

**CITY OF ALBANY
ALAMEDA COUNTY
ALBANY, CALIFORNIA**

POLICE AND FIRE RELIEF OR PENSION FUND

Audited Financial Statements &
Independent Auditor's Report
June 30, 2019



Chavan & Associates, LLP

Certified Public Accountants

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CITY OF ALBANY
Police and Fire Relief or Pension Fund
For the Fiscal Year Ended June 30, 2019

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
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 (the "Pension Fund") of the City of Albany (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Pension Fund's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's 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 City'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 City'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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the Pension Fund of the City, as of June 30, 2019, and the related changes in fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 2, the financial statements present only the Pension Fund and do not purport to, and do not, present fairly the financial position of the City of Albany, as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in the net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns, as listed in the table of contents, 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 the 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 June 21, 2020 on our consideration of the City's internal control over financial reporting in relation to the 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



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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 the City's internal control over financial reporting and compliance in relation to the Pension Fund.

C & A LLP

June 21, 2020
San Jose, California

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Statement of Fiduciary Net Position
June 30, 2019

Assets	
Cash and equivalents	\$ 18,427
Investments, at fair value	
Local Agency Investment Fund	448,771
Cash and money market fund	116,091
Mutual funds	<u>4,360,508</u>
Total investments, at fair value	<u>4,925,370</u>
Total Assets	<u>\$ 4,943,797</u>
Liabilities	
Accounts payable	<u>\$ 56,887</u>
Total Liabilities	<u>56,887</u>
Net Position	
Restricted for pension benefits	<u>4,886,910</u>
Total Net Position	<u>4,886,910</u>
Total Liabilities and Net Position	<u>\$ 4,943,797</u>

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

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2019

Additions

Contributions:		
Employer contributions	\$	218,723
Investment income:		
Net change in fair value of investments		(113,547)
Interest and dividends		356,147
Total investment income		<u>242,600</u>
Other additions:		
Other revenue		<u>284</u>
Total Additions		<u>461,607</u>

Deductions

Benefit payments		1,257,130
Administrative expenses		<u>42,623</u>
Total Deductions		<u>1,299,753</u>

Net Change in Net Position		(838,146)
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Net Position

Beginning of year		5,383,567
Prior period adjustment		<u>341,489</u>
Beginning of year - adjusted		<u>5,725,056</u>
End of year	\$	<u><u>4,886,910</u></u>

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

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 1 - POLICE AND FIRE RELIEF OR PENSION FUND

The Police and Fire Relief or Pension Fund (the “Pension 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements present only the accounts of the Pension 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 Pension Fund’s participants. The Pension Fund is a fiduciary fund of the City pursuant to GASB Statement No. 61.

B. Fund Accounting

The Pension Fund uses a pension trust fund to report on its fiduciary net position and the changes in its fiduciary net position. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When pension plan assets are held under the terms of a formal trust agreement, a pension trust fund is used.

C. Basis of Accounting

The Fund is accounted for with a flow of economic resources measurement focus. With this measurement focus, all assets, deferred inflows, liabilities and deferred outflows associated with the operation of this fund are included on the statement of fiduciary net position. Pension trust fund operating statements present increases (e.g., additions) and decreases (e.g., deductions) in net position restricted for pensions.

Basis of accounting refers to when additions and deductions are recognized in the accounts and reported in the financial statements. The Pension Fund’s financial statements have been prepared using the accrual basis of accounting. Under accrual basis of accounting, additions are recognized when earned and deductions are recognized when incurred. Contributions are recognized as additions in the period in which the contributions are due. Benefits are recognized when due and payable in accordance with the terms of the Pension Fund and City Charter.

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

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

D. Cash, Cash Equivalents, and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation.

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Deposit and Investment Risk Disclosures - In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures* (Amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

Other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as to change in interest rates.

E. Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

F. Use of Estimates

The presentation 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 the reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. Significant estimates include the determination of the fair value of investments and the actuarial value of the plan's funded status. Contributions to the Pension Fund and the actuarial information included in the RSI are reported based on certain assumptions pertaining to the interest rates, inflation rates and member compensation and demographics. Due to the changing nature of these assumptions, it is reasonably possible that changes in these assumptions may occur in the near term and could be material to the financial statements.

NOTE 3 - CASH AND INVESTMENTS

Operating Cash

At June 30, 2019, the Pension Fund's operating cash balance of \$18,427 was held in a financial institution. The Pension Fund's bank balance of \$18,427 was held at one institution which was fully covered by FDIC insurance.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The Pension Fund has the following recurring fair value measurements as of June 30, 2019:

	Fair Value	Fair Value Input Levels
Local Agency Investment Fund (LAIF)	\$ 448,771	n/a
Cash and bank sweep	116,091	n/a
Mutual funds:		
Bond funds	1,725,380	Level 1
Equity funds	2,635,128	Level 1
Total cash and investments	\$ 4,925,370	

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

California Local Agency Investment Fund

The City participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities, defined as follows:

- 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 Collateralized Mortgage Obligations) or credit card receivables.

LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

LAIF allows local agencies such as the City to participate in a Pooled Money Investment Account managed by the State Treasurers Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value.

The total amount invested by all public agencies in LAIF, as of June 30, 2019, was approximately \$106 billion. Of that amount, 99.26% is invested in non-derivative financial products and 0.74% in structured notes and asset-backed securities. The balance in LAIF is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

As of June 30, 2019 California Local Agency Investment Fund (LAIF) of \$448,771; were invested in accordance with Government Code Sections 16430 and 16480, the stated investment authority for the Pooled Money Investment Account and are not required to be categorized using the levels above as deposits and withdrawals are made on the basis of \$1 and not fair value.

Investment Management

Fund investments are managed by an investment manager (Atlantic Trust) under an agreement which authorizes the Manager to purchase and sell securities, within the guidelines of the Pension Fund's governing board, which meets with the investment manager quarterly.

At June 30, 2019, the Pension Fund's assets were invested in the following:

- Dodge & Cox Income Fund (DODIX)
- PIMCO Investment Grade (PIGIX)
- Dodge & Cox Stock Fund (DODGX)
- IVA Intl Fund CL I (IVIQX)

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

- Mainstay Epoch Global (EPSYX)
- Neuberger Berman Equity (NBHIX)

Investment Policy

The Pension 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 as follows:

<u>Authorized Investment Type</u>	<u>Target Allocation</u>	<u>Minimum Percentage of Portfolio</u>	<u>Maximum Percentage of Portfolio</u>
Large Cap Equity	37%	25%	55%
International Equity	9%	5%	15%
Fixed Income	40%	40%	60%
Alternatives	9%	n/a	10%
Cash	5%	n/a	10%

As of June 30, 2019, the Pension Fund’s allocations reflected the general guidelines set by the Fund’s policy as described above.

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 depreciation in fair value of investments for the year ended June 30, 2019 was \$113,547.

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, custodial credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk 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 Pension 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 Pension Fund monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio.

Credit Risk

Credit risk is the risk of loss of value of a security or investment due to downgrade of its rating due to a change in the ability of the issuer to fulfill its debt obligation. With the exception of U.S. Treasury

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

securities and authorized pools, no more than 50% of the City’s total investment portfolio will be invested in a single security type or with a single financial institution to reduce the City’s exposure to credit risks.

Custodial Credit Risk – Deposits

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.

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. City investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are, therefore, exempt.

NOTE 4 – NET PENSION LIABILITY OF THE PLAN

Plan Description

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.

Benefits Provided

A summary of the plan benefits is presented below:

Service Retirement

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

Amount: 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.

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Death Benefit

Eligibility: Death after retirement

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

<u>Years Married at Retirement</u>	<u>Percentage of Average Yearly Salary</u>
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.

A member's pension for service retirement or duty-related disability increases during the member's lifetime in conjunction with increases in salary for the rank used in the benefit determination.

Employees Covered

At June 30, 2019, the following employees were covered by the benefit terms for the Plans:

Inactive plan members or beneficiaries receiving benefits	<u>19</u>
Total Plan Members	<u><u>19</u></u>

Contributions

The City Charter requires an annual contribution to the Pension Fund equal to 18 percent of the gross wages of active members; however, there are no active members and the Pension Fund is closed to new participants. The funding policy of the Board of Trustees is to make a minimum contribution upon completion of the actuarial valuation, as required to amortize any unfunded liability over the expected life of the Pension Fund. The unfunded Actuarial Liability is funded as a level dollar amount over a 15-year period from July 1, 2017.

For the year ended June 30, 2019, the following contributions were made:

Contributions - employer	<u>\$ 218,723</u>
Total contributions	<u><u>\$ 218,723</u></u>

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Pension Liabilities and Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2019 using an annual actuarial valuation as of June 30, 2018. The following summarizes the changes in the net pension liability:

Total Pension Liability (TPL)	\$ 11,655,518
Fiduciary Net Position (FNP)	<u>(4,886,910)</u>
Net Pension Liability (NPL)	<u>\$ 6,768,608</u>

FNP as a percentage of TPL	41.93%
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For the year ended June 30, 2019, the City recognized pension expense of \$1,827,704.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on plan investments	\$ 454,127	-
Total	<u>\$ 454,127</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Recognized to Pension Expense
2021	\$ 250,212
2022	156,835
2023	33,295
2024	<u>13,785</u>
Total	<u>\$ 454,127</u>

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Actuarial Assumptions

The total pension liabilities in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	5.41%
Inflation	2.50%
Projected Salary Increase	3.00%
Investment Rate of Return	6.00%
Mortality	Dec. 2017 CalPERS Study

Discount Rate

The discount rate used to measure the total pension liability was 5.41%. The projection of cash flows used to determine the discount rate assumed that contributions would 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 2038.

