

ATTACHMENT B

Auditor's Required Communication to City Council

CITY OF OAKLAND

Report to Those Charged With Governance

For the Year Ended June 30, 2025



Certified
Public
Accountants



Certified
Public
Accountants

December 30, 2025

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

We are pleased to present this report related to our audit of the basic financial statements of the City of Oakland, California (City) as of and for the year ended June 30, 2025. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

In addition to the City's basic financial statements, we audit and separately report on the following financial statements as of and for the year ended June 30, 2025. These entities and programs are included in the City's basic financial statements:

- Oakland Redevelopment Successor Agency; and
- Child Care and Development Programs;

We also audit the financial statements of the Oakland Police and Fire Retirement System and the Port of Oakland. We issued separate communication reports to the respective board of the entities.

This report is intended solely for the information and use of the Mayor, City Council and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the City.

A handwritten signature in black ink that reads 'Macias Gini & O'Connell LLP'. The signature is written in a cursive, flowing style.

Walnut Creek, California

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REQUIRED COMMUNICATIONS

Auditing standards generally accepted in the United States of America (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audits as well as observations arising from our audits that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

Our Responsibilities With Regard to the Financial Statement Audits

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* have been described to you in our engagement letter dated July 1, 2025. Our audit of the City's financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audits

We conducted our audits consistent with the planned scope and timing in our engagement letter dated July 1, 2025.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. A summary of the significant policies adopted by the City is included in Note I to the financial statements. As described in Note I.E. to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, and GASB Statement No. 102, *Certain Risk Disclosures*. The implementation of GASB Statement No. 101 resulted in the restatement of the beginning net position of the governmental activities of \$11.5 million as detailed at Note I.G to the financial statements. The implementation of GASB Statement No. 102 did not have a significant impact on the City's financial statements for the year ended June 30, 2025. The City also restated the fund balance of the General Fund and the beginning net position of the governmental activities to correct an overstatement of accounts payable and other current liabilities of \$199.9 million as detailed at Note I.G to the financial statements.

Significant Accounting Policies

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions

We did not identify any significant unusual transactions.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates.

The following is summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates:

Significant Accounting Estimates	
Measurement of investments at fair value	<p>The City's investments are accounted for in accordance with the provisions of GASB Statement No. 72, <i>Fair Value Measurement and Application</i>, and accordingly, its fair value measurements are categorized within the fair value hierarchy established by the standard. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:</p> <ul style="list-style-type: none">○ Level 1 – Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.○ Level 2 – Investments whose values are based on inputs – other than quoted prices including prices included within level 1 – that are observable for an asset, either directly or indirectly.○ Level 3 – Investments whose values are based on unobservable inputs for an asset and may require a degree of professional judgment. <p>MGO compared investment values from quoted market information and using pricing applications and models obtained from the custodian bank, fiscal agents or other sources and determined the estimates were reasonable.</p>
Estimated unbilled sewer service revenue	<p>Estimated unbilled sewer service revenue are based on an evaluation of the sewer service reports from the East Bay Municipal Utility District, cash flows, monthly billing cycles, and historical billings.</p> <p>MGO evaluated the methodologies and assumptions used in estimating the revenue and performed analytical procedures and determined the estimates were reasonable.</p>
Estimated allowance for losses on accounts receivable	<p>Estimated allowance for losses on accounts receivable was based on age of receivable and historical experience.</p> <p>MGO evaluated the methodologies and assumptions used in estimating the allowance for losses and tested subsequent cash receipts of significant accounts receivable and determined the estimates were reasonable.</p>

Significant Accounting Estimates

Estimated allowance for losses on loans receivable	<p>Estimated allowance for loans receivable is based on the types of loans (e.g., forgivable, deferred, grant, or amortizing) and management's estimate regarding the likelihood of collectability based on loan provisions and collateral.</p> <p>MGO evaluated the methodologies and assumptions used in estimating the allowance and performed analytical procedures and determined the estimates were reasonable.</p>
Depreciation and amortization of capital assets, including depreciation/amortization methods and useful lives assigned to depreciable/amortizable property	<p>Useful lives, or in the case of intangible right-to-use lease and subscription-based information technology arrangement assets, the shorter of useful lives or the lease/subscription term, for depreciable/amortizable capital assets were determined by management based on the nature of the capital asset. Depreciation/amortization was calculated based on the straight-line method.</p> <p>MGO assessed the reasonableness of the useful lives based on the nature of the capital assets and performed substantive analytical procedures on depreciation/amortization expense and determined the estimates were reasonable.</p>
Accrual of compensated absences	<p>Accrual of compensated absences was based on accumulated hours of vacation, sick leave and other compensatory time at current pay rates for eligible employees, factoring in usage pattern and termination payout, and includes certain salary-related payments that are directly and incrementally associated with payments for leave.</p> <p>MGO evaluated the methodologies and assumptions used to develop the obligations, agreed the accumulated unused hours and pay rates at year-end to payroll reports, and determined the estimates were supported and reasonable.</p>
Accrual of self-insurance claims liabilities	<p>Estimated claims liabilities were based on prior years' actuarial valuations using historical loss, other data, and attorney judgment about the ultimate outcome of the claims, adjusted for current year's conditions.</p> <p>MGO evaluated the methodologies and assumptions used to develop the claims liabilities and performed analytical procedures and determined the estimates were reasonable.</p>
Accrual of environmental costs liabilities	<p>Estimated environmental costs are based on valuation reports from the City's Public Works Department and external consultants.</p> <p>MGO evaluated the methodologies and assumptions used to develop the obligations, reviewed the assumptions used for reasonableness, and determined the estimates were reasonable.</p>
Measurement of the pension contributions, net pension liability, pension	<p>The actuarial pension data, including the liabilities, deferred outflows of resources, and deferred inflows of resources, are based on actuarial calculations performed in accordance with the parameters set forth for</p>

