

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

Albany, California

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

**For the year ended June 30, 2016**



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## INDEPENDENT AUDITORS' 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 (Pension Fund) of the City of Albany, California (City), as of and for the year ended June 30, 2016, 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, 2016, 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**

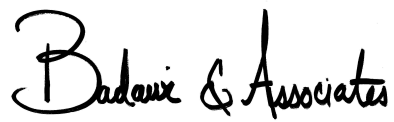
*Required Supplementary Information*

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 14-15 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 6, 2017, 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 6, 2017

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**STATEMENT OF NET POSITION**

**JUNE 30, 2016**

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**ASSETS**

Investments, at fair value:

Local Agency Investment Fund	\$ 402,280
Cash and Money Market Fund	403,123
Mutual Funds	6,087,477
Total investments, fair value	<u>6,892,880</u>

Total assets	<u>6,892,880</u>
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**LIABILITIES**

Overdrawn cash	<u>62,539</u>
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Net Position	<u>\$ 6,830,341</u>
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See accompanying notes to financial statements.

**CITY OF ALBANY**  
**POLICE AND FIRE RELIEF OR PENSION FUND**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**ADDITIONS**

Investment income:	
Interest	\$ 1,350
Dividends	399,445
Net decrease in fair value of investments	(475,624)
Total investment income	<u>(74,829)</u>
Less investment expenses	41,264
Total investment income	<u>(116,093)</u>

**DEDUCTIONS**

Benefits paid	<u>1,351,708</u>
Total deductions from net position	<u>1,351,708</u>
Change in net position	(1,467,801)
Net position, beginning of year	<u>8,298,142</u>
Net position, end of year	<u><u>\$ 6,830,341</u></u>

See accompanying notes to financial statements.



**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

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.

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.

B. Fund Accounting

The accounts of the Pension Fund are organized on the basis of fund accounting, and the Pension Fund is considered a separate accounting entity. The operations of the Pension 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 Pension Fund and City Charter.

Investment management, asset custody and administration fees are expenses of the Pension 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, 2016, the Pension Fund’s operating cash balance was a negative \$62,539. The Pension Fund’s bank balance of \$24,077 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, 2016**

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**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**

Pension 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 Pension Fund's investment policy.

At June 30, 2016, 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 (IVQX)
- Mainstay Epoch Global (EPYX)
- Neurberger Berman Equity (NBHIX)

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.

<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, 2016, the Pension Fund's allocations reflected the general guidelines set by the Pension Fund's policy as described above.

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**JUNE 30, 2016**

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**NOTE 2 – Cash and Investments (Continued)**

C. Investment Management - Continued

Investments at June 30, 2016 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Local Agency Investment Fund (LAIF)	\$ 402,280
Cash and money market funds	403,123
Mutual funds:	
Bond funds	2,966,969
Equity funds	<u>3,120,508</u>
Total	<u>\$ 6,892,880</u>

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 decrease in fair value of investments for the year ended June 30, 2016 was \$475,624.

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 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.* 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 Pension 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, 2016, there are no investments in any one issuer that represent 5% or more of total Pension Fund 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.

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**JUNE 30, 2016**

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**NOTE 2 – Cash and Investments (Continued)**

**E. Investment in State Investment Pool**

The Pension 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 \$402,280. 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, 2016.

The Pension Fund's investments with LAIF at June 30, 2016 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 2016, the State Treasurer had invested 2.81% of the pool's funds in structured notes and asset-backed securities.

**F. Investment Valuation**

Investments (except for money market accounts included in investments classified as restricted cash and investments) are measured at fair value on a recurring basis. Recurring fair value measurements, are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment fair value measurements at June 30, 2016 are described on the following page.

Investments included in restricted cash and investments included money market accounts and guaranteed investment contracts are not subject to fair value measurement.

