

CITY OF ALBANY

POLICE AND FIRE  
RELIEF OR PENSION FUND

COMPONENT UNIT FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITORS' REPORT

\* \* \* \* \*

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**CITY OF ALBANY**

**POLICE AND FIRE  
RELIEF OR PENSION FUND**

**COMPONENT UNIT FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**INDEPENDENT AUDITORS' REPORT**

The Board of Trustees  
City of Albany, California  
Police and Fire Relief or Pension Fund

We have audited the financial statements of the City of Albany – Police and Fire Relief or Pension Fund (“Fund”), a component unit of the City of Albany (“City”) as of and for the fiscal year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Fund’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 for 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 misstatements. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these component unit financial statements are not intended to present the financial position and results of operations of the City. These financial statements include only the financial position and results of operations of the Fund.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of City of Albany – Police and Fire Relief or Pension Fund at June 30, 2007, and the results of its operations for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

*Odenberg Ullakko Muranishi & Co LLP*

San Francisco, California  
October 26, 2007

**CITY OF ALBANY**  
**POLICE AND FIRE RELIEF OR PENSION FUND**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

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**ASSETS**

|                                |    |                   |
|--------------------------------|----|-------------------|
| Operating cash and investments | \$ | 4,812             |
| Receivables                    |    |                   |
| Interest receivable            |    | 106,868           |
| Other                          |    | 851               |
| Total receivables              |    | <u>107,719</u>    |
| Investments, at fair value:    |    |                   |
| U.S. government securities     |    | 1,032,620         |
| Mortgage related securities    |    | 3,252,992         |
| Corporate notes and bonds      |    | 2,865,358         |
| Corporate securities           |    | 6,512,347         |
| Local Agency Investment Fund   |    | 159,862           |
| Money market funds             |    | 976,405           |
| Total investments, fair value  |    | <u>14,799,584</u> |
| Total assets                   |    | <u>14,912,115</u> |

**LIABILITIES**

|                  |    |                   |
|------------------|----|-------------------|
| Accounts payable |    | <u>19,835</u>     |
| Net Assets       | \$ | <u>14,892,280</u> |

**CITY OF ALBANY**  
**POLICE AND FIRE RELIEF OR PENSION FUND**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**ADDITIONS**

|   |                  |
|---|------------------|
| Investment income:                            |                  |
| Net appreciation in fair value of investments | \$ 1,177,628     |
| Interest                                      | 485,012          |
| Dividends                                     | 125,449          |
| Total investment income                       | <u>1,788,089</u> |
| Less investment expenses                      | 139,352          |
| Total additions to net assets                 | <u>1,648,737</u> |

**DEDUCTIONS**

|                                  |                             |
|----------------------------------|-----------------------------|
| Benefits paid                    | 1,274,936                   |
| Administrative expenses          | 20,764                      |
| Other expenses                   | 9,100                       |
| Total deductions from net assets | <u>1,304,800</u>            |
| Change in net assets             | 343,937                     |
| Net assets, beginning of year    | 14,548,343                  |
| Net assets, end of year          | <u><u>\$ 14,892,280</u></u> |

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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**NOTE 1 – Summary of Significant Accounting Policies**

The Police and Fire Relief or Pension Fund (the “Fund”), governed by Section 9.01 of the Charter of the City of Albany (“City”), is used to account for contributions and investment income that are restricted to payment of benefits accruing to police and fire department employees hired before July 1, 1971.

A. Reporting Entity

The financial statements present only the accounts of the Fund. These accounts are also included in the financial statements of the City of Albany as a pension trust fund, which is used to account for assets held in trust for the benefit of the Fund’s participants.

B. Fund Accounting

The accounts of the Fund are organized on the basis of fund accounting, and the Fund is considered a separate accounting entity. The operations of the Fund are accounted for in a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenses.

C. Basis of Accounting

Basis of accounting refers to when additions and deductions are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Fund uses the accrual basis of accounting, under which additions are recognized when earned and deductions are recognized when incurred. Contributions are recorded as additions when due. Benefits are recognized when due and payable in accordance with the terms of the Fund and City Charter.

Investment management, asset custody and administration fees are expenses of the Fund.

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

**NOTE 2 – Investments**

A. Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market price are reported at estimated fair value. Net gains and losses include gains and losses from the sale of investments and unrealized net increases or decreases in market value.

