

CITY OF OAKLAND

AGENDA REPORT

2007 FEB 27 PM 2:58

TO: Office of the City Administrator
ATTN: Deborah Edgerly
FROM: Finance and Management Agency
DATE: February 27, 2007

RE: **Informational Report Presenting the Fiscal Year 2005/2006 Comprehensive Annual Financial Report (CAFR), the Single Audit Report, the Oakland Redevelopment Agency (ORA) Financial Statement, the Oakland Base Reuse Authority (OBRA) Financial Statement, Measure Y Audit Report, the Oakland Wildfire Prevention Assessment District Report, Measure DD Financial Statement, and the Management Letter**

SUMMARY

The Finance and Management Agency is pleased to present to the City Council the attached Comprehensive Annual Financial Report (CAFR), the Single Audit Report, the Oakland Redevelopment Agency (ORA) Financial Statement, the Oakland Base Reuse Authority (OBRA) Financial Statement, Measure Y Audit Report, the Oakland Wildfire Prevention Assessment District Report, Measure DD Financial Statement, and the Management Letter.

The Comprehensive Annual Financial Report (CAFR) incorporates the Oakland Municipal Employees' Retirement System (OMERS), the Police and Fire Retirement System (PFRS), the Oakland Redevelopment Agency (ORA), the Oakland Base Reuse Authority (OBRA), and the Port of Oakland financial statements.

The Single Audit Report is the primary mechanism used by Federal agencies to ensure accountability for Federal Awards. The Single Audit includes the City of Oakland's Financial Statements, the Schedule of Expenditures of Federal Awards (SEFA), and the supplemental schedules for the State of California Department of Community Service and Development (CSD), Community Service Block Grant (CSBG) and the Alameda County Awards.

The Oakland Redevelopment Agency (ORA) Financial Statement provides a general overview of the Redevelopment Agency and the Oakland Base Reuse Authority (OBRA) financial activities.

The Oakland Base Reuse Authority (OBRA) Financial Statement (a Component Unit of the Oakland Redevelopment Agency) provides a general overview of the financial activities.

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The Measure Y - Violence Prevention and Public Safety Act of 2004 Audit Report provides an opinion as to whether the budgetary comparison schedule presents fairly, in all material respects, the revenues and expenditures of Measure Y in conformity with U.S. generally accepted accounting principles.

The Oakland Wildfire Prevention Assessment District Report provides an opinion as to whether the budgetary comparison schedule presents fairly, in all material respects, the revenues and expenditures of the District, in conformity with U.S. generally accepted accounting principles.

The Measure DD Financial Statement provides an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the City's Measure DD Fund as of June 30, 2006 and the changes in financial position for the period from August 6, 2003 through June 30, 2006, in conformity with U.S. generally accepted accounting principles.

The Management Letter outlines the Auditor's responsibility, provides advice on accounting policies, and makes recommendations designed to improve operational efficiencies and further strengthen internal controls.

There were no reportable findings and, in the Auditor's opinion, the financial statements accurately represent the financial condition of the City as of June 30, 2006.

FISCAL IMPACT

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

BACKGROUND

■ **The Comprehensive Annual Financial Report**

The Comprehensive Annual Financial Report is presented in three sections:

- **Introductory Section:** This section includes information about the organizational structure of the City, including an overview of the City and its economy, general government operations, enterprise and internal service fund operations and debt administration. This section also has summarized data reflecting the City's financial condition and the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting.
- **Financial Section:** This section includes the Management's Discussion and Analysis, and an analytical overview of the City's financial activities. The Basic

Financial Statements consist of the Government-Wide Financial Statements, the Fund Financial Statements, and Notes to the Basic Financial Statements. The Government-Wide Financial Statements present an overview of the City's entire financial operations. The Fund Financial Statements present financial information for each of the City's major funds, as well as non-major governmental and fiduciary funds. The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

These financial statements include the financial activities of the Oakland Municipal Employees' Retirement System (OMERS), the Police and Fire Retirement System (PFRS), the Oakland Redevelopment Agency (ORA), the Oakland Base Reuse Authority (OBRA), the Port of Oakland, and the Oakland-Alameda County Coliseum Authority. Capital Assets, including infrastructure, and the liability for the City's long-term debt are included in the Statement of Net Assets.

Also included in the financial section of the CAFR is the Independent Auditor's Report that states, in the opinion of the auditors, the financial statements accurately represent the financial condition of the City as of June 30, 2006.

- **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 Single Audit Report**

The Single Audit Report is a requirement for entities that expend \$500,000 or more a year in Federal awards and is the primary mechanism used by Federal agencies to ensure accountability for Federal Awards. The Single Audit includes the City of Oakland's Financial Statements and the Schedule of Expenditures of Federal Awards (SEFA), and the supplemental schedules for the State of California Department of Community Service and Development (CSD), Community Service Block Grant (CSBG) and the Alameda County Awards.

The Single Audit must be conducted in accordance with the Government Auditing Standards and the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement.

- **The Management Letter**

The Management Letter is required by professional auditing standards. The letter outlines the Auditor's responsibility, provides advice on accounting policies, evaluates

accounting estimates, proposes audit adjustments, and outlines difficulties in performing the audit.

The Management Letter is intended solely for the information and use of the City Council, the Finance Committee, and the management of the City, is not intended to be, and should not be used by anyone other than these specified parties.

Macias, Gini & O'Connell LLP, an accounting firm engaged by the City performed the audits of Comprehensive Annual Financial Report (CAFR), the Single Audit Report, the Oakland Redevelopment Agency (ORA) Financial Statement, Measure Y Audit Report, and the Oakland Wildfire Prevention Assessment District Report. A separate audit of the Port of Oakland was also conducted by Macias, Gini & O'Connell LLP.

