



# AGENDA REPORT

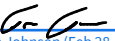
**TO:** Jestin D. Johnson  
City Administrator

**FROM:** Erin Roseman  
Finance Director

**SUBJECT:** Annual Comprehensive Financial  
Report and Management Letter

**DATE:** February 16, 2024

City Administrator Approval

  
Jestin Johnson (Feb 28, 2024 21:59 PST)

Date: Feb 28, 2024

## RECOMMENDATION

**Staff Recommends That The City Council Receive The Annual Comprehensive Financial Report (ACFR) And The Auditor's Required Communication To City Council (Management Letter) For The Year Ended June 30, 2023.**

## EXECUTIVE SUMMARY

The Finance Department is pleased to present the attached independent annual audit to the City Council, referred to as the Annual Comprehensive Financial Report (ACFR), and the auditor's required communication to the City Council, also known as the Management Letter.

The audit report incorporates management's discussion and analysis of the City's financial position, basic financial statements, notes to basic financial statements, and the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

Macias, Gini & O'Connell, the City's external auditor, audited the City's financial statements for the year ending June 30, 2023 (**Attachment A**). The auditor's unmodified opinion letter for the ACFR affirms that the basic financial statements contained therein accurately represent the financial condition of the City of Oakland as of June 30, 2023. The auditor expressed an opinion that the City's financial statements are fairly stated and in accordance with accounting principles generally accepted in the United States.

The Fiscal Year (FY) 2022-23 ACFR provides relevant financial information to the City Council, residents and businesses of Oakland, creditors, investors, and other interested parties. This report also fulfills the City Council's responsibilities under Section 809 of the City Charter, which states in part, "The Council shall engage during the first month of each fiscal year an independent certified public accountant who shall examine and report to the Council on the annual financial statement of the City."

## **BACKGROUND / LEGISLATIVE HISTORY**

### ***The Annual Comprehensive Financial Report***

The FY 2022-23 CAFR provides a description of the City's financial activities for the period of July 1, 2022, through June 30, 2023, and is divided into the following major sections:

- ***Introductory Section:*** This section intends to familiarize the reader with the organizational structure of the City, the scope of City services and the City general government operations. This section also highlights the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting award for the previous fiscal year;
- ***Financial Section:*** This section contains the City's audited financial statements, notes to the basic financial statements, the Independent Auditor's Report, and Management's Discussion and Analysis (MD&A); and
- ***Statistical Section:*** This section provides ten years of summary financial data, as well as demographic, economic, and statistical information related to the City and its operations.

The auditor's opinion contained in the Financial Section of the ACFR represents their unmodified opinion that the City's financials are presented fairly and in conformity with Generally Accepted Accounting Principles (GAAP).

### ***The Management Letter or Auditor's Required Communication to City Council***

The Management Letter is a required communication and recommendation by Statement on Auditing Standards (SAS) No. 114. The letter outlines the auditor's responsibility, planned scope, and timing of the audit, and provides advice on accounting policies, evaluates accounting estimates, proposes audit adjustments, and notes significant audit findings, the status of prior years' recommendations, corrected and uncorrected misstatements, disagreements with management, management representations, and any major difficulties encountered in performing the audit.

The Management Letter is intended solely for the information and use of the City Council, the Finance and Management Committee, Federal grantor agencies, and the management of the City.

## **ANALYSIS AND POLICY ALTERNATIVES**

The FY 2022-23 ACFR provides a comprehensive review of the City's financial operations. The ACFR is submitted to the City Council for review and to provide relevant financial information to the residents of Oakland, creditors, investors, and other interested parties. This document includes an opinion from the City's external auditor that the City's financial statements for FY 2022-23 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is commonly known as an

"unmodified" or "clean" opinion. The independent auditor's report is included in the Financial Section of the ACFR.

### **Financial Highlights**

For the fiscal year ended June 30, 2023, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$859.9 million. This result compares to a net position of \$551.2 million as of June 30, 2022, and reflects a \$308.7 million improvement on a government-wide basis, as detailed in **Table 1**.

Of the \$308.7 million improvement in net position, \$119 million was derived from increases in general revenues, including \$66.6 million in interest and investment income, \$41.5 million in voter-approved special tax, \$41.2 million in property tax, and \$14.1 million in business license tax, offset by a decline of \$60.3 million in real estate transfer tax due to decreased sales activity.

Pension and other post-employment benefits (OPEB) expenses were reduced by \$115.5 million due to a decline in the net OPEB liability and amortization of related outflows and inflows, offset by an increase in the net pension liability. Net pension liability increased by \$621.6 million due primarily to changes in assumptions regarding the long-term expected rate of return on pension assets, as determined by CalPERS. Net OPEB liability decreased by \$122 million mainly due to a change in the discount rate used for actuarial estimates, which was increased based on higher anticipated long-term interest rates.

The City's net position of \$859.9 million incorporates a \$1.2 billion deficit in unrestricted net position primarily resulting from the historical underfunding of pension and OPEB liabilities. The net pension liability accounts for \$1.9 billion of this deficit, and the net OPEB liability accounts for \$0.5 billion. The City's unrestricted net deficit remains substantial but declined by \$346.6 million in the fiscal year ended June 30, 2023.

