

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

Agenda Date: February 4, 2019
Reviewed by: NA

SUBJECT: Annual Financial Statements and Annual Audit for FY 2016-17 and FY 2017-18

REPORT BY: Heather Rowden, Finance Director

SUMMARY

Annually the City prepares financial statements which are audited by independent auditors. The Auditors have reviewed the City's Basic Financial Statements and relayed their findings in the attached Basic Financial Statements and Independent Auditors' 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 and Schedule of Findings and Responses for both fiscal year ending June 30, 2017 and fiscal year ending June 30, 2018. It is important to note that these findings relate to those years specifically, not to current practice.

STAFF RECOMMENDATION

That the Council:

1. receive presentation of the results from the City's independent auditor's examination of the City's financial reports for fiscal years ending June 30, 2017 and June 30, 2018; and
2. accept and file the reports.

BACKGROUND

The City Council has engaged the Certified Public Accounting firm of Badawi & Associates, 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:

- Basic Financial Statements;
- Albany Police and Fire Relief or Pension Fund;
- Alameda County Transportation Commission (ACTC) Measure B Fund, Measure BB Fund, and Vehicle Registration Fee Fund Compliance Reports;
- Transportation Development Act Reports; and

- a review of the calculation used for the annual adjustment to the City of Albany Appropriations Limit.

In addition, as part of their assignment, the auditors report their findings and recommendations regarding the City’s internal control structure.

DISCUSSION/ANALYSIS

The complete Basic Financial Statements for fiscal years ended June 30, 2017 and June 30, 2018 are included as Attachments 1 and 3, respectively, to this report. Unless otherwise noted, the discussion and analysis in this report focuses on fiscal year ending June 30, 2018 as that is the most recent and relative data.

Financial Overview

The change in net assets is a snapshot of the financial results at the highest level. For the purpose of this Staff report, the information is presented separately for Governmental Activities (Table 1) and Business Type Activities (Table 2).

**Table 1: Summary of Net Position
June 30, 2016, 2017, and 2018**

	Governmental Activities				
	2016	2017	2018	\$ Change	% Change
Current and other assets	33,061,889	35,324,028	31,953,572	(1,108,317)	-3.35%
Capital assets	47,211,238	45,524,271	43,572,337	(3,638,901)	-7.71%
Total assets	80,273,127	80,848,299	75,525,909	(4,747,218)	-5.91%
Current liabilities	4,065,171	8,360,415	10,049,699	5,984,528	147.21%
Noncurrent liabilities	42,287,978	52,893,484	55,134,486	12,846,508	30.38%
Total liabilities	46,353,149	61,253,899	65,184,185	18,831,036	40.63%
Net position:					
Invested in capital assets, net of related debt	29,375,431	27,814,312	27,004,173	(2,371,258)	-8.07%
Restricted	16,085,263	15,353,824	13,167,541	(2,917,722)	-18.14%
Unrestricted	(13,975,545)	(21,405,439)	(24,125,660)	(10,150,115)	72.63%
Total net position	31,485,149	21,762,697	16,046,054	(15,439,095)	-49.04%

As seen in Table 1, the Net Position for Governmental Activities has decreased. The drastic decrease is primarily due to pension liabilities reported on the financial statements increasing approximately 58% since 2016. City staff are currently reviewing options available to decrease future pension liability.

Table 2: Summary of Net Position

June 30, 2016, 2017, and 2018

Business-Type Activities

	2016	2017	2018	\$ Change	% Change
Current and other assets	7,168,419	7,456,827	9,295,475	2,127,056	29.67%
Capital assets	16,469,815	16,012,316	15,554,817	(914,998)	-5.56%
Total assets	23,638,234	23,469,143	24,850,292	1,212,058	5.13%
Current liabilities	714,754	699,292	716,947	2,193	0.31%
Noncurrent liabilities	4,110,000	3,605,000	3,090,000	(1,020,000)	-24.82%
Total liabilities	4,824,754	4,304,292	3,806,947	(1,017,807)	-21.10%
Net position:					
Invested in capital assets, net of related debt	11,728,800	11,974,750	12,022,251	293,451	2.50%
Restricted	-	-	-	-	0.00%
Unrestricted	7,153,665	7,262,535	9,093,528	1,939,863	27.12%
Total net position	18,882,465	19,237,285	21,115,779	2,233,314	11.83%

Table 2 represents the Business Type Activity which consists of the Sewer Enterprise Fund. The City collects user fees and provides for the maintenance and operation of the sanitary sewer collection system.

It is important to note that for both the Governmental Activities and Business Type Activities tables, assets overwhelmingly consist of capital assets (e.g. land, infrastructure, buildings, and equipment). These assets are not available for future spending. It should also be noted that the current asset balances include amounts that are subject to restrictions on how they may be used. Available general fund balances are discussed later in this report.

Major Funds

In order to be designated a “Major Fund,” certain minimum criteria must be met. Those criteria generally include comparison of revenues, expenditures, and assets compared to all funds. The format of the Fund Financial Statements presents individual information for each of the Major Funds and then all other Governmental Funds are reported in a single column. Table 3 provides a summary of the Governmental Fund revenue, expenditures and changes in fund balance for the year ending June 30, 2018.

**Table 3: Governmental Funds
June 30, 2018
Revenues, Expenditures and Other Changes in Fund Balance**

	General Fund	City Capital Project	Street & Storm Funds	Non-Major Governmental Funds	Total Governmental Funds
Revenues	19,316,407	2,987,152	1,118,748	7,899,396	31,321,703
Current expenditures	18,933,303	632	262,501	4,801,577	23,998,013
Capital outlay	825,923	6,279,608	496,655	3,337,980	10,940,166
Debt service	47,557	-	-	1,648,850	1,696,407
Total expenditures	19,806,783	6,280,240	759,156	9,788,407	36,634,586
Net transfers	1,262,885	-	(21,000)	(1,241,885)	-
Net change in fund balances	772,509	(3,293,088)	338,592	(3,130,896)	(5,312,883)
Fund balances, beginning of year	8,073,733	814,350	3,653,485	12,992,200	25,533,768
Fund balances, end of year	8,846,242	(2,478,738)	3,992,077	9,861,304	20,220,885

Inter-Fund Transfers

The City Council previously approved a schedule of inter-fund transfers as part of the fiscal year 2016-17 and 2017-18 budget. As part of the normal process of closing the books and preparing financial statements for the fiscal year, the actual amounts transferred may vary to reflect actual revenue and expenditures.

General Fund Balance

The City's overall general fund balance, as shown in Table 3, is \$8,846,242. Of that, only a small portion is nonspendable or reserved for specific uses. Historically, the City Council has allowed the City Manager to assign any increase in unassigned general fund balance for specific purposes.

Staff is working on a fund balance policy to bring to Council in late summer or early fall. This will provide additional direction on how these funds can be spent, including planning for risk management (e.g. natural disasters, and recession), pension obligations, capital asset planning, and additional goals that align with the Council's Strategic Plan.

Auditors' Report to City Council

Each year, the independent auditors report any material findings regarding internal accounting controls, management's compliance with generally accepted accounting principles, management's judgement in applying accounting estimates, disagreements between the auditors and management, and difficulties performing the audit. The auditors reported several findings for both fiscal years ending June 30, 2017 and June 30, 2018. Both

reports, titled Independent Auditors' 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 and Schedule of Findings and Responses, are attached. Additional detail on Staff response is discussed in the Next Steps section of this report.

SUSTAINABILITY IMPACT

Not applicable.

FINANCIAL IMPACT

Not applicable.

NEXT STEPS

Prior to issuance of the Auditors' report, Staff had already taken many steps to rectify the issues addressed in the Independent Auditors' Report from both fiscal years. Many of the findings revolve around staff turnover and issues with the City's electronic account system (ERP) implementation. The following details some of the steps staff has taken to resolve the issues, and what is intended to ensure these findings are not repeated.

General Changes

First, the Finance Department has been reorganized so that all Accounting Technicians report to the Senior Accountant. This ensures that the Senior Accountant is aware of what is going on day to day and can step in to resolve issues before they escalate. The Senior Accountant can also fill in for an Accounting Technician in their absence, and monitor work to ensure that tasks are completed on time for certain reporting deadlines.

Further, the department has established a master calendar that lists all monthly, quarterly, and annual duties and deadlines. This calendar is monitored by management to ensure that items are completed on time. This document will be essential if there is future turnover.

Staff is working on procedures for each assignment to ensure employees are performing effectively and efficiently, in addition to planning for continuity. Training is being provided, both internally within the Finance Department and externally to other Departments, so that employees understand their role in the accounting framework and can recognize when certain accounts or procedures require attention.

In addition, the Finance Department began providing department heads monthly reports detailing each department's revenues and expenses in the last quarter of calendar year 2018. In these monthly reports, Finance staff point out trends or single items that appear out of the ordinary and ask departments to respond. This provides open communication between Finance and all departments to ensure trends are identified and exceptions are noted early. These monthly reports inform the quarterly financial reports staff has started providing to the Council.

Financial Closing and Reporting (2017-001 and 2018-001)

As part of the financial closing process, bank reconciliations must be completed. For both fiscal years, these reconciliations were not started until the audit commenced.

As of the date of this report, the Finance Department is up to date on all main bank account reconciliations. The department calendar indicates that future reconciliations should be completed by the second full week of the following month. Reconciliations are completed by the Senior Accountant and reviewed by both the Financial Analyst and the Finance Director before the month is closed. Once the month is closed, no additional entries or adjustments can be made.

Cash and Investments (2017-002 and 2018-002)

As part of the ERP implementation, the City created a pooled cash fund. The idea of this fund was to aggregate all cash for all individual funds to ease the reconciliations process. Only system generated entries should have been allowed in the pooled cash fund. Unfortunately, the fund was not set up correctly and the balance of the pooled cash account, while matching the bank account, does not match the sum of all individual funds. This issue began with the ERP implementation in fiscal year 2017 and has continued.

After doing a thorough review of the Finance Department's system and processes, staff has confirmed that the issue is the coding of revenue. All expenses are coded directly to specific funds and system entries are made to adjust the pooled cash fund; no expense entries are made directly to the pooled cash fund. Staff is continuing to trace cash transactions back to the original deposits to ensure that the revenue is recorded in the correct fund. Once these have all been identified, staff will cease using the pooled cash account, which will require all accounting entries to be posted to a specific fund. Staff intends to have all reconciliations done by the end of fiscal year 2018-19.

Capital Assets (2017-003 and 2018-003)

When the ERP system was implemented in 2017 fixed assets were not transferred from the old system to the new system. While lists have been maintained in Excel, and updated at least once a year for insurance purposes, asset purchase and disposal has not been tracked by the Finance Department since fiscal year 2016.

While still in Excel format, as of November, Finance staff has updated the capital asset listing with the help of other departments. In addition, Finance staff is currently coordinating with Public Works staff to schedule implementation and training sessions with the software company to allow for optimal use of the ERP system's fixed asset module. Further, monitoring fixed assets has been added as a job task to the Financial Analyst job description to ensure ownership of the process.

Journal Entries (2017-004)

During the fiscal year ending June 30, 2017, and during the audit, numerous journal entries were made with no accompanying backup. Some of these were later associated with budget entries or bank wires and associated backup was attached; however, there were numerous entries that staff were not able to determine the origin of. As cash reconciled, these entries appeared to have been made in an effort to make accounts balance from bank reconciliations, fiscal year 2016 audit adjustments, and beginning balances from the ERP conversion.

If no backup or reason could be found, current finance staff reversed the entries. If backup could be found, it was added. As of August, the Finance Department has implemented a procedure within the accounting system requiring all entries made by Accounting Technicians to be reviewed by a supervisor prior to posting. Generally, this is done by the Senior Accountant who ensures all appropriate documentation has been provided. Policies and procedures for other tasks are in the process of being drafted.