Yano Accountancy performed the audits of the Oakland Base Reuse Authority (OBRA) Financial Statement, the Oakland Municipal Employees' Retirement System (OMERS), and the Police and Fire Retirement System (PFRS).

Williams, Adley & Company, LLP performed the audit of Measure DD Financial Statement.

SUSTAINABLE OPPORTUNITIES

There are no sustainable opportunities in this report.

DISABILITY AND SENIOR CITIZEN ACCESS

There are no ADA or senior access issues contained in this report.

RECOMMENDATION(S) AND RATIONALE

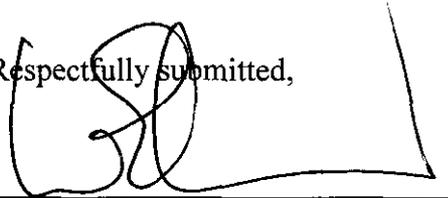
Staff recommends that the City Council accept the June 30, 2006 City of Oakland Comprehensive Annual Financial Report (CAFR), the Single Audit Report, the Oakland Redevelopment Agency (ORA) Financial Statement, the Oakland Base Reuse Authority (OBRA) Financial Statement, Measure Y Audit Report, the Oakland Wildfire Prevention Assessment District Report, Measure DD Financial Statement, and the Management Letter.

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ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council accept the June 30, 2006 City of Oakland Comprehensive Annual Financial Report (CAFR), the Single Audit Report, the Oakland Redevelopment Agency (ORA) Financial Statement, the Oakland Base Reuse Authority (OBRA) Financial Statement, Measure Y Audit Report, the Oakland Wildlife Prevention Assessment District Report, Measure DD Financial Statement, and the Management Letter.

Respectfully submitted,



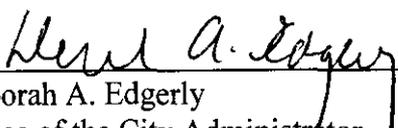
William E. Noland
Director, Finance and Management Agency

Prepared by:
LaRae Brown, Controller
Finance and Management Agency

Attachments:

Comprehensive Annual Financial Report (CAFR)
Single Audit Report
Oakland Redevelopment Agency (ORA) Financial Statement
Oakland Base Reuse Authority (OBRA) Financial Statement
Measure Y Audit Report
Oakland Wildlife Prevention Assessment District Report
Measure DD Financial Statement
Management Letter

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:


Deborah A. Edgerly
Office of the City Administrator

Item: _____
Finance and Management Committee
February 27, 2007



MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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Sacramento, CA 95816
916.926.4606

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Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
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402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

December 6, 2006

Honorable Mayor and Members
of the City Council
City of Oakland, California

We have audited the financial statements of the City of Oakland (City) for the year ended June 30, 2006, and have issued our report thereon dated December 6, 2006. We have also issued the audited financial statements for the Oakland Redevelopment Agency, a component unit of the City. Professional standards require that we provide you with the following information related to our audit of the City.

REQUIRED COMMUNICATIONS

Professional auditing standards require auditors to communicate with the audit committee or its equivalent, on a number of subjects. The following information satisfies these requirements, and is solely for use of the City Council, the Finance Committee and management of the City.

I. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter with the City, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

II. Significant Accounting Policies and Unusual Transactions

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our contract with the City, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 2 to the City's basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2006.

In addition, the City presents the Port of Oakland (Port) in a unique manner as compared to other local governmental entities with port operations. All local government entities we sampled reflect their ports as departments of the organization rather than as a discretely presented component unit. Some of these ports have similar management structures with a Board of Commissioners appointed by the sponsoring city's mayor/city council to oversee the operations of the port. Management's representation to us was that the Port operates with a separate legal standing (i.e. using its own corporate powers) under the Charter, which would allow for this presentation. In addition, the City Attorney's Office has represented that the Port operates very similar to a corporation with the Charter acting as its Articles of Incorporation and By-Laws. Ultimately, the City's presentation of the Port makes it less comparable to other cities that have port operations, thus, being a unique presentation.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. However, there are new accounting and reporting pronouncements that will affect the City's reporting in subsequent years, which are summarized as follows:

- In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. This statement applies to OPEB trust funds included in the financial reports of plan sponsors or employers. This statement is effective for the City's fiscal year ending June 30, 2007.
- In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.
- In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. The requirements of this statement are effective for the City's fiscal year ending June 30, 2008.
- In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site

assessments and cleanups. The requirements of this statement are effective for the City's fiscal year ending June 30, 2009.

III. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- *Fair value of investments.* The City's investments are generally carried at fair value, which is defined as the amount that the City could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller and is generally measured by quoted market prices.
- *Estimated allowance for losses on accounts receivable.* The allowance for losses on accounts receivable was based on management's estimate regarding the likelihood of collectibility.
- *Estimated allowance for losses on loans receivable.* The allowance for losses on loans receivable was based on the types of loan (e.g., forgivable, deferred, grant or amortizing) and management's estimate regarding the likelihood of collectibility based on loan provisions and collateral.
- *Useful life estimates for capital assets.* The estimated useful lives of capital assets were based on management's estimate of the economic life of the assets.
- *Valuation of the net pension asset.* The net pension asset is the amount that exceeded the City's actuarially determined annual required contribution, which is based upon certain approved actuarial assumptions. This amount is then amortized over the amortization period used by the actuary to recognize the excess contribution as pension costs over time.
- *Estimated claims liabilities.* Reserves for estimated claims liabilities were based on actuarial evaluations using historical loss, other data and attorney judgment about the ultimate outcome of the claims.
- *Annual required contributions to pension plans.* The City is required to contribute to its pension plans at an actuarially determined rate, which is based upon certain approved actuarial assumptions.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial reporting opinion units that collectively comprise the City's basic financial statements.

