, and 7e of the Charter of the City of Oakland pertaining to the Oakland Police and Fire Retirement System. The amended provisions:

- Allow the Police and Fire Retirement Board to make investments other than those listed in the Charter.
- Eliminate specific reference to and specific restrictions on conventional mortgage loans.
- Remove restrictions on real property investments in substantially completed property where the Board has an interest in the real and or improved property.
- Remove all lease requirements, including the requirement for leases not less than 20 years.

### **AMENDMENTS EFFECTIVE JUNE 3, 1986**

On June 3, 1986, Measure T was approved by the voters in the Special Municipal Election consolidated with the Primary Election. This measure amended Section 2612 (1) and Subsections (a) and (b) of the Charter of the City of Oakland pertaining to the Oakland Police and Fire Retirement System. The amended provision:

- Allowing eligible surviving spouses of retirees to continue receiving allowances after remarriage.

### **AMENDMENTS EFFECTIVE AUGUST 15, 1988**

On June 7, 1988, Measure O was approved by the voters in the Special Election consolidated with the Primary Election. This measure amended Section 2619 (6) of the Charter of the City of Oakland pertaining to the Oakland Police and Fire Retirement System. The amended provision:

- Extends the contribution period for funding Police/Fire Retirement liabilities from the year 2016 to 2026.

### **AMENDMENTS EFFECTIVE JULY 1, 1993**

On November 3, 1992, Measure O was approved by the voters in the General Election. This measure amended by adding Section 2608 (j) and Section 2610 (d) and a new Section 2620 of the Charter of the City of Oakland pertaining to the Oakland Police and Fire Retirement System. The added provision:

- Exempt the Police and Fire Retirement System pension plan from the annual pension benefit limits of the United States Internal Revenue Code Section 415 thereby maintaining the current tax treatment of such plan members' pension benefits.

Also, on November 3, 1992, Measure P was approved by the voters in the General Election. This measure amends Section 2601 (d) of the charter of the City of Oakland pertaining to the Police and Fire Retirement System. The amended provision:

- Payment of administrative costs of the Police and Fire Retirement System (PFRS) from the PFRS fund.

### **AMENDMENTS EFFECTIVE MARCH 26, 1996**

On March 26, 1996, Measure E was approved by the voters in the Municipal Nominating Election. This measure amended Section 2601 (e) of the charter of the City of Oakland pertaining to the Police and Fire Retirement System. The amended provisions:

- To provide that a maximum of fifty percent (50%) of all invested funds of the Police and Fire Retirement System may be invested in common stocks and mutual funds; and that Police and Fire may approve on a case by case basis, the purchase of common stocks that have not paid a cash dividend for the five years next preceding the date of investments.

Also, on March 26, 1996 Measure F was approved by the voters in the Municipal Nominating Election. This measure amended Section 2601 of the Charter of the City of Oakland pertaining to the Police and Fire Retirement System. The amended provision:

- To provide that in the event no active member of the Police or Fire Department is willing to serve on the Police and Fire Retirement Board in the positions designated for such members, the retired and active members of the Police and Fire Department, as the case may be, shall elect a retired member of such department to serve in such positions.

**AMENDMENTS EFFECTIVE DECEMBER 12, 2000**

On December 12, 2000, Measure J was approved by the voters in the Municipal Nominating Election. This measure amended Section 2600 of the charter of the City of Oakland pertaining to the Police and Fire Retirement System. The amended provisions:

- To terminate their PFRS membership and become members of the California Public Employees' Retirement System ("PERS") (hereinafter referred to as "transfer to PERS") if (1) the City Council authorized the transfer to PERS; and (2) the PFRS Board authorizes transfer to PERS of PFRS funds that represent the active members' employee and employer contributions to PFRS.

Also, on December 12, 2000 Measure K was approved by the voters in the Municipal Nominating Election. This measure amended Section 2615 of the Charter of the City of Oakland pertaining to the Police and Fire Retirement System. The amended provision:

- To permit retired members of the Police and Fire Retirement System ("PFRS") to hold employment with the City pursuant to a City authorized Deferred Retirement Option Plan ("DROP").

# *Nano Accountancy Corporation*

## **Independent Auditors' Report**

The Board of Administration  
of the Oakland Police and Fire Retirement System

We have audited the accompanying statements of plan net assets and the related statements of changes in plan net assets of the Oakland Police and Fire Retirement System (the Retirement System), a component unit of the City of Oakland, as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Oakland Police and Retirement System's net assets as of June 30, 2002 and 2001, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information included in pages 2 through 7, 19 and 20 is required under Governmental Accounting Standards Board (GASB) Statements No. 34, as amended, and No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. We have applied certain limited procedures prescribed by professional standards to the supplemental information, which consisted principally of inquires of management regarding the methods of measurement and presentation of the information. However, we did not audit and do not express an opinion on such information.

*Nano Accountancy Corporation*

Oakland, California  
December 20, 2002

## Management's Discussion and Analysis

This section presents management's analysis of the Oakland Police and Fire Retirement System's ("the Retirement System") financial condition and activities for the year ended June 30, 2002. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the Retirement System's basic financial statements. This MD&A should be read in conjunction with the basic financial statements that follow this section. This MD&A is organized into the following sections:

- Organizational Overview
- Financial Statement Overview
- Financial Analysis: Year-End Financial Condition
- Financial Analysis: Changes in Net Assets Held in Trust for Pension Benefits
- Contingencies

### Organizational Overview

The City of Oakland City Charter established the Retirement System and provides for its funding. Accordingly, the Retirement System is an integral part of the City and its operations have been reported as a Pension Trust Fund in the City's combined financial statements. The Retirement System is a single employer, contributory, defined benefit pension plan that provides retirement, disability and survivorship benefits for eligible employees of the City. The Retirement System covers the City's non-uniformed employees hired prior to July 1, 1976 who have not transferred to the California Public Employees' Retirement System. The Retirement System is governed by a board of seven trustees—four are appointed by the Mayor, with the approval of the City Council, two are elected from the active members of the two departments and one is elected from the retired members of the system. Trustees receive no compensation.

The Retirement 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. Active members contribute a percentage of earned salaries, which is determined by consulting actuaries based upon their entry age into the Retirement System. In accordance with the City Charter, active members hired prior to July 1, 1951, contribute 7.00% of their earned salaries. Active members hired after July 1, 1951, and prior to July 1, 1976, contribute a percentage of their earned salaries based upon entry age as determined by consulting actuaries. During the years ended June 30, 2002 and 2001, these contributions ranged from 5.43% to 6.80%. The City Charter limits employee contributions to 13.00% of earned salaries. Employee contributions are refundable with interest at 4.00% if an employee elects to withdraw from the Retirement System upon termination with the City. Because of the Retirement System's current funding status, the City currently is not required to make any contributions.

The Retirement 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 asset is allocated on a level basis over the earnings of the group between the valuation date and assumed exit. 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

Unaudited – See accompanying independent auditors' report.

## Management's Discussion and Analysis, Continued

(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:

- 8.00% investment rate of return
- 4.00% average salary increases
- 3.50% inflation rate

### Financial Statement Overview

The financial statements include *statements of plan net assets; statements of changes in plan net assets; notes to the financial statements; and required supplementary information*. The financial statements were prepared by City staff from detailed accounts and records of the Retirement System and were audited by independent auditors.

The *Statements of Plan Net Assets* and the *Statements of Changes in Plan Net Assets* report information to assist readers in determining whether the Retirement 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 Retirement System and the activities that cause the changes in the net assets during the year, respectively.

The *Statements of Plan Net Assets* presents information on all the Retirement System assets and liabilities, with the difference between the two 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 position of the Retirement 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 Retirement 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* measures the results of the Retirement System's investment performance as well as its additions from contributions and deductions for payment of benefits, and administrative and investment expenses. The *Statements of Changes in Plan Net Assets* can be used as indicators of the how the Retirement 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 the 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 the financial statements and required supplementary information (other than this MD&A) are found on pages 9 through 19 of this report.

Unaudited – See accompanying independent auditors' report.

**Management's Discussion and Analysis, Continued**

**Financial Analysis: Year-End Financial Condition**

Table 1 summarizes net assets held in trust for pension benefits as of June 30, 2002 and 2001:

Table 1  
Summary of Plan Net Assets  
as of June 30, 2002 and 2001

	June 30		Change	
	2002	2001	Dollars	Percentage
<b>Assets:</b>				
Cash and cash equivalents	\$110,737,018	\$ 46,427,939	\$ 64,309,079	138.51%
Other assets	51,252,944	35,551,514	15,701,430	44.17%
Investments	168,813,454	236,405,331	(67,591,877)	
Securities lending collateral	639,210,687	794,372,532	(155,161,845)	-19.53%
<b>Total assets</b>	<b>\$970,014,103</b>	<b>\$1,112,757,316</b>	<b>\$(142,743,213)</b>	<b>-12.83%</b>
<b>Liabilities:</b>				
Benefits payable	\$ 2,965	\$ 15,727	\$ (12,762)	-81.15%
Payable to California Public Employees' Retirement System	50,388,808	-	50,388,808	
Investments payable	77,568,005	48,143,999	29,424,006	61.12%
Securities lending liabilities	168,813,454	236,405,331	(67,591,877)	-28.59%
Accrued investment management fees	552,775	591,563	(38,788)	-6.56%
<b>Total liabilities</b>	<b>297,326,007</b>	<b>285,156,620</b>	<b>12,169,387</b>	<b>4.27%</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$672,688,096</b>	<b>\$ 827,600,696</b>	<b>\$(154,912,600)</b>	<b>-18.72%</b>

The principal reasons for the decrease in total assets are investment loss, benefits to members and beneficiaries and transfers of assets to California Public Employees' Retirement System (PERS).

The Retirement System's total annual return was (2.3)% during the year ended June 30, 2002. This compares to a (19.2)% decline in the Standard & Poors 500 Index, a (12.0)% decline in the Dow Jones Industrial Average, a (18.4)% decline in the Russell 3000 index and a (32.3)% decline in the NASDAQ index.

Unaudited – See accompanying independent auditors' report.

**Management's Discussion and Analysis, Continued**

The Retirement System had 104 active members transfer to PERS during 2002. As part of the transfer, \$69,829,757 of assets were designated for transfer to PERS to cover the liabilities that were assumed, of which \$50,388,808 were still payable at June 30, 2002.

The decrease in securities lending liabilities reflects less securities lending were made during the year. The increase in investments payable reflects increases in pending purchases of investments at June 30, 2002 that did not close until July.

The Retirement System engages an independent actuarial firm, Milliman USA, to conduct periodic actuarial valuations. The primary purpose of an actuarial valuation is to estimate the participant liabilities of the Retirement System so that contribution rates can be set to adequately fund the Retirement System over the long term. The Retirement System has an unfunded actuarial liability of \$202,370,599 at June 30, 2002 as below:

Table 2  
Unfunded Actuarial Liability and Funding Ratio  
as of July 1, 2002 and 2001

	As of July 1	
	2002	2001
Unfunded actuarial liability:		
Employees transferred to PERS	\$ -	\$ 11,066,662
Employees remaining in the Retirement System	202,370,599	114,182,800
	\$ 202,370,599	\$ 125,249,462
Funding ratio:		
Employees transferred to PERS	N/A	86.9%
Employees remaining in the Retirement System	76.9%	86.9%

Unaudited – See accompanying independent auditors' report.

## Management's Discussion and Analysis, Continued

### Financial Analysis: Changes in Net Assets Held in Trust for Pension Benefits

Table 3 summarizes changes in plan net assets held in trust for pension benefits for the years ended June 30, 2002 and 2001:

Table 3  
Summary of Changes in Net Assets  
Held in Trust for Pension Benefits  
for the years ended June 30, 2002 and 2001

	Years Ended June 30		Change	
	2002	2001	Dollars	Percentage
<b>Additions:</b>				
Contributions - members	\$ 297,645	\$ 655,561	\$ (357,916)	-54.60%
Investment loss	(19,272,885)	(1,366,042)	(17,906,843)	1310.86%
Total additions	<u>(18,975,240)</u>	<u>(710,481)</u>	<u>(18,264,759)</u>	<u>2570.76%</u>
<b>Deductions:</b>				
Benefits to members and beneficiaries	66,075,390	63,210,499	2,864,891	4.53%
Administrative expenses	(70,890)	751,990	(822,880)	-109.43%
Termination Refunds of Employees' Contributions	103,103	103,210	(107)	-0.10%
Transfer to California Public Employees' Retirement System	69,829,757	-	69,829,757	
Total deductions	<u>135,937,360</u>	<u>64,065,699</u>	<u>71,871,661</u>	<u>112.18%</u>
Change in net assets held in trust for pension benefits	<u>\$ (154,912,600)</u>	<u>\$ (64,776,180)</u>	<u>\$ (90,136,420)</u>	<u>139.15%</u>

The decrease in contributions was due to the decrease in active members from 143 at June 30, 2001 to 26 at June 30, 2002. As described in the *Financial Analysis: Year-End Financial Condition* section of this MD&A, the Retirement System had 104 active members transfer to PERS during 2002. As part of the transfer, \$69,829,757 of assets was transferred to PERS to cover the liabilities that were assumed. The investment loss in 2002 reflects the general losses in the securities markets as described in the *Financial Analysis: Year-End Financial Condition* section of this MD&A.

Unaudited – See accompanying independent auditors' report.

## Management's Discussion and Analysis, Continued

The increase in benefits reflects the salary adjustments made during 2002. Table 4 shows the administrative expenses for 2002 and 2001. Administrative expenses decreased primarily due to a refund of approximately \$690,000 of administrative expenses charged by the City to the Retirement System that should have been charged to another pension plan and to the City's General Fund. The decrease in interest expense reflects the principal payments made during the year.