Beginning Balances (2018-004)

Current and temporary City staff completed a review of balances transferred from the old ERP system to the new system and noted significant variances. After review, it was noted that some account balances did not transfer correctly, some balances transferred with no detail and have had rolling balances since conversion, and audit adjustments recommended during the fiscal year 2015-16 were not completed.

These issues were discovered after the 2016-17 fiscal year had been closed, so no adjustments could be made by staff to the beginning balances. Staff worked to correct these beginning balance issues in "Period 13," generally used for end of year adjustments, and provided the auditor with a mapping of those adjustments to correct 2016-17 fiscal year end balances. The auditor did not provide the City any input on these adjustments.

Conversations with the auditor regarding the amounts rolled over from the old ERP system with no detail have resulted in the determination that the most effective course of action is to reverse these accruals after some time has elapsed. These accounts are generally accrued liability accounts which include expenses that were incurred in previous years but not paid. The assumption is that after some time, those expenses would have been paid and the accrual is no longer valid.

All balances should be adjusted as the pooled cash fund is reconciled, as described in the Cash and Investments section of this report. City staff is working to correct these issues and intend to have all reconciliations done by the end of fiscal year 2018-19.

Payroll Master File (2017-005 and 2018-005)

As previously indicated, policies and procedures for specific tasks are in the process of being drafted. While there are ongoing issues with the ERP implementation, as with all other financial aspects, staff has taken great strides in the past 6 months to address these issues. In addition, we have scheduled additional implementation and training sessions with the software company to ensure the ERP system is being utilized effectively and efficiently. Finance staff is working directly with Human Resources staff to create more distinct

separation of duties. In addition, the Finance Director and Treasurer review each payroll prior to issuance. That review now includes a review of the payroll master file.

Attachments

1. Basic Financial Statements For the year ended June 30, 2017
2. Independent Auditors' 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 and Schedule of Findings and Responses For the year ended June 30, 2017
3. Basic Financial Statements For the year ended June 30, 2018
4. Independent Auditors' 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 and Schedule of Findings and Responses For the year ended June 30, 2018

**City of
Albany**
Albany, California

Basic Financial Statements

For the year ended June 30, 2017

Prepared by:
Finance Department

City of Albany
Basic Financial Statements

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany, California (City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 opinions on these financial statements based on conducting the 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. Because of the matters described in the basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

- (1) The City did not perform timely reconciliations of cash, investments, and other balance sheet accounts, for which some could not be completed. We do not believe we can satisfy ourselves with the allocation, existence, or completeness of these account balances, as internal controls over these account balances were not performed.
- (2) The City posted many adjustments in an attempt to address issues encountered after implementing a new ERP system. These entries affect material revenue, expenditure, and balance sheet accounts. Due to limited documentation or ability to obtain explanations from the City with regard to these matters, we do not believe we can obtain sufficient audit evidence with regard to such adjustments.

To the Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California
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(3) We were unable to verify the appropriate allocation of cash and investments to individual funds.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2017, the City adopted new accounting guidance *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment benefits other than Pensions*.

Other Matters

Required Supplementary Information

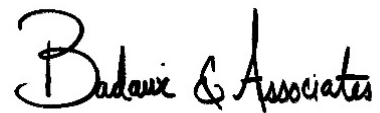
Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required 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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the matters described in the basis for disclaimer of opinion paragraph. We do not express an opinion or provide any assurance on the information

Management has omitted the management, discussion, and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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.

To the Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019 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* in considering the City's internal control over financial reporting and compliance.

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

Badawi and Associates
Certified Public Accountants
Oakland, California
January 28, 2019

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**BASIC
FINANCIAL STATEMENTS**

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Albany
Statement of Net Position
June 30, 2017

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets:			
Cash and investments	\$ 30,885,995	\$ 7,420,567	\$ 38,306,562
Debt service reserves held with trustee	346,516	-	346,516
Receivables:			
Taxes	743,185	-	743,185
Accounts	3,282,701	36,260	3,318,961
Deposits and prepayments	65,631	-	65,631
Total current assets	35,324,028	7,456,827	42,780,855
Noncurrent assets:			
Capital assets:			
Non-depreciable	10,262,631	1,670,682	11,933,313
Depreciable, net	35,261,640	14,341,634	49,603,274
Total capital asset	45,524,271	16,012,316	61,536,587
Total noncurrent assets	45,524,271	16,012,316	61,536,587
Total assets	80,848,299	23,469,143	104,317,442
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	455,091	72,434	527,525
Deferred employer pension contributions	1,789,585	-	1,789,585
Deferred outflows of resources - pension	3,116,371	-	3,116,371
Total deferred outflows of resources	5,361,047	72,434	5,433,481
LIABILITIES			
Current liabilities:			
Accounts payable	4,026,537	149,322	4,175,859
Accrued salaries & benefits	1,839,827	44,970	1,884,797
Interest payable	330,760	-	330,760
Deposits payables	115,458	-	115,458
Unearned revenue	138,498	-	138,498
Compensated absences, due within one year	288,964	-	288,964
Claims liabilities, due within one year	478,576	-	478,576
Long term debt, due within one year	1,141,795	505,000	1,646,795
Total current liabilities	8,360,415	699,292	9,059,707
Noncurrent liabilities:			
Net OPEB liability	3,492,579	-	3,492,579
Net pension liability	31,254,720	-	31,254,720
Compensated absences, due in more than one year	1,008,899	-	1,008,899
Claims payable, due in more than one year	569,122	-	569,122
Long term debt, due in more than one year	16,568,164	3,605,000	20,173,164
Total noncurrent liabilities	52,893,484	3,605,000	56,498,484
Total liabilities	61,253,899	4,304,292	65,558,191
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	3,192,750	-	3,192,750
Total deferred inflows of resources	3,192,750	-	3,192,750
NET POSITION			
Net investment in capital assets	27,814,312	11,974,750	39,789,062
Restricted for:			
Debt Service	2,271,310	-	2,271,310
Capital Projects	6,713,195	-	6,713,195
Public safety	364,628	-	364,628
Highway and streets	1,505,595	-	1,505,595
Special assessments	1,706,259	-	1,706,259
Safety retirement funding	1,962,224	-	1,962,224
Other	830,613	-	830,613
Total restricted	15,353,824	-	15,353,824
Unrestricted	(21,405,439)	7,262,535	(14,142,904)
Total net position	\$ 21,762,697	\$ 19,237,285	\$ 40,999,982

See accompanying Notes to Basic Financial Statements.

City of Albany
Statement of Activities
For the year ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 14,532,546	\$ 175,328	\$ -	\$ -	\$ 175,328
Police	6,436,504	281,837	248,468	-	530,305
Fire and emergency medical services	4,786,116	894,696	258,965	-	1,153,661
Community development and environmental resources	5,860,829	792,429	615,369	1,528,534	2,936,332
Recreation and community services	3,819,163	1,211,364	21,787	-	1,233,151
Interest on long-term debt	619,051	-	-	-	-
Total governmental activities	36,054,209	3,355,654	1,144,589	1,528,534	6,028,777
Business-type activities:					
Sewer	3,142,858	3,497,678	-	-	3,497,678
Total business-type activities	3,142,858	3,497,678	-	-	3,497,678
Total primary government	\$ 39,197,067	\$ 6,853,332	\$ 1,144,589	\$ 1,528,534	\$ 9,526,455

General Revenues:

Taxes:

Property taxes

Sales taxes

Franchise and other taxes

Total taxes

Investment earnings

Unrestricted revenues from other agencies

Other revenue

Total general revenues

Change in net position

Net position - beginning of year, as restated

Net position - end of year

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (14,357,218)	\$ -	\$ (14,357,218)
(5,906,199)	-	(5,906,199)
(3,632,455)	-	(3,632,455)
(2,924,497)	-	(2,924,497)
(2,586,012)	-	(2,586,012)
(619,051)	-	(619,051)
<u>(30,025,432)</u>	<u>-</u>	<u>(30,025,432)</u>
-	354,820	354,820
-	354,820	354,820
<u>(30,025,432)</u>	<u>354,820</u>	<u>(29,670,612)</u>
10,836,825	-	10,836,825
4,133,994	-	4,133,994
<u>7,244,479</u>	<u>-</u>	<u>7,244,479</u>
22,215,298	-	22,215,298
90,365	-	90,365
43,770	-	43,770
<u>665,894</u>	<u>-</u>	<u>665,894</u>
<u>23,015,327</u>	<u>-</u>	<u>23,015,327</u>
(7,010,105)	354,820	(6,655,285)
<u>28,772,802</u>	<u>18,882,465</u>	<u>47,655,267</u>
<u>\$ 21,762,697</u>	<u>\$ 19,237,285</u>	<u>\$ 40,999,982</u>

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund accounts for the resources traditionally associated with governmental funds which are not required legally or by sound financial management to be accounted for in another fund.

Street & Storm Fund accounts for property tax revenues, debt proceeds, and expenditures for various street and storm drain projects.

Non-Major Governmental Fund is the aggregate of all the non-major governmental funds.

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City of Albany
Balance Sheet
Governmental Funds
June 30, 2017

	Major Funds		Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Street & Storm Funds		
ASSETS				
Cash and investments	\$ 9,158,020	\$ 3,684,192	\$ 14,373,850	\$ 27,216,062
Debt service reserves held with trustee	-	-	346,516	346,516
Receivables:				
Taxes	646,085	7,593	89,507	743,185
Accounts	2,700,796	161,316	420,589	3,282,701
Prepaid Items	65,631	-	-	65,631
Due from other funds	95,683	-	-	95,683
Total assets	\$ 12,666,215	\$ 3,853,101	\$ 15,230,462	\$ 31,749,778
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,813,260	\$ 178,153	\$ 1,037,821	\$ 4,029,234
Accrued salaries & benefits	1,535,055	21,463	283,309	1,839,827
Due to other funds	-	-	92,993	92,993
Deposit payable	115,458	-	-	115,458
Unearned revenue	128,709	-	9,789	138,498
Total liabilities	4,592,482	199,616	1,423,912	6,216,010
Fund Balances: (Note 9)				
Nonspendable	65,631	-	-	65,631
Restricted	-	3,653,485	12,031,909	15,685,394
Assigned	-	-	2,482,641	2,482,641
Unassigned	8,008,102	-	(708,000)	7,300,102
Total fund balances	8,073,733	3,653,485	13,806,550	25,533,768
Total liabilities, deferred inflows of resources, and fund balances	\$ 12,666,215	\$ 3,853,101	\$ 15,230,462	\$ 31,749,778

See accompanying Notes to Basic Financial Statements.

City of Albany
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2017

Total Fund Balances - Total Governmental Funds \$ 25,533,768

Amounts reported for governmental activities in the Statement of Net Position were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet.

	Total
Non-depreciable	\$ 10,262,631
Depreciable, net	35,261,640
Total capital assets	45,524,271

In the Government-Wide Financial Statements, certain differences between actuarial amounts and actual results for pension are deferred and amortized over a period of time, however these differences do not impact the Governmental Funds Balance Sheet:

Deferred outflows of resources - pension	3,116,371
Deferred inflows of resources - pension	(3,192,750)

Employer contributions for pension were recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statements these contributions are deferred. 1,789,585

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the Governmental Funds Balance Sheet. (330,760)

The difference between the carrying value of refunded debt and the reacquisition price is deferred and amortized over the shorter of the remaining life of the refunded debt or the refunding debt. 455,091

Internal service funds were used by management to charge the costs of certain activities such as insurance and compensated absences to individual funds. The assets and liabilities of the Internal service funds were included in governmental activities in the Government-Wide Statement of Net Position. 1,324,379

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

	Government-Wide Statement of Net Position	Internal Service Funds	Total
Compensated absences - due within one year	\$ (288,964)	\$ 288,964	\$ -
Claims payable - due within one year	(478,576)	478,576	-
Long term debt - due within one year	(1,141,795)	-	(1,141,795)
Net OPEB Obligation	(3,492,579)	-	(3,492,579)
Net pension liability	(31,254,720)	-	(31,254,720)
Compensated absences - due in more than one year	(1,008,899)	1,008,899	-
Claims payable - due in more than one year	(569,122)	569,122	-
Long term debt - due in more than one year	(16,568,164)	-	(16,568,164)
Total long-term liabilities	\$ (54,802,819)	\$ 2,345,561	(52,457,258)

Net Position of Governmental Activities \$ 21,762,697

See accompanying Notes to Basic Financial Statements.

