

**CITY OF ALBANY
CITY COUNCIL AGENDA
STAFF REPORT**

Agenda date: 06/20/2011
Reviewed by: BP

SUBJECT: June 30, 2010 Financial Statements and Reports of the Independent Auditors, Inter-fund Transfers

REPORT BY: Beth Pollard, City Manager
Charles Adams, Finance and Administrative Services Director

STAFF RECOMMENDATION

Financial Reports

Receive presentation by the City's independent auditors of the results of their examination of the City's financial reports for fiscal year end June 30, 2010.

Transfers

That Council approve the updated schedule of inter-fund transfers (Exhibit A).

BACKGROUND

The City Council has engaged the Certified Public Accounting firm of Caporicci & Larson, Inc., Subsidiary of Marcum, LLP, to serve as independent auditors of the City's financial reports. The scope of work performed by the auditors encompassed examinations of the City's Comprehensive Annual Financial Report (CAFR), the annual financial reports of the Albany Reinvestment Agency, the Albany Police and Fire Relief or Pension Fund, ACTIA Measure B Funds, Transportation Development Act Report, and the City of Albany Appropriation Limit. The auditors also report to the City Council their findings and recommendations regarding the City's internal control structure and compliance with terms of grant agreements.

The Council has previously approved a schedule of interfund transfers as part of the fiscal year 2009-10 budget. On December 3, 2010 and January 10, 2011 the Council approved updated schedules of inter-fund transfers, as part of the normal process of closing the books and preparing financial statements for the fiscal year. Subsequently, the Finance and Administrative Services Director has adjusted the amount of certain transfers, requiring final Council approval.

DISCUSSION/ANALYSIS

I. Comprehensive Annual Financial Report (CAFR)

The independent auditors' reports, which appear on page A1 of the City of Albany Comprehensive Annual Financial Report is an unqualified report, meaning that the auditors report that the financial statements present fairly, in all material respects, the financial position of the City at June 30, 2010. This is the highest level of auditor assurance the City can achieve in an audit.

The Comprehensive Annual Financial Report (CAFR) presents financial information on the status of the City's financial affairs, first on a city-wide basis (*Government-wide Financial Statements*) in which all City activities are reported as either governmental activities and business-type activities. A second set of statements (*Governmental Funds Financial Statements*) report separately the activities of 57 funds:

Major Funds

- General Fund
- Civic Center Improvement

Proprietary Funds

- Sewer Enterprise Fund
- Internal Service Funds (3)

Fiduciary Funds

- Pension Trust Fund
- Agency Funds (4)

Special Revenue Funds (23)

Other Capital Projects Funds (17)

Debt Service Funds (6)

The lead document in the CAFR is a Transmittal Letter, which includes information regarding the City's demographics, accounting and budgetary controls, four reporting entities within the City, descriptions of the 9 departments within the City, discussion of the economic outlook for the coming year, and summaries of major initiatives currently active within the City.

Management's Discussion and Analysis (MD&A) of the City's financial activities for the year is the first document in the Financial Section of the CAFR. Following the financial statements is the statistical section of the report, which includes tables that contain ten years of data so as to illustrate financial trends, and the section also includes demographic and other data that is useful in analyzing the financial condition and performance of the City.

The comprehensive format of the annual financial report is designed to provide detail information for all activities of city government in one document, but it is not designed to be read cover to cover. We suggest that users initially concentrate on the summary schedules in the MD&A before moving to the full statements, budget comparison

statements and combining statements that are presented in the financial section of the report.

General Fund – This fund encompasses the core operations of the city’s governmental functions. All revenues not specifically dedicated to a specific purpose are recorded in this fund, and the costs of basic services of safety, public works, recreation and administration are recorded in the general fund. General Fund activities are guided by a detailed budget, and quarterly financial reports compare the budget and actual revenues and expenditures. The fund balance of the General Fund is an important measure of the financial condition of the City, and the net increase or decrease in the undesignated fund balance is an important measure of the City’s fiscal capacity.

In our December 6, 2010 report to Council, of the unaudited preliminary financial results for the year, we reported an increase in the Unrestricted General Fund balance of \$32,138 from current operations and a total ending fund balance of \$5,057,176. The final audited results for the year were an increase in the Unrestricted General Fund balance of \$40,439, and a total ending fund balance of \$5,065,476, of which \$3,867,030 is unreserved and undesignated.

A comparison of actual to budget for the year is shown on page D2 of the Required Supplementary Information section. Revenues exceeded budget by \$226,000, the major variances were:

- *Property taxes* – exceeded budget by \$148,000, or 3%. These revenues declined 0.8% from the prior year due to the lack of growth, and, in some instances, the decline in assessed values of residential property, and a decline in the number of properties reassessed to market value at the time of transfer.
- *Franchise and Other taxes* – were below budget by \$105,000. The unfavorable budget variance is largely due to property transfer taxes, utility user taxes and business licenses all falling below budget. The budgeted revenue projections anticipated a return to a level of economic activity from two years ago, and this did not occur.