Table 4  
Administrative Expenses  
For the years ended June 30, 2002 and 2001

	Years Ended June 30		Change	
	2002	2001	Dollars	Percentage
Before cumulative change in estimate	\$ 619,568	\$ 751,990	\$(132,422)	-17.61%
Cumulative change in estimate	(690,458)	-	(690,458)	
General and administrative expenses	<u>\$ (70,890)</u>	<u>\$ 751,990</u>	<u>\$(822,880)</u>	<u>-109.43%</u>

### Contingencies

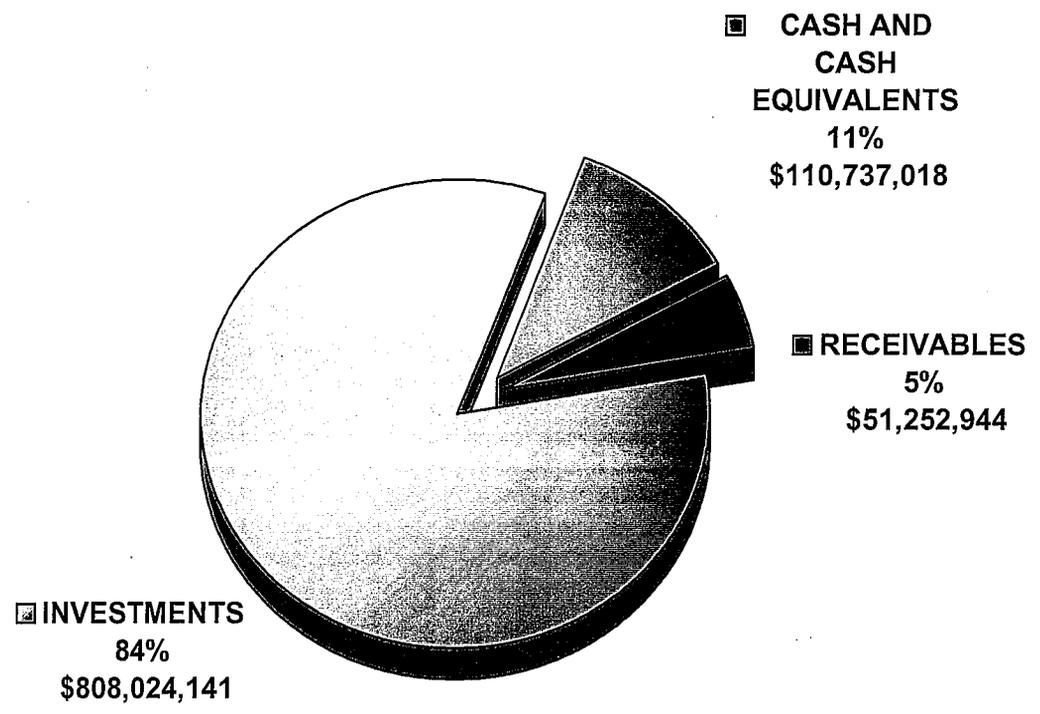
The Retirement System has been the defendant in a lawsuit filed by three participants. The plaintiffs claimed that time spent on disability should be counted in the years-of-service calculation for determining retirement benefits. The trial court ruled in favor of the plaintiffs in August 2002, and the Retirement System is appealing the trial court's decision. The Retirement System believes that the ultimate outcome of this particular action, even if unfavorable, would not have a material impact on the Retirement System's financial statements.

### Requests For Information

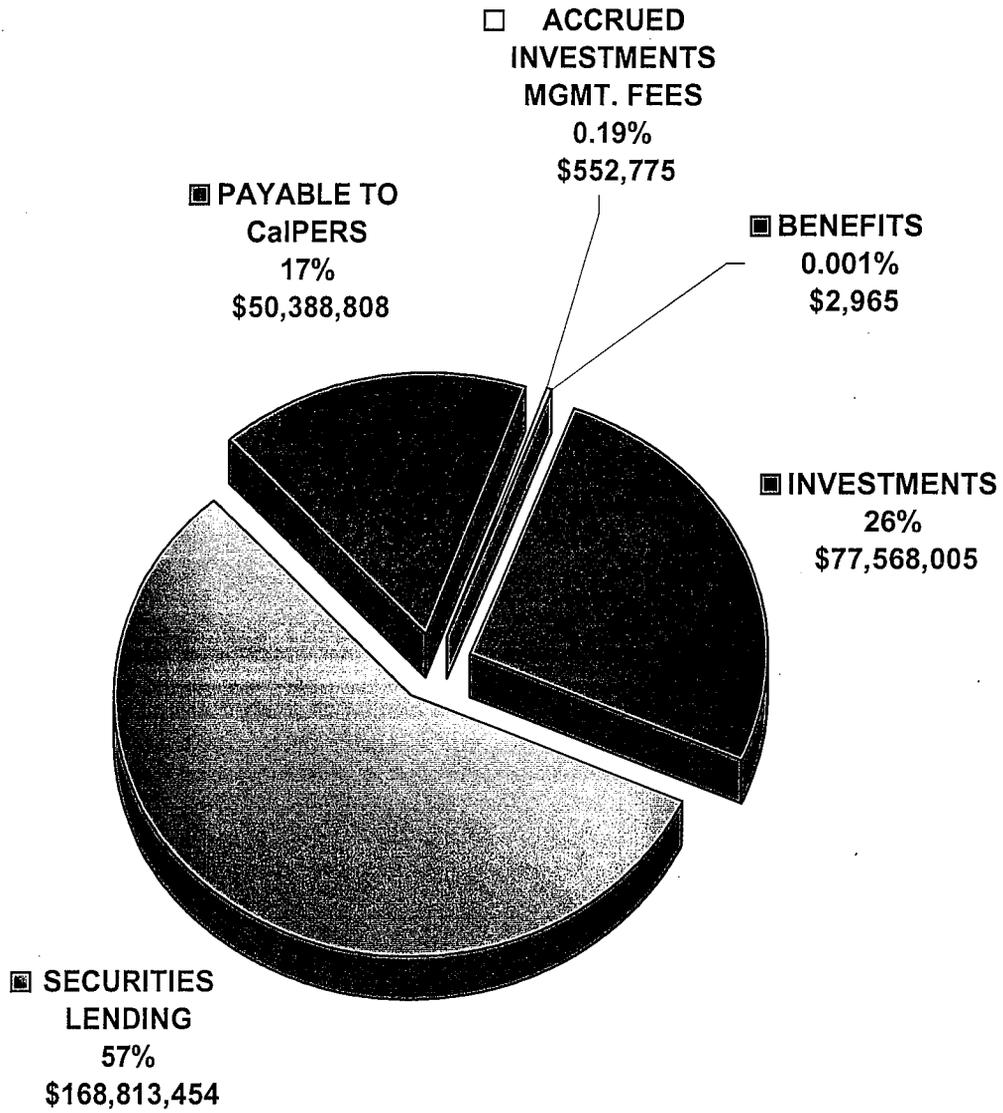
This Financial Report is designed to provide a general overview of the Retirement System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Oakland, Department of Personnel, 150 Frank H. Ogawa Plaza, Oakland, CA 94612.

Unaudited – See accompanying independent auditors' report.

**ASSETS**



**LIABILITIES - PAYABLES**



**Oakland Police and Fire Retirement System**  
**(A Component Unit of the City of Oakland)**  
**Statements of Plan Net Assets**  
**June 30, 2002 and 2001**

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash in Treasury and Cash Held by Trustee	\$ 110,737,018	\$ 46,427,939
Receivables:		
Interest Receivable	3,558,167	4,895,288
Dividends Receivable	256,942	261,832
Investments Receivable	47,420,962	30,380,818
Contributions Receivable - Members	16,873	13,576
Total Receivables	<u>51,252,944</u>	<u>35,551,514</u>
Investments, at Fair Value:		
Short-term Investments	49,017,752	8,992,610
Bonds	292,999,804	404,148,074
Domestic Common and Preferred Stock	200,257,766	268,329,566
International Common Stock	88,609,137	104,621,266
Real Estate Investments	8,258,586	8,211,176
Real Estate Mortgage Loans	67,642	69,840
Securities Lending Collateral	168,813,454	236,405,331
Total Investments	<u>808,024,141</u>	<u>1,030,777,863</u>
Total Assets	<u>970,014,103</u>	<u>1,112,757,316</u>
 <u>Liabilities</u>		
Benefits Payable	2,965	15,727
Payable to California Public Employees'		
Retirement System	50,388,808	-
Investments Payable	77,568,005	48,143,999
Accrued Investment Management Fees	552,775	591,563
Securities Lending Liabilities	168,813,454	236,405,331
Total Liabilities	<u>297,326,007</u>	<u>285,156,620</u>
 <u>Net Assets Held in Trust for Pension Benefits</u>	 <u>\$ 672,688,096</u>	 <u>\$ 827,600,696</u>

The accompanying notes are an integral part of these financial statements.

**Oakland Police and Fire Retirement System**  
**(A Component Unit of the City of Oakland)**  
**Statements of Changes in Plan Net Assets**  
**For the Years Ended June 30, 2002 and 2001**

	<b>2002</b>	<b>2001</b>
<b><u>Additions</u></b>		
Contributions of Plan Members	\$ 297,645	\$ 655,561
Net Investment Loss		
Net Depreciation in Fair Value of Investments	(47,426,556)	(35,162,926)
Interest	24,275,141	28,946,405
Dividends	5,725,335	6,558,778
Income from securities lending transactions	3,363,278	16,484,475
Other Income	3,479	550,000
Total Investment Income (loss)	(14,059,323)	17,376,732
Less: Investment Expenses	2,374,445	2,877,808
Borrowers' rebates and other agent fees on securities lending transactions	2,839,117	15,864,966
Net Investment Loss	(19,272,885)	(1,366,042)
Total Additions	(18,975,240)	(710,481)
<b><u>Deductions</u></b>		
Benefits to Members and Beneficiaries:		
Retirement	40,563,102	39,087,868
Disability	23,475,157	22,233,616
Death	2,037,131	1,889,015
Total Benefits to Members and Beneficiaries	66,075,390	63,210,499
Administrative Expenses	(70,890)	751,990
Termination Refunds of Employees' Contributions	103,103	103,210
Total Administrative and Other Expenses	32,213	855,200
Transfer to California Public Employees' Retirement System	69,829,757	-
Total Deductions	135,937,360	64,065,699
<b><u>Net Decrease</u></b>	<b>154,912,600</b>	<b>64,776,180</b>
<b><u>Net Assets Held in Trust for Pension Benefits</u></b>		
Beginning of Year	827,600,696	892,376,876
End of Year	<u>\$ 672,688,096</u>	<u>\$ 827,600,696</u>

The accompanying notes are an integral part of these financial statements.

**Oakland Police and Fire Retirement System**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**June 30, 2002 and 2001**

**1. Description of the Oakland Police and Fire Retirement System**

The Oakland Police and Fire Retirement System (the Retirement System) is a closed, defined benefit plan established by the City of Oakland (City) Charter. The Retirement System covers the City's uniformed employees. As a result of a City Charter amendment, known as Measure R approved by the electorate on June 8, 1976, membership in the plan is limited to uniformed employees hired prior to July 1, 1976. All subsequent hires are covered under the California Public Employees' Retirement System.

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

The Retirement System is an integral part of the City in that the City serves as a governing body of the Retirement System and provides for its funding. Accordingly, the Retirement System's operations have been reported as a Pension Trust Fund in the City's combined financial statements.

**Retirement System Membership**

At June 30, 2002 and 2001, the Retirement System membership consisted of:

	<u>2002</u>	<u>2001</u>
Retirees and beneficiaries currently receiving benefits:		
Police	803	810
Fire	<u>661</u>	<u>676</u>
Total	<u><u>1,464</u></u>	<u><u>1,486</u></u>
Current employees (all vested):		
Police	26	32
Fire	<u>0</u>	<u>111</u>
Total	<u><u>26</u></u>	<u><u>143</u></u>

**Basic Benefit Provisions**

The Retirement System provides that any member who completes at least 25 years of service, regardless of age, or completes 20 years of service and attains age 55, or has attained age 65 is 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. However, any member retiring at age 65 with less than 20 years of service shall receive a reduced retirement allowance based upon the number of years of service. A member is eligible for early retirement benefits after 20 to 24 years of service with a retirement allowance based upon 40% to 48% of the compensation

**Oakland Police and Fire Retirement System**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**June 30, 2002 and 2001**

attached to the average rank held during the three years preceding retirement. Additionally, a member with 10 to 19 years of service may retire and, on or after the 25th anniversary of their date of employment may receive a retirement allowance based upon 20% to 38% of the compensation attached to the average rank held during the three years preceding retirement. The Retirement System also provides for various death, disability and survivors' benefits.

**2. Summary of Significant Accounting Policies**

Reporting Entity

The Retirement System has its own governing board and is a component unit of the City. The Retirement System's annual financial statements are included in the City's general purpose financial statements as a pension trust fund. The specific elements of the oversight criteria considered in defining a reporting entity are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Application of the oversight criteria did not identify additional entities to be included in the Retirement System's financial statements.

Basis of Accounting

The financial statements are prepared on a flow of economic resources measurement focus, using the accrual basis of accounting and reflect the overall operations of the Retirement System. Member and employer contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable.

Methods Used to Value Investments

Investments are reported at fair value. 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. The fair value of real estate investments is based on prices in a competitive market as determined by a specialist. 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.

Reserves

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

*Active Member Contribution Reserve* represents total accumulated member contributions. Additions include member contributions and investment earnings; deductions include refunds of member contributions and transfer to Retired Member Reserves.

**Oakland Police and Fire Retirement System**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**June 30, 2002 and 2001**

*Retired Member Contribution Reserve* represents the total accumulated transfers from Retired Member Reserves and investment earnings, 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.

*Market Stabilization Reserve* represents unrealized gains and losses recognized in the financial statements as a result of reporting investments at fair value.

Use of Estimates

The Retirement System has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Implementation of New Accounting Principles

Governmental Accounting Standards Board Statement No. 34

The Retirement System has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement affects the manner in which the Retirement System prepares and presents financial information.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions. The adoption of GASB 34 required the Retirement System to make several changes to the presentation of its basic financial statements, in addition to requiring the presentation of Management’s Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the basic financial statements.