City of Albany
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2017

	Major Funds		Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Street & Storm Funds		
REVENUES:				
Property taxes	\$ 6,700,484	\$ 1,051,421	\$ 4,733,601	\$ 12,485,506
Sales taxes	4,133,994	-	-	4,133,994
Franchise and other taxes	4,576,631	-	-	4,576,631
Licenses and permits	1,129,907	-	-	1,129,907
Fines and forfeitures	277,987	-	-	277,987
Earnings on investments	86,418	-	-	86,418
Revenues from other agencies	470,972	161,317	2,135,231	2,767,520
Current service charges	1,488,705	-	1,113,830	2,602,535
Other revenue	919,005	-	60,363	979,368
Total revenues	19,784,103	1,212,738	8,043,025	29,039,866
EXPENDITURES:				
Current:				
General government	6,856,349	56,771	341,058	7,254,178
Police	6,329,581	-	856	6,330,437
Fire and emergency medical services	2,481,841	-	2,231,946	4,713,787
Community development and environmental resources	2,742,605	323,068	1,058,861	4,124,534
Recreation and community services	2,703,973	-	903,575	3,607,548
Capital outlay	370,742	285,944	2,678,818	3,335,504
Debt service:				
Principal	39,749	-	828,822	868,571
Interest	7,688	-	611,369	619,057
Cost of issuance	-	-	287,632	287,632
Total expenditures	21,532,528	665,783	8,942,937	31,141,248
REVENUES OVER (UNDER) EXPENDITURES	(1,748,425)	546,955	(899,912)	(2,101,382)
OTHER FINANCING SOURCES (USES):				
Proceeds from debt	-	-	14,750,000	14,750,000
Proceeds from debt issuance premium	-	-	1,124,519	1,124,519
Payment to escrow	-	-	(15,586,887)	(15,586,887)
Transfers in	2,042,951	-	1,225,563	3,268,514
Transfers out	(539,693)	(1,195,602)	(1,533,219)	(3,268,514)
Total other financing sources (uses)	1,503,258	(1,195,602)	(20,024)	287,632
Net change in fund balances	(245,167)	(648,647)	(919,936)	(1,813,750)
FUND BALANCES:				
Beginning of year	8,318,900	4,302,132	14,726,486	27,347,518
End of year	<u>\$ 8,073,733</u>	<u>\$ 3,653,485</u>	<u>\$ 13,806,550</u>	<u>\$ 25,533,768</u>

See accompanying Notes to Basic Financial Statements.

City of Albany

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities

For the year ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ (1,813,750)
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Amounts reported for governmental activities in the Statement of Activities were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period. 449,103

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds. (2,144,562)

In the statement of activities, only the gain or (loss) on the sale of capital assets is reported, whereas in the governmental funds proceeds from sales increases financial resources. The difference between proceeds and the loss on disposal of capital assets. 8,492

Employer contributions for pension were recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statements these contributions are deferred. 1,789,585

Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position. 16,455,458

Proceeds of new debt are recorded as other financing sources in the governmental funds, however are recorded as a liability on the Statement of Net Position. (15,874,519)

Other post-employment benefit expense reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances. (262,443)

Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however pension expense is not recognized in the governmental funds. (5,536,098)

Interest expense on long-term debt is reported on the accrual basis on the Government-Wide Statements, but expenditures on long-term debt in the governmental funds statements are recorded when paid. The following amount represents the changes in accrued interest from the prior year. (10,494)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service funds is reported in the Statement of Activities but not in the Statement of Revenues, Expenditures, and Changes in Fund Balances. (70,877)

Change in Net Position of Governmental Activities	\$ (7,010,105)
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See accompanying Notes to Basic Financial Statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

Sewer Fund accounts for wastewater and sewage collection provided to the City residents and businesses.

City of Albany
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business-Type Activities Enterprise Fund Sewer Fund	Governmental- Activities Internal Service Fund
ASSETS		
Current assets:		
Cash and investments	\$ 7,420,567	\$ 3,669,940
Accounts receivable	36,260	-
Total current assets	<u>7,456,827</u>	<u>3,669,940</u>
Noncurrent assets:		
Capital assets, non-depreciable	1,670,682	-
Capital assets, depreciable	14,341,634	-
Total capital assets	<u>16,012,316</u>	<u>-</u>
Total assets	<u>\$ 23,469,143</u>	<u>\$ 3,669,940</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	72,434	-
Total deferred outflows of resources	<u>72,434</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 149,322	\$ -
Accrued salaries & benefits	44,970	-
Compensated absences	-	288,964
Claims liabilities	-	478,576
Current portion of long term debt	505,000	-
Total current liabilities	<u>699,292</u>	<u>767,540</u>
Noncurrent liabilities:		
Compensated absences	-	1,008,899
Claims liabilities	-	569,122
Long-term debt	3,605,000	-
Total noncurrent liabilities	<u>3,605,000</u>	<u>1,578,021</u>
Total liabilities	<u>4,304,292</u>	<u>2,345,561</u>
NET POSITION		
Net investment in capital assets	11,974,750	-
Unrestricted	7,262,535	1,324,379
Total net position	<u>\$ 19,237,285</u>	<u>\$ 1,324,379</u>

See accompanying Notes to Basic Financial Statements.

City of Albany
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended June 30, 2017

	Business-Type Activities Enterprise Fund Sewer Fund	Governmental- Activities Internal Service Fund
OPERATING REVENUES:		
Services charges	\$ 3,497,678	\$ 52,073
Total operating revenues	3,497,678	52,073
OPERATING EXPENSES:		
Insurance premiums	-	122,950
Personnel services	421,854	-
Materials, supplies and other	2,137,630	-
Major repairs	27,716	-
Depreciation	457,499	-
Total operating expenses	3,044,699	122,950
OPERATING INCOME	452,979	(70,877)
NONOPERATING REVENUES (EXPENSES):		
Interest expense	(98,159)	-
Total nonoperating revenues (expenses)	(98,159)	-
Change in net position	354,820	(70,877)
NET POSITION		
Beginning of year	18,882,465	1,395,256
End of year	\$ 19,237,285	\$ 1,324,379

See accompanying Notes to Basic Financial Statements.

City of Albany
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2017

	Business-Type Activities Enterprise Fund Sewer Fund	Governmental- Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from others		
Cash received from customers	\$ 3,497,678	\$ 89,566
Cash paid to employees	(382,139)	122,950
Cash paid to suppliers	(2,025,523)	(170,129)
Net cash provided by operating activities	1,090,016	42,387
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	-	-
Proceeds from debt issuance	-	-
Principal payments - bonds	(703,449)	-
Interest paid	(98,159)	-
Net cash (used in) capital and related financing activities	(801,608)	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	-	-
Net cash provided by investing activities	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	288,408	42,387
CASH AND CASH EQUIVALENTS - Beginning of year	7,132,159	3,627,553
CASH AND CASH EQUIVALENTS - End of year	\$ 7,420,567	\$ 3,669,940
FINANCIAL STATEMENT PRESENTATION:		
Cash and investments	\$ 7,420,567	\$ 3,669,940
Total	\$ 7,420,567	\$ 3,669,940
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 452,979	\$ (70,877)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	457,499	-
Changes in assets and liabilities		
Increase (decrease) in accounts receivable	-	37,493
Increase (decrease) in accounts payable and accrued liabilities	139,823	(47,179)
Increase (decrease) in accrued salaries and benefits	39,715	-
Increase (decrease) in compensated absences	-	122,950
Total adjustments	637,037	113,264
Net cash provided by operating activities	\$ 1,090,016	\$ 42,387

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Private Purpose Trust Funds

Police and Fire Pension Trust Fund accounts for the City's Police and Fire Relief or Pension Trust Fund.

Successor Agency Trust to the Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. As discussed in Note 14, all Californian redevelopment agencies were dissolved as of January 31, 2012 and replaced with Successor Agencies responsible for winding down the affairs of the redevelopment agencies including disposing of their assets. This fund continues payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies. The financial activities of the fund are excluded from the Government-wide financial statements, but are presented in the separate Fiduciary Fund financial statements.

Agency Funds

Agency Fund accounts for the amounts held by the City acting as an agent for a third party.

City of Albany
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Pension Trust Fund (Police and Fire Pension)	Successor Agency Trust Fund	Agency Funds
ASSETS			
Current assets			
Cash and investments	\$ -	\$ -	\$ 1,042,270
Debt service reserves held with trustee	-	-	479,824
Investments, at fair value			
Local Agency Investment Fund	307,059	-	-
Cash and Money Market Fund	111,644	-	-
Mutual funds	6,216,048	-	-
Total investments, at fair value	<u>6,634,751</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 6,634,751</u>	<u>\$ -</u>	<u>\$ 1,522,094</u>
LIABILITIES			
Liabilities:			
Current liabilities			
Accounts payable	333,067	-	40,287
Overdrawn cash	69,279	-	-
Due to bondholders	-	-	655,488
Member deposits	-	-	40,493
Refundable deposits	-	-	785,826
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>826,319</u>
Total liabilities	<u>402,346</u>	<u>-</u>	<u>\$ 1,522,094</u>
NET POSITION			
Net Position restricted for pensions	<u>6,232,405</u>	<u>-</u>	
Total net position of Trust Funds	<u>\$ 6,232,405</u>	<u>\$ -</u>	

See accompanying Notes to Basic Financial Statements.

City of Albany
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended June 30, 2017

	Pension Trust Fund (Police and Fire Pension)	Successor Agency Trust Fund
ADDITIONS:		
Employer contributions	\$ 218,723	\$ -
Other	612	
Total additions	<u>219,335</u>	<u>-</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	521,764	-
Interest	3,947	-
Dividends	265,055	-
Total investment income	<u>790,766</u>	<u>-</u>
Total additions to assets	<u>1,010,101</u>	<u>-</u>
DEDUCTIONS:		
Pension benefits paid	1,314,082	-
Administration	293,955	381
Other	-	107,330
Total deductions from assets	<u>1,608,037</u>	<u>107,711</u>
Changes in net position	(597,936)	(107,711)
NET POSITION:		
Beginning of year	<u>6,830,341</u>	<u>107,711</u>
End of year	<u>\$ 6,232,405</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

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CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – Background

The City of Albany is a largely residential community located on San Francisco Bay in Alameda County, California. The City was incorporated in 1908. The population as of January 2017 estimated by the State of California, Department of Finance to be 18,646.

The City operates under the Council-City Manager form of government, with a full-time City Manager. The governing body is a five-member council, with one council member serving as mayor. The members are elected at large to serve a four year term. The City Treasurer is also an elected official.