IV. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). An adjustment in the amount of \$19 million was identified and proposed for the City's financial statements by us to adjust the fair market value of the annuity contract to agree to the confirmation amount. There were also two reclassification adjustments for Oakland Redevelopment Agency. The above adjustments, in our judgment, indicate matters that could have a significant effect on the City's financial reporting process.

In addition, the attached schedule on page 8 summarizes the uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial reporting opinion units that collectively comprise the City's basic financial statements.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VI. Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

VII. Major Issues Discussed with Management Prior to Our Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

VIII. Difficulties in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

CURRENT YEAR RECOMMENDATIONS

Internal Service Funds

The City reports five internal service funds, Equipment, Radio, Facilities, Reproduction and Central Stores. Governments often use internal service funds to centralize certain services and then allocate the costs of those services within the government. U.S. generally accepted accounting principles permit the use of internal service funds to be used to report any activity that provides goods or services to the government on a cost reimbursement basis. That is, the goal of an internal service fund should be to measure the full cost (including cost of capital assets) of providing goods or services for the purpose of fully recovering that cost through fees or charges. Therefore, if the City does not intend to recover the full cost of providing goods or services, then the use of internal service funds would not be appropriate.

We are becoming increasingly concerned with the growth in both the deficits of certain internal service funds and the interfund loans used to support those services. The City's General Fund has loaned \$34,609,000 to the Equipment, Facilities and Central Stores internal service funds in order to cover the shortfall of charges to the General Fund, which have not adequately covered the operating and capital costs. The internal service funds have basically borrowed money to cover its full costs, as opposed to charging the departments using the services. The current loan balance from the General Fund represents an increase of \$4,473,000 from a year ago, as the amount loaned as of June 30, 2005 was \$30,136,000.

The City has attempted to cure the internal service fund deficits by increasing the charges to the departments, however, those increases have not kept up with the increases in actual costs. The Facilities and Central Stores internal service funds have net asset deficits of \$18,179,000 and \$6,493,000, respectively. While the Equipment internal service fund has net assets of \$7,337,000, its unrestricted net assets has a deficit of \$3,344,000.

We recommend the City review its current budget repayment plan and revise it to cure the deficit over a reasonable period of time, such as three to five years.

Management response:

Management will review its existing repayment plan for the internal service funds during the preparation of the FY07-09 budget and recommend appropriate adjustments for City Council consideration.

General liability loss run submitted to the actuary

During our testing of the loss run report submitted to the actuary as part of general liability claims, we noted that a claim was identified as "closed" on the City's internal records at June 30, 2006 but was recorded as an open claim in the loss run report submitted to the actuary. According to the City Attorney's Office, information often comes into their office after year-end that changes the status of a claim as of year-end. In this case, the loss run report was sent to the actuary before the City Attorney's Office received the information that caused them to change the claim status.

We recommend that the City Attorney's Office implement procedures to check for updated claim status once the loss run report has been sent to the actuary. Any significant changes to the loss run report that affects the status of the general liability claims should be promptly communicated to the actuary.

Letter to the Board

December 6, 2006

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Management response:

The Office of the City Attorney is in agreement with this recommendation and corrective procedures have been implemented. Any significant changes to the loss run reports will be promptly communicated to the actuary.

These accompanying communications are intended solely for the information and use of the City Council, the Finance Committee, and the management of the City and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Macias Gini & Connell LLP

Certified Public Accountants

Walnut Creek, California

SUMMARY OF UNCORRECTED MISSATEMENTS

PJE #	Fund Name	DESCRIPTION	BALANCE SHEET		OPERATING STATEMENT	
			DEBIT	CREDIT	DEBIT	CREDIT
1	General Fund	Accounts Receivable	\$ 736,091	\$ -	\$ -	\$ -
	General Fund	Account Payable	-	736,091	-	-
(To record waste management services performed from July 2005 through December 2005.)						
2	General Fund	Supply & Materials (52XXX)	-	-	447,525	-
	General Fund	Capital Outlay (57XXX)	-	-	-	447,525
(To reclass items purchased for the ORA that were reimbursed to the City.)						
3	General Fund	Accounts Receivable	658,829	-	-	-
	General Fund	Accounts Payable	-	658,829	-	-
(To record waste management services performed from January 2006 through March 2006.)						
4	General Fund	Sales & Use Tax	-	-	1,039,101	-
	General Fund	Accounts Payable	-	1,039,101	-	-
(To record sales and use tax for April 2006 through June 2006.)						
5	Sewer Enterprise Fund	Long Term Debt	38,965	-	-	-
	Sewer Enterprise Fund	Principal Expense	-	-	-	38,965
(To reconcile the outstanding principal in the financial statements to the official statement.)						
6	Remaining Funds (Internal Service)	Principal Expense	-	-	20,001	-
	Remaining Funds (Internal Service)	Long Term Debt	-	20,001	-	-
(To reconcile the outstanding principal in the financial statements to the official statement.)						
7	General Fund	Unrealized Gain/Loss	-	-	1,534,000	-
	General Fund	Investments	-	1,534,000	-	-
	Municipal Capital Improvement	Unrealized Gain/Loss	-	-	201,000	-
	Municipal Capital Improvement	Investments	-	201,000	-	-
	Sewer Enterprise Fund	Investments	44,000	-	-	-
	Sewer Enterprise Fund	Unrealized Gain/Loss	-	-	-	44,000
	Aggregated Remaining Funds	Unrealized Gain/Loss	-	-	2,443,000	-
	Aggregated Remaining Funds	Investments	-	2,443,000	-	-
	Aggregated Component Units	Unrealized Gain/Loss	-	-	1,263,000	-
	Aggregated Component Units	Investments	-	1,263,000	-	-
(To reconcile the fair market value of investments per bank statement to the general ledger.)						
8	ORA Fund	Unrealized Gain/Loss	-	-	959,000	-
	ORA Fund	Investments	-	959,000	-	-
(To reconcile the fair market value of investments per bank statement to the general ledger.)						