Governmental Accounting Standards Board Statement No. 37

The Retirement System adopted the provisions of GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*. This statement amends GASB Statement No. 34 to either: 1) clarify certain provisions or 2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the Retirement System considered the effects of this statement when adopting the provisions of GASB Statement No. 34, as previously described.

**Oakland Police and Fire Retirement System**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**June 30, 2002 and 2001**

**3. Contributions**

In accordance with the City Charter, active members hired prior to July 1, 1951, contribute 7.00% of their earned salaries. Active members hired after July 1, 1951, and prior to July 1, 1976, contribute a percentage of their earned salaries based upon entry age as determined by consulting actuaries. During the years ended June 30, 2002 and 2001, these contributions ranged from 5.43% to 6.80%. The City Charter limits employee contributions to 13.00% of earned salaries. Employee contributions are refundable with interest at 4.00% per year if an employee elects to withdraw from the Retirement System upon termination of employment with the City.

The City contributes, at a minimum, such amounts as are necessary, determined on an actuarial basis, to provide assets sufficient to meet benefits to be paid to plan 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 uninformed employees' compensation. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation. Contributions to the PERS are subtracted and the difference is contributed to the Retirement System. The City issued pension obligation bonds to fund the Retirement System through 2011 (see Note 7).

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. The unfunded actuarial accrued liability at July 1, 2001 (the most recent actuarial valuation date) was \$114,182,000.

**4. Cash in Treasury**

Cash is held by the City in pooled accounts consisting of interest and non-interest bearing bank accounts and short-term investments in U.S. Government securities. Interest earned on these pooled accounts is allocated monthly to all funds based on the average daily cash balance maintained by the respective funds.

**5. Investments**

Bank of New York serves as custodian of the Retirement System's assets. The Retirement System's asset classes include U.S. equity, international equity, U.S. fixed income, mortgage loans and real estate. During fiscal 2002 and 2001, eight external investment managers managed the Retirement System's investment portfolios.

Retirement System investments are categorized by type to give an indication of the level of credit risk assumed at year end. Category 1 includes investments that are insured or registered, or for which the securities are held by the Retirement System or its agent in the Retirement System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty by its trust department

**Oakland Police and Fire Retirement System**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**June 30, 2002 and 2001**

in the Retirement System's name. Category 3 includes unregistered investments with the securities held by the counterparty or by its trust department or agent but not in the Retirement System's name.

Investments at fair value at June 30, 2002 and 2001 consisted of the following:

	<u>Type</u>	<u>2002</u>	<u>2001</u>
<u>Short-Term Investments:</u>			
Certificates of Deposit held with various financial institutions maturing through September 23, 2002; yields ranging from 2.00% to 3.95%	1	\$ 3,000,000	\$ 3,000,000
Money Market Funds	1	41,012	3,084
U.S. Treasury Bills	1	24,924,054	-
Commercial Paper	1	<u>21,052,686</u>	<u>5,989,526</u>
Total Short-Term Investments		<u>\$ 49,017,752</u>	<u>\$ 8,992,610</u>
 <u>Bonds:</u>			
U.S. Government	1	\$128,356,904	\$160,753,123
Public Utilities	1	3,005,465	12,272,031
Industrial and Financial	1	<u>161,637,435</u>	<u>231,122,920</u>
Total Bonds	1	<u>\$292,999,804</u>	<u>\$404,148,074</u>

**Oakland Police and Fire Retirement System**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**June 30, 2002 and 2001**

	<u>Type</u>	<u>2002</u>	<u>2001</u>
<u>Stocks:</u>			
Domestic Common and Preferred Stock	1	\$ 200,257,766	\$ 268,329,566
International Common Stock	1	<u>88,609,137</u>	<u>104,621,266</u>
Total Stock, at Market		<u>\$ 288,866,903</u>	<u>\$ 372,950,832</u>
<u>Real Estate Investments:</u>			
Real Estate Investments	-	<u>\$ 8,258,586</u>	<u>\$ 8,211,176</u>
<u>Real Estate Mortgage Loans:</u>			
Real Estate Loans with varying maturities and yields; secured by the first deeds of trust on the respective properties	1	<u>\$ 67,642</u>	<u>\$ 69,840</u>
<u>Investments Made with Securities Lending Collateral:</u>			
Cash and Cash Equivalents	-	\$ 15,726,954	\$ 2,278,831
Domestic Corporate Securities	1	88,086,500	109,086,500
Repurchase Agreements	1	<u>65,000,000</u>	<u>125,040,000</u>
Total		<u>\$ 168,813,454</u>	<u>\$ 236,405,331</u>

Securities Lending Transactions:

The Retirement System is authorized to enter into securities lending transactions, which are short-term collateralized loans of Retirement System securities to brokers with a simultaneous agreement allowing the Retirement System to invest and receive earnings on the loan rebate fee. All securities loans can be terminated on demand by either the Retirement System or the borrower, although the average term of 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% of international) of market value of loaned U.S. government securities. Collateral received may include cash, letters of credit, or securities. If securities collateral is received, the Retirement System cannot pledge or sell the collateral securities unless the borrower defaults.

As of June 30, 2002, the Retirement System had no credit risk exposure to borrowers because the amounts the Retirement System owed to borrowers exceeded the amounts the borrowers owed to the Retirement System. The Retirement System's contract with MetWest requires it to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities borrowed) or fail to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan.

**Oakland Police and Fire Retirement System**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**June 30, 2002 and 2001**

As of June 30, 2002 the Retirement System had securities on loan with a market value of \$162,462,442 for cash collateral of \$168,813,454. Investments made with the cash collateral are classified by risk category in the preceding schedule.

The Retirement System's securities lending income for the years ending June 30, 2002 and 2001, respectively, is as follows:

	<u>2002</u>	<u>2001</u>
Gross Income	\$ 3,363,278	\$16,484,475
Expenses:		
Borrower Rebates	2,816,617	15,451,959
Administration Fees	22,500	413,007
Total Expenses	2,839,117	15,864,966
Net Income From Securities Lending	\$ 524,161	\$ 619,509

Industry Concentrations of Portfolio Assets

The board of administration's policies and guidelines enable the portfolio to develop into numerous asset classes and to take advantage of professional investment managers with diverse management styles. The result is a well-diversified portfolio. The investment portfolio contained no concentration of investments in any one organization (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of total Retirement System net assets.

**Oakland Police and Fire Retirement System  
(A Component Unit of the City of Oakland)  
Notes to Financial Statements  
June 30, 2002 and 2001**

**6. Reserves**

The aggregate total of the Retirement System's major reserves as of June 30, 2002 and 2001 equals net assets held in trust for pension benefits and comprises the following:

	<u>2002</u>	<u>2001</u>
Active Member Contribution Reserve	\$ 24,818,941	\$ 26,002,002
Retired Member Contribution Reserve	70,115,087	68,273,682
Employer Reserve	546,783,375	659,270,057
Market Stabilization Reserve	<u>30,970,693</u>	<u>74,054,955</u>
 Net Assets Held in Trust for Pension Benefits	 <u>\$ 672,688,096</u>	 <u>\$ 827,600,696</u>

**7. Pension Obligation Bond Proceeds**

The City of Oakland, the Retirement System sponsor, issued pension obligation bonds to fund the Retirement System until the year 2011. Bond proceeds in the amount of \$417,173,300 were transferred to the Retirement System for investment in February 1998. The bonds are an obligation of the City.

**8. Actuarial Valuation**

The Retirement System engages an independent actuarial firm, Milliman and Robertson, Inc. to conduct periodic actuarial valuations. The primary purpose of an actuarial valuation is to estimate the participant liabilities of the Retirement System so that contribution rates can be set to adequately fund the Retirement System over the long term. The Retirement System has an unfunded actuarial liability of \$202,370,599 as below:

	<u>2002</u>	<u>2001</u>
Unfunded actuarial liability:		
Employees transferred to PERS	\$ -	\$ 11,066,662
Employees remaining in the Retirement System	<u>202,370,599</u>	<u>114,182,800</u>
	<u>\$ 202,370,599</u>	<u>\$ 125,249,462</u>

**Oakland Police and Fire Retirement System**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**June 30, 2002 and 2001**

**9. Contingencies**

The Retirement System has been the defendant in a lawsuit filed by three participants. The plaintiffs claimed that time spent on disability should be counted in the years-of-service calculation for determining retirement benefits. The trial court ruled in favor of the plaintiffs in August 2002, and the Retirement System is appealing the trial court's decision. The Retirement System believes that the ultimate outcome of this particular action, even if unfavorable, would not have a material impact on the Retirement System's financial statements.

**10. Administrative Expenses**

The City provides the Retirement System with accounting and other administrative services. Total amounts (refunded by) paid to the City for these services in 2002 and 2001 were (\$185,598) and \$640,669, respectively.

Included in administrative expenses is a reduction of \$690,458 to reflect a cumulative change in estimate of allocation of administrative expenses from the City. As a result, the administrative expenses for the fiscal year ended June 30, 2002 had a negative balance of \$70,890. The following shows general and administrative expenses in 2002 and 2001 before and after the effect of the cumulative change in estimate:

	2002	2001
Before cumulative change		
in estimate	\$ 619,568	\$ 751,990
Cumulative change in estimate	(690,458)	-
General and		
administrative expenses	\$ (70,890)	\$ 751,990

**Oakland Police and Fire Retirement System  
(A Component Unit of the City of Oakland)  
Required Supplementary Information  
(Dollars in Millions)**

**Schedule of Employer Contributions**

Fiscal year Ended <u>June 30,</u>	Annual Required <u>Contribution (\$)</u>	Percentage (%) <u>Contributed</u>
1993	31.0	100
1994	33.5	100
1995	34.0	100
1996	34.5	100
1997	25.1	1,753
1998	25.8	-
1999	-	100
2000	-	100
2001	-	100
2002	-	100

Unaudited - See accompanying independent auditors' report and notes to schedule of employer contribution.

**Oakland Police and Fire Retirement System  
(A Component Unit of the City of Oakland)  
Note to Required Supplementary Information**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the date indicated. Additional information as of the latest actuarial valuation date July 1, 2002 is as follows:

The Retirement 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 asset is allocated on a level basis over the earnings of the group between the valuation date and assumed exit. 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 present value of all benefits, plus the value of the projected contributions to the plan to June 30, 2026 for uniformed officers in the plan, is funded as a level percentage of total uniformed payroll to June 30, 2026, as required by the City Charter.

Significant economic assumptions:

Investment Return	8.0%
Salary Increases	4.0%
Interest Credited on Members' Contributions	4.0%
Mortality Basis – Active and Retirees	1983 Group Annuity Mortality Table
Mortality Basis – Disabled Retirees	120% of 1983 Group Annuity Mortality Table (Adopted July 1, 1994)

Unaudited – See accompanying independent auditors' report and schedule of employer contributions.

**OAKLAND POLICE AND FIRE RETIREMENT SYSTEM**  
**ACTUARY'S REPORT AS OF JULY 1, 2002**

**ACTUARIAL BALANCE SHEET**

**ALL MEMBERS**

**REQUIREMENTS**

	<b>July 1, 2002</b>	<b>July 1, 2001</b>
(1) Retired, Disabled Members and Beneficiaries	\$ 852,919,156	\$ 836,526,322
(2) Vested Terminated Members' Pension	0	0
(3) Active Members' Pension	24,505,696	119,024,317
(4) Total Requirements	\$ 877,424,852	\$ 955,550,639

**RESOURCES**

(5) Actuarial Value of Assets	\$ 674,692,904	\$ 827,600,696
(6) Actuarial Present Value of Future Employer Normal Costs	202,370,599	125,249,462
(7) Actuarial Present Value of Future Member Contributions	361,349	2,700,481
(8) Total Resources	\$ 877,424,852	\$ 955,550,639

**OAKLAND POLICE AND FIRE RETIREMENT SYSTEM**  
**ACTUARY'S REPORT AS OF JULY 1, 2002**

**SUMMARY OF ACTUARIAL REQUIREMENTS**

		<u>Actuarial Present Value of Projected Benefits</u>		
		<u>Police</u>	<u>Fire</u>	<u>Total</u>
<b>Active Members</b>				
(1)	Retirement Benefits	\$ 22,375,643	-	\$ 22,375,643
(2)	Occupational Disability Benefits	1,433,827	-	1,433,827
(3)	Non-Occupational Disability Benefits	98,398	-	98,398
(4)	Occupational Death Benefits	486,006	-	486,006
(5)	Non-Occupational Death Benefits	<u>111,822</u>	-	<u>111,822</u>
(6)	Total Present Value of Benefits for all Active Members	\$ 24,505,696	-	\$ 24,505,696
<b>Inactive Members</b>				
(7)	Service Retirees	\$ 289,496,215	\$ 188,124,517	\$ 477,620,732
(8)	Disabilities	126,243,917	115,902,714	242,146,631
(9)	Surviving Spouses & Dependents	64,753,497	68,398,296	133,151,793
(10)	Vested Terminations	<u>0</u>	<u>0</u>	<u>0</u>
(11)	Total Present Value of Benefits for all Inactive Members	\$ 480,493,629	\$ 372,425,527	\$ 852,919,156
<b>All Members</b>				
(12)	Total Projected Liability (6) + (11)	<u>\$ 504,999,325</u>	<u>\$ 372,425,527</u>	<u>\$ 877,424,852</u>



ARIEL CAPITAL MANAGEMENT, INC.  
ARIEL MUTUAL FUNDS

200 East  
Randolph Drive  
Suite 2900  
Chicago, Illinois  
60601

312.726.0140  
f312.726.7473

August 7, 2002

Mr. Jim Brown  
Assistant Director  
City of Oakland  
150 Frank H. Ogawa Plaza, Suite 3341  
Oakland, CA 94612-2021

Dear Jim:

For the year ended June 30, 2002, your portfolio returned +8.46%, solidly outpacing both the Russell Mid Cap Value Index's +1.92% rise as well as the Russell Mid Cap Index's -9.23% return. Moreover, your portfolio's 12-month return fares even better when compared to the broad market returns of the S&P 500 Index, which lost -17.98% for the year.

