



AGENDA REPORT

TO: DEANNA J. SANTANA
CITY ADMINISTRATOR

FROM: Osborn K. Solitei

SUBJECT: Measure DD Series 2009B Fund
Report on Audit of Financial Statements
(July 2009- June 2012)

DATE: February 11, 2014

City Administrator

Date

Approval

2/17/14

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Staff recommends that the City Council accept the Measure DD Series 2009B Fund Report on Audit of Financial Statements for the period of July 22, 2009 through June 30, 2012.

EXECUTIVE SUMMARY

The Controller's Office is pleased to present to the City Council the attached Measure DD Series 2009B Fund Report on Audit of Financial Statements for the period of July 22, 2009 through June 30, 2012.

The bond measure requires an independent audit of the expenditure of bond proceeds no later than three years from the date of the issuance of the bonds to ensure that the proceeds are being expended for the purposes set forth in the ordinance and bond measure.

Patel & Associates, an independent accounting firm, performed the Measure DD Series 2009B Fund independent financial audit for the period of July 22, 2009 through June 30, 2012. The audit, attached to this agenda report, includes Independent Auditor's Report, Financial Statements audit, and a Report on Internal Controls over Financial Reporting and Compliance.

OUTCOME

The City will be in compliance with the reporting requirements of the Measure DD Series 2009B bond measure.

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March 11, 2014

BACKGROUND/LEGISLATIVE HISTORY

City of Oakland voters approved Measure DD during the November 2002 election. This measure authorized the City of Oakland to issue \$198,250,000 in bonds creating an Oakland Trust for Clean Water and Safe Parks to preserve and acquire open space, renovate parks, provide educational and recreation facilities for children, clean up Lake Merritt and restore Oakland's creeks, waterfront and estuary. On July 22, 2009, the City issued \$64,545,000 of General Obligation Bonds, Measure DD Series 2009B (Series 2009B Bonds).

Measure DD Series 2009B funded numerous projects in the following major categories:

- (1) Lake Merritt projects
- (2) Estuary Waterfront projects
- (3) Lake Merritt Channel
- (4) Youth and Public Recreational Facilities projects
- (5) Creek Restoration and Watershed Acquisition
- (6) Public Art

ANALYSIS

Measure DD Series 2009B Fund– Report on Audit of Financial Statements

The Measure DD Series 2009B Fund audit report reflects independent auditor's opinion on the financial statements of the Measure DD Series 2009B Fund, as of June 30, 2012 and for the period from July 22, 2009 through June 30, 2012. The audit was conducted in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards.

Summary of Expenditures

The Measure DD- Series 2009B Fund expenditures for the period of July 22, 2009 through June 30, 2012 are summarized below:

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EXPENDITURE CATEGORIES	AMOUNT
Lake Merritt	\$19,810,340
Estuary Waterfront	\$1,448,891
Lake Merritt Channel	\$845,253
Youth and Public Recreational Facilities	\$6,167,814
Creeks Restoration and Watershed Acquisition	\$369,215
Public Art	\$203,485
Administration Expenditures	\$1,346,928
Bond Issuance Costs	\$757,019
TOTAL:	\$30,948,945

PUBLIC OUTREACH/INTEREST

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

COORDINATION

This report was prepared in coordination with Public Works Department, City Treasury Division, Budget Office and City Attorney’s Office.

COST SUMMARY/IMPLICATIONS

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

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SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified

Environmental: No environmental opportunities have been identified

Social Equity: No social equity opportunities have been identified

For questions regarding this report, please contact Osborn K. Solitei, Finance Director/Controller at (510) 238-3809.

Respectfully submitted,



OSBORN K. SOLITEI
Finance Director/Controller
Controller's Office

Attachments:

Measure DD Series 2009B Fund Report on Audit of Financial Statements

Item: _____
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CITY OF OAKLAND – MEASURE DD SERIES 2009B FUND
[A Fund of the City of Oakland]

REPORT ON AUDIT OF FINANCIAL STATEMENTS

For the Period from July 22, 2009 through June 30, 2012

 **Patel &**
Associates
Certified Public Accountant

CITY OF OAKLAND – MEASURE DD SERIES 2009B FUND
[A Fund of the City of Oakland]
For the Period from July 22, 2009 through June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the City of Oakland's (the City) Measure DD Series 2009B Fund, a fund of the City, as of June 30, 2012 and for the period from July 22, 2009 through June 30, 2012 as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting as it pertains to Measure DD Series 2009B Fund activities. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the financial statements were prepared to present only the City's Measure DD Series 2009B Fund activities, and do not purport to, and do not, present fairly the financial position of the City for the period from July 22, 2009 through June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City's Measure DD Series 2009B Fund as of June 30, 2012, and the respective changes in financial position for the period from July 22, 2009 through June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2013 on our consideration of City's internal control over financial reporting as it pertains to Measure DD Series 2009B Fund activities 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