The discount rate was determined by blending the expected return on assets (6%) with the weighted average yield of Fidelity 20-year Municipal Bond AA Index as of June 30, 2019 (3.13%).

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity Large Cap	37%	6.6%
International Equity	9%	6.6%
Fixed Income	40%	2.2%
Alternatives	14%	1.6%
Total	<u>100%</u>	

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease		4.41%
Net Pension Liability	\$	7,632,144
Current Discount Rate		5.41%
Net Pension Liability	\$	6,768,608
1% Increase		6.41%
Net Pension Liability	\$	6,007,290

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports available from the City of Albany.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Fiscal Year Ended June 30, 2019

Fiscal Year Ended	2019	2018	2017	2016	2015	2014
Total pension liability						
Interest	\$ 542,063	\$ 563,799	\$ 556,000	\$ 689,200	\$ 667,736	\$ 774,708
Differences between expected and actual experience	-	(627,406)	-	-	1,348,531	-
Changes of assumptions	(1,012,401)	1,667,884	(377,454)	1,228,156	499,219	945,018
Benefit payments	(1,257,130)	(1,279,564)	(1,283,577)	(1,351,708)	(1,411,164)	(1,384,481)
Net change in total pension liability	(1,727,468)	324,713	(1,105,031)	565,648	1,104,322	335,245
Total pension liability - beginning	13,382,986	13,058,273	14,163,304	13,597,656	12,493,334	12,158,089
Total pension liability - ending	<u>\$11,655,518</u>	<u>\$13,382,986</u>	<u>\$13,058,273</u>	<u>\$14,163,304</u>	<u>\$13,597,656</u>	<u>\$12,493,334</u>
Plan fiduciary net position						
Employer contributions	\$ 218,723	\$ 218,723	\$ 218,723	\$ -	\$ -	\$ 82,401
Net investment income	242,600	442,115	800,235	(116,093)	131,946	1,287,597
Benefit payments	(1,257,130)	(1,279,564)	(1,283,577)	(1,351,708)	(1,411,164)	(1,384,481)
Other	284	(120,231)	-	-	-	-
Administrative expense	(42,623)	(101,709)	-	-	-	-
Net change in plan fiduciary net position	(838,146)	(840,666)	(264,619)	(1,467,801)	(1,279,218)	(14,483)
Plan fiduciary net position - beginning	5,725,056	6,565,722	6,830,341	8,298,142	9,577,360	9,591,843
Plan fiduciary net position - ending	<u>\$ 4,886,910</u>	<u>\$ 5,725,056</u>	<u>\$ 6,565,722</u>	<u>\$ 6,830,341</u>	<u>\$ 8,298,142</u>	<u>\$ 9,577,360</u>
Net pension liability	\$ 6,768,608	\$ 7,657,930	\$ 6,492,551	\$ 7,332,963	\$ 5,299,514	\$ 2,915,974
Plan fiduciary net position as a percentage of the total pension liability	41.93%	42.78%	50.28%	48.23%	61.03%	76.66%

Notes to Schedule:

The plan is closed to new members and currently has no active members, hence covered payroll for the plan is zero for all years presented.

There were no changes in benefit terms.

There were no changes in trend rates.

The discount rate changed from 5.66% to 5.33 in FY 2015; 4.11% in FY 2016; 4.54% in FY 2017; 4.25% in FY 2018; and 5.41% in FY 2019.

Change in mortality assumptions from RP-2000, projected seven years from the valuation date on a static basis to RP-2000, projected ten years from the valuation date on a static basis.

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Schedule of Employer Contributions and Investment Returns
For the Fiscal Year Ended June 30, 2019

Fiscal Year Ended	2019	2018	2017	2016	2015	2014
Contractually Required Contributions (Actuarially Determined)	\$ 844,500	\$ 218,723	\$ 218,723	\$ 218,723	\$ 82,401	\$ 82,401
Contributions in Relation to Actuarially Determined Contributions	(218,723)	(218,723)	(218,723)	-	-	(82,401)
Contribution Deficiency (Excess)	\$ 625,777	\$ -	\$ -	\$ 218,723	\$ 82,401	\$ -
 Covered Employee Payroll	 \$ -	 \$ -	 \$ -	 \$ -	 \$ -	 \$ -
 Contributions as a Percentage of Covered Payroll	 n/a	 n/a	 n/a	 n/a	 n/a	 n/a
 Investment Returns						
Annual Money-Weighted Rate of Return, Net of Investment Expenses	4.67%	5.15%	14.32%	-1.35%	2.22%	15.57%