After a string of remarkable events—as Alan Abelson of *Barron's* described it—“the Attack, war, anthrax, recession, profits implosion, a vast and gathering pile of pink slips, the Fed taking its [rate] cuts, and then Enron . . .” we were amazed to witness such a strong bull market rally during the first six months of your fiscal year. With cautious concern, we urged investors to temper their expectations. Indeed, a vicious downturn followed the brief rally.

Specifically, the closing quarter of the year ended June 30, 2002 was the height of the market's bloodletting. As the stock market suffered from a string of economic misfortunes and corporate missteps, your portfolio fell -5.68%, outpacing the -9.55% return of the Russell Midcap Index, but trailing the -4.67% return of its value counterpart, the Russell Midcap Value Index. These mid-cap stock returns, although disappointing, actually compare quite favorably to the broad market as measured by the Standard & Poor's 500 Index, which plummeted -13.40% during the quarter. Worse still was the Nasdaq, whose -20.71% drop earned it the title of Worst Second Quarter Performance since the index was created in 1971. By the close of the year ended June 30, 2002, all the major indices were trading at levels they first crossed in 1997 or 1998, in effect wiping out gains for the past five years.

Lagging profits, sluggish capital spending, global uncertainty and job scarcity all contributed to the bearish environment. If Enron was the first, WorldCom, Global Crossing, Adelphia and ImClone provided a plethora of media fodder, from misdirection of company assets and accounting fraud to insider trading. Indeed, corporate scandal has reached new heights, investors are wary and suspicious, and stock prices are falling in turn—suffering guilt by association. Your mid cap value portfolio's focus helped insulate it from steeper losses. However, our holdings were challenged by the weak economy and heightened investor skittishness.



Buy low—so simple in concept, so difficult in execution. Prices are low when demand is low. And demand is low when confidence is low. But we remember the words of famed value investor John Templeton who said, “For those properly prepared in advance, a bear market in stocks is not a calamity but an opportunity.” As such, despite the looming uncertainty, falling consumer confidence and a vacillating market, we remain dedicated contrarian investors and are not discouraged. In fact, it is in times of dramatic market sell-offs like these when value investors earn their pay.

As always, we appreciate the opportunity to serve you and welcome any questions or comments you might have.

Sincerely,

A handwritten signature in black ink, appearing to read 'Melody Hobson', written over a horizontal line.

Melody Hobson  
President



McCullough,  
Andrews &  
Cappiello, Inc.

INVESTMENT COUNSEL

August 30, 2002

Board of Trustees  
Oakland Police & Fire Retirement System  
150 Frank H. Ogawa Plaza, Suite 3341  
Oakland, CA 94612-2021

Dear Board of Trustees:

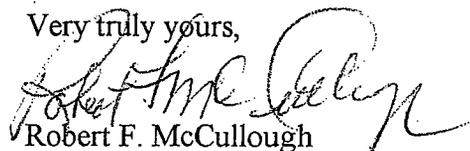
The positive record for the last several years in the account performance was not attainable in the fiscal year ended June 30, 2002, but the performance record continued to be significantly better than the performance of the S&P 500 for the same period. The total return for the portfolio for fiscal year ending June 30, 2002 was a negative 8.16% while the S&P 500 was a negative 17.99% for the same period. This difference of 9.83 percentage points for the year was 54.6% better than the S&P 500.

During fiscal 2002 the stock market continued the decline, which began in March, 2000 when the tech and telecom bubble began to deflate. This process has continued for over two years and since the major stock market indices made new lows in July of this year, it has become even more severe in 2002 than after September 11<sup>th</sup> of last year. Value stocks have performed better than growth stocks during this difficult period, but even value stocks have come under severe price pressure in a stock market where fear is the predominant ingredient.

In addition to the existing world terrorist problem that we expect will be long lasting, we believe that current market conditions are in part a function of a weak economic recovery and concerns about household and corporate debt. Hopefully, the next six months will resolve or answer these fundamental questions with the most likely result being a moderate economic recovery and a gradual process of deleveraging household and corporate balance sheets. We have invested the equity portfolio with an emphasis towards dividend yield, low corporate debt and in companies which are not adversely affected by the technology and telecom overcapacity problems. Until the stock market exhausts its heavy burden of fear, the low price earnings ratio stocks with a current cash return should perform well and better than the market averages.

It has been our pleasure to serve the Board during the fiscal year ending June 30, 2002 and we look forward to continuing our relationship with the Board and the City of Oakland.

Very truly yours,

  
Robert F. McCullough

101 CALIFORNIA STREET, SUITE 4250 • SAN FRANCISCO, CA 94111

TEL (415) 956-8700

40

FAX (415) 989-9459

**CITY OF OAKLAND POLICE & FIRE RETIREMENT SYSTEM  
RUSSELL 1000 INDEX FUND**

*(As of June 30, 2002)*

**OBJECTIVE**

*To capture the large and mid capitalization sectors of the U.S. equity market  
by managing a portfolio to track the Russell 1000 Index.*

During the 2002 fiscal year the portfolio returned -17.54% versus the Russell 1000 index benchmark of -17.88%. This equates to a tracking variance of 34 basis points for the period, a positive gain during a down year. This variance is attributed to good execution and timing of a portfolio withdrawal in June of 2002 and the RhumbLine strategy of cost-effective rebalancing. Since inception (12/26/97) the portfolio has produced a positive tracking variance of 14 basis points per year.

The strategy of investing in the Russell 1000 index continues to be a good practical approach. The index measures the performance of the largest 1000 U.S. companies, which represents approximately 90% of the market capitalization of the U.S. equity market. It provides wider coverage than S&P 500 index by extending into more mid-capitalization companies. Below are the dollar growth and the portfolio returns.

**ACCOUNT GROWTH**

Original Contribution (12/26/97)	\$40,000,000
Additional Contribution (3/6/98)	\$38,000,000
Withdrawals (3/25/01, 6/21/02)	<u>(\$10,000,000)</u>
Net Investment	\$68,000,000
Market Value (6/30/02)	\$64,582,465

**PERFORMANCE**

	PORTFOLIO	BENCHMARK
Fiscal Year 2002	-17.54%	-17.88%
April - June 02	-13.30	-13.46
January - March 02	0.87	0.74
October - December 01	11.00	11.11
July - September 01	-15.06	-15.23
Fiscal Year 2001	-14.33%	-14.95%
Fiscal Year 2000	8.24%	9.24%
Fiscal Year 1999	22.14%	21.93%
Fiscal Year 1998 (12/26/97 - 06/30/98)	20.69%	20.45%
Annualized Since Inception (12/26/97 - 06/30/02)	2.69%	2.55%

# INVISTA CAPITAL MANAGEMENT

August 28, 2002

Mr. Walter Johnson, Director of Retirement  
Office of Retirement & Risk Administration  
City of Oakland  
150 Frank W. Ogawa Plaza, Suite 3341  
Oakland, CA 94612

Members of the Board:

For the fiscal year ending June 30, 2002, the value of your international equity portfolio decreased 9.3%. This compared to a decline in the Morgan Stanley Capital International Europe, Australasia, Far East (MSCI EAFE) Index of 9.4% over the same period. As of June 30, 2002, 95.4% of the portfolio was invested in international equities and 4.6% in cash equivalent investments.

On an attribution basis, strong stock selection was more than offset by the negative currency impact. Sector allocation also contributed to our performance relative to the index. Our overweighted position in the basic materials sector continued to add value as the absolute cheap valuations and global economic recovery helped stocks within the sector. Our ongoing underweighted position in the telecommunications services sector also contributed to returns relative to the index. Lastly, our underweighted position in defensives adversely impacted returns as these sectors outperformed the overall index. We define defensive sectors as economically insensitive markets such as consumer staples, health care and utilities.

The global economic recovery expected during third quarter 2001 was delayed due to the Sept. 11 terrorist attacks. The U.S. Federal Reserve responded to the attacks with an aggressive series of interest rate cuts throughout the remainder of 2001 in an attempt to provide liquidity to the market and boost consumer confidence. As a result, the leading indicators of the OECD (Organization for Economic Cooperation and Development) began showing signs of an economic recovery. Consumer confidence rebounded as lower interest rates and attractive financing supported record auto sales and housing demand. Industrial production also showed positive signs as the large inventory liquidation in late 2001 led to inventory re-stocking during the first quarter of 2002. Economic growth slowed during the following quarter after the rapid growth in the first quarter.

Leading indicators remained positive, with Japanese and European surveys pointing to further gains ahead. Asian exports and real gross domestic product (GDP) growth should outpace the rest of the world. In contrast, the U.K. business surveys show a pullback from optimistic levels. We believe the central banks of the large industrial countries will be slow in tightening monetary policy due to continuing uncertainty about the strength of the upturn and moderate inflation.

 **PRINCIPAL CAPITAL**<sup>SM</sup>  
A member of the Principal Financial Group

1900 Hub Tower, 699 Walnut, P.O. Box 14539, Des Moines, Iowa 50306-3539  
Toll Free (800) 247-5770 / [www.principalcapital.com](http://www.principalcapital.com)

## INVISTA CAPITAL MANAGEMENT

Increasing global competition continues to change the economy and the investment universe with international equities representing approximately 50% of the world's market capitalization. The reasons to continue to invest globally include the opportunity to buy quality companies trading at a discount to U.S. companies. Based on attractive valuations and the reversal of the recent strength in the U.S. dollar, we believe the opportunity for higher returns is currently found in international markets.

We firmly believe our investment philosophy and team implementation of the investment approach will add value for you. Based on our results, we have continued to enhance the process by adding additional resources to our international effort. First, we have increased the overall team size with additional analysts. This will allow us to more thoroughly research a larger number of companies. Second, we have continued to improve our quantitative screening techniques. This will help focus our fundamental research efforts. Both enhancements were made to improve our stock selection.

Please call us with any questions or comments regarding this letter. We appreciate your business and look forward to serving you in fiscal year 2002/2003.

Sincerely,



Kurt Spieler, CFA  
Portfolio Manager



# REAMS ASSET MANAGEMENT COMPANY

An Institutional Investment Report

City of Oakland  
Police and Fire Retirement System

Report for Fiscal Year Ending June 30, 2002

	-----Percent Gain or Loss-----	
	Year Ending <u>6/30/02</u>	Since Inception <u>2/1/98 (Annualized)</u>
Oakland Portfolio	3.74	6.48
Lehman Aggregate	8.63	6.81
Difference	(4.89)	(0.33)
Breakdown of Difference by Factor:		
Duration	0.2	0.1
Yield Curve	0.4	0.3
Nondollar	0.4	0.1
Security Selection	<u>(5.9)</u>	<u>(0.8)</u>
Total	(4.9)	(0.3)

Market value of the portfolio was \$174,991,113 as of June 30 which includes a dollar return of \$55,951,911 beginning with performance inception of 2/1/98 and summarized below:

	Year Ending <u>6/30/02</u>	Since Inception <u>2/1/98</u>
Beginning Market Value	\$212,650,335	\$97,547,611
Additional Net Flows	(46,000,361)	21,491,591
Ending Market Value	174,991,113	174,991,113
Total Gain in Value	\$ 8,341,139	\$ 55,951,911
Income	11,741,449	55,579,891
Market Gain		
Realized Gain	3,338,933	7,461,505

## Performance Analysis

Performance of the portfolio for the fiscal year ending June 30, 2002 was well below the performance of the benchmark, with a portfolio return of 3.74% compared to the Lehman Aggregate return of 8.63%. The performance shortfall was entirely at the security selection level, since macro factors were positive during the period with duration contributing 20 basis points, the yield curve contributing 40 basis points, and nondollar exposure contributing 40 basis points to performance. The large negative contribution from security selection reflects a decision made early in 2001 to increase exposure to corporate credits due to the perceived cheapness of the "BBB" corporate market at that time. While this strategy worked initially, it has been severely punished by the events of 9/11/01, the accounting problems at Enron and WorldCom, and the cheapening of the telecommunications, aircraft, energy, and power production bonds in sympathy with the accounting problems and with poor business conditions. As bonds in these sectors cheapened, we tried to take advantage of what we considered attractive opportunities in the sectors, but this had a negative impact on performance as these bonds continued to decline. WorldCom has had the largest performance impact on the portfolio, followed by aircraft equipment trusts, Enron, Qwest, Mirant, Williams, El Paso, Midwest Generation, and PSEG.

## Review and Outlook

The creditworthiness of corporate America has replaced the economy as the dominant concern in the fixed income market. As the list of corporate malefactors grows, suspicion has been cast over much of the credit market. Meanwhile, with fear over these revelations both causing a flight to quality and raising doubts about the economic recovery, 10-year Treasury bond rates fell from 5.41% at 3/31/02 to a current level of 4.80%. The market atmosphere is one of great volatility and uncertainty.

- Coming after last year's accounting irregularities leading to credit problems at previously investment-grade Enron and Xerox, new revelations of fraud at Adelphia and WorldCom have shocked the credit market, as investors grow skeptical about the veracity of the financial statements which are at the core of all credit analysis. The result has been extreme volatility and price weakness in the corporate market, especially in the telecom, cable, and power sectors. No relief appears to be in sight for the volatility in corporate credits, which could dampen the economic recovery.
- Despite troubled stock and bond markets, the economic expansion in the U.S. appears to be on track. The main swing factors, capital spending and inventories, have been positive, while housing, consumption, and government spending are strong. Stimulative monetary policy in 2001 should keep growth in the second half of 2002 above 3%. One concern is that current corporate problems could lead to softness in capital spending as more companies are unable to access capital markets. Consumer confidence could also be vulnerable to financial market problems.