PwC
Oakland, California
June 4, 2013

**CITY OF OAKLAND - MEASURE DD - SERIES 2009B FUND
BALANCE SHEET
JUNE 30, 2012**

	<u>General</u>
ASSETS:	
Cash and investments (Note 3)	\$ 36,860,468
Interest receivable	<u>4,425</u>
Total assets	<u>\$ 36,864,893</u>
LIABILITIES AND FUND BALANCES:	
Accounts payable	\$ 1,935,808
Due to City of Oakland	<u>243,549</u>
Total liabilities	<u>2,179,357</u>
Fund Balance	
Restricted	<u>34,685,536</u>
Total fund balance	<u>34,685,536</u>
Total liabilities and fund balance	<u>\$ 36,864,893</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF OAKLAND - MEASURE DD - SERIES 2009B FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE PERIOD JULY 22, 2009 THROUGH JUNE 30, 2012**

	Governmental Fund <u>Total</u>
Revenues:	
Investment income	\$ 332,194
Other revenue	268
Total revenues	<u>332,462</u>
Expenditures:	
Lake Merritt:	
Salaries and employee benefits	1,117,991
Other contract services	3,526,914
Capital acquisition/improvements	14,212,820
Other expenditures	952,615
Total Lake Merritt expenditures	<u>19,810,340</u>
Estuary Waterfront:	
Salaries and employee benefits	153,836
Other contract services	192,297
Capital acquisition/improvements	1,020,065
Other expenditures	82,693
Total Estuary Waterfront expenditures	<u>1,448,891</u>
Lake Merritt Channel:	
Salaries and employee benefits	75,841
Other contract services	731,361
Other expenditures	38,051
Total Lake Merritt Channel expenditures	<u>845,253</u>
Youth and Public Recreational Facilities:	
Salaries and employee benefits	268,785
Other contract services	144,093
Capital acquisition/improvements	5,471,918
Other expenditures	283,018
Total Youth and Public Recreational Facilities expenditures	<u>6,167,814</u>
Creeks Restoration and Watershed Acquisition:	
Salaries and employee benefits	62,732
Other contract services	171,574
Capital acquisition/improvements	95,784
Other expenditures	39,125
Total Creeks and Waterways expenditures	<u>369,215</u>
Public Art:	
Salaries and employee benefits	113,451
Other contract services	60,450
Other expenditures	29,584
Total Public Art expenditures	<u>203,485</u>
Administration expenditures	<u>1,346,928</u>
Bond issuance costs	<u>757,019</u>
Total expenditures	<u>30,948,945</u>
(Deficiency) of revenues over expenditures	<u>(30,616,483)</u>
Other Financing Source (uses):	
Proceeds from Series 2009B Bond issuance	64,545,000
Premium on bond issuance	968,172
Transfers out	(211,153)
Total other financing sources	<u>65,302,019</u>
Net change in fund balance	34,685,536
Fund balance, beginning of period	<u>-0-</u>
Fund balance, end of period	<u>\$ 34,685,536</u>

The accompanying notes are an integral part of these financial statements

CITY OF OAKLAND –MEASURE DD SERIES 2009B FUND
[A Fund of the City of Oakland]
Notes to Financial Statements
For the Period from July 22, 2009 through June 30, 2012

NOTE 1 – DESCRIPTION OF REPORTING ENTITY

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 to preserve and acquire open space, renovate parks, provide educational and recreation facilities for children, clean up Lake Merritt and restore Oakland's creeks, waterfront and estuary. On July 22, 2009, the City issued \$64,545,000 of General Obligation Bonds, Measure DD Series 2009B (Series 2009B Bonds).

Measure DD Series 2009B funded numerous projects in following major categories:

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Measure DD Series 2009B Fund present only the financial activities of the Measure DD Series 2009B 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.

The Measure DD Series 2009B fund is accounted for as a capital projects fund of the City. The projects financed by the bond proceeds of the Measure DD Series 2009B are reported in this Measure DD Series 2009B fund.

Basis of Accounting

Measure DD Series 2009B Fund activity is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means that the amount of the transaction can be determined and "available" means that revenues 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 120 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

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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.

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 according to the investment policy adopted by the City Council. 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 June 30, 2012, fund balance for Measure DD series 2009B 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.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 - CASH AND INVESTMENTS

The City's funds are invested according to the investment policy adopted by the City Council. The objectives of the policy are legality, safety, liquidity, diversity, and yield. The policy addresses soundness of financial institutions in which the City can deposit funds, types of investment instruments permitted by the California Government Code, duration of the investments, and the percentage of the portfolio that may be invested in:

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- United States Treasury securities (subject to restrictions by the Nuclear Free Ordinance);
- federal agency issues;
- bankers' acceptances;
- commercial paper;
- medium term corporate notes and deposit notes;
- negotiable certificates of deposit;
- certificates of deposit;
- State of California Local Agency Investment Fund;
- money market mutual funds;
- local city/agency bonds;
- State of California bonds;
- secured obligations and agreements;
- repurchase agreements; and
- reverse repurchase agreements.