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**JUNE 30, 2016**

**NOTE 2 – Cash and Investments (Continued)**

F. Investment Valuation, Continued

Investment Type	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Mutual Funds-Bond Funds				
DODGE & COX INCOME FUND	\$ 2,248,989	\$ 2,248,989	\$ -	\$ -
PIMCO INVESTMENT GRADE	717,980	717,980	-	-
Mutual Funds-Equity Funds	-	-	-	-
DODGE & COX STOCK FUND	2,316,173	2,316,173	-	-
IVA INTL FD CL I	305,454	305,454	-	-
MAINSTAY EPOCH GLOBAL	397,806	397,806	-	-
NEUBERGER BERMAN EQTY	101,075	101,075	-	-
Local Agency Investment Fund	402,280	-	402,280	-
Total investments subject to fair value	<u>\$ 6,489,757</u>	<u>\$ 6,087,477</u>	<u>\$ 402,280</u>	<u>\$ -</u>

The City's fair value for its investments in Bond Funds and Equity Funds are based on prices quoted in active markets for those securities.

The City's fair value for its investment in the State of California Local Agency Investment Fund (LAIF) is based on the fair market value factors provided by LAIF that are calculated based on the total fair market value of the pool. LAIF includes investments categorized as Level 1 such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets and investments categorized as Level 2 such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices that are derived principally from or corroborated by observable market data by correlation to other means. The City categorized its investments in LAIF based on the lowest significant input used to determine the fair market value of the total pool.

**NOTE 3 – Pension Plan**

A. Summary of significant accounting policies – basis

Investments are reported at fair value.

B. Pension Fund Description

*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.

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**JUNE 30, 2016**

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

*Pension Fund membership.* At June 30, 2016, Pension Fund membership consisted of the following:

Inactive members of beneficiaries currently receiving benefits	22
Inactive members entitled to but not yet receiving benefits	0
Active members	<u>0</u>
Total	22

*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, 2016**

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

III. Cost of Living

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.

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, 2012.

IV. Investments

Rate of return: For the year ended June 30, 2016, the annual money-weighted rate of return on Pension Fund investments, net of Pension Fund investment expense was 2.22%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

V. Net Pension Liability

The components of the net pension liability at June 30, 2016 were as follows:

Total pension liability	\$ 14,163,304
Fiduciary net position	<u>(6,830,341)</u>
Net pension liability	\$ 7,332,963
Fiduciary net position as a percentage of the total pension liability	48.23%

VI. Actuarial Assumption

The total pension liability as of June 30, 2016 was determined based on the Pension Fund membership as of that date and using the following actuarial assumptions; applied to all periods included in the measurement.

Actuarial cost method

Entry Age Normal

Note: The level dollar method is used because there are no active embers and the Pension Fund is closed to new participants

**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**JUNE 30, 2016**

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

VI. Actuarial Assumption (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, 2016 are summarized in the following table (note that the rates shown below include the inflation component):

<b>Asset Class</b>	<b>Long-Term Expected Rate of Return</b>
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 4.11%.

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 2025.

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, 2016 (2.71%).

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 4.11%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.11%) or 1-percentage-point higher (5.11%) than the current rate:

<u>1 % Decrease (3.11%)</u>	<u>Current Discount Rate (4.11%)</u>	<u>1 % Increase (5.11%)</u>
\$ 8,497,006	\$ 7,332,963	\$ 6,298,498



**CITY OF ALBANY**

**POLICE AND FIRE RELIEF OR PENSION FUND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016**

*Schedule of Changes in Net Pension Liability and Related Ratios*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>			
Service cost	\$ -	\$ -	\$ -
Interest	689,200	667,736	774,708
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	1,348,531	-
Changes of assumptions	1,228,156	499,219	945,018
Benefit payments	<u>(1,351,708)</u>	<u>(1,411,164)</u>	<u>(1,384,481)</u>
Net change in total pension liability	\$ 565,648	\$ 1,104,322	\$ 335,245
Total pension liability-beginning	\$ 13,597,656	\$ 12,493,334	\$ 12,158,089
Total pension liability-ending (a)	\$ 14,163,304	\$ 13,597,656	\$ 12,493,334
<b>Fiduciary net position</b>			
Contributions-employer	-	-	82,401
Net investment income	(116,093)	131,946	1,287,597
Benefit payments, including refunds of employee contributions	(1,351,708)	(1,411,164)	(1,384,481)
Administrative expense	-	-	-
Other	-	-	-
Net change in fiduciary net position	<u>\$ (1,467,801)</u>	<u>\$ (1,279,218)</u>	<u>\$ (14,483)</u>
Fiduciary net position-beginning	\$ 8,298,142	\$ 9,577,360	\$ 9,591,843
Fiduciary net position-ending (b)	<u>\$ 6,830,341</u>	<u>\$ 8,298,142</u>	<u>\$ 9,577,360</u>
Net pension liability-ending (a)-(b)	\$ 7,332,963	\$ 5,299,514	\$ 2,915,974
Fiduciary net position as a percentage of the total pension liability	48.23%	61.03%	76.66%