Capital assets such as buildings, land, and equipment, less any related outstanding debt, account for \$1.3 billion of the City's net position. These capital assets are used to provide services to residents and are not available for future spending.

Resources subject to restrictions on their use, such as bond proceeds or grant funds, contribute an additional \$813.1 million to the net position and are available to meet the City's ongoing obligations for specific programs. Of this amount, \$334.1 million pertains to Low and Moderate Income Housing Redevelopment, \$381.5 million is restricted for Housing and Community Development programs, and \$28.4 million is restricted for debt service.

The total fund balance for the City's governmental funds increased by 4 percent, or \$56.4 million, ending the year at \$1.5 billion.

Total fund balance in the consolidated General Fund increased by 9.5%, or \$58.1 million, rising to \$672 million. This gain reflects improvements in general revenues and reduced expenses due to staffing vacancies.

As of June 30, 2023, the General Purpose Fund Emergency Reserve, a subfund of the General Fund, had a balance of \$66.6 million, representing a \$12.7 million increase from the prior year. In addition, the General Purpose Fund has an unassigned fund balance of \$18.7 million. In

combination, these reserves totaled \$85.3 million, exceeding the amount required under the City's Consolidated Fiscal Policy of 7.5 percent of FY 2022-23 General Purpose Fund appropriations, or \$65.4 million.

**Table 1: Consolidated Statements of Net Position June 30, 2023 and 2022 (in thousands):**

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
<b>Assets</b>						
Current and other assets	2,580,429	2,522,302	108,102	104,953	2,688,531	2,627,255
Capital assets	1,460,862	1,459,289	252,179	253,930	1,713,041	1,713,219
Total Assets	4,041,291	3,981,591	360,281	358,883	4,401,572	4,340,474
<b>Deferred outflows of resources</b>						
Loss on refunding of debt	9,778	11,023	—	—	9,778	11,023
Pensions	554,939	265,730	12,739	4,528	567,678	270,258
OPEB	161,727	194,723	3,246	3,949	164,973	198,672
Total Outflows	726,444	471,476	15,985	8,477	742,429	479,953
<b>Liabilities</b>						
Long-term liabilities	1,096,614	1,186,108	20,573	23,526	1,117,187	1,209,634
Other liabilities	440,093	472,663	3,110	5,766	443,203	478,429
Net pension liability	1,807,672	1,186,077	47,740	29,806	1,855,412	1,215,883
Net OPEB liability	484,098	606,108	8,838	11,361	492,936	617,469
Total Liabilities	3,828,477	3,450,956	80,261	70,459	3,908,738	3,521,415
<b>Deferred inflows of resources</b>						
Gains on refunding of debt	2,303	2,544	237	276	2,540	2,820
Leases	31,828	—	—	—	31,828	—
Pensions	30,421	386,245	889	11,362	31,310	397,607
OPEB	303,166	304,276	6,513	5,910	309,679	310,186
Total deferred inflows	367,718	693,065	7,639	17,548	375,357	710,613
<b>Net Position</b>						
Net investment in capital assets	1,049,243	1,040,918	231,369	230,128	1,280,612	1,271,046
Restricted	813,094	860,545	—	—	813,094	860,545
Unrestricted (deficit)	(1,290,793)	(1,629,634)	56,997	49,224	(1,233,796)	(1,580,410)
Total net position	571,544	271,829	288,366	279,352	859,910	551,181

The presentation of this report supports the Citywide priority of responsive, trustworthy government. It communicates the City's financial position and obligations to the public, policy makers, and investors and the audit of this information provides assurance of the accuracy of information contained therein. The report also fulfills commitments to the City's bondholders for annual updates on the City's financial position.

### **FISCAL IMPACT**

This is an informational report only; and does not have a direct fiscal impact or cost.

### **PUBLIC OUTREACH / INTEREST**

This item did not require any additional public outreach other than the required posting on the City's website.

### **COORDINATION**

This report was prepared by the Finance Department and incorporates financial data for all City departments and the Port of Oakland.

### **SUSTAINABLE OPPORTUNITIES**

***Economic:*** There are no direct economic opportunities associated with this informational report.

***Environmental:*** There are no direct environmental opportunities associated with this informational report.

***Race & Equity:*** There are no direct race or equity opportunities associated with this informational report.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends That The City Council Receive The Annual Comprehensive Financial Report (ACFR) And The Auditor's Required Communication To City Council (Management Letter) For The Year Ended June 30, 2023.

For questions regarding this report, please contact Stephen Walsh, Controller, at (510) 238-4906.

Respectfully submitted,



[Erin Roseman \(Feb 27, 2024 13:12 PST\)](#)

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ERIN ROSEMAN  
Finance Director  
Finance Department

Prepared by:  
Stephen Walsh, Controller  
Controller's Bureau

Attachments (2):

- A: Annual Comprehensive Financial Report For the Year Ended June 30, 2023
- B: Auditor's Required Communication to City Council (Management Letter)