The City's investment policy stipulates that the collateral to back up repurchase agreements be priced at market value and be held in safekeeping by the City's primary custodian. Additionally, the City Council has adopted certain requirements prohibiting investments in nuclear weapons makers and restricting investments in U.S. Treasury bills and notes due to their use in funding nuclear weapons research and production.

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, the City may 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. The City's investments subject to Custodial Credit Risk Category is very low.

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 Standard and Poor's (S&P), P-1 by Moody's Investors Service or F-1 by Fitch Ratings at the time security is purchased. Long-term debt shall be rated at least A by Standard and Poor's, Moody's Investors Service or Fitch Ratings. Since these securities are permitted by State law, investing in them is also the most effective way to maintain legal compliance. 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.

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Notes to Financial Statements
For the Period from July 22, 2009 through June 30, 2012

The following tables show the credit risk for Measure DD Series 2009B fund investment portfolios as of June 30, 2012:

	Ratings as of June 30, 2012		
	Fair Value	AAA	AA/Aaa
U.S. Government Agency Securities	\$ 11,005,547	\$ -	\$ 11,005,547
U S Government Agency Securities (Discount)	7,997,676	-	7,997,676
Money Market Mutual Funds	<u>17,857,245</u>	<u>17,857,245</u>	<u>-</u>
Total Restricted Investments	<u>\$ 36,860,468</u>	<u>\$ 17,857,245</u>	<u>\$ 19,003,223</u>

Concentration of Credit Risk: The City has an investment policy related to the City’s cash and investment pool, which is subject to annual review. 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 and revenue anticipation notes. Per the Investment Policy, investments should conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the policy. Certain other investments are governed by bond covenants which do not restrict the amount of investment in any one issuer. Investments in one issuer that exceed 5% of the Measure DD Series 2009B investment portfolio at June 30, 2012 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent (%) of Portfolio</u>
U.S. Government Agency Securities		
Federal National Mortgage Association (Fannie Mae)	\$ 3,007,149	8.16%
Federal Home Loan Bank	7,998,398	21.70%
U.S. Government Agency Securities (Discount)		
Federal Home Loan Mortgage Corporation (Freddie Mac)	4,997,925	13.56%
Federal Home Loan Bank	2,999,751	8.14%

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.

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Notes to Financial Statements
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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 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.

The City uses the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2012, the Measure DD Series 2009B fund had the following investments and original maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	
			<u>12 Months or Less</u>	<u>1 – 3 Years</u>
U S Government Agency Securities	\$ 11,005,547	0 16-0 50	\$ 7,998,398	\$ 3,007,149
U S Government Agency Securities (Discount)	7,997,676	0 11-0 12	7,997,676	-
Money Market Mutual Funds	<u>17,857,245</u>	0 10	<u>17,857,245</u>	-
Total Restricted Investments	\$ <u>36,860,468</u>		\$ <u>33,853,319</u>	\$ <u>3,007,149</u>

NOTE 4 - DUE TO CITY OF OAKLAND AND TRANSFERS

Due to City of Oakland

Payroll costs and related benefits, and internal charges are initially paid by the City and then are reimbursed by Measure DD Series 2009B Fund. The amount due to the City as of June 30, 2012 was \$243,549 and represents amount paid by the City on behalf of the Measure DD Series 2009B Fund for such costs.

Transfers Out

The Measure DD Series 2009B Fund transferred funds amounting to \$211,153 to the debt service fund for Measure DD in accordance with the official statement for the Series 2009B Bonds.

NOTE 5 - COMMITMENTS AND CONTINGENT LIABILITIES

The City of Oakland is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is self-insured for its general liability, workers' compensation, malpractice liability, general, and auto liability and has excess reinsurance with the California State Association of Counties Excess Insurance Authority.

**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**

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

We have audited the accompanying financial statements of the City of Oakland's (City) Measure DD Series 2009B Fund (Measure DD Series 2009B Fund), a fund of the City, as of and for the period from July 22, 2009 through June 30, 2012, and have issued our report thereon dated June 4, 2013. 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.

Internal Control Over Financial Reporting

Management of City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as it pertains to Measure DD Series 2009B Fund activities, as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Measure DD Series 2009B Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Measure DD Series 2009B Fund's internal control over financial reporting.

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 Measure DD Series 2009B Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Measure DD Series 2009B Fund's financial statements is free of 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 statements 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*.

This report is intended solely for the information and use of the City's Mayor and Council and the City's management and is not intended to be and should not be used by anyone other than these specified parties.

Pamela A. Azevedo
Oakland, California
June 4, 2013