- Market concerns will probably delay any increase in short-term interest rates by the Federal Reserve. Furthermore, current inflation remains very low (below 2%) and money growth has slowed during 2002. These developments allow the Fed to bide its time on any rate increases. We now expect short rates to remain unchanged through year-end.
- We are maintaining a cautious 2.5% estimate of long-term inflation despite the current lower inflation rate, due to the very aggressive monetary stimulus that was pursued during 2001 and the likelihood that the Fed will keep short-term rates too low for too long.
- The level of value in the longer-term Treasury market has fallen with interest rates. At the current 4.8% yield on 10-year Treasury bonds, the "real" yield of 2.3% has fallen below what we consider a "normal" range of 3.0% -3.5%. This seems appropriate in the current turbulent market where a premium will be paid for a lack of credit risk.
- The yield curve steepened sharply between 2-year and 30-year Treasury bonds during the quarter due to the drop in intermediate rates, and now stands at a wide 265 basis points. Longer term, this difference will narrow, but in the near term it could easily increase as the Fed keeps short rates low.
- Mortgage pass-throughs, CMBS, and ABS sectors remain reasonably attractive, relatively credit risk-free alternatives at current prices and spreads.
- The high-yield credit market is highly bifurcated, with the higher-quality end of the market having performed quite well and offering fairly generic returns while the overall yield of the index is driven up by the distressed and extremely risky lower-quality end of the market. The power-generation, cable, and wireless sectors remain interesting for core-plus portfolios.

**Seneca Capital Management**  
**City of Oakland Police & Fire Pension Fund**  
**-Fiscal Year Ending June 30, 2002-**

For the one-year period ending June 30, 2002, your portfolio with Seneca Capital Management returned 7.63% gross of management fees. Its benchmark the Lehman Aggregate Index, returned 8.63% for the same period. At June 30, 2001 the portfolio's total market value was \$212,091,698. At June 30, 2002 it was valued at \$182,138,773. During the one-year period, contributions totaled \$0 and withdrawals totaled \$45,350,000.

**Seneca's Value Driven Fixed Income Approach**

Our portfolios are targeted at the benchmark duration plus or minus 25%. Statistically, this range should be operable 95% of the time. The maturity structure, to arrive at the targeted benchmark, is actively managed with changes in the shape and slope of the yield curve. The firm seeks to participate in areas of the curve which provide the highest return/risk potential. Our concentrations in areas of the curve are determined by internal yield spread analysis. The firm analyzes all major bond market sectors, including treasuries, agencies, corporates, mortgages, and asset-backed securities. Portfolio weightings are rotated into those subsectors of the bond market which the managers project will add the most value.

Within the context of issue selection, Seneca Capital Management analyzes the underlying credit risks, the particular security's cash flow and structure, and technical market conditions. The managers favor issues that are undervalued relative to all other opportunities within their sector and the market as a whole. Average Credit Quality is governed by the client's guidelines. Through exceptional credit analysis we select securities which will add return, while we maintain investment grade quality as stipulated by the client.

**As of June 30, 2002**

The economy continued to recover in the second quarter. The housing market remained robust, manufacturing activity continued to pick up and the labor market showed signs of stabilization. Despite these positive signs, negative sentiment persisted. The market remains haunted by global political uncertainty, accounting distortion and a decline in the dollar.

In this uncertain climate, the Federal Reserve kept interest rates at 1.75%, the lowest levels in 40 years. It is anticipated that the Fed will leave rates unchanged until 2003 at the earliest. Investors moved into treasuries as a "safe haven" in the second quarter, driving up prices and driving down yields. Yields on two-year treasuries fell the most, down from 3.70% at the end of March to 2.81%. Five-years were down from 4.83% to 4.03% and ten-years fell from 5.42% to 4.80%.

In a complete reversal from first quarter, spread sectors underperformed, especially toward quarter-end as an endless stream of accounting restatements caused investors to seek safety in treasuries. Treasuries and agencies outperformed all other major sectors of the market due to the flight to quality. Securitized sectors, such as mortgages, commercial mortgage-backed securities ("CMBS") and asset-backed securities ("ABS") were the spread sector winners as investors sought to attain yield without incurring the risk associated with corporate debt. Corporates were weak, with high yield credits performing the worst due to continued skepticism of accounting practices and management credibility. So far this year, a record number of fallen angels have moved into the high yield ranks—an astounding \$78 billion (par value) for the first six months of the year. In fact, June was the toughest month in 19 years for high yield.

Seneca's portfolios were overweight "spread" product and underweight treasuries and agencies during the quarter, and these bets weighed negatively on performance. Seneca has confidence in spread product as we have seen continued signs that the economy is turning around. While this outlook hurt us during the quarter, we maintain conviction that strong fundamentals will eventually be recognized as short-term accounting and political concerns become less prevalent. Seneca moved from a slight long duration bias to

neutral as we do not believe the Fed will make any changes in the near-term and treasuries are slightly overvalued.

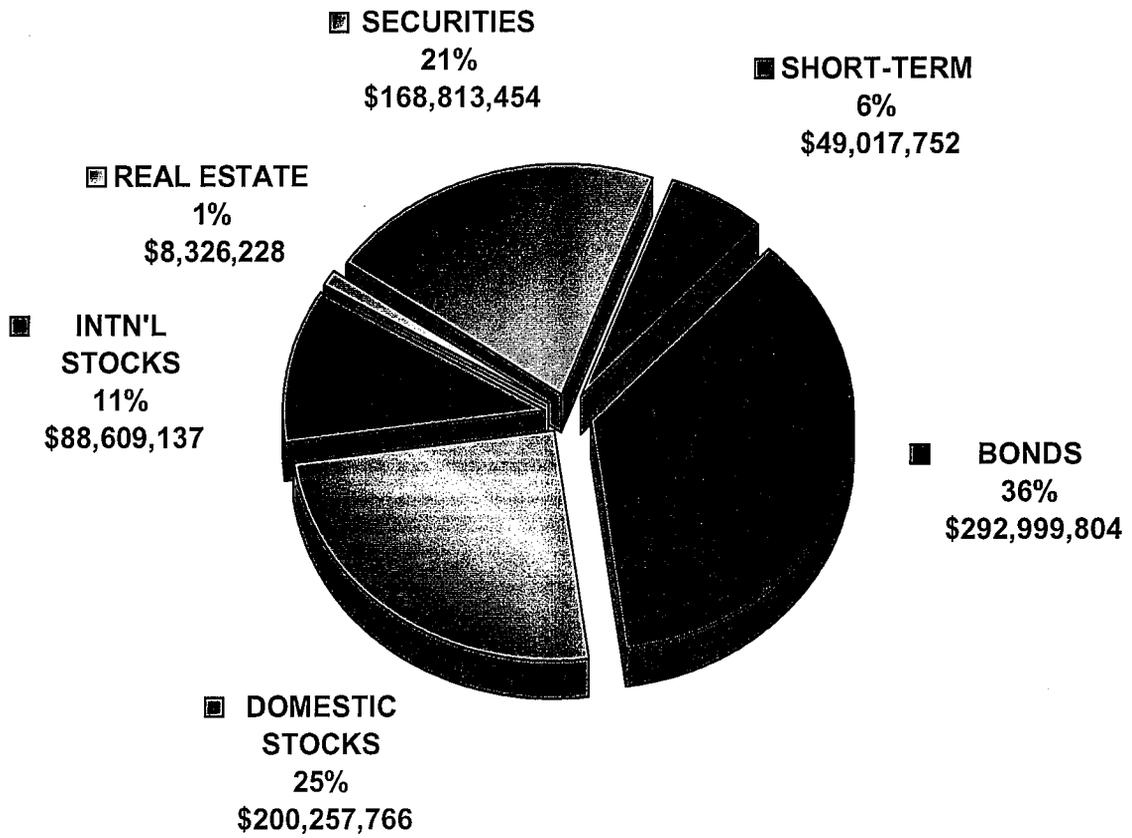
Within each of the spread sectors, including treasuries and agencies, Seneca's issue selection was superior. In the investment grade corporate sector, the portfolio's financial credits and REITS did especially well. We reduced our exposure to financials as we locked in some of our profits. Our intensive credit research prevented us from owning any of the major negative market detractors, such as Worldcom, Xerox and Quest.

Issue selection in high yield was also strong relative to the Lehman High Yield Index. Our credit research had positive value in all segments of the high yield market - even the communications sector, where our holdings were not nearly as weak as those held in the index. However, as the Aggregate does not hold high yield, exposure to this sector did not have a net positive effect.

An overweight in CMBS contributed to performance. This sector continues to be attractive as a substitute for investment grade corporates. It offers higher yields than Treasuries with less event risk than other segments of the market. Seneca typically buys AAA-rated, multi-property CMBS that have clean balance sheets.

Spread product typically performs well coming out of a recession, and our outlook remains favorable for higher yielding securities this year. Although investors are questioning the strength of the economic recovery, we believe the situation is not as tenuous as it appears. Political uncertainty will likely be a lingering threat. However, other short-term doubts, such as the strength of corporate America, should lessen as government regulation of fraud increases and as companies grow profits.

# INVESTMENTS



**Oakland Police & Fire Retirement System**  
**Investment Portfolio Summary**  
**June 30, 2002**

Investment Type	Par Value	Book Value	Market Value
<b>Short-Term Investments</b>			
Certificate of Deposits	3,000,000	3,000,000	3,000,000
Liquid Asset Fund	41,012	41,012	41,012
Seneca - Commercial Paper	21,100,000	21,053,553	21,052,686
Seneca - U.S. Treasury Bills	25,000,000	24,925,067	24,924,054
<b>Total Short-Term Investments</b>	<b>49,141,012</b>	<b>49,019,632</b>	<b>49,017,752</b>
<b>Real Estate</b>	<b>5,293,427</b>	<b>3,615,392</b>	<b>8,326,228</b>
<b>Stocks</b>			
Domestic Common Stocks	6,080,765	142,647,062	200,257,766*
International Stocks	8,407,843	90,444,549	88,609,137
<b>Total Stocks</b>	<b>14,488,608</b>	<b>233,091,611</b>	<b>288,866,903</b>
<b>Fixed Income</b>			
U.S. Government Bonds	132,200,823	127,762,875	128,356,904
Corporate Bonds:			
Industrial Bonds	170,336,658	168,741,520	161,637,435
Public Utility Bonds	3,125,000	3,080,206	3,005,465
Total Corporate Bonds	173,461,658	171,821,726	164,642,900
<b>Total Fixed Income</b>	<b>305,662,481</b>	<b>299,584,601</b>	<b>292,999,804</b>
<b>TOTAL INVESTMENTS</b>	<b>374,585,528</b>	<b>585,311,236</b>	<b>639,210,687</b>

\* Included in this amount is \$21.2 million from S&P Midcap Growth Index SL fund.

**Oakland Police & Fire Retirement System**  
**Short-Term Investments**  
**June 30, 2002**

Description	Maturity	Rate	Par Value	Book Value	Market Value
<b>Certificates of Deposits</b>					
Civic Bank of Commerce	9/12/2002	3.95%	1,000,000	1,000,000	1,000,000
Civic Bank of Commerce	9/20/2002	2.00%	1,000,000	1,000,000	1,000,000
Civic Bank of Commerce	9/23/2002	2.00%	1,000,000	1,000,000	1,000,000
<b>Total Certificates of Deposits</b>			<b>3,000,000</b>	<b>3,000,000</b>	<b>3,000,000</b>
<b>Commercial Paper</b>					
Seneca Capital Management			21,100,000	21,053,553	21,052,686
<b>Total Commercial Paper</b>			<b>21,100,000</b>	<b>21,053,553</b>	<b>21,052,686</b>
<b>US Treasury Bills</b>					
Seneca Capital Management			25,000,000	24,925,067	24,924,054
<b>Total US Treasury Bills</b>			<b>25,000,000</b>	<b>24,925,067</b>	<b>24,924,054</b>
<b>Liquid Asset Fund</b>					
Dean Witter Liquid Asset Fund			41,012	41,012	41,012
<b>Total Liquid Asset Fund</b>			<b>41,012</b>	<b>41,012</b>	<b>41,012</b>
			<b>TOTAL SHORT-TERM INVESTMENTS</b>	<b>49,019,632</b>	<b>49,017,752</b>
<b>Real Estate</b>					
Metropolitan Life Insurance			3,500,000	3,500,000	8,258,586
Dean Witter Reynolds, Inc.			1,725,785	47,750	-
Residential Mortgage Loans			67,642	67,642	67,642
<b>Total Real Estate Investments</b>			<b>5,293,427</b>	<b>3,615,392</b>	<b>8,326,228</b>

**Oakland Police & Fire Retirement System**  
**Domestic Stock Investments**  
**June 30, 2002**

Industry Sector	No. of Shares	Book Value	Market Value
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**Ariel Capital Management, Inc.**

Banks & Other Financial Services	160,050	3,030,429	4,561,475
Broadcasting & Publishing	43,300	1,460,862	1,966,725
Business Products & Services	149,800	3,024,942	3,609,662
Computer Equipment & Electronics	29,100	529,337	770,568
Electrical Equipment & Electronics	21,800	494,617	597,756
Foods	20,400	253,939	525,300
Home Furnishings	17,700	143,290	414,180
Hospital Supplies & Medical Services	4,000	71,958	71,800
Insurance	22,700	1,038,639	1,338,056
Leisure	53,400	892,990	1,019,421
Machinery	17,100	624,400	824,220
Miscellaneous Capital Goods	15,000	574,781	507,750
Miscellaneous Consumer Durables	7,650	217,882	428,400
Office Equipment	49,975	1,375,858	1,329,097
Pollution Control	19,500	429,085	507,975
Retailing	24,800	587,820	433,256
Soap & Other Household Products	18,400	755,357	760,840
Utilities - Telecommunications	29,150	584,387	859,925
<b>Total Ariel Capital Management, Inc.</b>	<b>703,825</b>	<b>16,090,572</b>	<b>20,526,406</b>

**McCullough, Andrews & Capiello, Inc.**

Autos, Tires & Related Products	400,000	5,794,468	8,306,000
Banks & Other Financial Services	176,006	3,627,450	6,283,833
Beverages	100,000	177,524	4,820,000
Building	125,000	1,761,563	3,388,750
Business Products & Services	150,000	2,607,497	1,095,000
Computer Equipment & Software	40,000	4,347,831	2,880,000
Electrical Equipment & Electronics	110,000	559,903	3,663,700
Foods	50,000	574,610	590,000
Hospital Supplies & Medical Svcs.	172,000	1,650,049	6,568,100

