

CITY OF OAKLAND
AGENDA REPORT

2006 MAR 11 PM 3:00

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Finance and Management Agency
DATE: March 28, 2006

RE: **Informational Report presenting the Fiscal Year 2004-2005 Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Financial Statement, the Single Audit Report, and the Independent Audit Report**

SUMMARY

The Finance and Management Agency is pleased to present to the City Council the attached Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Financial Statement, the Single Audit Report, and the Independent Audit Report.

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

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 and the Schedule of Expenditures of Federal Awards (SEFA).

The Independent Audit Report 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, 2005.

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:

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Finance and Management Committee
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- › **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, as required by GASB 34, and provides financial highlights and an analytical overview of the City's financial activities. The Basic Financial Statements include the government-wide financial statements that 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. Major individual governmental funds and a major individual enterprise fund are reported as separate columns in the fund financial statements. Capital Assets, including infrastructure, and the liability for the City's long-term debt are included in the Statement of Net Assets.

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 Port of Oakland, and the Oakland-Alameda County Coliseum Authority. 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, 2005.

- › **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.

Macias, Gini & Company, an accounting firm engaged by the City in June 2005 performed the audit of the City of Oakland's financial records. The audits of the OMERS, PFRS, and the Oakland Redevelopment Agency were jointly performed by Macias, Gini & Company and Williams, Adley & Company. A separate audit of the Port of Oakland was conducted by Macias, Gini & Company.

■ **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).

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 Independent Audit Report**

The Independent Audit Report is required by professional auditing standards. The report outlines the Auditor's responsibility, provides advice on accounting policies, evaluates accounting estimates, proposes audit adjustments, and outlines difficulties in performing the audit.

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, 2005.

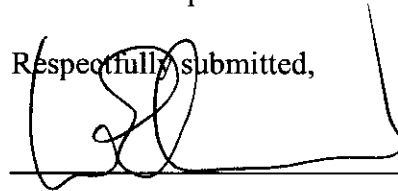
RECOMMENDATION (S) AND RATIONAL

Staff recommends that the City Council accept the June 30, 2005 City of Oakland Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Financial Statement, the Single Audit Report, and the Independent Audit Report.

ACTION REQUESTED OF THE FINANCE COMMITTEE

Staff requests that the City Council accept the June 30, 2005 City of Oakland Comprehensive Annual Financial Report (CAFR), the Oakland Redevelopment Agency (ORA) Financial Statement, the Single Audit Report, and the Independent Audit Report.

Respectfully submitted,



William E. Noland
Director, Finance and Management Agency


Reviewed by: LaRae Brown
Controller

Prepared by: Ace Tago
Assistant Controller

Attachments:

- (A) Comprehensive Annual Financial Report (CAFR)
- (B) The Oakland Redevelopment Agency Financial Statement
- (C) The Single Audit Report
- (D) The Independent Audit Report

**APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:**


Office of the City Administrator

Item: _____
Finance and Management Committee
March 28, 2006



MACIAS GINI & COMPANY LLP

Mt. Diablo Plaza
2175 N. California Boulevard, Ste. 645
Walnut Creek, California 94596

925.274.0190 PHONE
925.274.3819 FAX

December 9, 2005

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, 2005, and have issued our report thereon dated December 9, 2005. We have also issued the audited financial statements for the Oakland Redevelopment Agency, the Oakland Police and Fire Retirement System, and the Oakland Municipal Employees Retirement System. We will report the results of our audits of the retirement systems in a separate letter to the retirement boards. Professional standards require that we provide you with the following information related to our audits of the City and the Oakland Redevelopment Agency.

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 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. With the exception of disclosures related to deposits and investments, no new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2005.

During the year the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment to GASB Statement No. 3*. GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The disclosures over deposits and investments were expanded to include information about credit risk, interest rate risk, and concentration of credit risk.

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 November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City's fiscal year ending June 30, 2006.
- 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 May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement No.1*. This statement amends the portions of *NCGA Statement 1, Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the City's fiscal year ending June 30, 2006.
- 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 December 2004, the GASB issued Statement No. 46, *Net Assets Restricted By Enabling Legislation-an Amendment of GASB Statement No. 34*. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government-such as citizens, public interest groups, or the judiciary-can compel a government to honor. The statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions. This statement is effective for the City's fiscal year ending June 30, 2006.
- In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. This statement is effective for the City's fiscal year ending June 30, 2006.

