



AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Adam Benson
Finance Director

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

DATE: January 3, 2020

City Administrator Approval

Date:

1/14/20

RECOMMENDATION

Staff Recommends That The City Council Receive The Comprehensive Annual Financial Report (CAFR) And The Auditor's Required Communication To City Council (Management Letter) For The Year Ended June 30, 2019.

EXECUTIVE SUMMARY

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

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

The auditor's unmodified opinion letter for the CAFR affirms that the basic financial statements contained therein accurately represent the financial condition of the City of Oakland as of June 30, 2019. 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.

Macias, Gini & O'Connell, the City's external auditor, audited the City's financial statements for the year ending June 30, 2019 (**Attachment A**). The auditor reported no findings and did not identify any deficiencies in internal controls.

City Council acceptance of the Fiscal Year 2018-19 CAFR will provide relevant financial information to the City Council, residents and businesses of Oakland, creditors, investors, and other interested parties. Also, the City will be in compliance with Section 809 of the City

Finance and Management Committee
January 28, 2020

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 Comprehensive Annual Financial Report

The FY 2018-19 CAFR provides a description of the City’s financial activities for the period of July 1, 2018 through June 30, 2019, and is divided into the following major sections:

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

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

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

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

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

ANALYSIS AND POLICY ALTERNATIVES

The FY 2018-19 CAFR provides a comprehensive review of the City's financial operations. The CAFR is submitted to the City Council for consideration and acceptance and to provide relevant financial information to the residents of Oakland, creditors, investors, and other interested parties. Ensuring the financial integrity of public institutions is crucial to maintaining the public's trust.

The auditor expressed an opinion that the City's financial statements for FY 2018-19 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is commonly known as an "unmodified" or "clean" opinion. The independent auditor's report is included in the Financial Section of the CAFR.

Financial Highlights

For the fiscal year ended June 30, 2019, the City achieved the following key financial results for governmental and business-type activities, as indicated in **Table 1**:

- Total liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by \$283.5 million, as compared to a negative net position of \$456.8 million at June 30, 2018, which represents an improvement in net position of \$173.3 million.
- The City's deficit net position of \$283.5 million reflects a \$2.3 billion deficit in unrestricted net position that has primarily resulted from the underfunding of pension and other postemployment benefit (OPEB) liabilities, as well as liabilities for pension obligation bonds.
- Net pension liability, at \$1.7 billion, is the largest component of the City's net position deficit. Both net pension liability and the City's net OPEB liability of \$840.6 million declined slightly in FY 2018-19 due to [add brief explanation].
- \$1.4 billion of the City's net position represents investments in capital assets such as buildings, land, and equipment, less any related outstanding debt and related deferred outflows and inflows of resources used to acquire those assets (net investment in capital assets). These capital assets are used to provide services to residents and are not available for future spending.
- \$667.0 million of the City's net position represents resources that are subject to restrictions on their use, such as bond proceeds or grant funds, and are available to meet the City's ongoing obligations for specific programs.

Table 1: Condensed Statement of Net Position, June 30, 2019 and 2018 (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$1,715,707	\$1,619,488	\$73,648	\$64,179	\$1,789,355	\$1,683,667
Capital assets	1,430,104	1,406,930	245,373	236,254	1,675,477	1,643,184
Total Assets	<u>3,145,811</u>	<u>3,026,418</u>	<u>319,021</u>	<u>300,433</u>	<u>3,464,832</u>	<u>3,326,851</u>
Deferred outflows of resources						
Loss on refunding of debt	14,758	16,003	—	—	14,758	16,003
Related to pensions	318,377	383,063	3,826	10,874	322,203	393,937
Related to OPEB	39,111	36,654	19	571	39,130	37,225
Total Outflows	<u>372,246</u>	<u>435,720</u>	<u>3,845</u>	<u>11,445</u>	<u>376,091</u>	<u>447,165</u>
Liabilities						
Long-term liabilities	1,050,111	1,126,021	31,690	34,267	1,081,801	1,160,288
Other liabilities	268,942	233,035	2,689	3,329	271,631	236,364
Net pension liability	1,613,350	1,660,253	41,226	43,672	1,654,576	1,703,925
Net OPEB liability	828,065	836,431	12,578	13,040	840,643	849,471
Total Liabilities	<u>3,760,468</u>	<u>3,855,740</u>	<u>88,183</u>	<u>94,308</u>	<u>3,848,651</u>	<u>3,950,048</u>
Deferred inflows of resources						
Gain on refunding of debt	—	—	395	434	395	434
Related to pensions	37,770	24,856	1,563	620	39,333	25,476
Related to OPEB	231,400	250,952	4,600	3,912	236,000	254,864
Total deferred inflows	<u>269,170</u>	<u>275,808</u>	<u>6,558</u>	<u>4,966</u>	<u>275,728</u>	<u>280,774</u>
Net Position						
Net investment in capital assets	1,144,031	1,126,892	213,288	201,553	1,357,319	1,328,445
Restricted	666,949	648,566	—	—	666,949	648,566
Unrestricted (deficit)	(2,322,561)	(2,444,868)	14,837	11,051	(2,307,724)	(2,433,817)
Total net position	<u>\$ (511,581)</u>	<u>\$ (669,410)</u>	<u>\$228,125</u>	<u>\$212,604</u>	<u>\$(283,456)</u>	<u>\$(456,806)</u>

- For governmental activities alone, net position increased by \$157.8 million. This improvement reflects increased assets of \$119.4 million, primarily resulting from higher property tax collections, as well as decreased liabilities of \$95.3 million, largely due to debt repayments and reductions in net pension liability. Net position for the City's business-type activities, primarily the Sewer Fund, increased by \$15.5 million.
- As of June 30, 2019, the Vital Services Stabilization Reserve had a balance of \$14.6 million while the City's General Purpose Fund Emergency Reserve, equal to 7.5% of General Purpose Fund appropriation, had a balance of \$48.8 million. This latter amount is included in the General Fund's unassigned fund balance of \$118.2 million.

FISCAL IMPACT

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

PUBLIC OUTREACH / INTEREST

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

COORDINATION

This report was prepared in coordination and with input from the Finance Department, City Attorney's Office, and Human Resources Department.

SUSTAINABLE OPPORTUNITIES

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

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

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

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive The Comprehensive Annual Financial Report (CAFR) And The Auditor's Required Communication To City Council (Management Letter) For The Year Ended June 30, 2019.

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

Respectfully submitted,



ADAM BENSON
Finance Director
Finance Department

Prepared by:
Stephen Walsh
Controller
Finance Department, Controller's Bureau

Attachments (2):

- A: Comprehensive Annual Financial Report For the Year Ended June 30, 2019
- B: Auditor's Required Communication to City Council (Management Letter)