

# **City of Albany Police and Fire Relief or Pension Fund**

Albany, California

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

**For the year ended June 30, 2011**

**C&L**  
Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the City of Albany Police and Fire Relief or Pension Fund (Pension Fund), a component unit of the City of Albany, California (City), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the Pension Fund. 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. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 discussed in Note 1, the financial statements of the Pension Fund are intended to present the financial position, and changes in financial position, of only that portion of the City of Albany, California that is attributable to the Pension Fund. They do not purport to, and do not present fairly the financial position of the City as of June 30, 2011 and changes in its financial position for the year then ended 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 Pension Fund as of June 30, 2011, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

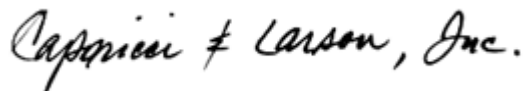
In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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* and should be considered in assessing the results of our audit.

The Board of Trustees

City of Albany Police and Fire Relief or Pension Fund  
Albany, California  
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Accounting principles generally accepted in the United States of America require that the actuarial information on page 11 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information that accounting principles generally accepted in the United States of America has determined is necessary to supplement the basic financial statements. The management of the Pension Fund has elected to omit this information for this financial reporting year.



Caporicci & Larson, Inc  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
February 15, 2012

**CITY OF ALBANY**  
**POLICE AND FIRE RELIEF OR PENSION FUND**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

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**ASSETS**

Operating cash and investments	\$	9,582
Accounts receivable		300,000
Interest receivable		171
Investments, at fair value:		
Local Agency Investment Fund		97,000
Cash and Money Market Fund		452,546
Mutual Funds		<u>10,059,454</u>
Total investments, fair value		<u>10,609,000</u>
Total assets		<u>10,918,753</u>
Net Assets	\$	<u><u>10,918,753</u></u>

**CITY OF ALBANY**  
**POLICE AND FIRE RELIEF OR PENSION FUND**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**ADDITIONS**

Investment income:	
Net increase in fair value of investments	\$ 1,388,224
Interest	874
Dividends	382,536
Total investment income	<u>1,771,634</u>
Less investment expenses	52,354
Total decrease in net assets	<u>1,719,280</u>
Other:	
City of Albany contribution	300,000
Total additions to net assets	<u>2,019,280</u>

**DEDUCTIONS**

Benefits paid	1,416,172
Administrative expenses	9,408
Other expenses	30
Total deductions from net assets	<u>1,425,610</u>
Change in net assets	593,670
Net assets, beginning of year	10,325,083
Net assets, end of year	<u><u>\$ 10,918,753</u></u>

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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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. 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, 2011, the Fund’s operating cash balance was \$9,582. The Fund’s bank balance of \$38,646 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**

**JUNE 30, 2011**

**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, 2011, the Fund's assets were invested in the Dodge & Cox Stock Fund, Income Fund, and International Stock Fund, PIMCO Bond Fund, and Aston Montag Growth Fund.

The Fund's Investment Policy and the California Government Code allow 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>
Large Cap Equity	40%	25%	55%
International Equity	10%	5%	15%
Fixed Income	50%	40%	60%
Cash	N/A	N/A	10%

As of June 30, 2011, the Fund's allocations met the requirements set by the Fund's policy as described above.

Investments at June 30, 2011 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Local Agency Investment Fund (LAIF)	\$ 97,000
Cash and money market funds	452,546
Mutual funds:	
Stock fund	4,051,317
Income fund	3,119,781
International stock fund	1,391,647
PIMCO bond fund	904,940
Aston Montag Growth Fund	591,769
Total	<u>\$ 10,609,000</u>



**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**JUNE 30, 2011**

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**NOTE 2 – Cash and Investments (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, 2011 was \$1,388,224.

**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, 2011, there are no investments in any one issuer that represent 5% or more of total Agency investments.

**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 \$97,000. 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, 2011.

The Fund's investments with LAIF at June 30, 2011 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 2011, the State Treasurer had invested 5.01% of the pool's funds in structured notes and asset-backed securities.