In addition to finance and administrative functions, the City Manager oversees 84 fulltime-equivalent employees in the functions of:

- *Police services* - the Police Department is composed of a Chief of Police, two Lieutenants, five Sergeants, an Administrative Supervisor, fourteen patrol officers, three Detectives, six Public Safety Dispatchers, and various support services personnel for the equivalent of thirty-seven full-time employees. In addition to enforcement of laws and protection of life and property, the department supports the Albany Police Activities League (APAL) and numerous other community service programs.
- *Fire and Emergency Medical Services* - the Fire and Emergency Medical Services Department is composed of a Chief, a Battalion Chief, and eighteen fire fighters and paramedic personnel. The Fire Department is responsible for operation of the City's Emergency Operations Center. Department personnel perform numerous services to benefit the community, such as Christmas toy drives, sale of low cost bicycle helmets and conducting CPR courses.
- *Recreation and Community Services* - the City provides many recreational activities for its citizens, with emphasis on services to youth and seniors. City owned recreational facilities operated by the department are:
 - Community Center
 - Senior Center and a Senior Center Annex
 - Child Care Centers
 - Albany Teen Center
- *Community Development and Environmental Resources* - the functions of City infrastructure maintenance and administration of licensing, permit and zoning activities are assigned to this department. The department is composed of the following two divisions:
 - Planning and Building
 - Environmental Resources
- *Finance and Administrative Services* – performs financial accounting, budgeting, insurance administration, investment management, capital projects accounting, and other finance and administrative tasks, as required.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies

The following is a summary of the accounting policies of the City, which conform with generally accepted accounting principles in the United States of America as applicable to governments.

A. Reporting Entity

The financial statements of the City include the financial activities of the City as well as separate legal entities, called component units, which are controlled by or dependent on the City. While these are separate legal entities, the City Council may serve, in separate session, as their governing body and their financial activities are integral to those of the City. Their financial activities have been aggregated and merged or “blended” with those of the City, in the accompanying financial statements. The one exception is the *City of Albany Police and Fire or Pension Fund*, which does issue separate financial statements.

- *The City of Albany Police and Fire Relief or Pension Fund (Trust)* is a separate legal trust whose purpose is to provide pension benefits for certain eligible City employees. The Trust’s governing board is composed of a City Council person, City Treasurer, City Clerk, and two members of the Trust. All accounting and administrative functions are performed by the City, at the direction of the Trust Board of Commissioners. The activities of the Trust have been included in the Police and Fire Relief Pension Trust Fund. Separate financial statements for the Trust may be obtained from the City of Albany administrative offices located at 1000 San Pablo Avenue, Albany, CA 94706.
- *The City of Albany Public Facilities Financing Authority* is a financing authority whose purpose is to provide financing assistance to the City for acquiring real property and improvements for the benefit of the City and surrounding areas. The Authority’s board is composed of the City Council, and all accounting and administrative functions are performed by City staff. The Authority is dependent upon the City for its cash flows, and the activities of the Authority have been recorded in the Public Facilities Financing Authority Debt Service Fund of the City. Separate financial statements are not issued for this entity.
- *Albany Municipal Services Joint Powers Authority (Authority)* was originally established by the City of Albany and the Albany Community Reinvestment Agency (CRA). The CRA role has subsequently been assumed by the Successor Agency. The purpose of the Authority is to employ certain management employees of the City that are not members of an organized bargaining unit. Members of the City Council serve on the governing board, and the City reimburses the Authority for all expenses. Because the Authority’s financial activities are related solely to those of the City, they are included in the City’s financial statements. Separate financial statements are not issued for this entity.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting/Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements

The City Government-wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City, accompanied by a total column. Internal Service Funds activities are excluded to avoid “doubling up” revenues and expenses. Fiduciary activities of the City are not included in the government-wide statements.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents revenues, expenditure and fund transfers that produce changes in the net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which the liability is incurred.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board Statement No. 34 in regards to inter-fund activities, payables and receivables. The City does not have internal payments that are treated as program revenue. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, transactions between governmental and business-type activities have not been eliminated.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting/Measurement Focus (Continued)

Net position should be reported as restricted when constraints placed on the net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements.

Revenues subject to accrual are property taxes, franchise taxes, interest revenue, and charges for services. Sales taxes collected and held by the State at year-end on behalf of the City also are recognized as revenue. Licenses and permits are not subject to accrual because, generally, they are not measurable until received in cash.

Expenditures are generally recognized when a liability is incurred, under the modified accrual basis of accounting. Principal and interest on general long-term debt are recognized when due. Financial resources are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Thus, amounts are not current liabilities of the debt service fund, as their settlement will not require expenditure of existing fund assets.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting/Measurement Focus (Continued)

All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as subject to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The major governmental funds of the City are:

- *General Fund* – This is the general operating fund of the City. It is used to account for all financial resources except those accounted for in another fund.

- *Street & Storm Capital Project Fund* – This fund is used to record property tax revenues, debt proceeds and expenditures for various street and storm drain projects.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

The City of Albany reports the Sewer Enterprise Fund as a major proprietary fund type. The Sewer Enterprise Fund accounts for wastewater and sewage collection provided to City residents and businesses. The cost of this service, including depreciation, is recovered through user charges.

The City's internal service funds at June 30, 2017 are the Workers' Compensation Fund, General Liability Fund, and the Compensated Absences Fund. The Workers' Compensation Fund is used to cover known and unknown claims that may occur relating to worker injuries. The General Liability Fund is used to cover future general liability claims against the City. The Compensated Absences Fund is used to reserve funds required to pay off accrued liabilities for vacations, compensatory time and sick leave upon employees' retirement or other termination of employment.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting/Measurement Focus (Continued)

Proprietary funds are accounted for using the *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund; all other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund, and all other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a statement of net position and a statement of changes in net position. The City's fiduciary funds represent a Pension trust fund, Private-purpose trust fund, and agency funds. Pension Trust Funds are used to report resources that are required to be held in trust by the City for the members and beneficiaries of defined benefit pension plans and defined contribution pension plans, Private-purpose trust funds are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments, and Agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City includes in its Comprehensive Annual Financial Report (CAFR) the Police and Fire Pension Trust Fund, which accounts for the activities of the Police and Fire Relief or Pension Fund Trust. The Successor Agency Fund is reported as a Private-purpose trust fund.

Agency funds are used by the City to report activity relating to amounts collected and distributed by the City, which include fees, special assessments, and deposits for outside parties based on agreements. Agency fund transactions are presented in the statement of changes in fiduciary assets and liabilities on page 41.

C. Revenue Recognition for the Sewer Enterprise Fund

Sewer service charges are billed and collected by the Alameda County Tax Collector as part of the property tax bill. Semi-annual payments are due November 1 and February 1 of the fiscal year in which the service is provided. Any charges, of a material amount, billed but not received, as of the end of the fiscal year, are accrued.

D. Compensated Absences

City employees under state laws are entitled to payment of accrued and unused vacation leave hours. In addition the City bargaining agreements and personnel rules allow for those who retire with unused sick leave to receive payment of twenty-five percent of accrued and unused sick leave, at the time of retirement. The City has obligations for accrued vacation and sick leave in the amount \$1,297,863, which is recorded in the Compensated Absences Internal Service Fund. The current portion of the liability is \$288,964, and the noncurrent portion is \$1,008,899.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

E. Property Tax

Alameda County officials assess property, calculate and collect taxes due. The County distributes taxes, plus related interest and penalties, allocated to the City.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and become delinquent on August 31. The term “unsecured” refers to taxes on personal property other than real estate, land, and buildings, which are secured by liens on the property being taxed.

Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above.

F. Cash and Cash Equivalents, and Cash Flows

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Proprietary fund types operating cash and investments have been used to prepare the statements of cash flows. Debt service reserves with trustees have original maturity terms of more than three months, and are not included as cash equivalent in the statement of cash flows. For the purpose of the statement of cash flows of the proprietary funds types, cash and cash equivalents include all investments, as the City operates an internal cash management pool which maintains the general characteristics of a demand deposit account.

G. Prepaid Items

Prepaid items represent amounts paid in advance for a benefit not yet received. This type of expenditure normally includes costs paid in one fiscal year (or period) that benefits a future year (or period). The City uses the consumption method of accounting for prepaid items under which purchases are debited to a prepaid asset account and are recorded as expenditures or expenses when used.

H. Capital Assets

Governmental activity capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Infrastructure assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Capital assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is charged to governmental activities, by function.

Business-type activity capital assets are recorded at cost and depreciated over their estimated useful lives. The purpose of depreciation is to spread the costs of business-type capital assets equitably among all customers over the life of these assets, so that each customer’s bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of business-type activities capital assets.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

The capitalization threshold for capital assets is \$5,000 with a useful life of at least two years. Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Capital Assets as a reduction in the book value of capital assets.

Depreciation of capital assets in service is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years, and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets.

Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and fixtures	5-10 years
Machinery and equipment	2-10 years
Vehicles	5 years
Sewer transmission lines	50 years
Infrastructure	20-70 years

I. Deferred Compensation Plan

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until it is distributed to them; distributions may be made only at termination of employment, retirement, death, or in an emergency as defined by the Plan. In accordance with GASB Statement No. 32, the funds have been placed in a trust administered by ICMA-Retirement Corporation and are not available to the City's general creditors. Accordingly, the City does not report the assets in the financial statements.

J. Net Position and Fund Balances

In the government-wide financial statements, net positions are classified in the following categories:

Net Investment in Capital Assets: This category groups all capital assets into one component of net position. Accumulated depreciation on these assets and the outstanding principal of related debt reduce this category.

Restricted Net Position: This category represents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position: This category represents the net position of the City that are not externally restricted for any project or other purpose.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

J. Net Position and Fund Balances (Continued)

In the fund financial statements, governmental funds are classified in the following categories in accordance with a policy adopted by the City Council:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes established by the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally (for example: resolution).

Assigned Fund Balance – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) City Council or (b) a body (a budget, finance committee, or management (City Wide Leadership team, which consists of City Manager and Executive Department Heads)) to which the assigned amounts are to be used for specific purposes. The City Council adopted Resolution No. 2012-2 that delegated this authority to the City Manager. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) other than the General Fund, that are not classified as nonspendable, restricted, or committed.

Unassigned Fund Balance – the residual classification for the General Fund and includes all not contained in the other classifications. Governmental funds report residual negative balances as unassigned fund balance.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

K. Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

L. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City’s California Public Employees’ Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

M. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

O. New Pronouncements

In fiscal year 2017, the City adopted the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*– The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement were not applicable to the City.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – Summary of Significant Accounting Policies (Continued)

O. New Pronouncements (Continued)

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The objective of this statement is to address reporting by governments that provide other postemployment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The City restated its beginning net position as part of implementation of this statement.
- GASB Statement No. 77, *Tax Abatement Disclosure*- This Statement addresses the financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The requirements of this statement were not applicable to the City.
- GASB Statement No. 78, *Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans*– The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement were not applicable to the City.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14* - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this statement were not applicable to the City.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – Operating Cash and Investments

The City's dependence on property tax receipts and seasonal revenue sources requires it to maintain significant cash reserves to finance operations. Except debt service reserves with trustees, bond proceeds from special assessment districts, and bond proceeds from sewer revenue bonds, the City pools operating cash and investments from all sources and funds, so that these funds may be invested at the maximum yield, consistent with safety and liquidity, while allowing expenditures from individual funds at any time. Disclosure for the Police and Fire Relief Pension Fund investments can be found in Note 11.

