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OAKLAND

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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Katano Kasaine
Finance Director

SUBJECT: Comprehensive Annual Financial
Report (CAFR) And Management
Letter

DATE: December 27, 2018

City Administrator Approval

Date:

1/10/19

RECOMMENDATION

Staff Recommends That The City Council Receive The Comprehensive Annual Financial Report (CAFR) And The Auditor's Required Communication To City Council (Management Letter) For The Year Ended June 30, 2018.

EXECUTIVE SUMMARY

The Finance Department, Controller's Bureau is pleased to present to the City Council the attached independent annual audit, referred to as the Comprehensive Annual Financial Report (CAFR), and the auditor's required communication to 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.

The auditor's unmodified opinion letter for the CAFR affirms that the basic financial statements contained therein accurately represent the financial condition of the City of Oakland as of June 30, 2018. The auditors expressed an opinion that the City's financial statements are fairly stated and in accordance with accounting principles generally accepted in the United States.

Macias, Gini & O'Connell, the City's external auditor, audited the City's financial statements for the year ending June 30, 2018 (**Attachment A**). The auditors reported no findings and did not identify any deficiencies in internal controls.

City Council acceptance of the Fiscal Year 2017-18 CAFR will provide relevant financial information to the City Council, residents of Oakland, creditors, investors, and other interested parties. Also, the City will be in compliance with Section 809 of the City Charter, which states in part, "The Council shall engage during the first month of each fiscal year an independent

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certified public accountant who shall examine and report to the Council on the annual financial statement of the City.”

BACKGROUND / LEGISLATIVE HISTORY

The Comprehensive Annual Financial Report

The FY 2017-18 CAFR provides a description of the City's financial activities for the period of July 1, 2017 through June 30, 2018, 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 CAFR 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, and is not intended to be and should not be used by anyone other than these specified parties.

ANALYSIS AND POLICY ALTERNATIVES

The FY 2017-18 CAFR provides a comprehensive review of the City's financial operations. The CAFR is submitted to the City Council for consideration and acceptance and to provide relevant financial information to the residents of Oakland, creditors, investors, and other interested parties. Ensuring the financial integrity of our public institutions is crucial to maintaining the public's trust.

The auditors expressed an opinion that the City's financial statements for FY 2017-18 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 CAFR.

Financial Highlights

For the fiscal year ended June 30, 2018, the City achieved the following key financial results for governmental and business-type activities, as indicated in **Table 1**:

- Total liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by \$456.8 million, a decrease of \$571.8 million as compared to the City's positive net position of \$115 million at June 30, 2017.
 - The City's deficit net position of \$456.8 million reflects a \$2.4 billion deficit in unrestricted net position that has primarily resulted from the underfunding of pension and other postemployment benefit (OPEB) liabilities, as well as liabilities for pension obligation bonds.
 - Net pension liability, at \$1.7 billion, is the largest component of the City's net position deficit. The City's net OPEB liability of \$849.5 million reflects a \$712.2 million restatement of beginning net position due to a change in accounting principle requiring the accrual of costs for future retiree health benefits earned to date.
 - \$1.3 billion of the City's net position represents investments in capital assets such as buildings, land, and equipment, less any related outstanding debt and related deferred outflows and inflows of resources used to acquire those assets (net investment in capital assets). These capital assets are used to provide services to citizens and are not available for future spending.
 - \$648.6 million of the City's net position represents resources that are subject to restrictions on their use, such as bond proceeds or grant funds, and are available to meet the City's ongoing obligations for specific programs.

Table 1: Condensed Statement of Net Position, June 30, 2018 and 2017 (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$1,619,488	\$1,395,418	\$64,179	\$63,157	\$1,683,667	\$1,458,575
Capital assets	1,406,930	1,415,433	236,254	225,348	1,643,184	1,640,781
Total assets	<u>3,026,418</u>	<u>2,810,851</u>	<u>300,433</u>	<u>288,505</u>	<u>3,326,851</u>	<u>3,099,356</u>
Deferred outflows of resources						
Loss on refunding of debt	16,003	17,314	—	—	16,003	17,314
Outflows related to pensions	383,063	283,417	10,874	10,335	393,937	293,752
Outflows related to OPEB	36,654	—	571	—	37,225	—
Total deferred outflows	<u>435,720</u>	<u>300,731</u>	<u>11,445</u>	<u>10,335</u>	<u>447,165</u>	<u>311,066</u>
Liabilities						
Long-term liabilities	1,126,021	1,079,286	34,267	36,735	1,160,288	1,116,021
Other liabilities	233,035	234,850	3,329	4,419	236,364	239,269
Net pension liability	1,660,253	1,503,250	43,672	39,011	1,703,925	1,542,261
Net OPEB liability	836,431	353,583	13,040	6,402	849,471	359,985
Total liabilities	<u>3,855,740</u>	<u>3,170,969</u>	<u>94,308</u>	<u>86,567</u>	<u>3,950,048</u>	<u>3,257,536</u>
Deferred inflows of resources						
Gain on refunding of debt	—	—	434	474	434	474
Inflows related to pensions	24,856	33,658	620	3,780	25,476	37,438
Inflows related to OPEB	250,952	—	3,912	—	254,864	—
Total deferred inflows	<u>275,808</u>	<u>33,658</u>	<u>4,966</u>	<u>4,254</u>	<u>280,774</u>	<u>37,912</u>
Net Position						
Net investment in capital assets	1,126,892	1,141,058	201,553	188,139	1,328,445	1,329,197
Restricted	648,566	599,324	—	—	648,566	599,324
Unrestricted (deficit)	-2,444,868	-1,833,427	11,051	19,880	-2,433,817	-1,813,547
Total net position	<u>-\$669,410</u>	<u>-\$93,045</u>	<u>\$212,604</u>	<u>\$208,019</u>	<u>-\$456,806</u>	<u>\$114,974</u>

- For governmental activities alone, net position declined by \$576.4 million. This decline reflects a \$702.2 million reduction in beginning net position as restated due to the change in accounting principle for OPEB liabilities, offset by a \$125.8 million improvement in net position from all other sources. Net position for the City's business-type activities, primarily the Sewer Fund, increased by \$4.6 million.
- The City's total assets increased by \$227.5 million (7.3 percent) to \$3.3 billion, while total liabilities increased by \$692.5 million (21.3 percent) to \$4 billion.
- As of June 30, 2018, the City had \$78.2 million in the General Purpose Fund (GPF) fund balance. Of this amount, \$45.2 million is set aside to meet the 7.5 percent required reserve, and is reported in the unassigned fund balance of the General Fund. The Vital Services Stabilization Reserve of \$14.3 million is reported in the committed fund balance of the General Fund.

FISCAL IMPACT

This is an informational report only; there is no fiscal impact.

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 in coordination and with input from the Treasury Bureau, Budget Bureau, City Attorney's Office, and Human Resources Department.

SUSTAINABLE OPPORTUNITIES

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

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

Social Equity: There are no social equity opportunities associated with this report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive The Comprehensive Annual Financial Report (CAFR) And The Management Letter For The Year Ended June 30, 2018.

For questions regarding this report, please contact Kirsten LaCasse, Controller, at (510) 238-6776.

Respectfully submitted,



KATANO KASAINÉ
Finance Director
Finance Department

Reviewed by:
Kirsten LaCasse
Controller
Finance Department, Controller's Bureau

Prepared by:
Stephen Walsh,
Assistant Controller

Attachments (2):

- A. Comprehensive Annual Financial Report For the Year Ended June 30, 2018
- B. Auditor's Required Communication to City Council (Management Letter)