



AGENDA REPORT

TO: Steven Falk
Interim City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Annual Comprehensive Financial
Report and Management Letter

DATE: March 8, 2023

City Administrator Approval

Date: Mar 29, 2023

RECOMMENDATION

Staff Recommends That The City Council Receive The Annual Comprehensive Financial Report (ACFR) And The Auditor's Required Communication To City Council (Management Letter) For The Year Ended June 30, 2022.

EXECUTIVE SUMMARY

The Finance Department is pleased to present to the City Council the attached independent annual audit, referred to as the Annual Comprehensive Financial Report (ACFR), and the auditor's required communication to City Council, also known as the Management Letter. This report was titled the Comprehensive Annual Financial Report (CAFR) in prior years and has been renamed at the direction of the Governmental Accounting Standards Board.

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

Macias, Gini & O'Connell, the City's external auditor, audited the City's financial statements for the year ending June 30, 2022 (**Attachment A**). The auditor's unmodified opinion letter for the ACFR affirms that the basic financial statements contained therein accurately represent the financial condition of the City of Oakland as of June 30, 2022. The auditor expressed an opinion that the City's financial statements are fairly stated and in accordance with accounting principles generally accepted in the United States.

The Fiscal Year (FY) 2021-22 ACFR provides relevant financial information to the City Council, residents and businesses of Oakland, creditors, investors, and other interested parties. This report also fulfills the City Council's responsibilities under Section 809 of the City Charter, which states in part, "The Council shall engage during the first month of each fiscal year an independent certified public accountant who shall examine and report to the Council on the annual financial statement of the City."

BACKGROUND / LEGISLATIVE HISTORY

The Annual Comprehensive Financial Report

The FY 2021-22 ACFR provides a description of the City's financial activities for the period of July 1, 2021 through June 30, 2022, and is divided into the following major sections:

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

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

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

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

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

ANALYSIS AND POLICY ALTERNATIVES

The FY 2021-22 ACFR provides a comprehensive review of the City's financial operations. The ACFR is submitted to the City Council for review and to provide relevant financial information to the residents of Oakland, creditors, investors, and other interested parties. This document includes an opinion from the City's external auditor that the City's financial statements for FY 2021-22 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is commonly known as an

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

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

Financial Highlights

For the fiscal year ended June 30, 2022, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$551.2 million. This result compares to a net position of \$96.3 million on June 30, 2021 and reflects a \$454.9 million improvement in net position on a government-wide basis, as detailed in **Table 1**.

Of the \$454.9 million improvement in net position, \$28.2 million was derived from increases in general revenues, including \$32.5 million in property tax, \$25.0 million in real estate transfer tax, and \$10.4 million in sales and use tax. These gains were offset by declines of \$62.6 million in other revenues, which was primarily due to one-time revenues received in the prior year. \$223.6 million of the improvement in net position results from decreased expenses, including a \$201.8 million reduction in pension and other post-employment benefits (OPEB) expense due to declines in estimates of related liabilities.

OPEB-related changes accounted for \$102.0 million of the improvement in net position, primarily due to changes in actuarial assumptions about future interest earnings on assets held in trust for these obligations. These assumption changes followed the City's restoration of contributions to address unfunded OPEB liabilities that were suspended at the beginning of the COVID19 pandemic. Pension-related changes resulted in \$107.9 million of the improvement in net position and reflect relatively strong investment results.

The City's net position of \$551.2 million incorporates a \$1.6 billion deficit in unrestricted net position that has primarily resulted from the historical underfunding of pension and OPEB liabilities. The net pension liability accounts for \$1.2 billion of this deficit and the net OPEB liability accounts for \$0.6 billion. While still substantial, the City's unrestricted net deficit declined by \$434 million in the fiscal year ended June 30, 2022.

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

Resources that are subject to restrictions on their use, such as bond proceeds or grant funds, contribute an additional \$860.5 million to net position and are available to meet the City's ongoing obligations for specific programs. Of this amount, \$332.9 million pertains to Low and Moderate Income Housing Redevelopment, \$413.8 million is restricted for Housing and Community Development programs, and \$40.2 million is restricted for debt service.