The following is a summary of pooled cash and investments, including debt service reserves with trustees at June 30, 2017:

	Government-Wide Statement of Net Position		Fiduciary Funds	Total
	Governmental Activities	Business-Type Activities	Statement of Net Position	
Operating cash and investments	\$ 30,885,995	\$ 7,420,567	\$ 7,677,021	\$ 45,983,583
Overdrawn cash	-	-	(69,279)	(69,279)
Debt service reserves held with trustee	346,516	-	479,824	826,340
Total	\$ 31,232,511	\$ 7,420,567	\$ 8,087,566	\$ 46,740,644

At June 30, 2017 the City's pooled cash and investments, including debt service reserves with trustees consisted of the following:

City Treasury:	
Deposits:	
Cash on hand	\$ 2,646
Deposits with financial institutions	9,038,151
Total Deposits	9,040,797
Investments:	
State investment pool	28,200,303
Mutual funds	6,216,048
CalTrust investment pool	2,344,254
Cash and money market funds	111,644
Total investments	36,872,249
Total City Treasury	45,913,046
Debt service reserves held with trustee	827,598
Total City and trustee cash and investments	\$ 46,740,644

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – Operating Cash and Investments (Continued)

A. Authorized Investments

The table below identifies the investment types that are authorized by the City’s Investment Policy. The table also identifies certain provisions of the City’s Investment Policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the City’s investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of *Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	N/A	N/A	N/A
U.S. Agency Securities	N/A	N/A	N/A
Banker's Acceptance	180 days	40%	10%
Commercial Paper	270 days	15%	10%
Medium-Term Notes	One year	15%	5%
Money Market Mutual Funds	N/A	N/A	N/A
Repurchase Agreements	7 days	N/A	N/A
Local Agency Investment Fund (LAIF)	N/A	N/A	N/A
Investment Trust of California (CalTrust)	N/A	25%	N/A
Negotiable Certificates of Deposits	One year	15%	N/A

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Debt Service Reserves with trustee are invested in accordance with indentures governing the related debt. The trustee may invest in U.S. treasury notes and bonds, and in pooled investments that invest in those securities.

B. 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 City 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 City monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio. In accordance with the City’s investment policy, the City is not allowed to invest more than 25% of its investment portfolio in maturities greater than one year. Investments which exceed five years in maturity require City Council’s approval. Further, each individual security is limited to one million dollars.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – Operating Cash and Investments (Continued)

B. Risk Disclosures (Continued)

At June 30, 2017 all of the City’s investments had remaining maturities of twelve months or less.

Investment Type	Fair Value	Maturity: 12 Months Or Less
State investment pool	\$ 28,200,303	\$ 28,200,303
Mutual funds	6,216,048	6,216,048
CalTrust investment pool	2,344,254	2,344,254
Cash and money market funds	111,644	111,644
Total	\$ 36,872,249	\$ 36,872,249

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 City’s investment facilities listed above were not assigned ratings by a nationally recognized credit rating organization.

The City’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, 2017 there are no investments in any one issuer that represent 5% or more of total City investments.

Custodial Credit Risk. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a depositor will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a depositor will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017, bank balances were \$9,038,151 at one institution. The Federal Deposit Insurance Corporation fully insures up to \$250,000. The remaining amount was collateralized with securities held by the pledging financial institutions in the City’s name. The City’s pension account had a negative book balance of negative \$62,539 due to outstanding checks exceeding the bank balance as of June 30, 2017.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – Operating Cash and Investments (Continued)

C. Investment in State Investment Pool

The City 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 City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holding in LAIF. The City had a contractual withdrawal value of \$28,230,207 whose pro-rata share of fair value was estimated by the state Treasurer to be \$28,200,303. The fair value change in this investment for the year came to an amount that was not material for presentation in the financial statements.

The City's investments with LAIF at June 30, 2017 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 2017, the State Treasurer had invested 2.67% of the pool's funds in structured notes and asset-backed securities.

D. Fair Value of Investments

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, 2017 are described on the following page.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – Operating Cash and Investments (Continued)

D. Fair Value of Investments (Continued)

Investment Type	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Mutual Funds-Bond Funds				
DODGE & COX INCOME FUND	\$ 2,153,159	\$ 2,153,159	\$ -	\$ -
PIMCO INVESTMENT GRADE	724,164	724,164	-	-
Mutual Funds-Equity Funds				
DODGE & COX STOCK FUND	2,471,401	2,471,401	-	-
IVA INTL FD CL I	341,655	341,655	-	-
MAINSTAY EPOCH GLOBAL	416,278	416,278	-	-
NEUBERGER BERMAN EQTY	109,391	109,391	-	-
Subtotal Mutual Funds	6,216,048	6,216,048	-	-
Total investments subject to levelling	\$ 6,216,048	\$ 6,216,048	\$ -	\$ -

The City's investments in bond and equity mutual funds are based on direct quotes from active markets for similar investments.

E. Albany Police and Fire Relief Pension Fund

The following information pertains to the Albany Police and Fire Relief Pension Fund only.

Cash

At June 30, 2017, the Fund's operating cash balance was a negative \$69,279. The Fund's bank balance of \$31,347 (inclusive of outstanding checks) was held at one institution, which was fully covered by depository insurance.

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 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 Fund's governing board, which meets with the investment manager quarterly.

At June 30, 2017, the Fund's assets were invested in the Schwab Money Market Fund (SWMXX); Dodge & Cox Income Fund (DODIX); PIMCO Investment Grade (PIGIX); Dodge & Cox Stock Fund (DODGX); IVA Intl Fund CL I (IVIQX); Mainstay Epoch Global (EPSYX); and Neuberger Berman Equity (NBHIX).

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – Operating Cash and Investments (Continued)

E. Albany Police and Fire Relief Pension Fund (Continued)

The 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>
Large Cap Equity	40%	25%	55%
International Equity	10%	5%	15%
Fixed Income	50%	40%	60%
Cash	5%	N/A	10%

As of June 30, 2017, the Fund's allocations reflected the general guidelines set by the Fund's policy as described above.

Investments at June 30, 2017 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Money market funds	\$ 111,644
State investment pool (LAIF)	307,059
Mutual funds:	
Bond Funds	2,877,324
Equity Funds	3,338,724
Total	<u>\$ 6,634,751</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 increase in fair value of investments for the year ended June 30, 2017 was \$521,764.

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.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – Operating Cash and Investments (Continued)

E. Albany Police and Fire Relief Pension Fund (Continued)

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, 2017, there are no investments in any one issuer that represent 5% or more of total Fund 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 is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. 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 \$307,059. 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, 2017.

The Fund's investments with LAIF at June 30, 2017 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 2017, the State Treasurer had invested 2.67% of the pool's funds in structured notes and asset-backed securities.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 – Capital Assets

The following is a summary of capital assets as of June 30, 2017:

	Governmental Activities	Business-Type Activities	Total
Nondepreciable assets:			
Land	\$ 9,443,728	\$ -	\$ 9,443,728
Construction in progress	818,903	1,670,682	2,489,585
Total nondepreciable assets	10,262,631	1,670,682	11,933,313
Depreciable assets:			
Buildings	21,230,005	-	21,230,005
Improvements other than buildings	8,657,334	-	8,657,334
Furniture and fixtures	648,457	-	648,457
Machinery and equipment	2,365,327	-	2,365,327
Vehicles	3,513,728	-	3,513,728
Sewer lines	-	21,204,274	21,204,274
Infrastructure	21,878,771	56,928	21,935,699
Total depreciable assets	58,293,622	21,261,202	79,554,824
Less accumulated depreciation:	(23,031,982)	(6,919,568)	(29,951,550)
Depreciable capital assets, net	35,261,640	14,341,634	49,603,274
Total capital assets, net	\$ 45,524,271	\$ 16,012,316	\$ 61,536,587

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 – Capital Assets (Continued)

Transactions and balances of capital assets were as follows:

	Balance June 30, 2016	Additions	Transfers/ Retirements	Balance June 30, 2017
Governmental Activities:				
Nondepreciable assets:				
Land	\$ 9,443,728	\$ -	\$ -	\$ 9,443,728
Construction in progress	818,903	-	-	818,903
Total nondepreciable assets	<u>10,262,631</u>	<u>-</u>	<u>-</u>	<u>10,262,631</u>
Depreciable assets:				
Buildings	21,230,005	-	-	21,230,005
Improvements other than buildings	8,657,334	-	-	8,657,334
Furniture and fixtures	641,513	6,944	-	648,457
Machinery and equipment	2,297,361	110,326	(42,360)	2,365,327
Vehicles	3,396,135	331,833	(214,240)	3,513,728
Infrastructure	21,878,771	-	-	21,878,771
Total depreciable assets	<u>58,101,119</u>	<u>449,103</u>	<u>(256,600)</u>	<u>58,293,622</u>
Less accumulated depreciation for:				
Buildings	5,842,562	407,706	-	6,250,268
Improvements other than buildings	3,867,614	411,575	-	4,279,189
Furniture and fixtures	491,239	56,388	-	547,627
Machinery and equipment	1,723,119	154,695	(42,360)	1,835,454
Vehicles	3,012,434	190,412	(222,732)	2,980,114
Infrastructure	6,215,544	923,786	-	7,139,330
Total accumulated depreciation	<u>21,152,512</u>	<u>2,144,562</u>	<u>(265,092)</u>	<u>23,031,982</u>
Total depreciable assets, net	<u>36,948,607</u>	<u>(1,695,459)</u>	<u>8,492</u>	<u>35,261,640</u>
Total governmental activities capital assets:	<u>\$ 47,211,238</u>	<u>\$ (1,695,459)</u>	<u>\$ 8,492</u>	<u>\$ 45,524,271</u>

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 22,479
Police	101,848
Fire and emergency medical services	72,329
Community development and environmental resources	1,736,291
Recreation and community services	211,615
Total governmental activities depreciation expense	<u>\$ 2,144,562</u>

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 – Capital Assets (Continued)

	Balance June 30, 2016	Additions	Transfers/ Retirements	Balance June 30, 2017
Business-Type Activities:				
Non-Depreciable assets:				
Construction in progress	\$ 1,670,682	\$ -	\$ -	\$ 1,670,682
Total non-depreciable assets	<u>1,670,682</u>	<u>-</u>	<u>-</u>	<u>1,670,682</u>
Depreciable assets:				
Sewer lines	\$ 21,204,274	\$ -	\$ -	\$ 21,204,274
Machinery and equipment	56,928	-	-	56,928
Total depreciable assets	<u>21,261,202</u>	<u>-</u>	<u>-</u>	<u>21,261,202</u>
Less accumulated depreciation for:				
Sewer lines	6,405,141	457,499	-	6,862,640
Machinery and equipment	56,928	-	-	56,928
Total accumulated depreciation	<u>6,462,069</u>	<u>457,499</u>	<u>-</u>	<u>6,919,568</u>
Total depreciable assets, net	<u>14,799,133</u>	<u>(457,499)</u>	<u>-</u>	<u>14,341,634</u>
Total business-type activities capital assets	<u>\$ 16,469,815</u>	<u>\$ (457,499)</u>	<u>\$ -</u>	<u>\$ 16,012,316</u>

NOTE 5 – Governmental Activities Debt

The City generally incurs debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The City's debt issues and transactions related to governmental activities are summarized below and discussed in detail subsequently.

Governmental Activities	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
2003 GO Bonds					
3.00-4.00%, 8/1/33	\$ 5,865,000	\$ -	\$ 5,865,000	\$ -	\$ -
Civic Center Improvement					
GO Bonds, 4.00-8.00%, 8/1/37	4,245,000	-	4,245,000	-	-
GO Bonds II					
4.00-7.00%, 8/1/37	5,520,000	-	5,520,000	-	-
2016 GO Refunding Bonds					
2.00-5.00%, 8/1/37	-	15,874,519	-	15,874,519	755,000
2009 Street & Storm Drain					
Parcel tax note, 4.60%, 8/1/21	1,882,932	-	308,274	1,574,658	322,618
Lease purchase agreement					
4.52%, 9/3/18	130,354	-	41,545	88,809	43,423
2011 California Energy					
Commission 1.0%, 6/2025	192,521	-	20,548	171,973	20,754
Total long-term debt	<u>\$ 17,835,807</u>	<u>\$ 15,874,519</u>	<u>\$ 16,000,367</u>	<u>\$ 17,709,959</u>	<u>\$ 1,141,795</u>

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 – Governmental Activities Debt (Continued)

A. 2016 General Obligation Refunding Bonds I

In September 2016, the City issued the 2016 General Obligation Refunding Bonds in the amount of \$14,750,000. The proceeds were used to refinance the City's outstanding General Obligation Bonds, Election of 2002, Series 2003, General Obligation Bonds, Election of 2002, Series 2007, and General Obligation Bonds, Election of 2006, Series 2007. Interest payments are due February 1st and August 1st and principal payments are due August 1st of each year, with the final payment due August 1, 2037. The refunding resulting in a difference in aggregate future debt service cash payments in the amount of \$3,687,396 and an economic gain (net present value savings) of \$2,898,165. The unamortized balance of the original issuance premium as of June 30, 2017 was \$1,124,519. As of June 30, 2017, the General Obligation Bonds, Election of 2002, Series 2007, and General Obligation Bonds, Election of 2006, Series 2007 refunded bonds had outstanding balances of \$5,365,000 and \$4,125,000 respectively.