**Oakland Police & Fire Retirement System**  
**Domestic Stock Investments**  
**June 30, 2002**

Industry Sector	No. of Shares	Book Value	Market Value
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**McCullough, Andrews & Cappiello, Inc., cont'd**

Insurance	325,000	9,300,518	11,650,000
Oil & Coal	485,000	6,785,775	9,970,700
Pulp & Paper	35,000	1,523,460	1,525,300
Retailing	340,000	5,084,887	7,042,750
Transportation Products & Services	70,000	2,759,514	2,815,650
Utilities - Electric	700,000	15,704,633	23,706,450
<b>Total McCullough, Andrews &amp; Cappiello, Inc.</b>	<b>3,278,006</b>	<b>62,259,680</b>	<b>94,306,233</b>

**Rhumblin Advisers**

Aerospace & Defense	14,781	746,804	898,865
Apparel & Shoes	2,900	96,197	111,815
Autos, Tires & Related Products	33,731	941,746	1,016,636
Banks & Other Financial Services	319,747	11,167,863	12,911,772
Beverages	36,400	1,577,883	1,789,712
Broadcasting Publishing	78,838	2,203,968	1,963,098
Building	27,500	716,949	1,003,581
Business Products & Services	145,351	4,094,957	3,934,194
Chemicals	25,192	1,029,551	966,367
Computer Equipment & Software	336,097	8,229,684	6,592,238
Consumer Appliances & Electronics	4,500	221,727	189,226
Containers	4,275	114,607	118,949
Cosmetics & Related Products	26,200	1,489,763	1,565,918
Diversified Companies	76,633	2,013,819	2,119,306
Drugs & Health Care Products	120,462	4,454,510	4,325,713
Electrical Equipment & Electronics	98,116	2,687,616	1,745,213
Foods	34,626	997,461	1,000,774
Home Furnishings	2,700	65,067	66,631
Hospital Supplies & Medical Services.	91,546	2,734,584	3,893,597
Insurance	29,051	897,083	1,097,690
Leisure	11,850	361,214	269,304

**Oakland Police & Fire Retirement System**  
**Domestic Stock Investments**  
**June 30, 2002**

Industry Sector	No. of Shares	Book Value	Market Value
<i><u>Rhumblin Advisers, cont'd</u></i>			
Machinery	23,394	647,479	756,368
Metals & Mining	11,749	278,833	360,517
Misc. Consumer Non-Durables	200	7,132	7,132
Miscellaneous	2,900	68,274	78,840
Miscellaneous Capital Goods	11,075	225,922	255,496
Miscellaneous Consumer Durables	1,500	46,477	64,330
Office Equipment	8,400	288,868	141,267
Oil & Coal	94,319	3,373,556	3,880,564
Oil Service	4,667	131,055	63,672
Pollution Control	4,675	147,138	109,315
Pulp & Paper	10,242	390,384	409,836
Railroad Equipment	300	9,786	9,030
Restaurants, Food Service & Lodging	20,406	488,000	540,325
Retailing	107,925	2,576,177	3,591,870
Soap & Other Household Products	1,900	60,026	63,763
Special Technology	1,400	28,854	27,286
Textiles	1,900	46,332	60,659
Tobacco	15,900	677,306	683,864
Transportation Products & Services	24,356	830,967	824,392
Utilities - Electric	51,495	1,540,093	1,569,507
Utilities - Gas	3,492	100,735	101,610
Utilities - Miscellaneous	4,850	118,168	91,199
Utilities - Telecommunications	171,393	5,372,194	2,879,441
<b>Total Rhumblin Advisers</b>	<b>2,098,934</b>	<b>64,296,810</b>	<b>64,150,881</b>
<b>TOTAL DOMESTIC STOCKS</b>	<b>6,080,765</b>	<b>142,647,062</b>	<b>178,983,519</b>

**Oakland Police & Fire Retirement System  
International Stock Investments  
June 30, 2002**

<b>Industry Sector</b>	<b>No. of Shares</b>	<b>Book Value</b>	<b>Market Value</b>
<b><u>Invista Capital Management, Inc.</u></b>			
<b>Aerospace &amp; Defense</b>	89,744	478,427	458,296
<b>Air Transportation</b>	21,430	303,595	300,579
<b>Autos, Tires &amp; Related Products</b>	119,615	1,736,384	1,992,455
<b>Banks &amp; Other Financial Services</b>	1,736,048	25,225,822	24,957,878
<b>Beverages</b>	93,660	644,530	741,005
<b>Broadcasting &amp; Publishing</b>	150,991	1,691,565	1,465,535
<b>Building Materials &amp; Services</b>	6,319	156,588	166,569
<b>Chemicals Materials &amp; Services</b>	76,802	1,890,506	2,149,836
<b>Drugs &amp; Health Care Products</b>	35,110	1,652,861	1,827,363
<b>Electrical Equipment &amp; Electronics</b>	744,180	3,007,764	2,841,506
<b>Foods</b>	3,516	741,051	820,038
<b>Insurance</b>	47,455	550,614	637,014
<b>Leisure</b>	18,895	337,273	454,048
<b>Machinery</b>	20,020	466,509	490,031
<b>Metals &amp; Mining</b>	34,530	745,153	740,765
<b>Misc. - Capital Goods &amp; Services</b>	14,165	590,807	743,370
<b>Misc. - Common Stock</b>	22,559	885,787	690,764
<b>Oil &amp; Coal</b>	196,796	1,127,232	1,265,693
<b>Pulp &amp; Paper</b>	20,195	470,639	561,025
<b>Railroad Equipment</b>	11,744	380,043	377,094
<b>Restaurants, Food Service &amp; Lodging</b>	65,800	250,909	228,946
<b>Retailing</b>	180,050	1,659,445	1,373,099
<b>Soap &amp; Other Household Products</b>	20,900	257,707	278,667
<b>Transportation Products &amp; Services</b>	102,100	304,295	351,834
<b>Utilities - Gas</b>	585,200	454,803	475,349
<b>Utilities - Telecommunications</b>	349,721	1,326,884	479,800
<b>Total Invista Capital Management, Inc.</b>	<b>4,767,545</b>	<b>47,337,193</b>	<b>46,868,558</b>

**Oakland Police & Fire Retirement System**  
**International Stock Investments**  
**June 30, 2002**

Industry Sector	No. of Shares	Book Value	Market Value
<u><i>Deutsche Asset Management</i></u>			
Air Transportation	17,171	156,841	156,790
Apparel & Shoes	2,100	204,257	197,057
Autos, Tires & Related Products	140,700	2,150,935	1,957,630
Banks & Other Financial Services	1,489,614	22,006,898	22,144,620
Beverages	11,950	529,303	524,554
Broadcasting & Publishing	5,811	195,787	160,428
Building Materials & Services	12,100	163,785	170,560
Business Products & Services	3,200	440,810	403,367
Chemical Materials & Services	26,810	1,326,137	1,411,594
Computer Equipment & Services	522	22,810	23,847
Drugs & Health Care Products	53,221	2,183,075	1,958,845
Electrical Equipment & Electronics	423,862	3,598,267	3,352,644
Foods	8,745	1,364,912	1,579,495
Insurance	30,000	389,037	402,706
Leisure	12,000	270,822	288,360
Machinery	56,000	444,491	397,455
Metals & Mining	54,466	270,761	314,938
Misc. Capital Goods & Service Co	4,354	288,974	314,795
Misc. Consumer Non-Durables	15,404	217,247	209,972
Oil & Coal	194,904	2,437,684	2,355,711
Preferred Stock	500	33,685	34,374
Pulp & Paper	22,200	240,749	311,160
Railroad Equipment	16,466	360,933	371,965
Retailing	4,000	197,814	200,250
Utilities - Telecommunication	1,034,198	3,611,344	2,497,462
<b>Total Deutsche Asset Management</b>	<b>3,640,298</b>	<b>43,107,356</b>	<b>41,740,579</b>
<b>GRAND TOTAL INTERNATIONAL STOCKS</b>	<b>8,407,843</b>	<b>90,444,549</b>	<b>88,609,137</b>

**Oakland Police & Fire Retirement System**  
**Bond Investments**  
**June 30, 2002**

Description	Maturity	Rate	Par Value	Book Value	Market Value
<b><u>Reams Asset Management, Inc.</u></b>					
<b>To mature in 1-5 Years</b>					
El Paso Corp Restr	12/15/02	7.88%	1,370,000	1,377,337	1,379,275
Federal Nat'l Mtge Assn	04/01/03	6.50%	0.04	0.04	-
PDV Amer Inc Gtd Sr Nt	08/01/03	7.88%	1,500,000	1,426,005	1,511,070
Federal Nat'l Mtge Assn	02/01/04	6.84%	2,742,065	2,855,983	2,851,160
Simon Ppty Group LP	02/09/04	6.75%	605,000	623,537	629,738
PSEG Energy Hldgs Inc	02/10/04	9.13%	405,000	428,676	412,128
PDVSA Fin Ltd	02/15/04	6.45%	5,250,000	5,243,628	5,118,750
Cit Group Inc. M/T/N	05/17/04	5.63%	645,000	581,859	618,852
Southern Energy Inc	07/15/04	7.40%	2,000,000	1,998,020	1,580,000
Ford Mtr Cr Co	07/16/04	6.70%	340,000	344,542	349,988
Utilicorp UTD Inc	10/01/04	6.88%	2,000,000	2,087,080	2,110,938
Principal Residential Mtg	12/20/04	4.55%	1,060,000	1,060,000	1,078,509
Salton Sea FDG Corp	05/30/05	7.37%	511,361	534,516	524,329
Cit Group Hldgs	08/15/05	7.25%	80,000	74,400	77,380
United Airls Pass Thru Trs	10/01/05	7.76%	1,000,000	981,101	823,760
USEC Inc	01/20/06	6.63%	385,000	348,000	348,729
Federal Nat'l Mtge Assn	03/01/06	6.18%	3,700,871	3,772,303	3,905,619
Qwest Cap Fdg Inc	08/15/06	7.75%	200,000	126,500	122,000
Commercial Mtg Asset Tr	08/17/06	6.25%	1,440,000	1,448,591	1,514,241
Hunt JB Trans Svcs Inc	09/01/06	7.00%	850,000	850,000	886,499
Teachers Ins & Annuity Assn	09/17/06	5.77%	230,300	237,157	239,645
DLJ Coml Mtg Corp	10/15/06	6.14%	1,198,339	1,201,550	1,255,827
Heilig-Meyers Master Tr 144A	01/20/07	6.13%	806,158	803,447	32,246
Fingerhut Master Tr	02/15/07	6.23%	2,000,000	1,999,431	2,046,325
Starwood Hotels & Resorts	05/01/07	7.38%	600,000	598,110	590,250
U S Treas NTS	05/15/07	4.38%	3,150,000	3,190,004	3,193,313
Hyatt Equities LLC	06/15/07	6.88%	410,000	409,028	411,767
Global Crossing Hldgs Ltd	08/01/07	8.70%	185,000	140,600	1,850

**Oakland Police & Fire Retirement System**  
**Bond Investments**  
**June 30, 2002**

Description	Maturity	Rate	Par Value	Book Value	Market Value
<b><u>Reams Asset Management, Inc., Cont'd</u></b>					
PDVSA Fin Ltd	11/15/07	9.38%	1,000,000	1,070,720	987,500
<b>Total 1-5 Years</b>			<b>35,664,095</b>	<b>35,812,126</b>	<b>34,601,686</b>
<b>To mature in 5 years or more</b>					
Ciena Corp	02/01/08	3.75%	475,000	329,234	279,656
COMM 1999-1	02/15/08	6.14%	461,159	477,335	483,490
DLJ Coml Mtg Corp	02/15/08	6.41%	875,000	921,006	926,650
Dryden Inv Tr Restr	07/23/08	7.16%	743,085	707,826	783,167
United Airls Pass Thru Trs	09/01/08	6.83%	1,765,000	1,672,850	1,357,887
Edison Mission Energy Fds	09/15/08	7.33%	2,100,000	1,993,968	2,010,057
Lyondell Chemical Co	12/15/08	0.00%	100,000	99,248	99,250
Lyondell Chemical Co	12/15/08	9.50%	260,000	247,000	241,800
Equistar Chemicals LP	02/15/09	8.75%	280,000	254,338	250,376
Charter Comm Hldgs	04/01/09	8.63%	730,000	636,953	489,100
Petrozuata Fin Inc	04/01/09	7.63%	1,000,000	917,500	760,000
Salomon Bros Mtg Secs	06/18/09	7.30%	2,650,554	2,650,577	2,855,863
Southern Energy Inc	07/15/09	7.90%	415,000	384,046	286,350
Qwest Cap Fdg Inc	08/03/09	7.00%	400,000	222,625	222,000
Global Crossings Hldgs Ltd	11/15/09	9.50%	520,000	369,888	5,200
WorldCom Inc Ga New Dflt	05/15/10	8.25%	555,000	273,000	83,250
Qwest Cap Fdg Inc	08/15/10	7.90%	495,000	275,275	279,675
Northwest Airls Pass Thru	09/01/10	8.30%	1,252,576	1,252,578	1,210,051
Calpine Corp	02/15/11	8.50%	720,000	564,450	482,400
Qwest Cap Fdg Inc	02/15/11	7.25%	490,000	270,113	274,400
France Telecom Sa	03/01/11	7.75%	1,390,000	1,355,289	1,269,181
Charter Comm Hldgs	05/15/11	10.00%	90,000	72,238	60,750
WorldCom Inc Ga New Dflt	05/15/11	7.50%	1,265,000	1,101,610	189,750
Continental Airls Pass Thru	06/15/11	7.03%	876,515	890,863	838,491
PSEG Energy Hldgs Inc	06/15/11	8.50%	1,195,000	1,195,604	1,115,437
Federal Home Ln Mtg Corp	07/15/11	5.00%	1,080,000	1,097,255	1,107,634

