



DISTRIBUTION DATE: February 8, 2021

MEMORANDUM

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Margaret O'Brien
Interim Finance Director

SUBJECT: Measure DD Audit Report

DATE: February 8, 2021

City Administrator 
Approval

Date: Feb 8, 2021

INFORMATION

The Controller's Bureau is pleased to present the attached Independent Audit Report for Measure DD Series 2017C Fund for the period of January 26, 2017 through January 26, 2020. Williams, Adley & Company- CA, LLP, an independent accounting firm performed the audit. The report attached to this memorandum includes an Independent Auditor's Report, audited Financial Statements and a report on Internal Control over Financial Reporting and on Compliance and Other Matters. The auditors expressed a clean opinion without any findings and any instances of noncompliance.

Respectfully submitted,

Margaret L. O'Brien

MARGARET O'BRIEN
Interim Finance Director
Finance Department

For questions, please contact Pooja Shrestha, Assistant Controller at 510-238-6776.

Attachment:

Measure DD Series 2017C Fund Financial Statements with Independent Auditor's Report

CITY OF OAKLAND- MEASURE DD SERIES 2017C FUND

(A Fund of the City of Oakland)

Financial Statements

For the Period January 26, 2017 through January 26, 2020

(With Independent Auditor's Report Thereon)



WILLIAMS, ADLEY & COMPANY-CA, LLP
Certified Public Accountants | Management Consultants

CITY OF OAKLAND - MEASURE DD SERIES 2017C FUND

(A Fund of the City of Oakland)

For the Period January 26, 2017 through January 26, 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Oakland's (City) Measure DD Series 2017C, (Measure **DD**) a fund of the City, for the period January 26, 2017 through January 26, 2020, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted, in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Measure DD for the period January 26, 2017 through January 26, 2020 and the changes in financial position for the period then ended in accordance with accounting principles generally accepted in the United States of America.

WILLIAMS, ADLEY & COMPANY-CA, LLP

Certified Public Accountants | Management Consultants

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Emphasis of Matter

As discussed in Note A, the financial statements of the Measure DD Series 2017C Fund present only the financial activities of the Measure DD Series 2017C Fund and do not purport to, and do not present fairly the financial position and changes in financial position of the City, as of and for the period January 26, 2017 through January 26, 2020 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2021, on our consideration of the City's internal control over financial reporting as it pertains to Measure DD 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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

William Adams

February 1, 2021

CITY OF OAKLAND - MEASURE DD SERIES 2017C FUND

Balance Sheet
January 26, 2020

	<u>Governmental Fund Type</u>
	<u>Measure DD Capital Improvement Fund</u>
Assets	
Investments with Fiscal Agent	\$ 18,403,275
Total Assets	<u>18,403,275</u>
Liabilities	
Due to Other Funds	<u>247,473</u>
Total Liabilities	<u>247,473</u>
Fund Balance	
Restricted	18,155,802
Total Fund Balance	<u>18,155,802</u>
Total Liabilities and Fund Balance	<u>\$ 18,403,275</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND - MEASURE DD SERIES 2017C FUND
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Period January 26, 2017 through January 26, 2020

	Governmental Fund Type
	Measure DD Capital Improvement Fund
Revenues:	
Investment Income	\$ 995,648
Gain (Loss) on Sale of Investments	7,200
Unrealized Gain (Loss) in Market Value	(39,250)
Total revenues	963,598
Expenditures	
Salaries and Wages	951,649
Fringe Benefits	1,093,885
Indirect Overhead	611,082
Contract Services	1,298,277
Supplies and Services	139,430
Capital Acquisition	5,092,431
Miscellaneous Services	121,042
Total Expenditures	9,307,796
Excess (Deficiency) of Revenues over Expenditures	(8,344,198)
Other Financing Sources	
Series 2017C Bonds Issued	26,500,000
Total Other Financing Sources	26,500,000
Net Change in Fund Balances	18,155,802
Fund Balances, January 26, 2017	-
Fund Balances, January 26, 2020	\$ 18,155,802

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND - MEASURE DD SERIES 2017C FUND

Notes to Financial Statements

For the Period January 26, 2017 through January 26, 2020

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 January 26, 2017, the City issued \$26,500,000 of General Obligation Bonds, Series 2017C, Measure DD (Series 2017C Bonds). The projects financed by the bond proceeds are reported in the City's Measure DD fund.