B. 2009 Street & Storm Drain Parcel Tax Note

In June 2006, voters passed a ballot measure (Measure F) authorizing a street paving and storm drain parcel tax to finance citywide street paving and storm drain facility repairs and improvements. In April 2009, the City entered into a parcel tax note agreement with Capital One Public Financing, LLC in the amount of \$3,465,156. The financing provided funding to advance storm drain improvements. Interest payments are due August 1st and February 1st and beginning in 2010 principal payments are due August 1st and February 1st of each year, with the final payment due August 2, 2021.

C. Lease Purchase Agreement

On September 3, 2008, the City entered into a lease purchase agreement with Sun Trust Equipment Finance & Leasing Corp in the amount of \$374,990 to finance the purchase of a fire engine. Ownership of the fire engine passes to the City at the end of the lease. The cost of the fire engine has been included in the City's financial statements.

F. California Energy Commission Note

In March 2010 the City entered into an agreement with the California Energy Commission to replace existing high pressure sodium vapor street lights with energy efficient light-emitting diode lights. As part of this agreement, the City issued a note of \$290,805 with an interest rate of 1% and a term of 14 years.

G. Arbitrage

As of June 30, 2017, it is not anticipated that any bond funds will incur arbitrage liabilities within the next year. Management does not anticipate that any potential arbitrage liability would have material effect on the bond funds to which they were assessed.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 – Governmental Activities Debt (Continued)

H. Future Governmental Activities Debt Service

Debt service schedules for the COP's, general obligation bonds, and lease purchases are as follows at June 30, 2016:

Year Ending June 30:	Total Principal	Total Interest
2018	\$ 1,141,795	572,186
2019	918,977	523,254
2020	914,508	478,912
2021	961,164	434,506
2022	812,892	387,836
2023-2027	3,571,104	1,422,976
2028-2032	4,195,000	789,097
2033-2037	3,480,000	309,653
2038	590,000	8,850
Subtotal	<u>\$ 16,585,440</u>	<u>\$ 4,927,270</u>
Original issuance premium	<u>1,124,519</u>	
	<u><u>\$ 17,709,959</u></u>	

PRINCIPAL Year Ending June 30	2016 GO Refunding Bonds	2009 Street & Storm Drain Parcel Tax Note	Lease Purchase Agreement	California Energy Commission	Total
2018	\$ 755,000	\$ 322,618	\$ 43,423	\$ 20,754	\$ 1,141,795
2019	515,000	337,629	45,386	20,962	918,977
2020	540,000	353,339	-	21,169	914,508
2021	570,000	369,779	-	21,385	961,164
2022	600,000	191,293	-	21,599	812,892
2023-2027	3,505,000	-	-	66,104	3,571,104
2028-2032	4,195,000	-	-	-	4,195,000
2033-2037	3,480,000	-	-	-	3,480,000
2038	590,000	-	-	-	590,000
Subtotal	<u>14,750,000</u>	<u>1,574,658</u>	<u>88,809</u>	<u>171,973</u>	<u>16,585,440</u>
Original Issuance Premium	<u>1,124,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,124,519</u>
Total	<u><u>\$ 15,874,519</u></u>	<u><u>\$ 1,574,658</u></u>	<u><u>\$ 88,809</u></u>	<u><u>\$ 171,973</u></u>	<u><u>\$ 17,709,959</u></u>

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 – Governmental Activities Debt (Continued)

H. Future Governmental Activities Debt Service (Continued)

INTEREST Year Ending June 30	GO Bonds II	2009 Street & Storm Drain Parcel Tax Note	Lease Purchase Agreement	California Energy Commission	Total
2018	\$ 497,738	\$ 68,766	\$ 4,014	\$ 1,668	\$ 572,186
2019	465,988	53,755	2,051	1,460	523,254
2020	439,613	38,046	-	1,253	478,912
2021	411,863	21,605	-	1,038	434,506
2022	382,613	4,400	-	823	387,836
2023-2027	1,421,813	-	-	1,163	1,422,976
2028-2032	789,097	-	-	-	789,097
2033-2037	309,653	-	-	-	309,653
2038	8,850	-	-	-	8,850
Totals	\$ 4,727,228	\$ 186,572	\$ 6,065	\$ 7,405	\$ 4,927,270

The City is required to maintain amounts of restricted cash and investments with trustees or fiscal agents under the terms of the above debt issues. These funds are pledged as reserves to be used if the City fails to meet its obligations under debt issues. These reserves total \$346,516 at June 30, 2017. The California Government Code requires these funds to be invested in accordance with the City ordinance, bond indentures or State statute. All funds have been invested as permitted under the Code.

NOTE 6 – Special Assessment District Debt

On February 10, 1999 the City issued Limited Obligation Improvement Bonds in the amount of \$6,230,000, pursuant to the provisions of the Improvement Bond Act of 1915 and the 1972 LLMD Act. The bonds were issued to finance certain improvements and acquisitions in the City's Open Space, Recreational Playfield, and Creek Restoration Assessment District No. 1996-1 (the District). Assessments sufficient to meet annual debt service on the bonds are billed by the County of Alameda to owners of assessment parcels located within the District.

Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof is pledged to the payment of the bonds. Therefore, the debt is not recorded in the City's Government-wide Financial Statements.

The outstanding balance of the bonds as of June 30, 2017 is \$1,305,000.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – Business-Type Activities Debt

During fiscal year 2016, the City issued \$4,810,000 in Sewer Revenue Bonds, which were used to refund the City’s 2004 Sewer Revenue Bonds in the amount of \$5,100,000 as of the issue date. The reacquisition price exceeded the net carrying amount of the old debt by \$68,985. The bonds mature serially, each September 1st, and semi-annual interest payments are due each August 1st and February 1st.

The Bonds are special obligations of the City and are secured by and payable solely from operating revenue of the Sewer Enterprise Fund. The interest rate on the bonds is 2.17%.

The City has pledged future sewer service charges, net of specified operating expenses, to repay the debt. Annual principal and interest payments on the debt are payable solely from net revenues through 2024. The total principal and interest remaining to be paid on the bonds is \$4,476,025. Principal and interest paid for the current year was \$801,608 and sewer revenue net of operating expenses (excluding depreciation expense) was \$910,478.

The following is a summary of changes in business-type activities long-term debt.

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
2016 Sewer revenue bonds	4,810,000	-	700,000	4,110,000	505,000
Total long-term debt	<u>\$ 5,069,675</u>	<u>\$ -</u>	<u>\$ 700,000</u>	<u>\$ 4,110,000</u>	<u>\$ 505,000</u>

Annual debt service repayment requirements to repay the Sewer Revenue Bonds and amortization of bond issuance costs and refunding discount at June 30, 2017 are:

	June 30	Principal	Interest	Total
2018		\$ 505,000	\$ 86,149	\$ 591,149
2019		515,000	75,136	590,136
2020		530,000	63,852	593,852
2021		540,000	52,297	592,297
2022		555,000	40,525	595,525
2023-2025		1,465,000	48,065	1,513,065
Totals		<u>\$ 4,110,000</u>	<u>\$ 366,024</u>	<u>\$ 4,476,024</u>

Internal Service Fund Debt

The liability related to compensated absences at June 30, 2017 is summarized below:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Estimated Payments in One Year
Compensated Absences	\$ 1,174,913	\$ 122,950	\$ -	\$ 1,297,863	\$ 288,964

All liabilities for compensated absences are liquidated by charges to the General Fund.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – Interfund Transactions

Due To / From

During the normal course of business the General Fund may make a temporary inter-fund transfer to cover deficit cash balances caused by expenditures for reimbursement type grants and other reimbursements or timing differences between when revenue is received.

	<i>Due to other funds</i> NON MAJOR GOVERNMENTAL FUNDS	Total Due to other funds
<i>Due from other funds</i>		
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ 95,683	\$ 95,683
Total Due from other funds	\$ 95,683	\$ 95,683

Interfund Transfers (Transfers In / Out)

A summary of all Interfund Transfers for the year ended June 30, 2017 were as follows:

	Transfers Out			
	General	Street & Storm Drain	Non-Major Govt Funds	
Transfers In				
Major Funds				
General Fund	\$ -	\$ 1,195,602	\$ 847,349	\$ 2,042,951
Street & Storm Fund	-	-	-	-
Non-major Govtl Funds	539,693	-	685,870	1,225,563
Total	\$ 539,693	\$ 1,195,602	\$ 1,533,219	\$ 3,268,514

NOTE 9 – Excess Expenditures Over Budgeted Appropriations

This note discusses budget variances for budgeted major funds, excluding Capital Project Funds.

General Fund

When viewed in total General Fund Expenditures were more than the budgeted amount by \$1,327,885

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 – Net Position and Fund Balances

The format of the Government Wide Financial Statements use the term “Net position” to describe what had been previously referred to as “net assets” in previous Comprehensive Annual Financial Reports (CAFR’s). The Net Position is further categorized as Restricted or Unrestricted. Restricted portions of net position include external restrictions as well as restrictions based on policies established by the City Council. Unrestricted portions of the net position reflect categories that are not restricted or net investment in capital assets.

The Governmental Accounting Standards Board (GASB) established fund balance classifications for governmental funds, which are also incorporated in an adopted City policy. The City Council has adopted a Resolution setting forth its policy using the GASB designations. In the Fund Financial Statements, in accordance with Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

Non-spendable

Fund balance amounts that cannot be spent because they are either (a) not expected to be converted to cash or (b) legally or contractually required to be maintained intact.

Restricted

Fund balance amounts that are subject to externally enforceable legal restrictions or constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed

Fund balance amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of the City Council. The adopted policy the City Council must take action to allow for removal or change to the constraint.

Assigned

Fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. In accordance with the adopted City Policy (Resolution No. 2012-2) the City Council has authorized the City Manager to assign balances.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 – Fund Balances and Net Position (Continued)

Unassigned

Positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Fund balances are classified in the above categories as follows:

	<u>Major Governmental Funds</u>			Non Major Government Funds	Total Government
	General	Street and Storm Fund			
Fund Balances					
Nonspendable fund balance:					
Prepaid items	\$ 65,631	\$ -	\$ -	\$ -	\$ 65,631
	65,631	-	-	-	65,631
Restricted fund balance for:					
Debt Service	-	-	2,447,819		2,447,819
Construction Projects	-	3,653,485	3,056,664		6,710,149
Police Retirement Funding	-	-	1,962,213		1,962,213
Other	-	-	4,565,213		4,565,213
	-	3,653,485	12,031,909		15,685,394
Assigned fund balance for:					
Capital Projects	-	-	2,482,641		2,482,641
	-	-	2,482,641		2,482,641
Unassigned fund balance	8,008,102	-	(708,000)		7,300,102
Total Fund Balances	\$ 8,073,733	\$ 3,653,485	\$ 13,806,550		\$ 25,533,768

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 – Employee Retirement Plans

A. Summary of Pension Plan Balances

Pension related balances presented on the Statement of Net Position as of June 30, 2017 by individual plan are described in the following table:

	Deferred Employer Contributions	Deferred Outflows - Pension	Net Pension Liability	Deferred Inflows - Pension	Pension Expense
Single Employer Plan - Police and Fire Relief Fund	218,723	-	7,320,047	38,605	2,010,021
CalPERS Cost Sharing Plan	1,570,862	3,116,371	23,934,673	3,154,145	3,526,077
Total	1,789,585	3,116,371	31,254,720	3,192,750	5,536,098

B. Single Employer Plan – Police and Fire Relief Fund

I. General Information about the Pension 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 are presented below:

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.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 – Employee Retirement Plans (Continued)

B. Single Employer Plan – Police and Fire Relief Fund (Continued)

I. General Information about the Pension Plan (Continued)

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.