Notes to Schedule:

Valuation Date: June 30, 2018
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
Discount Rate 5.41%
Cost of Living Increase 3.00%
Inflation Assumed at 2.50%
Investment Rate of Returns set at 6.00%
Mortality based on assumption for Public Safety members published in Dec. 2017 CalPERS Study

** Fiscal year 2014 was the first year of implementation, therefore only six years are shown.

**OTHER INDEPENDENT AUDITOR'S
REPORTS**



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

We have audited, 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, the financial statements of the Albany Police and Fire Relief or Pension Fund (the "Pension Fund") of the City of Albany (the "City") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Pension Fund's financial statements, and have issued our report thereon dated June 21, 2020.

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 City'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 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and recommendations*, we identified certain deficiencies in internal control that we consider to be significant deficiencies: see findings 2019-001 and 2019-002.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Albany'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*.

City's Responses to Findings

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

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. 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. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

June 21, 2020
San Jose, California

**SCHEDULE OF FINDINGS
AND
RESPONSES**

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2019

Finding 2019-001: Financial Reporting and Closing – (Significant Deficiency)

Criteria: Management is responsible for the fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). In addition, having an effective internal control system over financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

Condition: During our audit, we noted management did not have routine and periodic procedures in place for closing City financial records on a monthly or an annual basis.

Context: Not having written, routine and standardized closing processes increases the risk of material misstatement in the financial statements.

Effect: The City was required to hire an outside accounting firm to help reconcile and close the annual financial statements.

Cause: When the City transitioned to Munis, the rollover from the old accounting system included balances that were not properly cleared. Also, during the year, the City had several changes in key personnel who needed training with the new Munis accounting system being implemented.

Recommendation: We recommend that the City update its risk assessment process and business continuity planning to identify potential unusual circumstances that would result in significant delays in financial closing and reporting, and develop policies and procedures to prevent or mitigate the effects of these circumstances when they occur. The City should provide cross training of finance staff to ensure continuity during the financial reporting process and audit in case the City experiences turnover in key finance positions. The City should also develop and implement formal written policies related to closing the City's financial statements monthly and annually.

Corrective Action Plan: The City agrees with the auditor's recommendations. The Finance Department underwent significant staffing changes, in key financial position, in fiscal year 2018-19. The City had recently hired a new permanent Finance Director who is currently working to establish recommendations made by the auditor. The City also hired a CPA consultant to help implement these recommendations. The City had also sought the assistance of representatives from the Munis accounting software to analyze and assist in correcting and clear erroneous entries in the accounting system due to the transition to the new Munis system. Account balances have since been corrected and reconciled to subsidiary ledgers as of June 30, 2019.

Finding 2019-002: Cash Reconciliations – (Significant Deficiency)

Criteria: Management is responsible for the fair presentation of financial statements and to ensure their conformity with accounting principles generally accepted in the United States of America. In addition, an effective internal control system over cash and investments includes frequent and timely reconciliation of account balances to information provided by the respective financial institutions.

Condition: During the performance of our audit, we noted that bank reconciliation for the City's operating account did not agree with the City's trial balance. We also noted the City did not prepare reconciliations for its payroll and accounts payable clearing accounts.

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Status of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2019

Context: Controls should be in place to ensure that cash is not materially misstated in the City's financial statements.

Effect: There was an immaterial unreconciled difference between the reconciled book balance and the trial balance. In addition, the difference between the trial balance and the reconciled balance of the payroll and accounts payable clearing accounts appeared to immaterial as well. However, due to the significance of these accounts, there should not be any discrepancies in the bank reconciliations, or the discrepancies should have adequate explanation.

Cause: During the period under audit, the City went through a transition phase of a new accounting system and new key personnel with significant roles in the City's financial reporting and closing process. The City was not able to perform all the bank reconciliations timely as there was a lack of cross training in place to ensure continuity of the process. The City also incorrectly setup the new financial system for cash reconciliations, which resulted in manual journal entries being prepared to correct for known variances.

Recommendation: We recommend that the City develop formal written policies over cash and investments that include the timely reconciliation of all accounts, which should include cash and investment accounts reported by fund. Book balances in the reconciliations should agree with the City's trial balance without unusual reconciling items or adjustments.

Corrective Action Plan: The City agrees with the auditor's recommendations. The Finance Department underwent significant staffing changes in fiscal year 2018-19. The City is currently in the process of making improvements and brought in additional personnel. During that time, staff focused on the priorities of learning the ERP system. The City also hired a CPA consultant to help implement these recommendations and reconcile beginning cash balances for all funds.

CITY OF ALBANY
Police and Fire Relief or Pension Fund
Status of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2019

None