The Measure DD Series 2017 C Fund is accounted for as a capital improvement 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 Series 2017C Fund present only the financial activities of the Measure DD Series 2017C 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 “measurable” when the amount of the transaction can be determined and “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 90 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.

Cash and Investments

The City follows the practice of pooling cash of all operating funds for investment, except for funds held by outside custodians. Investments are generally carried at fair value. Money market investments (such as short-term, highly liquid debt instruments including commercial paper, banker's acceptances, U.S. Treasury and agency obligations) that have a remaining maturity at the time of purchase of one year or less, and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) are carried at amortized cost. Changes in fair value of investments are recognized as a component of interest and investment income.

CITY OF OAKLAND - MEASURE DD SERIES 2017C FUND

Notes to Financial Statements

For the Period January 26, 2017 through January 26, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in accordance with Section 4.06 of the fiscal agent agreement and the investment policy of the City, which is governed by provisions of the California Government Code and the City's Municipal Code. Investments are generally carried at fair value.

Fund Balances

Governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of January 26, 2020, the fund balance for the Measure DD Series 2017C Fund is made up of the following:

- *Restricted Fund Balance:* includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. It also includes a legally enforceable requirement that the resources can only be used for specific purposes enumerated in the law.

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 Series 2017C Fund are invested in accordance with Section 4.06 of the fiscal agent agreement and the investment policy of the City, which is governed by provisions of the California Government Code and the City's Municipal Code.

As of January 26, 2020, the Measure DD Series 2017C Fund had the following investments:

	<u>Fair Value</u>	12 Months or <u>Less</u>	<u>Credit Rating</u>
U.S. Govt. Agency Securities	\$ 3,000,000	\$ 3,000,000	AA/Aaa
Money Market Funds	<u>15,403,275</u>	<u>15,403,275</u>	AAA/Aaa
Total	<u>\$18,403,275</u>	<u>\$18,403,275</u>	

CITY OF OAKLAND - MEASURE DD SERIES 2017C FUND

Notes to Financial Statements

For the Period January 26, 2017 through January 26, 2020

2. **INVESTMENTS** (continued)

Hierarchy of Inputs

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Fixed income investments are valued using a variety of techniques such as matrix pricing, market corroborated pricing inputs such as yield curve, and other market related data and classified in Level 2 of the fair value hierarchy. Money market mutual funds and LAIF have maturities of one year or less from fiscal year end and are not subject to classification in the fair value hierarchy.

The City's Measure DD Series 2017C Fund had the following investment as of January 26, 2020:

	Level 1	Level 2	Level 3	Total
Investment by fair value level:				
U.S. Government Agency Securities	\$ -	\$3,000,000	\$ -	\$ 3,000,000
Total investments by fair value level	<u>\$ -</u>	<u>\$3,000,000</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>
Money Market Mutual Funds				<u>\$15,403,275</u>
Total investment measured at fair value				<u>\$18,403,275</u>

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. The longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. The modified duration for U.S. Govt. Agency Securities is 0.65 years.

As a means for limiting its exposure to changing interest rates, Section 53601 of the State of California Government Code and the City's Investment Policy limit certain investments to short-term maturities such as certificates of deposit and commercial paper, whose maturities are limited to 360 days and 270 days, respectively. Also, Section 53601 of the State of California Government Code limits the maximum maturity of any investment to be no longer than 5 years unless authority for such investment is expressly granted in advance by the City Council or authorized by bond covenants. The City continues to purchase a combination of short-term and long-term investments to minimize such risks.