**THE CAFR, OAKLAND
REDEVELOPMENT AGENCY, SINGLE
AUDIT AND OAKLAND BASE REUSE
AUTHORITY (OBRA) REPORTS ARE TO
VOLUMINOUS TO BE INCLUDED IN
YOUR PACKET AND ARE AVAILABLE
ONLINE AT:**

- CAFR 2006:

http://wind.oaklandnet.com:7779/portal/page?_pageid=35,282337&_dad=portal&_schema=PORTAL

- ORA and OBRA 2006:

http://wind.oaklandnet.com:7779/portal/page?_pageid=35,282366&_dad=portal&_schema=PORTAL

- Single Audit 2006:

http://wind.oaklandnet.com:7779/portal/page?_pageid=35,282354&_dad=portal&_schema=PORTAL

**THESE DOCUMENTS WERE PROVIDED
SEPARATELY TO THE COUNCIL AND
ARE AVAILABLE FOR VIEWING IN THE
OFFICE OF THE CITY CLERK**

5

CITY OF OAKLAND
Measure Y - Violence Prevention and
Public Safety Act of 2004

Independent Auditor's Reports
and Budgetary Comparison Schedule

For the Year Ended June 30, 2006

CITY OF OAKLAND
Measure Y - Violence Prevention and Public Safety Act of 2004
For the Year Ended June 30, 2006

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Honorable Mayor and Members
of the City Council
City of Oakland, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying budgetary comparison schedule (financial schedule) of the City of Oakland's (City) Measure Y - Violence Prevention and Public Safety Act of 2004 (Measure Y) for the year ended June 30, 2006. This financial schedule is the responsibility of the City's management. Our responsibility is to express an opinion on this financial schedule based on our audit.

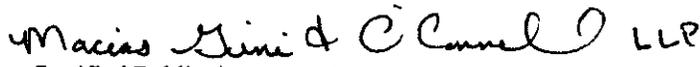
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting as it pertains to the Measure Y activities. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial schedule was prepared to present the total revenues and expenditures of the Measure Y activities, as described in Note B, and do not purport to, and do not, present fairly the changes in the City's financial position for the year ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedule referred to above presents fairly, in all material respects, the revenues and expenditures of the Measure Y activities for the year ended June 30, 2006 in conformity with the basis of accounting described in Note B.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006 on our consideration of City's internal control over financial reporting as it pertains to the Measure Y activities and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the City's Mayor and Council and the City's management is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants
Walnut Creek, California

December 20, 2006

CITY OF OAKLAND
Measure Y - Violence Prevention and Public Safety Act of 2004
Budgetary Comparison Schedule (on a Budgetary Basis)
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
Revenues:				
Parcel tax	\$ 12,211,212	\$ 12,211,212	\$ 12,054,432	\$ (156,780)
Parking tax surcharge	7,405,133	7,405,133	6,726,990	(678,143)
Total Revenue	19,616,345	19,616,345	18,781,422	(834,923)
Expenditures:				
Salaries and employee benefits	12,693,647	12,861,041	6,964,508	5,896,533
Other supplies and commodities	475,165	1,145,221	125,601	1,019,620
Accounting and auditing services	30,000	30,000	30,000	-
Other contract services	6,417,490	7,353,416	1,923,809	5,429,607
Total expenditures	19,616,302	21,389,678	9,043,918	12,345,760
Change in fund balance, on a budgetary basis	\$ 43	\$ (1,773,333)	9,737,504	\$ 11,510,837
Item not budgeted:				
Interest income			610,407	
Change in fund balance, on a GAAP basis			10,347,911	
Fund balance, beginning of year			2,774,541	
Fund balance, end of year			\$ 13,122,452	

The notes to the budgetary comparison schedule are an integral part of this schedule.

CITY OF OAKLAND
Measure Y - Violence Prevention and Public Safety Act of 2004
Notes to Budgetary Comparison Schedule
For the Year Ended June 30, 2006

NOTE A – DESCRIPTION OF REPORTING ENTITY

The Oakland City Council (the City Council) approved Resolution No. 78734 on July 20, 2004 submitting the Violence Prevention and Public Safety Act of 2004 – Measure Y (Measure Y) to the electors at the November 2, 2004 general election; making a determination with regard to the majority protest procedure for approval of the assessments; creating the Violence Prevention and Public Safety Oversight Committee; and approving, adopting, and levying the annual parcel tax and parking tax surcharge for Measure Y. The citizens of the City of Oakland (the City) approved Measure Y in November 2004.