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.

Employees Covered – At June 30, 2017, the following employees were covered by the benefit terms for each Plan:

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	-
Active employees	-
Total	22

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.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 – Employee Retirement Plans (Continued)

B. Single Employer Plan – Police and Fire Relief Fund (Continued)

II. Net Pension Liability

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, 2016, using an annual actuarial valuation as of June 30, 2016. A summary of principal assumptions and methods used to determine the net pension liability is shown below:

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Discount Rate	4.11%
Inflation	2.50%
Investment Rate of Return	6.75%
Death after Retirement	RP-2000 mortality table for annuitants with a 7-year projection, applied on a static basis using Scale AA, from valuation date.

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 2027.

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 (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):

Asset Class	Long-Term Expected Return
Equity	6.60%
Fixed Income	2.20%
Short Term and Receivables	1.60%

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 – Employee Retirement Plans (Continued)

B. Single Employer Plan – Police and Fire Relief Fund (Continued)

III. *Changes in the Net Pension Liability*

The changes in the Net Pension Liability for the Plan follow:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	\$ 13,597,656	\$ 8,298,142	\$ 5,299,514
Changes in the year:			
Service cost	-	-	-
Interest on the total pension liability	689,200	-	689,200
Differences between actual and expected experience	-	-	-
Changes in assumptions	1,228,156	-	1,228,156
Changes in benefit terms	-	-	-
Contribution - employer	-	-	-
Contribution - employee	-	-	-
Investment income	-	(103,177)	103,177
Administrative expenses	-	-	-
Benefit payments , including refunds of employee contributions	(1,351,708)	(1,351,708)	-
Net changes	565,648	(1,454,885)	2,020,533
Balance at June 30, 2016	\$ 14,163,304	\$ 6,843,257	\$ 7,320,047

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for the Plan, calculated using the discount rate for the Plan, as well as what the City’s 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	3.11%
Net Pension Liability	\$ 8,497,006
Current Discount Rate	4.11%
Net Pension Liability	\$ 7,320,047
1% Increase	5.11%
Net Pension Liability	\$ 6,298,498

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 – Employee Retirement Plans (Continued)

B. Single Employer Plan – Police and Fire Relief Fund (Continued)

III. Changes in the Net Pension Liability, Continued

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.

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

For the year ended June 30, 2017, the City recognized pension expense of \$2,010,021. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 218,723	\$ -
Net differences between projected and actual earnings on plan investments	-	38,605
	\$ 218,723	\$ 38,605
Total	\$ 218,723	\$ 38,605

\$218,723 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	
2018	(43,995)
2019	(43,995)
2020	(43,994)
2021	93,379

V. Payable to Pension Plan

As of June 30, 2017, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

I. Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous risk pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors eleven rate plans (six miscellaneous and five safety). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

II. Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employee's Retirement Law.

The rate plan provisions and benefits in effect at June 30, 2017 are summarized on the following page.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

II. *Benefits Provided*

	<u>City Miscellaneous</u>	<u>City Miscellaneous - 2nd Tier</u>
Hire Date	Prior to January 1, 2013	Prior to January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payment	Monthly for life	Monthly for life
Retirement age	55	60
Monthly benefits, as a % of annual salary	2.50%	2.00%
Required employee contribution rates	8.000%	7.000%
Required employer contribution rates	9.498%	7.159%
Required UAL Payment	\$ 219,613	\$ -
	<u>City Miscellaneous-PEPRA</u>	<u>JPA Miscellaneous - 1st Tier</u>
Hire Date	On or after January 1, 2013	Prior to January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	57	55
Monthly benefits, as a % of annual salary	2.70%	2.50%
Required employee contribution rates	6.250%	8.000%
Required employer contribution rates	6.555%	Not available
Required UAL Payment	\$ 260	Not available
	<u>JPA Miscellaneous - 2nd Tier</u>	<u>JPA Miscellaneous - PEPRA</u>
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits, as a % of annual salary	2.00%	2.00%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	Not available	Not available
Required UAL Payment	Not available	Not available
	<u>City Safety - Police</u>	<u>City Safety - Police PEPRA</u>
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	57
Monthly benefits, as a % of annual salary	3.00%	2.70%
Required employee contribution rates	9.000%	11.500%
Required employer contribution rates	17.689%	11.500%
Required UAL Payment	\$ 299,582	\$ -
	<u>City Safety - Fire 2nd Tier</u>	<u>City Safety - Fire PEPRA</u>
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	57
Monthly benefits, as a % of annual salary	3.00%	2.70%
Required employee contribution rates	16.656%	11.500%
Required employer contribution rates	12.082%	12.082%
Required UAL Payment	\$ -	\$ -
	<u>City Safety - Fire</u>	
Hire Date	Prior to January 1, 2013	
Benefit vesting schedule	5 years service	
Benefit payments	Monthly for life	
Retirement age	55	
Monthly benefits, as a % of annual salary	3.00%	
Required employee contribution rates	9.000%	
Required employer contribution rates	17.689%	
Required UAL Payment	\$ 285,170	

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

II. Benefits Provided, Continued

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers are to be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The City’s contributions to the Plan for the year ended June 30, 2016 were \$1,498,446.

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

As of June 30, 2017, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$23,934,673.

The City’s net pension liability for the Plan is measured as the proportionate share of the total net pension liability of the Plan. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City’s proportionate of the net pension liability was based on the City’s plan liability and asset-related information where available, and proportional allocations of individual plan amounts as of the valuation date where not available.

The City’s proportionate share of the net pension liability for the Plan as of measurement dates June 30, 2015 and 2016 were as follows:

Proportion - June 30, 2015	0.26297%
Proportion - June 30, 2016	<u>0.27660%</u>
Change - Increase (Decrease)	<u>0.01363%</u>

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

III. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

For the year ended June 30, 2017, the City recognized pension expense of \$3,526,077. At June 30, 2017, 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
Pension contributions subsequent to measurement date	\$ 1,570,862	\$ -
Changes of assumptions	-	511,264
Differences between expected and actual experience	-	50,922
Changes in employer's proportion	542,296	1,015,415
Differences between the employer's contribution and the employer's proportionate share of contributions	-	1,576,544
Net differences between projected and actual earnings on plan investments	2,574,076	-
Total	\$ 4,687,234	\$ 3,154,145

\$1,570,862 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

Other 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 Ending June 30:	
2018	\$ (1,044,741)
2019	(736,702)
2020	1,075,025
2021	668,644

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

III. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return ⁽¹⁾	7.65%
Mortality	Derived by CalPERS membership data for all funds

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

III. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

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 Plan, calculated using the discount rate for the Plan, 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	6.65%
Net Pension Liability	\$ 37,098,318
Current Discount Rate	7.65%
Net Pension Liability	\$ 23,934,673
1% Increase	8.65%
Net Pension Liability	\$ 13,107,233

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

III. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2017 the City reported a payable of \$0 for outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

NOTE 12 – Other Postemployment Benefits

A. Plan Description

The City of Albany Retiree Health Plan is a single-employer defined benefit healthcare plan administered by the California Public Employees’ Retirement System (CalPERS). The Plan provides medical insurance benefits to eligible retirees and their eligible dependents. In accordance with Public Employees’ Retirement Law (Article 2), the CalPERS Board of Administration has the responsibility to approve health benefit plans and may contract with carriers offering health benefit plans. The Board of Administration is responsible for adopting all rules and regulations, including the scope and content of basic health plans. The California Government Code also defines certain rules for contract agencies to purchase health insurance benefits

B. Benefits Provided

Retirees are eligible for medical benefits if they retire within 120 days from separating from the City and have at least 5 years of service in the CalPERS system.

The City provides PEMHCA minimum for each subscriber, regardless of elected coverage tier.

C. Employees Covered by Benefit Terms

As of June 30, 2017, the following employees were covered by the benefit terms for the plan:

Inactive employees or beneficiaries currently receiving benefits	43
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>103</u>
Total	<u>146</u>

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 – Other Postemployment Benefits (Continued)

D. Funding Policy

The City pays benefits as they come due.

E. Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement date..

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	3.50%
Mortality	Derived using CalPERS' Membership Data for all Funds
Healthcare cost trend rates:	7.00% in the first year, trending down to 3.84% over 59 years

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50%. The City's OPEB Plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high quality 20-year municipal bonds, as of the valuation date.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 12 – Other Postemployment Benefits (Continued)

F. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	\$ 3,230,136
Changes in the year:	
Service cost	244,341
Interest on the total pension liability	119,827
Contribution - employer	(28,742)
Implicit rate subsidy fulfilled	(72,983)
Net changes	262,443
Balance at June 30, 2017	\$ 3,492,579

Sensitivity of the Total OPEB liability to Changes in the Discount Rate – The following presents the total OPEB liability of the City for the Plan, calculated using the discount rate for the Plan, as well as what the City’s total OPEB 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 - 2.50%	
Total OPEB liability	\$ 3,918,377
Current Discount Rate - 3.50%	
Total OPEB liability	\$ 3,492,579
1% Increase - 4.50%	
Total OPEB liability	\$ 3,133,605

Sensitivity of the Total OPEB liability to Changes in the Healthcare Cost Trend Rate – The following presents the total OPEB liability of the City for the Plan, calculated using the healthcare cost trend rate for the Plan, as well as what the City’s total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease - 6.00% Decreasing to 2.84%	
Total OPEB liability	\$ 3,031,588
Current Discount Rate - 7.00% Decreasing to 3.84%	
Total OPEB liability	\$ 3,492,579
1% Increase - 8.00% Decreasing to 4.84%	
Total OPEB liability	\$ 4,062,418

OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2017, the City recognized pension expense of \$364,168. As of June 30, 2017, the City did not report any deferred outflows of resources or deferred inflows of resources related to OPEB.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 13 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. The City manages risk by participating in the public entity risk pools described below and by retaining certain risks.

Public entity risk pools are formally organized separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these risk pools exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board.

A. Risk Pools

The City participates in the Bay Cities Joint Powers Insurance Authority (BCJPIA) general liability risk pool, which in turn participates in the California Affiliated Risk Management Authorities (CARMA) risk pool. BCJPIA covers general liability claims in an amount up to \$1,000,000. The City has a deductible (or uninsured liability) of up to \$50,000 per claim. Once the City's deductible is met BCJPIA becomes responsible for payments of all claims up to \$1,000,000. CARMA covers claims from \$1,000,000 to \$28,000,000.

A. Risk Pools (Continued)

The City is a participant in the BCJPIA workers compensation risk pool, which in turn participates in the Local Agency Workers Compensation Excess Insurance Joint Powers Authority's (LAWCX) risk pool, and LAWXCX in turn purchases coverage above the \$1 million coverage provided by its pool. The City has a self-insured retention of \$150,000 for claims, and the BCJPIA pool covers claims from \$150,000 to \$1,000,000. Claims from \$1,000,000 to the statutory limit are covered by LAWXCX.