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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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	12
Disabled	9
Survivor	4
	<u>25</u>

Employees who retire, 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 amount of the average yearly compensation attached to the rank he or she held during the most recent three years preceding 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 with 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 actuarial accrued liability presented below was determined as part of an actuarial valuation at June 30, 2009 (the most recent available).

The entry age actuarial cost method and significant actuarial assumptions were used in determining the actuarial accrued liability and included: (a) a rate of return on the investment of present and future assets of 6.75 percent per year compounded annually, and (b) projected inflation rate of 4 percent per year.

Other significant assumptions underlying the actuarial computations were as follows:

Post retirement mortality

Male	1994 Group Annuity Mortality Table for Males, set forward two years
Females	1994 Group Annuity Mortality Table for Females, with no set back

The method for determining the actuarial value of assets adjusts market value to recognize, over a five-year period, the differences between assumed and actual investment return. 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, 2011**

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

The actuarial accrued liability and asset for participants at June 30, 2009 (most recent available) is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Payroll</u>
2009	\$ 12,684,186	\$ 14,570,549	\$ 1,886,363	87%	-	N/A

An actuarial valuation of the Fund is performed as frequently as deemed necessary by the Fund's Board of Trustees, but not less than every three years. Accordingly, the next actuarial valuation is scheduled as of June 30, 2012.

**C. Contribution Requirements and Contributions Made**

The City Charter requires an annual contribution to the Fund equal to 18 percent of the gross wages of active fund participants; however, there are no active fund participants as of June 30, 2011 and the Fund is closed to new participants.

Based on actuarial valuations, the Fund's assets exceeded the Fund's liabilities for fiscal years 2004-2005 through 2006-2007; therefore, no contributions were made to the Fund. The actuarial valuation performed as of June 30, 2009 determined the unfunded liability to be \$1,886,363; and required annual contribution to be \$194,852. The City chose to make employer's contributions of \$300,000 in the 2009-2010 and 2010-2011 fiscal years. 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 Fund.

**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.

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**JUNE 30, 2011**

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

A schedule of funding status is as follows:

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Liability/ (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
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
2008**	10,939,000	12,258,000	1,319,000	89%	-	N/A
2009	12,684,186	14,570,549	1,886,363	87%	-	N/A

\* The Pension System did not perform an actuarial valuation for fiscal years 1995-96, 1996-97, 1998-99, 2000-2001, 2003-2004, 2004-05, and 2006-07.

\*\* The actuarial valuation was performed as of September 30, 2008.

Annual contributions received by the Fund were as follows:

Fiscal Year	Employee	Employer	Employer Additional	Total
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	-	-	-	-
2007-2008	-	-	-	-
2008-2009	-	-	-	-
2009-2010	-	-	300,000	300,000
2010-2011	-	-	300,000	300,000

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2011**

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Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Liability/ (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
2006	14,479,158	14,075,219	(403,939)	103%	-	N/A
2008	10,939,000	12,258,000	1,319,000	89%	-	N/A
2009	12,684,186	14,570,549	1,886,363	87%	-	N/A

See accompanying Independent Auditors' Report and notes to financial statements

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**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 the basic financial statements of the City of Albany Police and Fire Relief or Pension Fund (Pension Fund), a component unit of the City of Albany, California (City), as of and for the year ended June 30, 2011, and have issued our report thereon dated February 15, 2012. We conducted our audit in accordance with generally accepted auditing standards 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**

In planning and performing our audit, we considered the Pension Fund's internal control over financial reporting as a basis for designing our audit 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 the Pension Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pension 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 the Pension Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

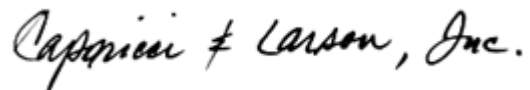
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses. We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

The Board of Trustees  
City of Albany Police and Fire Relief or Pension Fund  
Albany, California  
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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the basic financial statements of the Pension Fund are 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 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 result 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 management and the Board of Trustees, is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Caporicci & Larson, Inc  
A Subsidiary of Marcum LLP  
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San Francisco, California  
February 15, 2012