The parcel tax is collected with the annual Alameda County property taxes, beginning on July 1, 2005. The annual parcel tax will be levied to pay for all activities and services for Measure Y (see below) in accordance with the terms and conditions outlined in the approved ballot measure. Measure Y shall be in existence for a period of ten (10) years. Beginning in Fiscal Year 2004-2005, and each year thereafter, the City Council may increase the tax imposed based on the cost of living for the San Francisco Bay Area, as shown on the Consumer Price Index (CPI). The percentage increase of the tax shall not exceed such increase, using Fiscal Year 2003-2004 as the index year and in no event shall any adjustment exceed 5% (five percent).

Measure Y will provide the following services:

1. Community and Neighborhood Policing – Hire and maintain at least a total of 63 officers assigned to the following specific community- policing areas: neighborhood beat officers, school safety, crime reduction team, domestic violence and child abuse intervention, and officer training and equipment. For further detail of the specific community- policing areas see Oakland City Council Resolution No. 78734.

2. Violence Prevention Services With an Emphasis on Youth and Children – Expand preventive social services provided by the City of Oakland, or by adding capacity to community-based nonprofit programs with demonstrated past success for the following objectives: youth outreach counselors, after and in school program for youth and children, domestic violence and child abuse counselors, and offender/parolee employment training. For further detail of the social services see Oakland City Council Resolution No. 78734.

3. Fire Services – Maintain staffing and equipment to operate 25 (twenty-five) fire engine companies and 7 (seven) truck companies, expand paramedic services, and establish a mentorship program at each station with an amount not to exceed \$4,000,000 annually from funds collected under Measure Y.

4. Evaluation – Not less than 1% or no more than 3% of funds appropriated to each police service or social service program shall be set aside for the purpose of independent evaluation of the program, including the number of people served and the rate of crime or violence reduction achieved.

5. Mandated Apportionment to Social Services Programs – Of the total proceeds spent on programs enumerated in the *Community and Neighborhood Policing* and the *Violence Prevention Services With an Emphasis on Youth and Children* sections above, no less than 40% of such proceeds must be allocated to programs enumerated in the *Violence Prevention Services With an Emphasis on Youth and Children* section each year Measure Y is in effect.

CITY OF OAKLAND
Measure Y - Violence Prevention and Public Safety Act of 2004
Notes to Budgetary Comparison Schedule
For the Year Ended June 30, 2006

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial schedule presents only the revenues and expenditures of the Measure Y activities and does not purport to, and does not, present fairly the changes in the City's financial position for the year ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

A special revenue fund (governmental fund) is used to account for the City's Measure Y activities. The measurement focus is based upon the determination of changes in financial position rather than upon the determination of net income. A special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Basis of Accounting

In accordance with the provisions of the City Charter, the City adopts an annual budget for the Measure Y activity, which must be approved through a resolution by the City Council. The budget for Measure Y is prepared on a modified accrual basis.

The Measure Y activity is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means that the amount of the transaction can be determined and "available" means that revenues are collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual include the parcel tax and parking tax surcharge. The City considers the parcel tax revenues and the parking tax surcharge revenues to be available for the year levied and if they are collected within 60 and 120 days, respectively, of the end of the current year. Expenditures are recorded when a liability is incurred, as under accrual accounting.

Use of Estimates

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

NOTE C - BUDGET

The Measure Y – Violence Prevention and Public Safety Act of 2004, as approved by the voters in November 2004, requires the adoption of an annual budget, which must be approved by the City Council of the City. The City budgets annually for the Measure Y activities. The budget is prepared on the modified accrual basis, except that the City does not budget for investment earnings on Measure Y investments.

Budgetary control is maintained at the fund level. Line item reclassification amendments to the budget may be initiated and reviewed by the City Council, but approved by the City Administrator. Any shifting of appropriations between separate funds must be approved by the City Council. Annual appropriations for the budget lapse at the end of the fiscal year to the extent that they have not been expended. At year-end, unobligated appropriations may lapse and remain within the authorized program.

Supplemental budgetary changes made to Measure Y throughout the year, if any, are reflected in the "final budget" column of the accompanying budgetary comparison schedule.

The Honorable Mayor and Members
of City Council
City of Oakland, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL SCHEDULE PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the accompanying budgetary comparison schedule (financial schedule) of the City of Oakland's (City) Measure Y - Violence Prevention and Public Safety Act of 2004 (Measure Y) for the year ended June 30, 2006, and have issued our report thereon dated December 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as it pertains to the Measure Y activities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City's Mayor and Council and the City's management is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Cunnell LLP
Certified Public Accountants
Walnut Creek, California

December 20, 2006

**OAKLAND WILDFIRE PREVENTION
ASSESSMENT DISTRICT**

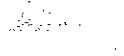
**Independent Auditor's Reports and
Budgetary Comparison Schedule**

For the Year Ended June 30, 2006

OAKLAND WILDFIRE PREVENTION ASSESSMENT DISTRICT
For the Year Ended June 30, 2006

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MACIAS GINI & O'CONNELL LLP
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Members of the Board of Directors
Oakland Wildfire Prevention Assessment District
City of Oakland, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying budgetary comparison schedule (financial schedule) of the Oakland Wildfire Prevention Assessment District (the District), an activity of the City of Oakland (the City), for the year ended June 30, 2006. This financial schedule is the responsibility of the City's management. Our responsibility is to express an opinion on this financial schedule based on our audit.

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

The financial schedule was prepared to present the total revenues and expenditures of the District's activities, as described in Note B, and do not purport to, and do not, present fairly the changes in the City's financial position for the year ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the revenues and expenditures of the District for the year ended June 30, 2006, in conformity with the basis of accounting described in Note B.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006 on our consideration of the City's internal control over financial reporting as it pertains to the District and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in *assessing the results of our audit*.