**Oakland Police & Fire Retirement System**  
**Bond Investments**  
**June 30, 2002**

Description	Maturity	Rate	Par Value	Book Value	Market Value
<b><u>Reams Asset Management, Inc., Cont'd</u></b>					
Williams Cos Inc	09/01/11	7.13%	480,000	452,198	388,704
U S Treasury Notes	02/15/12	4.88%	2,405,000	2,416,001	2,414,019
Williams Cos Inc	03/15/12	8.13%	1,065,000	958,640	893,247
Sprint Cap Corp Restr	03/15/12	8.38%	210,000	193,746	173,975
Sprint Cap Corp	03/15/12	8.38%	95,000	86,484	78,703
Steiner PPTYS LLC Secd Nt	03/31/12	7.48%	1,548,492	1,638,160	1,619,041
AT&T Wireless Svcs Inc	05/01/12	8.13%	1,560,000	1,488,396	1,272,086
Household Fin Corp	05/15/12	7.00%	1,660,000	1,675,508	1,650,621
Continental Airls Pass Thru	10/02/12	-	765,663	803,723	718,549
SSB RV Tr	02/15/13	4.74%	1,235,000	1,234,783	1,257,827
Comcast Cable Comm Inc	06/15/13	7.13%	615,000	577,089	554,244
Sithe/Indpd Fdg Corp	12/30/13	9.00%	1,500,000	1,568,670	1,596,840
Lehman Abs Manufactured	05/15/14	4.35%	925,000	924,855	933,342
Midwest Generation LLC	01/02/16	8.56%	1,705,000	1,683,162	1,690,405
American Airls Pass Thru	05/23/16	7.38%	912,380	922,256	881,879
FNMA TBA 15YR SFM	07/01/17	5.50%	8,300,000	8,241,922	8,307,802
FNMA TBA 15YR SFM	07/01/17	6.00%	4,550,000	4,605,453	4,639,590
FNMA TBA 15YR SFM	07/01/17	6.50%	2,000,000	2,058,125	2,071,260
FPL Energy 144A	12/31/18	7.64%	2,026,230	2,039,616	1,788,594
US Awys Pass Thru Trs	02/05/19	8.02%	1,000,000	1,000,000	1,057,040
US Awys Pass Thru Trs	03/01/19	7.89%	968,080	1,021,478	1,016,677
Sprint Cap Corp	05/01/19	6.90%	210,000	171,774	140,232
US Awys Pass Thru Trs	02/15/19	6.85%	1,475,580	1,475,580	1,288,943
AIR 2 US	10/01/20	8.03%	1,790,734	1,800,758	1,793,384
U S Treasury Stripped Coupons	02/15/21	-	3,010,000	1,011,029	995,618
Mirant Americas Gen LLC	10/01/21	8.50%	1,615,000	1,611,107	1,162,800
Federal Home Ln Mtg	07/15/22	8.50%	558,198	573,635	577,307
U S Treasury BD Stripped	11/15/22	-	3,010,000	909,803	893,759
Zurich Reins Centre Hldgs Inc	10/15/23	7.13%	215,000	189,600	195,469
U S Treas Stripped Coupons	11/15/24	-	3,010,000	811,857	795,061
Liberty Mut Ins Co Nt 144A	05/15/25	8.50%	295,000	284,504	287,141

**Oakland Police & Fire Retirement System**  
**Bond Investments**  
**June 30, 2002**

Description	Maturity	Rate	Par Value	Book Value	Market Value
<i><u>Reams Asset Management, Inc., Cont'd</u></i>					
AES Ironwood LLC	11/30/25	8.86%	1,594,878	1,594,874	1,525,166
TCI Comm Inc Deb	02/15/26	7.88%	305,000	287,108	271,057
News Amer Hldgs Inc	10/01/26	7.43%	430,000	429,806	451,698
Merrill Lynch Mtg Invs Inc	11/15/26	6.72%	400,000	347,125	410,502
Nomura Asset Secs Corp	03/17/28	6.28%	478,156	496,805	504,125
Green Tree Rec Equip	05/15/29	7.07%	542,194	542,005	571,195
GMAC Coml Mtg Sec Inc	07/15/29	6.85%	1,031,493	1,083,722	1,087,431
Deutsche Telekom Intl	06/15/30	8.25%	1,000,000	979,315	929,610
Verizon Global Fdg Corp	12/01/30	7.75%	995,000	1,006,283	959,598
U S Treasury Bonds	02/15/31	5.38%	6,250,000	6,149,840	6,121,094
AT&T Wireless Svcs Inc	03/01/31	8.75%	820,000	744,417	633,278
France Telecom Sa	03/01/31	10.00%	675,000	690,718	597,051
AOL Time Warner Inc	04/15/31	7.63%	160,000	147,691	140,098
Worldcom Inc Ga New Dflt	05/15/31	8.25%	3,590,000	2,341,129	538,500
Williams Cos Inc	06/15/31	7.75%	950,000	793,565	696,312
FNMA TBA 30YR SFM	07/01/31	6.50%	6,310,000	6,526,129	6,432,288
Ford Mtr Co Del	07/16/31	7.45%	2,065,000	1,971,184	1,922,205
AT&T Corp Restr	11/15/31	8.00%	1,665,000	1,440,938	1,307,025
Mortgage Capital Fdg Inc	11/18/31	6.00%	2,788,508	2,793,909	2,902,444
El Paso Energy Corp M/T/N	01/15/32	7.75%	900,000	828,145	834,609
Sprint Cap Corp	03/15/32	8.75%	1,645,000	1,514,293	1,237,155
AOL Time Warner Inc	05/01/32	7.70%	1,855,000	1,755,456	1,645,571
Federal Nat'l Mtge Assn	06/01/32	7.00%	4,625,000	4,785,068	4,790,488
Deutsche Telekom Intl	06/01/32	9.25%	615,000	644,556	619,908
El Paso Nat Gas Co	06/15/32	9.38%	635,000	634,295	653,053
FNMA TBA 30YR SFM	07/01/32	7.00%	20,205,000	20,839,694	20,924,904
GMAC Coml Mtg Sec Inc	05/15/33	5.83%	742,993	751,352	773,345
Conseco Fin Securitizations	09/01/33	5.15%	1,150,000	1,150,000	1,172,389
Salomon Bros Mtg Secs	02/18/34	5.32%	633,874	647,490	654,051
GMAC Coml Mtg Sec Inc	05/15/35	6.15%	899,292	935,737	943,754
L B Coml Conduit Mtg Tr	10/15/35	5.87%	1,624,642	1,701,876	1,694,797

**Oakland Police & Fire Retirement System  
Bond Investments  
June 30, 2002**

Description	Maturity	Rate	Par Value	Book Value	Market Value
<b><u>Reams Asset Management, Inc., Cont'd</u></b>					
Zurich Capital Trust 144A	06/01/37	8.38%	580,000	592,563	546,232
DTE Energy Co	11/15/38	7.11%	1,700,000	1,700,000	1,731,246
<b>Non Convertible Preferred</b>					
CSC Hldgs Inc GDR SH	-	-	5,655	466,050	361,920
Csc Hldgs Inc PFD Ser 4	-	-	1,620	136,080	108,540
<b>Total five years or more</b>			<b>142,767,548</b>	<b>134,111,796</b>	<b>127,788,663</b>
<b>Total Reams Asset Management, Inc.</b>			<b>178,431,643</b>	<b>169,923,921</b>	<b>162,390,349</b>

**Oakland Police & Fire Retirement System**  
**Bond Investments**  
**June 30, 2002**

Description	Maturity	Rate	Par Value	Book Value	Market Value
<b><u>Seneca Capital Management</u></b>					
<b>To mature in 1-5 Years</b>					
Cdc Coml Mtg Tr	03/01/03	-	719,000	722,577	722,577
United States Treas Nts	05/31/04	3.25%	10,562,000	10,597,073	10,644,516
Cit Group Hldgs	08/16/05	7.63%	4,000,000	3,900,000	3,940,320
Unitedhealth Group Inc	01/17/07	5.20%	3,010,000	2,996,755	3,058,521
Federal Home Ln Mtg Corp	02/15/07	7.10%	686,217	708,090	696,714
U S Treas Nts	05/15/07	4.38%	9,497,000	9,573,791	9,627,584
Verizon Global Fdg Corp	06/15/07	6.12%	675,000	673,556	671,706
First Union-Lehman Bros Bk	06/18/07	6.28%	2,049,989	2,097,119	2,157,952
Dlj Coml Mtg Corp	12/10/07	6.11%	3,642,332	3,613,367	3,821,812
<b>Total 1-5 Years</b>			<b>34,841,538</b>	<b>34,882,328</b>	<b>35,341,701</b>
<b>To mature in 5 years or more</b>					
Meyer Fred Inc Del New	03/01/08	7.45%	1,400,000	1,511,076	1,539,272
Ford Mtr Cr Co	10/28/09	7.38%	2,014,000	2,091,857	2,084,893
Citigroup Inc	10/01/10	7.25%	2,100,000	2,230,391	2,285,829
Pemex Fin Ltd	02/15/11	9.03%	2,000,000	2,027,748	2,170,980
Safeway Inc	03/01/11	6.50%	1,445,000	1,487,758	1,488,827
Morgan Stanley Co	04/15/11	6.75%	1,800,000	1,867,608	1,851,642
International Paper Co	09/01/11	6.75%	2,000,000	2,037,920	2,082,880
Conagra Foods Inc	09/15/11	6.75%	2,155,000	2,247,212	2,273,978
Regency Ctrs L P	01/15/12	6.75%	1,000,000	998,500	1,022,440
Goldman Sachs Inc	01/15/12	6.60%	1,988,000	2,004,109	2,024,997
Sbc Communications Inc	02/01/12	5.88%	2,145,000	2,124,580	2,141,783
Commonwealth Edison Co	03/15/12	6.15%	718,000	737,494	738,822
El Paso Corp Restr	06/15/12	7.88%	1,000,000	996,670	1,006,770
Time Warner Inc Deb	01/15/13	9.13%	2,500,000	2,771,405	2,767,125
Federal Nat'l Mtge Assn #535844	04/01/16	6.00%	4,899,264	4,849,866	5,029,388
Federal Nat'l Mtge Assn Gtol	08/18/16	6.00%	0.05	92,589	92,582
Pemex Fin Ltd	08/15/17	10.61%	1,515,000	1,810,881	1,876,949

**Oakland Police & Fire Retirement System**  
**Bond Investments**  
**June 30, 2002**

Description	Maturity	Rate	Par Value	Book Value	Market Value
<b><u>Seneca Capital Management, Cont'd</u></b>					
Federal Natl Mtg Assn Gtd	10/25/18	9.25%	1,538,815	1,642,204	1,706,120
Eqcc Home Equity Ln Tr	03/15/21	6.46%	1,569,535	1,534,699	1,602,648
Federal Natl Mtg Assn Gtd	10/17/24	6.50%	1,695,855	1,716,523	1,734,329
Indymac Mbs Inc	08/25/25	5.82%	4,000,000	3,999,661	4,027,680
Federal Home Ln Mtg Corp	12/15/25	6.15%	1,916,811	1,928,791	1,954,534
Tms Tr	04/15/26	7.17%	7,000,000	7,166,906	7,186,752
Fed'I Home Ln Mtg Corp Remic	03/15/27	6.50%	7,400,000	7,655,531	7,643,712
Clear Channel Communications	10/15/27	7.25%	250,000	244,883	228,490
Government Natl Mtg Assn Gtd	02/20/29	2.30%	1,932,056	1,932,056	1,916,472
Conoco Inc Usd	04/15/29	6.95%	2,200,000	2,306,502	2,248,356
Federal Natl Mtg Assn Gtd	12/25/29	1.83%	1,582,104	1,583,093	1,574,732
Federal Home Ln Mtg Corp	02/15/30	6.00%	1,400,000	1,386,000	1,372,802
Gov't Nat'l Mtge Assn #781236	09/15/30	7.50%	1,494,848	1,569,584	1,575,659
Federal Natl Mtg Assn M/T/N	11/15/30	6.63%	1,000,000	1,030,050	1,055,938
Verizon Global Fdg Corp	12/01/30	7.75%	2,900,000	3,243,679	2,796,818
U S Treasury Bonds	02/15/31	5.38%	1,100,000	1,034,000	1,077,313
Fed'I Home Ln Mtg Corp Remic	06/15/31	6.50%	485,000	494,245	494,235
Federal Nat'l Mtge Assn #607695	11/01/31	6.50%	4,226,137	4,253,541	4,307,998
General Motors Accep Corp Nt	11/01/31	8.00%	1,610,000	1,681,726	1,646,628
Federal Home Ln Mtg Corp V/R	12/15/31	1.83%	2,200,470	2,201,158	2,205,289
Federal Home Ln Mtg Corp V/R	03/15/32	1.88%	1,443,239	1,444,592	1,429,258
Federal Home Ln Mtg Corp V/R	03/15/32	1.93%	2,279,000	2,283,273	2,277,861
General Elec Cap Corp M/T/N	03/15/32	6.75%	3,189,000	3,165,028	3,132,459
Government Natl Mtg Assn Gtd	03/16/32	2.25%	1,872,684	1,871,514	1,873,489
First Un Natl Bk Coml Mtg Tr	08/15/33	6.42%	2,000,000	2,010,032	2,106,971
Gmac Coml Mtg Sec Inc	05/15/35	6.15%	2,159,484	2,183,030	2,266,250
Abbey Natl Plc V/R	10/29/49	7.35%	1,265,000	1,328,389	1,345,808
<b>Total 5 years or more</b>			<b>92,389,301</b>	<b>94,778,352</b>	<b>95,267,754</b>
<b>Total Seneca Capital Management</b>			<b>127,230,839</b>	<b>129,660,680</b>	<b>130,609,456</b>
<b>GRAND TOTAL INVESTMENT IN BONDS</b>			<b>305,662,482</b>	<b>299,584,601</b>	<b>292,999,804</b>