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007**

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**NOTE 2 – Investments (Continued)**

**B. Investment Management**

Fund investments are managed by an investment manager (Dodge & Cox) under an agreement which authorizes the Manager to purchase and sell securities, within the guidelines of the Fund's investment policy. The Fund's investment policy does not require the Manager to hold debt securities to maturity. The Fund's investment policy allows investment in the following types of securities:

- Fixed income securities – Fixed income securities include U.S. Government Obligations, federally sponsored credit agency securities, corporate bonds, Canadian government bonds, Yankee bonds, non-governmental asset-backed securities, collateralized mortgage obligations rated investment grade, money market funds, STIF accounts, certificates of deposit, bankers acceptances, commercial paper, or any other short-term securities rated investment grade Guaranteed Investment Contracts rated A+ by A.M. Best Company.
- Equity securities – Equity securities are comprised of common stocks, convertible and non-convertible preferred stocks, convertible debt securities, and American Depository Receipts (ADRs) of foreign securities.
- Each type of investment is subject to a target allocation and includes maximum and minimum general guidelines as a percentage of the overall portfolio as set forth in the investment policy. No more than 5% of any single equity portfolio may be invested in one equity security at cost. Except for securities issued by the U.S. Government and its agencies, no more than 5% of any single fixed income portfolio based on market value shall be invested in securities of any one issuing corporation at the time of purchase.
- Common and convertible preferred stocks must be of investment grade quality and listed on the New York Stock Exchange, American Stock Exchange, NASDAQ system, or national market exchange.

In accordance with the Fund's investment policy, the Fund can invest no more than 10% of the total investments in cash and cash equivalents, 45% in equities, and 75% in fixed income securities. Fixed income securities must have a rating of BBB or higher by Standard & Poor's or Baa or higher by Moody's. As of June 30, 2007, the rating on the Fund's fixed income securities met the rating requirements set by the Fund's policy as described above.

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 2 – Investments (Continued)**

Investments at June 30, 2007 are as follows:

| Investment Type                     | Fair Value           | Remaining Maturity (in Months) |                    |                     |                        |
|-------------------------------------|----------------------|--------------------------------|--------------------|---------------------|------------------------|
|                                     |                      | 12 Months<br>Or Less           | 13 to 24<br>Months | 25 to 60<br>Months  | More Than<br>60 Months |
| U.S. Treasury notes                 | \$ 751,868           | \$ 188,664                     | \$ 122,656         | \$ 440,548          | -                      |
| Federal agency securities           | 280,752              | -                              | 21,002             | -                   | \$ 259,750             |
| Mortgage-related debt instruments   | 3,252,992            | 5,973                          | 105,565            | 118,050             | 3,023,404              |
| Asset-related debt instruments      | 174,993              | -                              | -                  | -                   | 174,993                |
| Finance-related debt instruments    | 613,839              | -                              | -                  | 170,806             | 443,033                |
| Industrial-related debt instruments | 2,076,526            | 75,000                         | 75,188             | 367,208             | 1,559,130              |
| Corporate securities                | 6,512,347            | 6,512,347                      | -                  | -                   | -                      |
| Local Agency Investment Fund (LAIF) | 159,862              | 159,862                        | -                  | -                   | -                      |
| Money market funds                  | 976,405              | 976,405                        | -                  | -                   | -                      |
| Total                               | <u>\$ 14,799,584</u> | <u>\$ 7,918,251</u>            | <u>\$ 324,411</u>  | <u>\$ 1,096,612</u> | <u>\$ 5,460,310</u>    |

Investments (except for LAIF) are held by the trustee in the name of the trustee on behalf of the Fund. The Investment Manager does not manage the LAIF fund.

The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of fund investments. Unrealized gains and losses on investments that had been held for more than one year were included in net appreciation (depreciation) reported in prior years.

Net appreciation in fair value of investments for the year ended June 30, 2007 consisted of the following:

|   |                     |
|---|---------------------|
| Net realized gains                                  | \$ 776,938          |
| Net unrealized gains                                | 400,690             |
| Total net appreciation in fair value of investments | <u>\$ 1,177,628</u> |

The fair value change in the LAIF was not material for presentation in the financial statements for the year ended June 30, 2007.



**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**NOTE 3 - Police and Fire Relief or Pension Fund**

A. Fund Description

The Police and Fire Relief or Pension Fund ("Fund") is a sole employer defined benefit pension plan for the City of Albany's police and fire department employees hired before July 1, 1971. The Fund is closed to new participants. Participants in the fund are as follows:

Terminated vested participants:

|          |           |
|----------|-----------|
| Retired  | 15        |
| Disabled | 9         |
| Survivor | 5         |
|          | <u>29</u> |

Employees who retired, regardless of age, with 30 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to two-thirds of the most recent 3 year average compensation attached to the rank he or she held at retirement. A member may retire with an early allowance (computed in the same manner as above, but reduced by one-thirtieth for each year of service less than thirty) after attaining age 50, and 25 years credited service. The Fund also provides death, disability, and survivor benefits. These benefit provisions and all other requirements are established by City Charter.

