

City of Albany Police and Fire Relief or Pension Fund

Albany, California

***Financial Statements and
Independent Auditors' Reports***

For the year ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Albany Police and Fire Relief or Pension Fund (Pension Fund) of the City of Albany, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of the City 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pension Fund as of June 30, 2014, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension liability and related ratios, schedule of contributions, schedule of investment returns, and supplemental notes to the schedules on pages X-X be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2015, on our consideration of the City's internal control over financial reporting in relation to Pension Fund 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 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 City's internal control over financial reporting and compliance in relation to Pension Fund.



Badawi and Associates
Certified Public Accountants
Oakland, California
March 19, 2015

CITY OF ALBANY
POLICE AND FIRE RELIEF OR PENSION FUND
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

Operating cash and investments	\$	7,857
Due from the City		-
Interest receivable		185
Investments, at fair value:		
Local Agency Investment Fund		113,330
Cash and Money Market Fund		150,458
Mutual Funds		9,305,531
Total investments, fair value		<u>9,569,319</u>
 Total assets		<u>9,577,361</u>

LIABILITIES

Accounts payable		<u>-</u>
 Net Position	\$	<u>9,577,361</u>

CITY OF ALBANY
POLICE AND FIRE RELIEF OR PENSION FUND
STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

ADDITIONS

Investment income:	
Interest	1,339
Dividends	299,076
Net increase in fair value of investments	<u>1,033,447</u>
Total investment income	1,333,862
Less investment expenses	<u>46,264</u>
Total investment income	<u>1,287,598</u>
Other:	
City of Albany contribution	<u>82,401</u>
Total additions to net position	<u>1,369,999</u>

DEDUCTIONS

Benefits paid	1,384,481
Materials and Supplies	-
Total deductions from net position	<u>1,384,481</u>
Change in net position	(14,482)
Net position, beginning of year	<u>9,591,843</u>
Net position, end of year	<u><u>\$ 9,577,361</u></u>

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.

D. Estimates

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. Significant estimates include the determination of the fair value of investments and the actuarial value of the plan’s funded status.

NOTE 2 – Cash and Investments

A. Operating Cash

At June 30, 2014, the Fund’s operating cash balance was \$7,857. The Fund’s bank balance of \$38,007 was held at one institution which was fully covered by FDIC insurance.

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2012

NOTE 2 – Cash and Investments (Continued)

B. 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 their 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.

C. Investment Management

Fund investments are managed by an investment manager (Atlantic Trust) under an agreement that authorizes the Manager to purchase and sell securities within the guidelines of the Fund's investment policy.

At June 30, 2014, the Fund's assets were invested in the Schwab Money Market Fund (SWMXX); Dodge & Cox Income Fund (DODIX); PIMCO Investment Grade (PIGIX); Ridgworth Seix Float (SAMBX); Aston Montag & Caldwell (MCGIX); Dodge & Cox Stock Fund (DODGX); IVA Intl Fund CL I (IVQX); Mainstay Epoch Global (EPYX) and Neurberger Berman Equity (NBHIX).

The Fund's Investment Policy allows the Fund to invest in domestic equity, international equity and debt 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.

<u>Authorized Investment Type</u>	<u>Target Allocation</u>	<u>Minimum Percentage of Portfolio</u>	<u>Maximum Percentage of Portfolio</u>
Equity	35%	25%	45%
Fixed Income	60%	45%	75%
Cash	5%	0%	10%

As of June 30, 2014, the Fund's allocations reflected the general guidelines set by the Fund's policy as described above.

Investments at June 30, 2014 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Local Agency Investment Fund (LAIF)	\$ 113,330
Cash and money market funds	150,458
Mutual funds:	
Bond funds	4,127,799
Equity funds	<u>5,177,732</u>
Total	<u>\$ 9,569,319</u>

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2012

NOTE 2 – Cash and Investments (Continued)

C. Investment Management - Continued

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.

The net increase in fair value of investments for the year ended June 30, 2014 was \$1,033,447.

D. Risk Disclosures

Interest Rate Risk. This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Fund manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Fund monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio.

Credit Risk. This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. That is measured by the assignment of a rating by a nationally recognized credit rating organization. The Fund's general policy is to apply the prudent-investor rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. As of June 30, 2014, there are no investments in any one issuer that represent 5% or more of total Agency investments.

Custodial Credit Risk. The custodial credit risk for an investment is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

E. Investment in State Investment Pool

The Fund is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The Fund relied upon information provided by the State Treasurer in estimating the Fund's fair value position of its holding in LAIF. The Fund had a contractual withdrawal value of \$113,330. The fair value change of assets invested in the LAIF was not material for presentation in the financial statements for the year ended June 30, 2014.

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2012

NOTE 2 – Cash and Investments (Continued)

The Fund's investments with LAIF at June 30, 2014 included a portion of the pooled funds invested in structured notes and asset-backed securities. Structured notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. Asset-backed securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMS) or credit card receivables. As of June 30 2014, the State Treasurer had invested 1.86% of the pool's funds in structured notes and asset-backed securities.

NOTE 3 - Police and Fire Relief or Pension Fund

Pension Fund administration. The Police and Fire Relief or Pension Fund (Pension Fund) is governed by Section 9.01 of the Charter of the City of Albany (the City) and is a sole employer defined benefit pension plan for the City's police and fire department employees hired before July 1, 1971. The Pension Fund is closed to new participants. Benefit provisions and other requirements are established by the City Charter.

Pension Fund membership. At June 30, 2012, Pension Fund membership consisted of the following:

Inactive members of beneficiaries currently receiving benefits	24
Inactive members entitled to but not yet receiving benefits	0
Active members	<u>0</u>
	<u>24</u>

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2012

NOTE 3 – Albany Police and Fire Relief Pension Fund (Continued)

Benefits provided. Please see below for a summary of Pension Fund provided:

Membership

Employees of the Police and Fire Departments hired before July 1, 1971.