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). Adjustments in the amount of \$4 million were identified and proposed, for the City's financial statements, by us to defer revenue that did not meet the City's revenue recognition policy, i.e., the revenues were not collected within 120 days of year-end. Adjustments in the amount of \$12 million were identified and proposed, for the Oakland Redevelopment Agency, by us to record and reclassify several loans including any associated losses. These loans were related to previous years and required a restatement of the Oakland Redevelopment Agency's government-wide financial statements, however, the City's financial statements were not restated as it was not considered to be material. Also, the remediation costs in the Uptown Project Area in the amount of \$4.1 million were recorded. These 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 7 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.

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

Very truly yours,

Macias, Gini & Company LLP

SUMMARY OF UNCORRECTED MISSATEMENTS

PJE #	Fund Name	DESCRIPTION	BALANCE SHEET		INCOME STATEMENT	
			DEBIT	CREDIT	DEBIT	CREDIT
1	General Fund	Investment loss	\$ -	\$ -	\$ 701,000	\$ -
	General Fund	Investments (Unrealized loss)	-	701,000	-	-
	Municipal Capital Improvement	Investment loss	-	-	148,000	-
	Municipal Capital Improvement	Investments (Unrealized loss)	-	148,000	-	-
	Other Governmental Funds	Investment loss	-	-	451,000	-
	Other Governmental Funds	Investments (Unrealized loss)	-	451,000	-	-
	Internal Service Funds	Investment loss	-	-	25,000	-
	Internal Service Funds	Investments (Unrealized loss)	-	25,000	-	-
	Private Purpose Trust Fund	Investment loss	-	-	1,122,000	-
	Private Purpose Trust Fund	Investments (Unrealized loss)	-	1,122,000	-	-
	OMERS	Investment loss	-	-	5,000	-
	OMERS	Investments (Unrealized loss)	-	5,000	-	-
	PFRS	Investment loss	-	-	123,000	-
	PFRS	Investments (Unrealized loss)	-	123,000	-	-
(To reduce the carrying value of the City's pooled investments to the estimated fair value as of June 30, 2005)						
2	General Fund	Revenue	-	-	431,213	-
	General Fund	Deferred Revenue	-	431,213	-	-
(To reduce revenue for the amounts not received by the City within its period of availability)						
3	Federal & State Grant Fund	Principal Repayment	-	-	160,000	-
	Federal & State Grant Fund	Interest Expense	-	-	-	160,000
(To reclassify certain principal payments that were reported as interest expense in error)						
4	Other Governmental Funds	Accreted Interest	90,177	-	-	-
	Other Governmental Funds	1997 POB Principal	-	90,177	-	-
(To reclassify accreted interest to principal due to error by City)						
5	General Fund	Due from the Port	1,673,824	-	-	-
	General Fund	Other Accounts Receivable	-	1,673,824	-	-
(To reclassify due from the Port which was reclassified by the City to A/R)						
6	General Fund	Due from the Port	8,719,387	-	-	-
	General Fund	Other Accounts Receivable	-	8,719,387	-	-
(To reclassify due from the Port which was reclassified by the City to A/R)						
7	Lease Financing Bond	Long Term Debt - Principal	2,203,024	-	-	-
	Lease Financing Bond	Accreted Interest	-	2,203,024	-	-
(To reclassify bond principal which was included as accreted interest)						
8	Oakland Redevelopment Agency	Miscellaneous services	-	-	322,263	-
	Oakland Redevelopment Agency	Rents and reimbursements	-	-	-	305,503
	Oakland Redevelopment Agency	Restricted cash and investments	-	16,760	-	-
(To properly reflect offsite cash activity for Preservation Park for the period of October 2004 - January 2005)						
9	City Governmental Activities	Beginning net assets	-	-	-	12,000,000
	City Governmental Activities	Expenses for the Community and Economic Development function	-	-	12,000,000	-
(To reclassify unrecorded loans made in previous years as an increase to beginning net assets)						