**BALANCE SHEET REAL ASSETS**  
STAT. TABLE I

Last Ten Years

<b>Fiscal Year</b>	<b>Cash</b>	<b>Contribution Receivables</b>	<b>Other Investments</b>	<b>Receivables</b>	<b>Total</b>
1993	14,363,409	1,512,410	269,655,465	4,007,687	289,538,971
1994	5,261,869	1,206,452	273,185,855	3,698,512	283,352,688
1995	4,049,387	45,242	274,092,658	4,046,730	282,234,017
1996	15,026,338	280,045	339,672,958	4,311,051	359,290,392
1997	5,776,596	78,669	793,283,791	3,601,739	802,740,795
1998	28,950,165	63,216	828,136,967	5,027,519	862,177,867
1999	25,937,346	65,007	857,370,379	16,439,122	899,811,854
2000	31,436,974	36,840	857,211,171	26,429,337	915,114,322
2001	46,427,939	13,576	794,372,532	35,537,938	876,351,985
2002	110,737,018	16,873	639,210,687	51,236,071	801,200,649

**BALANCE SHEET LIABILITIES**  
STAT. TABLE II

Last Ten Years

<b>Fiscal Year</b>	<b>Accounts Payable</b>	<b>CalPERS Payable</b>	<b>Member Reserves</b>	<b>Employer Reserve for Allowances</b>	<b>Total</b>
1993	55,161		42,435,305	237,048,505	279,538,971
1994	71,564		43,605,476	239,675,648	283,352,688
1995	126,823		80,554,988	211,552,206	292,234,017
1996	115,070		83,894,824	275,280,498	359,290,392
1997	387,221		45,715,265	756,638,309	802,740,795
1998	754,094		34,276,602	826,366,082	861,396,778
1999	20,936,584		32,198,260	825,740,426	878,875,270
2000	22,737,446		27,368,590	842,270,840	892,376,876
2001	48,751,289		26,002,002	752,847,405	827,600,696
2002	78,123,745	50,388,808	24,818,941	519,356,602	672,688,096

**INVESTMENT BY TYPE**  
STAT. TABLE III

Last Ten Years

<b>Fiscal Year</b>	<b>Public Utility</b>	<b>Short Term Investments</b>	<b>U.S. Gov't Bonds &amp; Notes</b>	<b>Real Estate</b>
1993	31,540,679	39,821,693	109,905,473	-
1994	32,693,816	24,951,165	103,142,456	-
1995	33,849,878	25,924,139	103,352,609	-
1996	39,845,600	18,928,506	100,546,350	6,488,633
1997	39,697,230	441,721,353	91,101,887	7,036,932
1998	54,254,281	10,962,418	182,003,479	5,035,176
1999	31,727,713	3,003,084	125,726,673	4,581,788
2000	43,501,834	12,939,389	104,346,934	5,225,785
2001	12,272,031	8,992,610	160,753,123	8,211,176
2002	3,005,465	49,017,752	128,356,904	8,258,586

<b>Fiscal Year</b>	<b>Corporate Bonds</b>	<b>Stocks</b>	<b>Real Estate Mortgage Loans</b>	<b>Total Investments</b>
1993	9,333,086	76,481,607	2,572,927	269,655,465
1994	14,418,864	97,277,580	701,976	273,185,857
1995	11,665,382	98,612,402	688,248	274,092,658
1996	6,393,381	166,902,886	567,602	339,672,958
1997	7,298,384	206,906,028	458,197	794,220,011
1998	98,020,959	477,419,099	441,555	828,136,967
1999	205,994,626	486,263,295	73,201	857,370,380
2000	195,894,911	495,230,803	71,515	857,211,171
2001	231,122,920	372,950,832	69,840	794,372,532
2002	161,637,435	288,866,903	67,642	639,210,687

**ADDITIONS TO RESERVES**  
STAT. TABLE IV

Last Ten Years

<b>Fiscal Year</b>	<b>Revenues</b>	<b>Expenditure</b>	<b>Addition to Reserves</b>
1993	56,349,952	42,556,355	13,793,597
1994	53,574,200	49,776,886	3,797,314
1995	99,152,086	50,162,820	48,989,266
1996	76,692,225	49,787,323	26,904,932
1997	500,842,904	56,619,290	443,178,252
1998	114,030,726	54,987,522	59,043,204
1999	73,295,419	55,816,927	17,478,492
2000	75,742,214	62,004,837	13,737,377
2001	(710,481)	64,065,699	(64,776,180)
2002	(18,975,240)	135,937,360	(154,912,600)

**REVENUE BY SOURCE**  
STAT. TABLE V

Last Ten Years

<b>Fiscal Year</b>	<b>Employee Contributions</b>	<b>Employer Contributions</b>	<b>Investment Income</b>	<b>Other Income</b>	<b>Total</b>
1993	2,251,786	31,019,092	23,079,074	-	56,349,952
1994	2,534,719	33,545,634	17,493,848	-	53,574,201
1995	2,265,123	34,030,081	62,856,882	-	99,152,086
1996	1,913,550	34,477,280	40,026,515	274,910	76,692,255
1997	1,784,367	440,040,805	59,017,694	38	500,842,904
1998	1,395,450	- <sup>1</sup>	112,635,276	-	114,030,726
1999	1,295,783	- <sup>1</sup>	71,999,636	-	73,295,419
2000	903,883	- <sup>1</sup>	74,838,331	-	75,742,214
2001	655,561	- <sup>1</sup>	(1,366,042)	-	(710,481)
2002	297,645	- <sup>1</sup>	(19,272,885)	-	(18,975,240)

<sup>1</sup> Annual employer contribution requirement, subsequent to receipt of pension obligation bond proceeds, is zero through the year 2011.

**EXPENSES BY TYPE**  
STAT. TABLE VI

Last Ten Years

<b>Fiscal Year</b>	<b>Service Allowances</b>	<b>Disability Allowances</b>	<b>Industrial Death Allowances</b>
1993	24,361,243	16,715,089	1,461,855
1994	28,276,554	19,206,282	1,553,301
1995	28,881,673	18,860,605	1,623,199
1996	29,171,519	18,497,542	1,560,783
1997	33,624,790	21,189,041	1,789,459
1998	33,071,332	19,243,792	1,803,700
1999	34,142,223	18,984,627	1,754,536
2000	38,266,906	20,960,049	1,880,231
2001	39,087,868	22,233,616	1,878,015
2002	40,563,102	23,475,157	1,973,396

<b>Fiscal Year</b>	<b>Withdrawal of Contributions</b>	<b>Death Benefits</b>	<b>Transfer to CalPERS</b>	<b>Administrati on Costs</b>	<b>Total Expenses</b>
1993	215,339	18,168	-	-	42,771,694
1994	288,530	12,000	-	440,219	49,776,886
1995	330,301	19,005	-	448,037	50,162,820
1996	41,759	13,000	-	502,720	49,787,323
1997	-	16,000	-	806,844	57,426,134
1998	466,068	15,000	-	387,630	54,987,522
1999	271,024	28,619	-	635,887	55,816,916
2000	196,822	12,000	-	688,829	62,004,837
2001	103,210	11,000	-	751,990	64,065,699
2002	103,103	63,735	69,829,757	(70,890)	135,937,360

## MEMBERSHIP SUMMARY

<u>Active/Vested Members</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Active	26	0	26
Active - Transferred to CalPERS (California Public Employees' Retirement System)	0	104	104

<u>Active Members - Death</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Died While Active FY 01/02	0	1	1

<u>Service Retirees</u>	<u>Police</u>	<u>Fire</u>	<u>Total/Avg.</u>
Retired during FY 01/02	4	3	7
Average Retirement Age	54	58	56
Average Years of Service	31	32	31

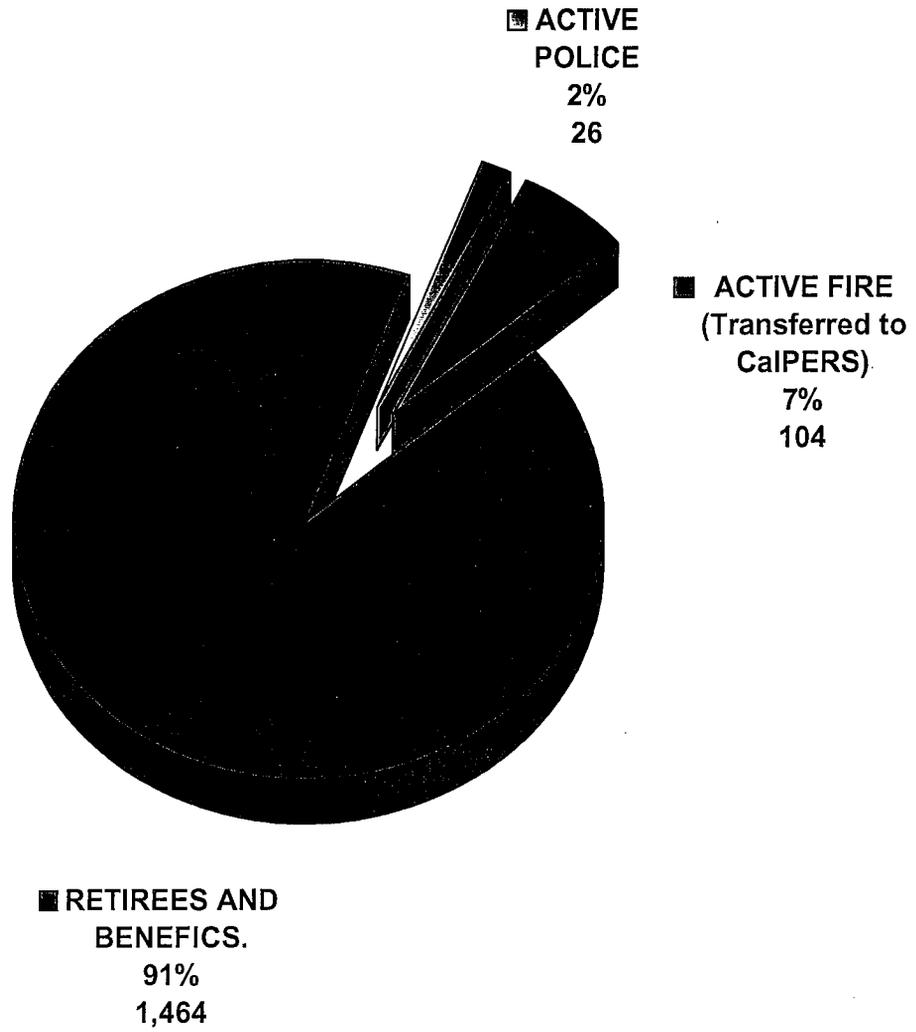
<u>Disability Retired</u>	<u>Police</u>	<u>Fire</u>	<u>Total/Avg.</u>
Retired during FY 01/02	2	3	5
Average Retirement Age	58	56	57
Average Years of Service	28	33	31

**Average monthly allowance paid per retiree (by type):**

Service	\$3,628
Disability	\$3,512
Death	\$3,231

<b>Total Service Retirees (Police &amp; Fire)</b>	893
<b>Total Disability Retired (Police &amp; Fire)</b>	524
<b>Total Death Allowances (Police &amp; Fire)</b>	47
<b>GRAND TOTAL RETIREES (Service, Disability &amp; Death)</b>	<b>1,464</b>

# MEMBERSHIP



**SERVICE RETIREMENTS**

**Police Department**

Aven, Robert  
Hughes, Gregory  
Landeros, Jack S.  
Nichols Jr., Arthur

**Fire Department**

Maxwell, Martin  
Morgan, Robert J.  
Muller, Michael

**DEFERRED VESTED SERVICE RETIREMENTS**

**Police Department**

None

**Fire Department**

None

**SERVICE-CONNECTED DISABILITY RETIREMENTS**

**Police Department**

Hanson Jr., Myron B.  
Taylor, John P.

**Fire Department**

Nobriga, Charles  
Petersen, David  
Young, William T.

**NONSERVICE-CONNECTED DISABILITY RETIREMENTS**

**Police Department**

None

**Fire Department**

None

## DEATH ALLOWANCES

### Police Department

None

### Fire Department

None

## DEATH WHILE ACTIVE

### Police Department

None

### Fire Department

Smith, Burl S.

## DEATH AFTER RETIREMENT

### Police Department

Anderson, Clifford  
Atkinson, Charles  
Cannizaro, Angelo  
Di Mambro, Marino  
Donnelly, Charles  
Donovan, Gerald  
Fellows, Howard  
Fennelly, James  
Hamilton, Leslie M.  
Lawrence, Joseph R.  
Ludwig Jr., Walter  
Lyon, Ronald  
Peters, Vernon L.  
Ridgeway, Noah J.  
Smith, Richard  
Veretto, Joseph J.  
Weishaar, Edward

### Fire Department

Abbott, Harold J.  
Abreu, Robert L.  
Askew, Merle  
Benik, Michael  
Blake, Donald  
Combs, Howard  
Dangel, Robert  
Detlefsen, Joachim  
Geisen, Richard  
Johnson, Carl  
La Grange, Arthur  
Laster, King  
Maddock, Emmett L.  
McCarthy, James  
Norman Jr., Russell  
Risch, Clifford  
Rose, Dana  
Rothenstein, Charles  
Ryan, John F.  
Tobin, Richard

DEATH OF WIDOW

Police Department

Barnes, Elizabeth  
Kinstscher, Dorothy E.  
Mahood, Margaret  
Sorensen, Gladys

Fire Department

Abbott, Gertrude  
Barrieau, Eileen  
Luse, Virginia  
Merrin, Helen E.  
Middleton, Edna  
Myers, Ruth  
Nogue, Helen  
Reimers, Alice  
Smith, Gwendoline  
Whitehead, Frances

WIDOW'S CONTINUANCE

Police Department

Anderson, June  
Atkinson, Marilyn  
Fennelly, Barbara  
Hamilton, Ruby  
Ludwig, Diana  
Peters, Bette  
Ridgeway, Dorothy  
Veretto, Ruth A.

Fire Department

Abbott, Gertrude  
Askew, Judith A.  
Benik, Martha  
Combs, Elizabeth  
Dangel, Thelma  
Geisen, Sandra  
Laster, Alice  
Norman, Mary E.  
Ryan, Clarice W.  
Smith, Rene



**Oakland Police & Fire Retirement System  
City of Oakland  
Office of Personnel  
150 Frank Ogawa Plaza  
3<sup>rd</sup> Floor  
Oakland, CA 94612**