\*Ten year trend information not currently available

*Notes to Schedule*

**Benefit changes since June 30, 2014:**

None (other than Cost of Living adjustments under the terms of the Plan).

**Changes of assumptions since June 30, 2014:**

Change in discount rate from 5.33% (as of June 30, 2015) to 4.11% (as of June 30, 2016).

Change in discount rate from 5.66% (as of June 30, 2014) to 5.33% (as of June 30, 2015).

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**

**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016**

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**Schedule of Contributions**

	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Actuarially determined contribution	\$ 218,723	\$ 82,401	\$ 82,401
Contribution in relation to the actuarially determined contributions	-	-	(82,401)
Contribution deficiency (excess)	<u>\$ 218,723</u>	<u>\$ 82,401</u>	<u>\$ -</u>
Covered payroll	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%

**Schedule of Investment Returns**

	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Annual money-weighted rate of return, net of investment expenses	-1.35%	2.22%	15.57%

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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  
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, 2016, 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 6, 2017.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as FS2016-002 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as FS2016-001 to be a significant deficiency.

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

### **Compliance and Other Matters**

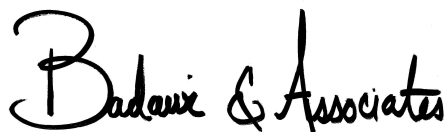
As part of obtaining reasonable assurance about whether the Pension Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates  
Certified Public Accountants  
Oakland, California  
March 6, 2017

**City of Albany Police and Fire Relief or Pension Fund**  
**Schedule of Findings and Responses**  
**For the year ended June 30, 2016**

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**FS2016-001 Annual Required Contribution**

**Criteria:**

The City should contribute the annual required contribution calculated for the pension plan.

**Condition:**

The City had obtained an actuarial valuation that calculated an annual required contribution of \$218,723 for fiscal year 2016 for the Police and Fire Relief or Pension Fund, however the contribution had not been made during the fiscal year.

**Cause:**

Due to employee turnover experienced by the City, the contribution was not recorded timely.

**Context and Effect:**

The Pension Fund did not receive a timely contribution in fiscal year 2016, which resulted in a higher calculated total pension liability for the plan, and will result in a higher calculated annual contribution in future years.

**Recommendation:**

We recommend the City contribute the calculated annual required contribution to the pension plan on a timely basis.

**Management Response:**

The City agrees with the recommendation and will identify and incorporate the annual contribution as part of the budgetary process going forward.

**City of Albany Police and Fire Relief or Pension Fund**  
**Schedule of Findings and Responses**  
**For the year ended June 30, 2016**

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**FS2016-002 Financial Closing and Reporting**

**Criteria:**

The City is responsible for fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. In addition, an effective internal control system over financial closing and reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

**Condition:**

During the performance of the audit, we noted that there were delays in closing of accounting books and providing the requested information for the audit.

**Cause:**

During the fiscal year under audit, the City experienced turnover in positions with significant roles in the City's financial reporting and closing process. The City was not able to close the accounting books timely as there was not sufficient cross training in place to ensure continuity of the financial reporting process.

**Context and Effect:**

As a result of the turnover experienced by the City, there were delays in the financial closing and reporting process and completion of the audit.

**Recommendation:**

We recommend that the City update its risk assessment process 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 experience turnover in key finance positions.

**Management Response:**

The City agrees with the recommendation and will develop policies and procedures that will ensure timely preparation of financial records. These procedures will include schedules for the monthly closing and reconciliation of General Ledger accounts.