Total General Fund expenditures were \$402,000 below budget, which was net of unbudgeted expenditures of \$242,000 for capital expenditures and debt service. The majority of the budget savings were obtained from holding unfilled vacant staff positions and reducing Police Department overtime.

Interfund transfers – Transfers between the General Fund and other special purpose funds are most often made to match related revenues and expenditures, they are also used to fund reserves for future major expenditures or accrued liabilities.

Transfers-in to the General Funds of \$3,332,000 were made to cover expenditures recorded in the General Fund as follows:

- | | |
|---|------------|
| • Sewer maintenance and operations | \$ 814,000 |
| • Paramedic services | 1,250,000 |
| • Landscape & Lighting bonds and operations | 35,000 |

- Gasoline tax \$ 180,000
- Traffic Congestion Relief 153,000
- Pension Override tax 900,000

Transfers-out of the General Fund of \$600,000 were made for the following purposes:

- Capital projects \$ 474,000
- Police and Fire equip. replacement reserves 99,000
- Unexpended HUTA revenues 27,000

Government-wide Financial Statement - On the combined activities basis, the schedule on page A8, shows the City to have net assets of \$58.7 million with a ratio of assets to liabilities of 2.6. The ratio of asset to liabilities increased from 2.4 in the prior year, principally as a result of \$5 million in additions to Capital Assets.

Auditors' Report to City Council

Each year, the independent auditors report to the City Council any material findings regarding internal accounting controls, management's compliance with generally accepted accounting principles, management's judgment in applying accounting estimates, disagreements between the auditors and management, and difficulties performing the audit. The auditors reported no finding in the current or previous examinations.

Albany Reinvestment Agency

The auditors issued an unqualified opinion on the financial statements of the Albany Reinvestment Agency, and reported no findings of material weaknesses.

Net assets of the Reinvestment Agency increased \$90,758 to a balance of \$893,949. The Low & Moderate Housing Fund, the Capital Projects Fund, and the Debt Service Fund have fund balances of \$586,461, \$291,980, and \$15,508 respectively.

Police and Fire Relief or Pension Fund

The auditors issued an unqualified opinion on the financial statements of the Police and Fire Relief or Pension Fund, and reported no findings of material weaknesses.

There are 29 vested participants in the pension plan. The plan has an unfunded actuarial liability of \$1,886,363 at June 30, 2009, the date of the most recent actuarial valuation. The City made a contribution to the Fund of \$300,000 in fiscal year 2009-10.

ACTIA Measure B Funds

The auditors issued an unqualified opinion on the financial statements of the Alameda County Transportation Improvement Authority Measure B Funds, and reported no

findings of material weaknesses or non-compliance with the agreement between the City and ACTIA.

Revenues for fiscal year 2009-10 were \$464,130 and expenditures were \$435,615, as compared to revenues of \$483,841 and expenditures of \$523,165 for fiscal year 2008-09.

City of Albany Appropriation Limit

The auditors performed agreed upon procedures, as specified in their report, on the City's calculation of the annual appropriation limit (Gann Limit) for the fiscal year ending June 30, 2011. They noted no exceptions in the calculation.

The fiscal year 2010-11 appropriation limit is \$15,406,933. We expenditures in fiscal year 2010-11 will not exceed the appropriation limit.

II. Inter-fund Transfers

A detailed analysis of inter-fund transfers is provided in Exhibit A – Fund Transfers. The modifications from the previously approved schedule were:

- A transfer of \$29,146 from the Fire Equipment Reserve Fund 830 to the EMS Equipment Reserve Fund 834 was made to reimburse the EMS Equipment Reserve Fund for expenditures incorrectly charged to the EMS Fund in the prior year.
- Transfers from the Assessment District Bond Agency Fund 483 to the Albany Open Space Fund 480, Recreation Playfields Fund 481, and Creek Restoration Special Revenue Fund 482 were increased by the amount of Assessment District revenues that exceeded budgeted transfers.

SUSTAINABILITY IMPACT

None

FINANCIAL IMPACT

There is no financial impact to the City from Council's acceptance of the reports of the independent auditors.

Attachments:

- **Exhibit A** - Fund Transfers
- Comprehensive Annual Financial Report
- Albany Reinvestment Agency Report
- Albany Police and Fire Relief or Pension Fund
- ACTIA Measure B Funds
- City of Albany Appropriation Limit 2011
- Transportation Development Act