CITY OF OAKLAND - MEASURE DD SERIES 2017C FUND

Notes to Financial Statements

For the Period January 26, 2017 through January 26, 2020

2. **INVESTMENTS** (continued)

Credit Risk

Credit risk represents the possibility that the issuer/counterparty to an investment will be unable to fulfill its obligations. The most effective method for minimizing the risk of default by an issuer is to invest in high quality securities. Under the City investment policy, short-term debt shall be rated at least A-1 by S&P Global Ratings (S&P), at the time security is purchased. Long-term debt shall be rated at least A by S&P. Per the California Debt and Management Advisory Commission ("CDIAC"), it is recommended that the portfolio be monitored, as practical, for subsequent changes in credit rating of existing securities.

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.

3. **DUE TO OTHER FUNDS AND OTHER FINANCING SOURCES/USES**

Due to Other Funds

Payroll costs and related benefits, and internal charges are paid by the City. The amounts due to the City as of January 26, 2020 represent amounts advanced on behalf of the Measure DD Series 2017C Fund for such costs.

Other Financing Sources/Uses

Other financing sources is composed of the issuance of the 2017 Series C Bond, which was authorized via resolution 86516 to provide funding for the Measure DD Series 2017C Fund.

4. **CULTURAL ARTS EXPENDITURES**

Cultural Arts expenditures include all expenditures for decorative artwork that relate to the Measure DD Series 2017C projects.

CITY OF OAKLAND - MEASURE DD SERIES 2017C FUND

Notes to Financial Statements

For the Period January 26, 2017 through January 26, 2020

5. FUND BALANCE DESIGNATIONS

\$18.16 million in restricted fund balance is available for the City to spend on the Measure DD Series 2017C projects.

6. SUBSEQUENT EVENTS

City management has evaluated subsequent events through February 1, 2021 the date on which the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements and no other subsequent events have occurred, the nature of which would require disclosure.

**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***

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

We have audited, in accordance with the 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, the financial statements of the City of Oakland's (City) Measure DD Series 2017C (Measure DD) a fund of the City, as of and for the period January 26, 2017 through January 26, 2020, and the related notes to the financial statements which collectively comprise the financial statements and have issued our report thereon dated February 1, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting as it pertains to Measure DD.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Measure DD's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance as it pertains to Measure DD. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance as it pertains to Measure DD. Accordingly, this communication is not suitable for any other purpose.

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Oakland, CA
February 1, 2021

SUPPLEMENTARY INFORMATION

CITY OF OAKLAND - MEASURE DD SERIES 2017C FUND
Statement of Activities by Project
For the Period January 26, 2017 through January 26, 2020

<u>Expenditure Categories</u>	<u>Administration</u>	<u>Creeks and Waterways Restoration Projects</u>	<u>Oakland Waterfront Projects</u>	<u>Lake Merritt Projects</u>	<u>Lake Merritt Channel Projects</u>	<u>Public Art Projects</u>	<u>Total</u>
Salaries and Wages	\$ 250,915	\$ 37,094	\$ 123,123	\$ 377,427	\$ 128,411	\$ 34,679	\$ 951,649
Fringe Benefits	288,703	40,031	141,345	430,928	144,587	48,291	1,093,885
Indirect Overhead	157,476	21,830	79,295	252,586	83,596	16,299	611,082
Contract Services	11,999	158,402	536,555	374,599	216,722	-	1,298,277
Supplies and Services	-	3,526	513	128,169	7,222	-	139,430
Capital Acquisitions	-	81,856	245,085	4,140,235	625,255	-	5,092,431
Miscellaneous Services	24,511	57,884	3,957	26,480	-	8,210	121,042
Total Expenditures	\$ 733,604	\$ 400,623	\$ 1,129,873	\$ 5,730,424	\$ 1,205,793	\$ 107,479	\$ 9,307,796