This report is intended solely for the information and use of the Citizens' Advisory Committee of the District, the City's Mayor and Council, and the City's management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP
Certified Public Accountants
Walnut Creek, California

December 20, 2006

OAKLAND WILDFIRE PREVENTION ASSESSMENT DISTRICT
 Budgetary Comparison Schedule (On a Budgetary Basis)
 For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues:				
Special assessments	\$ 1,600,772	\$ 1,600,772	\$ 1,538,908	\$ (61,864)
Transfers: public properties	148,498	148,498	148,498	-
Total revenues	<u>1,749,270</u>	<u>1,749,270</u>	<u>1,687,406</u>	<u>(61,864)</u>
Expenditures:				
Goat grazing	200,000	200,000	245,985	(45,985)
Yard waste disposal	100,000	100,000	60,970	39,030
Vegetation management	1,125,000	1,125,000	1,276,424	(151,424)
Fire prevention education and training	120,000	120,000	109,286	10,714
Roving fire patrol	40,000	40,000	10,660	29,340
Administrative and one-time expenses	75,000	75,000	61,877	13,123
Total expenditures	<u>1,660,000</u>	<u>1,660,000</u>	<u>1,765,202</u>	<u>(105,202)</u>
Reserves:				
Operating reserves	239,270	367,089	-	367,089
Change in fund balance, on a budgetary basis	<u>\$ (150,000)</u>	<u>\$ (277,819)</u>	<u>(77,796)</u>	<u>\$ 200,023</u>
Items not budgeted:				
Service fees			2,600	
Interest			7,795	
Support services and call center			(6,575)	
Total items not budgeted			<u>3,820</u>	
Change in fund balance, on a GAAP basis			<u>(73,976)</u>	
Fund balance, beginning of year			<u>270,381</u>	
Fund balance, end of year			<u>\$ 196,405</u>	

The notes to budgetary comparison schedule are an integral part of this schedule.

OAKLAND WILDFIRE PREVENTION ASSESSMENT DISTRICT
Notes to Budgetary Comparison Schedule
For the Year Ended June 30, 2006

NOTE A – DESCRIPTION OF REPORTING ENTITY

The Oakland City Council (the City Council) approved Resolution No. 78305 on January 20, 2004 establishing the Oakland Wildfire Prevention Assessment District (the District); accepting and granting final approval of the Engineer's Report; making a determination with regard to the majority protest procedure for approval of the assessments; creating the District Advisory Board; and approving, adopting, and levying the annual special assessment for the District. The assessment shall be attached to the property and collected with the annual Alameda County property taxes, beginning on July 1, 2004. The annual assessment will be levied to pay for all activities and services for the District in accordance with the terms and conditions outlined in the Engineer's Report. Non-program administrative expenses shall be limited to 5% of the District's annual budget. The District shall be in existence for a period of ten (10) years during which time no increase in the amount of the assessment on each property shall be allowable without further protest procedure and action by City Council unless there is a change in the use or classification of the property as provided for in the Engineer's Report.

The District is governed by the Citizen's Advisory Board, which is appointed by the City Council and, as such, is an integral part of the City of Oakland's (the City's) basic financial statements. The District is presented as part of the Assessment Districts Special Revenue Fund in the City's basic financial statements.

The District will provide the following services:

Goat Grazing – Utilize herds of goats to clear the excess brush that allows fires to spread rapidly. The goats remove vegetation from the large public open space areas within the District's boundaries.

Vegetation Management – Private contractors and city crews would provide the District's vegetation reduction and management programs where the goats are not able to graze. This includes open space and canyon hill parcels, firebreaks and roadside clearance along public streets, and evacuation routes within the District. Additionally, fire companies and vegetation management inspectors annually inspect district properties to identify those that are in violation of the Oakland Fire Code. The inspectors will notify non-compliant property owners and after conducting re-inspections, non-compliant property owners will be charged the cost of having contractors bring the private property back into compliance.

Yard Waste Disposal – This program assists private property owners by providing a convenient way to dispose of tree branches, brush and other yard waste that can fuel fires. The District will provide crews to process private property owners' yard waste into wood chips or mulch for the owners' use, or provide other means of disposal.

CORE Training and Fire Prevention Education – Citizens of Oakland Respond to Emergencies (CORE) will provide special training to District neighborhoods and schools and assist in preventing fires and planning safe evacuation routes in the event of a fire.

Roving Fire Patrols – This program will provide additional fire patrols to monitor properties within the boundaries of the District during high fire hazard days to monitor, correct and report potential fire hazards to the Fire Department.

OAKLAND WILDFIRE PREVENTION ASSESSMENT DISTRICT
Notes to Budgetary Comparison Schedule
For the Year Ended June 30, 2006

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial schedule presents only the revenues and expenditures of the District's activities and does not purport to, and does not, present fairly the changes in the City's financial position for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

A special revenue fund (governmental fund) is used to account for the District's activities. The measurement focus is based upon the determination of changes in financial position rather than upon the determination of net income. A special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Basis of Accounting

The Citizen's Advisory Board is responsible for the preparation of the annual budget for the District. The Citizen's Advisory Board submits the budget to the City Council for approval, in accordance with the provisions of the City Charter. The budget for the District is prepared on a modified accrual basis.

The District is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means that the amount of the transaction can be determined and "available" means that revenues are collectible within 60 days of year-end. Revenues susceptible to accrual include special assessments. Expenditures are recorded when a liability is incurred, as under accrual accounting.