Significant Accounting Estimates	
expense, and pension-related deferred outflows and inflows of resources	<p>the pension plans under GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i>, which incorporate actuarial methods and assumptions adopted by the City.</p> <p>MGO reviewed the calculations to actuarial valuations and performed analytical procedures and determined the estimates were reasonable.</p>
Measurement of the other postemployment benefits (OPEB) contributions, net OPEB liability, OPEB expense and OPEB-related deferred outflows and inflows of resources	<p>The actuarial OPEB data, including the liabilities, deferred outflows of resources, and deferred inflows of resources, are based on actuarial calculations performed in accordance with the parameters set forth for the pension plans under GASB Statement No. 75, <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>, which incorporate actuarial methods and assumptions adopted by the City.</p> <p>MGO reviewed the calculations to actuarial valuations and performed analytical procedures and determined the estimates were reasonable.</p>
Discount rate used for the calculation of the lease receivables, and the lease and subscription liabilities	<p>The discount rate used for the calculation of the lease receivables, lease liabilities and subscription liabilities are based on the City's estimated incremental borrowing rate using daily treasury yield curve rates adjusted for spreads</p> <p>MGO evaluated the methodologies and assumptions used in making the accounting estimate and performed substantive procedures and determined that the estimates were reasonable.</p>

Audit Adjustments and Uncorrected Misstatements

Professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no corrected misstatements identified by us as a result of our audit procedures.

Uncorrected misstatements or matters underlying these uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit. We identified the following uncorrected misstatements that management has concluded are not, individually or in the aggregate, material to the basic financial statements. We agree with management's conclusion in that regard.

Summary of Uncorrected Misstatements

Account and Adjustment Description	(Amount in Thousands)	
	Debit	Credit
<i>Current Year PAJE #1</i>		
Expenses - General Government	\$ 17,900	
Claims liability		\$ 17,900
(Governmental Activities - To adjust claims liability estimates to reflect updates provided by the City Attorney.)		

Departure From the Auditor's Standard Report

Our auditor's report includes an emphasis of matter paragraph describing the City's adoption of the provisions of GASB Statement No. 101, *Compensated Absences*, effective July 1, 2024. Our opinions on the financial statements were not modified with respect to this matter.

Other Information Included in Annual Comprehensive Financial Report

Our responsibility for other information included in the annual comprehensive financial report is to read the information and consider whether its content or the manner of its presentation is materially inconsistent with the basic financial information covered by our auditor's report, whether it contains a material misstatement of fact or whether the other information is otherwise misleading. We read the City's introductory and statistical sections. We did not identify material inconsistencies with the audited basic financial statements.

Observations About the Audit Process

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the City's financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Difficult or Contentious Matters That Required Consultation

We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.

Shared Responsibilities for Independence

Independence is a joint responsibility and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with American Institute of Certified Public Accountants (AICPA) and *Government Accountability Office* (GAO) independence rules. For MGO to fulfill its professional responsibility to maintain and monitor independence, management, the Mayor and City Council, and MGO each play an important role.

Our Responsibilities

1. AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. MGO is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
2. Maintain a system of quality management over compliance with independence rules and firm policies.

The City's Responsibilities

1. Timely inform MGO, before the effective date of transactions or other business changes, of the following:
 - a. New affiliates, directors, or officers.
 - b. Changes in the organizational structure or the reporting entity impacting affiliates such as subsidiaries, partnerships, related entities, investments, joint ventures, component units, and jointly governed organizations.
2. Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
3. Understand and conclude on the permissibility, prior to the City and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with MGO.
4. Not entering into arrangements of nonaudit services resulting in MGO being involved in making management decisions on behalf of the City.
5. Not entering into relationships resulting in close family members of MGO covered persons, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at the City.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter dated December 30, 2025.

Internal Control and Compliance Matters

We have separately communicated on internal control and compliance over financial reporting identified during our audit of the financial statements, as required by *Government Auditing Standards*.

The financial and compliance audit of the City's major federal awards in accordance with the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200* (Uniform Guidance) is in process and will be issued no later than March 31, 2026.

EXHIBIT A

Recent Accounting Pronouncements

RECENT ACCOUNTING PRONOUNCEMENTS

The following accounting pronouncements have been issued as of the date of this communication but are not yet effective and may affect the future financial reporting by the City.

Pronouncement	Summary
GASB Statement No. 103, <i>Financial Reporting Model Improvements</i>	<p>The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues.</p> <p>Statement No. 103 are effective for the City's financial statements for the year ending June 30, 2026.</p>
GASB Statement No. 104, <i>Disclosure of Certain Capital Assets</i>	<p>The objective of this statement is to establish requirements for certain types of capital assets to be disclosed separately for purposes of note disclosures, and to establish requirements for capital assets held for sale and note disclosures for those capital assets.</p> <p>Statement No. 104 are effective for the City's financial statements for the year ending June 30, 2026.</p>
GASB Statement No. 105, <i>Subsequent Events</i>	<p>The objective of this statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users.</p> <p>Statement No. 105 are effective for the City's financial statements for the year ending June 30, 2027.</p>