

CITY OF ALBANY
POLICE AND FIRE
RELIEF OR PENSION FUND
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

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FOR THE FISCAL YEAR ENDED JUNE 30, 2009

CITY OF ALBANY

**POLICE AND FIRE
RELIEF OR PENSION FUND**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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Caporicci & Larson
Certified Public Accountants

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, 2009, as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the accounts of the Pension Fund and are not intended to present fairly the financial position and results of its operations of the City.

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, 2009, and changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

Caporicci & Larson

Oakland, California
December 28, 2009

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CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

STATEMENT OF NET ASSETS

JUNE 30, 2009

ASSETS

Operating cash and investments	\$	13,975
Interest receivable		850
Investments, at fair value:		
Local Agency Investment Fund		112,224
Mutual Funds		9,912,120
Total investments, fair value		<u>10,024,344</u>
Total assets		<u>10,039,169</u>

LIABILITIES

Accounts payable		<u>5,250</u>
Net Assets	\$	<u><u>10,033,919</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, 2009

ADDITIONS (DECREASE)

Investment income:	
Net decrease in fair value of investments	\$ (1,395,333)
Interest	5,615
Dividends	402,288
Total investment income	<u>(987,430)</u>
Less investment expenses	21,000
Total decrease in net assets	<u>(1,008,430)</u>

DEDUCTIONS

Benefits paid	1,343,966
Administrative expenses	22,363
Other expenses	4,350
Total deductions from net assets	<u>1,370,679</u>
Change in net assets	(2,379,109)
Net assets, beginning of year	12,413,028
Net assets, end of year	<u>\$ 10,033,919</u>

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Fund Accounting

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

C. Basis of Accounting

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

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

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

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

NOTE 2 – Investments

A. Method Used to Value Investments

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

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 – Investments (Continued)

B. Investment Management

Fund investments are managed by an investment manager (Dodge & Cox) under an agreement which authorizes the Manager to purchase and sell securities, within the guidelines of the Fund's investment policy.

During fiscal year 2007-08, the Fund's investment policy was modified to allow reallocation of assets. In February 2008, the investments were converted into mutual funds from common stocks, debt instruments, money market funds, and government-related securities. At June 30, 2009, the Fund's assets were invested in the Dodge & Cox Stock Fund, Income Fund, and International Stock Fund.

The Fund's Investment Policy and the California Government Code allow the Fund to invest in the following type of investments. Each type of investment is subject to a target allocation and includes maximum and minimum general guidelines as a percentage of the overall portfolio as set forth in the investment policy.

<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%	30%	50%
International Equity	10%	5%	15%
Fixed Income	50%	40%	60%
Cash	N/A	N/A	5%

As of June 30, 2009, the Fund's allocations met the requirements set by the Fund's policy as described above.

Investments at June 30, 2009 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Local Agency Investment Fund (LAIF)	\$ 112,224
Mutual funds:	
Stock fund	4,351,324
Income fund	4,375,613
International stock fund	<u>1,185,183</u>
Total	<u>\$ 10,024,344</u>

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 – 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 decrease in fair value of investments for the year ended June 30, 2009 was \$1,395,333.

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, 2009.

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	13
Disabled	9
Survivor	7
	<u>29</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 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 September 30, 2008 (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 7.5 percent per year compounded annually, and (b) projected inflation rate of 4 percent per year.

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, 2009

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

The actuarial accrued liability and asset for participants at September 30, 2008 (most recent available) is as follows:

Actuarial accrued liability	
Retirees and beneficiaries currently receiving benefits	\$ 12,258,000
Actuarial book value of assets available for benefits	10,939,000
Unfunded liability	<u>\$ (1,319,000)</u>

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. An actuarial valuation as of June 30, 2009 has been commissioned, but is not available as of the date of publication of this report. In the new actuarial valuation, the projected rate of return on investments will be reduced from 7.5 percent per year to 6.75 percent per year. It is management's intention to commence contribution to the plan in fiscal year 2009-10, at a rate projected to amortize the unfunded liability over fifteen years.

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, 2009 and the Fund is closed to new participants.

In the fiscal year ended June 30, 2004, the City made a contribution to the Fund of \$534,513. No additional contributions were required from fiscal year 2004-05 through fiscal year 2007-08. Due to the meltdown in the financial market after June 30, 2008, the Fund's investment value has declined significantly. Based on the actuarial valuation performed for the period ended September 30, 2008, the Fund is no longer fully funded. Additional contributions will be required effective next fiscal year. An actuarial valuation of the Plan will be performed as of June 30, 2009, and the fiscal year 2009-10 contribution will be made as projected necessary to amortize the unfunded liability.

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
JUNE 30, 2009

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

* 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 for the period ended 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	-	-	-	-

NOTE 4 – Subsequent Events

Effective October 1, 2009, the Fund contracted with Atlantic Trust Private Wealth Management to serve as Adviser to the Board of Trustees. It is the intention of the Board to diversify its investments beyond the three Dodge & Cox mutual funds held at June 30, 2009. The investment policies of the Fund and the Board's philosophy of prudence and safety of principal have not changed.