Special Assessments

The County of Alameda is responsible for assessing, collecting and distributing property taxes in accordance with enabling State law, and for remitting such amounts to the District. Special assessments are assessed and levied as of January 1, on all taxable property located in the City, and result in a lien on real property. Special assessments are then due in two equal installments, the first on November 1 and the second on February 1, of the following calendar year, and are delinquent after December 10 and April 10, respectively.

Use of Estimates

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

OAKLAND WILDFIRE PREVENTION ASSESSMENT DISTRICT

Notes to Budgetary Comparison Schedule

For the Year Ended June 30, 2006

NOTE C - BUDGET

State law requires the adoption of an annual budget, which must be approved by the Citizens' Advisory Committee of the District. The City budgets annually for the District's activities. The budget is prepared on the modified accrual basis, except the District does not budget for investment earnings and other smaller one-time sources of revenues and expenditures.

Budgetary control is maintained at the fund level. Line item reclassification amendments to the budget may be initiated and reviewed by the Citizens' Advisory Committee, but approved by the City Administrator. Any shifting of appropriations between separate funds must be approved by the City Council. Expenditures are monitored by managers who are assigned responsibility for controlling their budgets. Annual appropriations for the operating budget lapse at the end of the fiscal year to the extent that they have not been expended. At year-end, unobligated appropriations may lapse and remain within the authorized program.

Supplemental budgetary changes are made to the District's fund throughout the year and, if any, are reflected in the "final budget" column of the accompanying budgetary comparison schedule.

Members of the Board of Directors
Oakland Wildfire Prevention Assessment District
City of Oakland, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL SCHEDULE PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the budgetary comparison schedule (financial schedule) of the Oakland Wildfire Prevention Assessment District (the District), an activity of the City of Oakland (the City), for the year ended June 30, 2006, and have issued our report thereon December 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Citizens' Advisory Committee of the District, the City's Mayor and City Council, and the City's Management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Counsel LLP
Certified Public Accountants
Walnut Creek, California

December 20, 2006



CITY OF OAKLAND - MEASURE DD FUND

Financial Statements

As of June 30, 2006 and for the Period August 6, 2003 through June 30, 2006

(With Independent Auditors' Report Thereon)

WILLIAMS, ADLEY & COMPANY, LLP

Certified Public Accountants

and

Management Consultants



WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

CITY OF OAKLAND - MEASURE DD FUND

Financial Statements

As of June 30, 2006 and for the Period August 6, 2003 through June 30, 2006

(With Independent Auditors' Report Thereon)

**CITY OF OAKLAND – MEASURE DD FUND
Financial Statements
June 30, 2006**

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WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the
City Council of the City of Oakland

We have audited the accompanying financial statements of the City of Oakland's (the City) Measure DD Fund as of June 30, 2006 and for the period August 6, 2003 through June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the City'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the City's Measure DD Fund, and do not purport to, and do not, present fairly the financial position of the City of Oakland, as of June 30, 2006 and the changes in its financial position for the period August 6, 2003 through June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City's Measure DD Fund as of June 30, 2006 and the changes in financial position thereof for the period from August 6, 2003 through June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

Williams, Adley & Company, LLP
January 12, 2007

CITY OF OAKLAND - MEASURE DD FUND
Balance Sheet
June 30, 2006

	Governmental Fund Type
	Capital Projects Fund
Assets	
Investments with fiscal agent	\$ 59,170,275
Interest receivable	356,482
Total assets	\$ 59,526,757
Liabilities	
Accounts payable	\$ 1,507,148
Due to City of Oakland	2,733,110
Total liabilities	4,240,258
Fund balance	
Reserved for encumbrances	33,092
Unreserved, designated	50,411,042
Unreserved	4,842,365
Total fund balance	55,286,499
Total liabilities and fund balance	\$ 59,526,757

See accompanying notes to financial statements.

CITY OF OAKLAND - MEASURE DD FUND
Statement of Revenues, Expenditures and Changes in Fund Balance
For the period August 6, 2003 through June 30, 2006

	<u>Governmental</u>	<u>Fund Type</u>
	<u>Capital</u>	<u>Projects Fund</u>
Revenues:		
Investment income	\$	<u>4,671,701</u>
Total revenues		<u>4,671,701</u>
 Expenditures:		
Salaries and wages		1,940,505
Fringe benefits		1,352,232
Overhead		939,775
Contract services		10,749,591
Services and supplies		17,958
Travel and education		3,341
Bond issuance costs		760,000
Capital acquisition		4,681,332
Cultural arts expenditures		123,396
Miscellaneous services		327,072
Total expenditures		<u>20,895,202</u>
Deficiency of revenues over expenditures		(16,223,501)
 Other financing sources (uses):		
Series 2003A bonds issued		71,450,000
Premium on issuance of bonds		586,927
Transfers out		<u>(526,927)</u>
Total other financing sources (uses)		71,510,000
Net change in fund balances		55,286,499
Fund balances, beginning of year		-
Fund balances, end of year	\$	<u><u>55,286,499</u></u>

See accompanying notes to financial statements.

CITY OF OAKLAND – MEASURE DD FUND
Notes to Financial Statements
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

City of Oakland voters approved Measure DD during the November 2002 election. This measure authorized the City of Oakland (the City) to issue \$198,250,000 in bonds creating an Oakland Trust for Clean Water and Safe Parks. On August 6, 2003, the City issued \$71,450,000 of General Obligation Bonds, Series 2003A, Measure DD (Series 2003A Bonds). The projects financed by the bond proceeds are reported in the City's Measure DD fund.