Total fund balance for the City's governmental funds increased by 25.4 percent, or \$288.0 million, ending the year at \$1.4 billion. In addition to the factors noted above, this increase reflects the issuance of general obligation bonds during the fiscal year that had not yet been fully expended at year end.

Total fund balance in the consolidated General Fund increased by 32.3%, or \$149.9 million, rising to \$613.9 million. This improvement reflects the use of federal COVID funds to reduce General Fund expenditures, gains in general revenues, and reduced expenses due to vacancies.

These strong financial results also positively impacted the City's reserves. On June 30, 2022, the General Purpose Fund Emergency Reserve, a sub-fund of the General Fund, had a balance of \$54.0 million. In addition, the General Purpose Fund had unassigned fund balance of \$90.6 million. In combination these balances totaled \$144.6 million, exceeding the amount required under the City's Consolidated Fiscal Policy of 7.5 percent of FY 2021-22 General Purpose Fund appropriations, or \$54.5 million.

Table 1: Consolidated Statements of Net Position June 30, 2022 and 2021 (in thousands):

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Assets						
Current and other assets	2,522,302	2,136,443	104,953	91,994	2,627,255	2,228,437
Capital assets	1,459,289	1,440,601	253,930	255,239	1,713,219	1,695,840
Total Assets	3,981,591	3,577,044	358,883	347,233	4,340,474	3,924,277
Deferred outflows of resources						
Loss on refunding of debt	11,023	12,268	--	--	11,023	12,268
Pensions	265,730	339,194	4,528	908	270,258	340,102
OPEB	194,723	221,051	3,949	4,527	198,672	225,578
Total Outflows	471,476	572,513	8,477	5,435	479,953	577,948
Liabilities						
Long-term liabilities	1,186,108	1,045,103	23,526	26,359	1,209,634	1,071,462
Other liabilities	472,663	467,428	5,766	3,117	478,429	470,545
Net pension liability	1,186,077	1,754,45	29,806	46,916	1,215,883	1,801,374
Net OPEB liability	606,108	827,123	11,361	15,713	617,469	842,836
Total Liabilities	3,450,956	4,094,112	70,459	92,105	3,521,415	4,186,217
Deferred inflows of resources						
Gains on refunding of debt	2,544	2,785,000	276,000	316,000	2,820,000	3,101,000
Leases	37,215	--	--	--	37,215	--
Pensions	386,245	2,854	11,362	--	397,607	2,854
OPEB	304,276	210,886	5,910	2,876	310,186	213,762
Total deferred inflows	730,280	216,525	17,548	3,192	747,828	219,717
Net Position						
Net investment in capital assets	1,040,918	1,102,435	230,128	228,564	1,271,046	1,330,999
Restricted	860,545	779,672	--	--	860,545	779,672
Unrestricted (deficit)	(1,629,634)	(2,043,187)	49,224	28,807	(1,580,410)	(2,014,380)
Total net position	271,829	(161,080)	279,352	257,371	551,181	96,291

FISCAL IMPACT

This item is for informational purposes only and does not have a direct fiscal impact or cost.

PUBLIC OUTREACH / INTEREST

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

COORDINATION

This report was prepared in coordination and with input from the Finance Department. It presents financial information for all City departments as well as the Port of Oakland.

SUSTAINABLE OPPORTUNITIES

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

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

Race & Equity: This informational report documents changes in the City's financial position and provides assurance to policymakers, investors, and residents that the City's finances are accurately reported. While there are no direct race or equity opportunities associated with this informational report, it provides a foundation upon which policymakers may take further actions to advance racial equity.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive The Annual Comprehensive Financial Report (ACFR) And The Auditor's Required Communication To City Council (Management Letter) For The Year Ended June 30, 2022.

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

Respectfully submitted,



ERIN ROSEMAN
Finance Director
Finance Department

Prepared by:
Stephen Walsh, Controller
Controller's Bureau

Attachments (2):

- A: Annual Comprehensive Financial Report For the Year Ended June 30, 2022
- B: Auditor's Required Communication to City Council (Management Letter)