B. Funding Status and Progress

The accrued benefit cost method was used in determining the actuarial accrued liability. Significant actuarial assumptions used included: (a) a rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, and (b) a projected inflation rate of 4.5 percent per year.

In valuing Fund assets used in determining funding status, the actuary spreads realized and unrealized gains and losses over five years. That is, only 20 percent of realized and unrealized gains and losses are recognized in any one year. These modified asset values are called the Actuarial Book Value.

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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**NOTE 3 - Police and Fire Relief or Pension Fund (Continued)**

The actuarial accrued liability and assets for participants as of the most recent actuarial study dated June 30, 2006 is as follows:

|   |                   |
|---|-------------------|
| Actuarial accrued liability                             |                   |
| Retirees and beneficiaries currently receiving benefits | \$ 14,075,219     |
| Actuarial book value of assets available for benefits   | 14,479,158        |
| Excess assets   | <u>\$ 403,939</u> |

During the year ended June 30, 2004, a contribution of \$534,513 was made to the Fund by the City. There were no contributions made to the Fund for the three following years, as the Fund was fully funded as of June 30, 2004.

**C. Contribution Requirements and Contributions Made**

The City's required contribution is 18 percent of gross wages of active fund participants; however, there are no active Fund participants as of June 30, 2007 and the Fund is closed to new participants.

In the fiscal year ended June 30, 2004, the City made a contribution to the Fund of \$534,513, to eliminate the Fund's unfunded actuarial accrued liability.

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 3 - Police and Fire Relief or Pension Fund (Continued)**

D. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due and an indication of whether all required contributions have been made. Assumptions used to compile data presented below are the same as those described above.

A schedule of funding status is as follows:

| Actuarial<br>Valuation<br>Date | Actuarial<br>Asset<br>Value | Entry Age<br>Actuarial<br>Accrued<br>Liability | Unfunded<br>Liability/<br>(Excess Assets) | Funded<br>Ratio | Annual<br>Covered<br>Payroll | UAAL as<br>a Percentage<br>of Payroll |
|--------------------------------|-----------------------------|--|---|-----------------|------------------------------|---------------------------------------|
| 1991                           | \$ 5,144,000                | \$ 12,763,000                                  | \$ 7,619,000                              | 40%             | \$ 468,800                   | 1625%                                 |
| 1992                           | 5,477,000                   | 14,785,000                                     | 9,308,000                                 | 37%             | 440,540                      | 2113%                                 |
| 1993                           | 5,869,000                   | 14,785,000                                     | 8,916,000                                 | 40%             | 476,607                      | 1871%                                 |
| 1994                           | 6,272,000                   | 14,785,000                                     | 8,513,000                                 | 42%             | 269,989                      | 3153%                                 |
| 1995                           | 7,076,325                   | 14,528,411                                     | 7,452,086                                 | 49%             | 230,459                      | 3234%                                 |
| 1998*                          | 9,613,552                   | 14,861,531                                     | 5,247,979                                 | 65%             | 197,328                      | 2660%                                 |
| 2000*                          | 11,452,836                  | 16,020,009                                     | 4,567,173                                 | 71%             | 162,826                      | 2805%                                 |
| 2002                           | 13,453,340                  | 15,573,854                                     | 2,120,514                                 | 86%             | 79,385                       | 2671%                                 |
| 2003*                          | 14,415,847                  | 14,950,360                                     | 534,513                                   | 96%             | 32,055                       | 1667%                                 |
| 2006                           | 14,479,158                  | 14,075,219                                     | (403,939)                                 | 103%            | -                            | N/A                                   |

\* The Pension System did not perform an actuarial valuation for fiscal years 1995-96, 1996-97, 1998-99, 2000-2001, 2003-2004, and 2004-05.

Annual contributions received by the Fund were as follows:

| Fiscal<br>Year | Employee  | Employer  | Employer<br>Additional | Total      |
|----------------|-----------|-----------|------------------------|------------|
| 1997-1998      | \$ 17,396 | \$ 17,396 | \$ 859,910             | \$ 894,702 |
| 1998-1999      | 18,451    | 18,451    | 943,373                | 980,275    |
| 1999-2000      | 14,798    | 14,798    | 1,046,235              | 1,075,831  |
| 2000-2001      | 11,175    | 11,175    | 1,006,065              | 1,028,415  |
| 2001-2002      | 7,199     | 7,199     | 1,164,678              | 1,179,076  |
| 2002-2003      | 2,885     | 2,885     | 1,251,176              | 1,256,946  |
| 2003-2004      | -         | -         | 534,513                | 534,513    |
| 2004-2005      | -         | -         | -                      | -          |
| 2005-2006      | -         | -         | -                      | -          |
| 2006-2007      | -         | -         | -                      | -          |