The Measure DD fund is accounted for as a capital projects fund of the City. Programs funded by Measure DD include projects to (1) improve Lake Merritt, the Lake Merritt channel, the estuary and inland creeks in Oakland; (2) improve, renovate and construct youth and public recreational facilities; (3) rehabilitate and acquire parks, open space and other recreational, safety and maintenance facilities; and (4) provide safe public access to Lake Merritt, the Lake Merritt channel and the estuary.

The financial statements of the Measure DD Fund present only the financial activities of the Measure DD Fund and are not intended to fairly present the financial position and changes in financial position of the City in conformity with accounting principles generally accepted in the United States of America.

Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures are recorded when the liability is incurred and is expected to be liquidated with expendable available resources.

Pooled Cash and Investments

Income on pooled assets is allocated to the individual fund based on the fund's average daily balance in relation to total pooled assets. Relevant information about the separate portion of the investment pool related to Measure DD Funds is not available. Investments are generally carried at fair value. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2006, basic financial statements. That report may be obtained by writing to the Financial Services Agency, Accounting Division, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353, Oakland, California 94612-2093.

CITY OF OAKLAND – MEASURE DD FUND
Notes to Financial Statements
June 30, 2006

Investments with Fiscal Agents

Investments with fiscal agents represent the proceeds from debt that are restricted for the payment of debt or for use in approved projects and are held by agreement with fiscal agents. Funds are invested according to the investment policy adopted by the City Council. Investments are generally carried at fair value.

Derivatives

The City's investment policy permits investments in certain derivatives. There were no derivatives included in the investment pool as of June 30, 2006.

Fund Balances

Reservations of fund balances indicate those portions of fund equity that are not available for appropriation for expenditure or which have been legally restricted to a specific use. Encumbrances outstanding at fiscal year end are reported as reservation of fund balances and the related appropriation is automatically carried forward into the next fiscal year. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

Estimates

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

2. INVESTMENTS

Investments for the Measure DD Fund are invested in accordance with the investment policy of the City, which is government by provisions of the California Government Code and the City's Municipal Code.

As of June 30, 2006, the Measure DD fund had the following investments:

	12 Months or		1-3 Years	Total Fair	
	Less			Value	Credit Rating
Money Market Funds	\$ 342,042	-	342,042	Aaa	
Investment Agreement	-	58,828,233	58,828,233	Aa	
Total	<u>\$ 342,042</u>	<u>58,828,233</u>	<u>59,170,275</u>		

CITY OF OAKLAND – MEASURE DD FUND
Notes to Financial Statements
June 30, 2006

The investments are exposed to the following risks:

Interest Rate Risk

This risk represents the possibility that an interest rate change could adversely affect an investment's fair value. In order to manage interest rate risk, it is the City's policy that the maximum maturity for any one investment shall not exceed five (5) years unless authority for such investment is expressly granted in advance by the City Council.

Credit Risk

Credit risk is the risk that the issuer/counterparty to an investment will be unable to fulfill its obligations. State law restricts the types of investments that can be purchased and the most effective method for minimizing the risk of default by an issuer is to invest in high-quality obligations. The credit ratings of the investments were provided by Moody's Investor Service.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution or counterparty to a transaction, a government will be unable to recover the value of the investments or collateral securities in the possession of an outside party. To protect against fraud and potential losses from the financial collapse of securities dealers, all securities owned by the City shall be held in the name of the City for safekeeping by a third party bank trust department, acting as an agent for the City under the terms of the Custody Agreement.

Concentration of Credit Risk

This risk represents the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by the lack of diversification. The City believes in the importance of a well-diversified portfolio. It is the policy of the City to review the diversity of the portfolio on a regular basis so that reliance on any one issuer will not place an undue financial burden on the City.

Under the City's investment policy, no more than five percent (5%) of the total assets of the investments held by the City may be invested in the securities of any one issuer, except the obligations of the United States government or government-sponsored enterprises, investment with the Local Agency Investment Fund and proceeds of or pledged revenues for any tax revenue anticipation notes. Information regarding the characteristics of the City's investments can be found in the City's June 30, 2006, basic financial statements. That report may be obtained by writing to the Financial Services Agency, Accounting Division, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353, Oakland, California 94612-2093.

CITY OF OAKLAND – MEASURE DD FUND
Notes to Financial Statements
June 30, 2006

3. DUE TO CITY OF OAKLAND AND TRANSFERS

Due to City of Oakland

Payroll costs and related benefits, and internal charges are paid by the City. The amounts due to the City as of June 30, 2006, represent amounts advanced on behalf of the Measure DD Fund for such costs.

Transfers Out

The Measure DD Fund transferred funds to the debt service fund for Measure DD in accordance with the official statement for the Series 2003A Bonds.

4. CULTURAL ARTS EXPENDITURES

Cultural Arts expenditures include all expenditures for decorative artwork that relate to the Measure DD projects.

5. FUND BALANCE DESIGNATIONS

The following fund balance designations represent that portion of unreserved fund balance that is not available for appropriation based on management's plans for future use of the funds.

Lake Merritt projects	\$	19,525,292
Oakland waterfront projects		12,870,380
Lake Merritt channel projects		3,180,249
Youth and public recreation facilities projects		8,495,188
Creeks and waterways restoration projects		3,595,688
Public art projects		757,273
Administration		1,986,972
Total	\$	<u><u>50,411,042</u></u>

6. COMMITMENTS AND CONTINGENCIES

The City of Oakland is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is self-insured for its general liability; workers' compensation, malpractice liability, general, and auto liability and has excess reinsurance with the California State Association of Counties.