Benefits

I. Service Retirement

Eligibility: Age 50 with 25 years of service, or 30 years of service regardless of age.

Amount: A percentage (based on years of service) applied to average yearly salary:

Years of Service	Percentage of Average Yearly Salary
25	50.00%
26	53.33%
27	56.67%
28	60.00%
29	63.33%
30	66.67%

Average yearly salary means the average yearly salary for the rank in the three years prior to retirement.

II. Death Benefit

Eligibility: Death after retirement.

Amount: A percentage (based on marital status at retirement) of the member's retirement benefit to surviving spouse until death or remarriage.

Years Married At Retirement	Percentage of Average Yearly Salary
Less than five	16.67%
At least five	50.00%

Benefits are payable to eligible children if there is no spouse eligible for death benefits.

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2014

NOTE 3 – Albany Police and Fire Relief Pension Fund (Continued)

Actuarial Assumptions (Continued)

Best estimates of arithmetic long-term expected rates of return for each major asset class included in the Pension Fund's target asset allocation as of June 30, 2014 are summarized in the following table (note that the rates shown below include the inflation component):

Asset Class	Long-Term Expected Rate of Return
Equity	12.0%
Fixed income	5.7%
Short Term and Receivables	1.5%

Discount rate: The discount rate used to measure the total pension liability was 5.66%.

The projection of cash flows used to determine the discount rate assumed that contributions will continue to follow the current funding policy. Based on those assumptions, the Pension Fund's fiduciary net position was projected to be available to make projected future benefit payments of current members through 2029.

The discount rate was determined by blending the expected return on assets (6.75%) with the weighted average yield of S&P Municipal Bond 20-year High Grade Rate Index as of June 30, 2014 (3.66%).

The assumed discount rate has been determined in accordance with the method prescribed by GASB Statement No. 67. We believe this assumption is reasonable for the purposes of the measurements required by the Statement.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability, calculated using the discount rate of 5.66%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.66%) or 1-percentage-point higher (6.66%) than the current rate:

	<u>1 % Decrease (4.66%)</u>	<u>Current Discount Rate (5.66%)</u>	<u>1 % Increase (6.66%)</u>
Net Pension Liability	\$ 3,916,340	\$ 2,915,974	\$ 2,043,908

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2014

Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2014</u>
Total pension liability	
Service cost	\$ -
Interest	774,708
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	945,018
Benefit payments	(1,384,481)
Net change in total pension liability	<u>\$ 335,245</u>
Total pension liability-beginning	\$ 12,158,089
Total pension liability-ending (a)	\$ 12,493,334
Fiduciary net pension	
Contributions-employer	82,401
Contributions-employee	-
Net investment income	1,287,598
Benefit payments, including refunds of employee contributions	(1,384,481)
Administrative expense	-
Other	-
Net change in fiduciary net position	<u>\$ (14,482)</u>
Fiduciary net position-beginning	\$ 9,591,843
Fiduciary net position-ending (b)	\$ 9,577,361
Net pension liability-ending (a)-(b)	<u>\$ 2,915,973</u>
Fiduciary net position as a percentage of the total pension liability	76.66%

*Ten year trend information not currently available

Notes to Schedule

Benefit changes since June 30, 2012:

None.

Changes of assumptions since June 30, 2012:

None other than changes in discount rate from 6.75% (as of June 30, 2012) to 5.66% (as of June 30, 2014).

Schedule of Contributions

Actuarially determined contribution	\$ 82,401
Contribution related to the actuarially determined contribution	<u>82,401</u>
Contribution deficiency (excess)	\$ -

Valuation date: An actuarial valuation of the Pension Fund is performed as frequently as deemed necessary by the Board of Trustees, but not less than every three years. However, the actuarial valuation can be performed no less than every two years in accordance with GASB Statement No. 67. Therefore, the next actuarial valuation will be as of June 30, 2014.

Schedule of Investment Returns

Annual money-weighted rate of return, net of investment expenses 15.57%



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Trustees
City of Albany Police and Fire Relief or Pension Fund
Albany, 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 Police and Fire Relief or Pension Fund (Pension Fund), of the City of Albany, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Pension Fund's basic financial statements and have issued our report thereon dated March 19, 2015.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pension Fund'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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as FS2014-01.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi & Associates
Certified Public Accountants
Oakland, California
March 19, 2015

City of Albany Police and Fire Relief or Pension Fund
Schedule of Findings and Responses
For the year ended June 30, 2014

FS2014-01 Compliance with the Investment Policy for Police and Fire Relief or Pension Fund

Criteria:

The Investment Policy for Police and Fire Relief or Pension Fund states “on at least an annual basis, the Investment Manager and Investment Consultant shall review the Investment Policy Statement with the Board of Trustees and provide advice to the Board of Trustees of any recommended amendments to the Investment Policy Statements”.

Condition:

The Investment Policy has not been reviewed and updated since 2004 to reflect current changes in investment activities.

Cause:

In practice, changes were individually approved by the Board of Trustees. However the Investment Policy as a document has not been updated to reflect the changes.

Context and Effect:

The City was not in compliance with the Investment Policy for Police and Fire Relief or Pension Fund.

Recommendation:

We recommend the City review and update its Investment Policy for Police and Fire Relief or Pension Fund on a regular basis.

Management Response:

City staff concurs. The City treasurer is in the process of searching for an investment advisor to review and update the investment policy for the Police and Fire Relief Pension Fund in addition to reviewing the accounts on a periodic basis.