The City's contributions with each risk pool equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

During the past four fiscal (claims) years, none of the above programs have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

Financial statements for BCJPIA and LAWXCX may be obtained from Bickmore Risk Services, 1750 Creekside Oaks Drive, Suite 200, Sacramento, California 95833.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 13 – Risk Management (Continued)

B. Liability for Uninsured Claims

The City estimates its liability for the uninsured portion of claims, including a provision for claims incurred but not reported (IBNR), which is based on claims experience and estimates provided by BCJPIA. Changes in the balance of claim liabilities are as follows:

	Workers' Compensation	General Liability	Total
Balance July 1, 2015	\$ 1,083,000	\$ 187,050	\$ 1,270,050
Incurred claims and changes in estimates	97,906	36,516	134,422
Claim paid	(274,906)	(81,868)	(356,774)
Balance June 30, 2016	906,000	141,698	1,047,698
Incurred claims and changes in estimates	274,906	81,868	356,774
Claim paid	(274,906)	(81,868)	(356,774)
Balance June 30, 2017	<u>\$ 906,000</u>	<u>\$ 141,698</u>	<u>\$ 1,047,698</u>

NOTE 14 – Commitments and Contingent Liabilities

The City participates in several Federal and State grant programs. These programs have been audited by the City's independent accountants when required, in accordance with the provisions of the Federal Single Audit Act and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

The City is currently in the process of resolving findings provided by CalPERS regarding treatment of earnings and calculations of required contributions. The resolutions of these findings may require additional amounts to be paid to CalPERS to resolve past funding requirements.

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the City.

NOTE 15 – Prior Period Adjustments

The City restated beginning net position of Governmental Activities by \$2,712,347 to eliminate previously reported net OPEB obligation of \$517,789 and to record beginning balance of net OPEB liability of \$3,230,136. Net position as previously reported for governmental activities was restated from \$31,485,149 to \$28,772,802.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Albany

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

General Fund

For the year ended June 30, 2017

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 6,773,481	\$ 6,773,481	\$ 6,700,484	\$ (72,997)
Sales taxes	3,711,750	3,731,750	4,133,994	402,244
Franchise and other taxes	4,518,330	4,518,330	4,576,631	58,301
Licenses and permits	194,400	205,334	1,129,907	924,573
Fines and forfeitures	367,800	367,800	277,987	(89,813)
Earnings on investments	120,785	120,785	86,418	(34,367)
Revenues from other agencies	202,808	282,637	470,972	188,335
Current service charges	1,908,050	1,950,338	1,488,705	(461,633)
Other revenue	219,110	345,679	919,005	573,326
Total revenues	18,016,514	18,296,134	19,784,103	1,487,969
EXPENDITURES:				
Current:				
General government	4,603,494	4,610,244	6,856,349	(2,246,105)
Police	7,179,337	7,138,591	6,329,581	809,010
Fire and emergency medical services	2,772,735	2,771,781	2,481,841	289,940
Community development and environmental resources	1,528,532	1,560,032	2,742,605	(1,182,573)
Recreation and community services	2,392,496	2,392,496	2,703,973	(311,477)
Capital outlay	1,392,841	1,731,499	370,742	1,360,757
Debt service:				
Principal	-	-	39,749	(39,749)
Interest, and fiscal charges	-	-	7,688	(7,688)
Total expenditures	19,869,435	20,204,643	21,532,528	(1,327,885)
REVENUES OVER (UNDER) EXPENDITURES	(1,852,921)	(1,908,509)	(1,748,425)	160,084
OTHER FINANCING SOURCES (USES):				
Transfers in	891,100	891,100	2,042,951	1,151,851
Transfers out	-	-	(539,693)	(539,693)
Total other financing sources (uses)	891,100	891,100	1,503,258	612,158
Net change in fund balance	\$ (961,821)	\$ (1,017,409)	(245,167)	\$ 772,242
FUND BALANCE:				
Beginning of year			8,318,900	
End of year			<u>\$ 8,073,733</u>	

**CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

Budgetary Policies

Procedures followed in establishing the budgetary data reflected in the financial statements are presented below:

1. By June 1, of even-numbered years, the City Manager submits to the City Council an operating budget and capital improvement budget for the two fiscal years commencing the following July 1. The operating budget includes proposed expenditures and the sources of financing.
2. Public hearings and work sessions are conducted to obtain comments from interested individuals and organizations.
3. The budget is formalized and legally enacted through City Council adoption.
4. All intrafund transfers above \$5,000 require the approval of the City Manager (or designee). All intrafund transfers below \$5,000 require the approval of the Finance and Administrative Services Director (or designee). Interfund transfer approval must be obtained from both the City Manager and Finance and Administrative Services Director. Such approval shall only be given provided the interfund transfer does not change the total initial appropriation for all funds requiring budgets. Changes in appropriations at the fund level must be approved by the City Council.
5. Formal budgetary integration, in the form of the annual budget, is employed as a management control device during the year for the General Fund, Special Revenue Funds, Capital Project Funds, and Debt Service Funds.
6. Budgets for General, Special Revenue, Capital Projects, and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles in the United States of America. Appropriations lapse at the end of the fiscal year.
7. As needed, budgeted amounts are subjected to amendments presented to the City Council for approval. Budgeted amounts appearing in these statements are as amended by the City Council through June 30, 2017.

**CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

DEFINED PENSION PLAN – SINGLE EMPLOYER PLAN

Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period

Measurement Period (1)	2015-16	2014-2015	2013-14
TOTAL PENSION LIABILITY			
Service Cost	\$ -	\$ -	\$ -
Interest	689,200	667,737	774,708
Changes of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	-	1,348,531	-
Changes of Assumptions	1,228,156	499,219	945,018
Benefit Payments, Including Refunds of Employee Contributions	(1,351,708)	(1,411,164)	(1,384,481)
Net Change in Total Pension Liability	565,648	1,104,323	335,245
Total Pension Liability - Beginning	13,597,657	12,493,334	12,158,089
Total Pension Liability - Ending (a)	\$ 14,163,305	\$ 13,597,657	\$ 12,493,334
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	\$ -	\$ -	\$ 82,401
Contributions - Employee	-	-	-
Net Investment Income (2)	(103,177)	131,946	1,287,597
Benefit Payments, Including Refunds of Employee Contributions	(1,351,708)	(1,411,164)	(1,384,481)
Other Changes in Fiduciary Net Position	-	-	-
Net Change in Fiduciary Net Position	(1,454,885)	(1,279,218)	(14,483)
Plan Fiduciary Net Position - Beginning	8,298,143	9,577,361	9,591,844
Plan Fiduciary Net Position - Ending (b)	\$ 6,843,258	\$ 8,298,143	\$ 9,577,361
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 7,320,047	\$ 5,299,514	\$ 2,915,973
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.32%	61.03%	76.66%

(1) – Prior information unavailable.

(2) – Net of administrative expenses.

Notes to Schedules

The plan is closed to new members and currently has no active members, hence covered payroll for the plan for all years presented is \$0.

Benefit Changes: None (other than cost of living adjustments under the terms of the Plan)

Changes of Assumptions: None other than change in discount rate from 5.66% to 5.33% in 2015 and to 4.11% in 2016.

**CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

DEFINED PENSION PLAN – SINGLE EMPLOYER PLAN (Continued)

Schedule of Plan Contributions

	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially determined contribution	\$ 218,723	\$ 218,723	\$ 82,401
Contribution in relation to the actuarially determined contributions	(218,723)	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 218,723</u>	<u>\$ 82,401</u>

DEFINED BENEFIT PENSION PLAN - COST SHARING PLAN

A. *Schedule of the City's Proportionate Share of the Net Pension Liability – Last 10 Years**

Fiscal year:	2017	2016	2015
Measurement date:	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	27.66000%	0.29008%	0.23892%
Proportionate share of the net pension liability	\$ 23,934,673	\$ 18,050,164	\$ 16,399,349
Covered payroll	\$ 9,368,339	\$ 8,831,933	\$ 8,553,930
Proportionate share of the net pension liability as a percentage of covered payroll	255.48%	204.37%	191.72%
Plan's share of fiduciary net position as a percentage of total pension liability	74.06%	78.40%	79.82%

* Fiscal year 2015 was the 1st year of implementation.

B. *Schedule of Contributions – Last 10 Years**

	6/30/2017	6/30/2016	6/30/2015
Contractually required contribution (actuarially determined)	\$ 1,570,862	\$ 1,498,446	\$ 1,231,831
Contribution in relation to the actuarially determined contributions	(1,570,862)	(1,498,446)	(1,231,831)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 9,649,389	\$ 9,368,339	\$ 8,831,933
Contributions as a percentage of covered payroll	16.28%	15.99%	13.95%

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown

**CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

Albany Employees Retiree Health Plan:

	2017
<u>Total OPEB liability</u>	
Service cost	\$ 244,341
Interest on the total pension liability	119,827
Contribution - employer	(28,742)
Implicit rate subsidy fulfilled	(72,983)
Net changes	262,443
Total OPEB liability - beginning of year	3,230,136
Total OPEB liability - end of year	\$ 3,492,579
Covered-employee payroll	\$ 11,421,795
City's total OPEB liability as a percentage of covered-employee payroll	30.58%

City of Albany

Albany, California

*Independent Auditors' 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 and
Schedule of Findings and Responses*

For the year ended June 30, 2017



**INDEPENDENT AUDITORS' 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 Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California

We were engaged to audit, 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 governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany, California (City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report dated January 28, 2019. Our report disclaims an opinion on such financial statements because of the following:

- (1) The City did not perform timely reconciliations of cash, investments, and other balance sheet accounts, for which some could not be completed. We do not believe we can satisfy ourselves with the allocation, existence, or completeness of these account balances, as internal controls over these account balances were not performed.
- (2) The City posted many adjustments in an attempt to address issues encountered after implementing a new ERP system. These entries affect material revenue, expenditure, and balance sheet accounts. Due to limited documentation or ability to obtain explanations from the City with regard to these matters, we do not believe we can obtain sufficient audit evidence with regard to such adjustments.
- (3) We were unable to verify the appropriate allocation of cash and investments to individual funds.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the City, 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 have not been 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.

To the Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California
Page 2

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 an entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses from 2017-001 to 2017-004 to be material weaknesses.

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 2017-005 to be a significant deficiency.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the City, 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 discloses no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, instances of noncompliance or other matters may have been identified and reported herein.

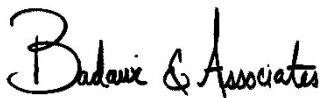
City's Response to Findings

The City's response to the findings identified in our engagement is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

To the Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California
Page 3

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 engagement to perform an audit 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, CPAs
Oakland, California
January 28, 2019

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2017

2017-001 Financial Closing and Reporting (Material Weakness)

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 engagement to perform the audit, we noted that numerous closing entries needed at the end of the year were not recorded and closing entries recorded in the prior period were not reversed.

We also noted that the City did not perform reconciliations over accounts receivable, accounts payable, accrued wages and salaries, capital assets, and long-term debt. Subsidiary ledger reports for accounts receivable and accounts payable that were provided for the engagement did not agree to the City's trial balance.

Cause:

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 as there was not sufficient cross training in place to ensure continuity of the financial reporting process. There was no routine analysis of transaction recording to timely detect and correct recorded transactions or to identify unrecorded transactions.

The City implemented a new financial software, however formally written accounting policies and procedures related to the system were not developed.

There were either limitations in reporting capabilities of the new financial system or there is an incomplete understanding of the new system's reporting capabilities.

Context and Effect:

The City was not able to complete the closing process and also was not able to analyze accounts sufficiently to determine the composition and nature of account balances in the general ledger.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2017

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 experience turnover in key finance positions.

The City should furthermore develop formal written policies over significant accounts that include the timely reconciling of accounts to activity reported in related subsidiary ledgers.

Management Response:

The Finance Department has undergone significant staffing and structural changes since the 2016-17 fiscal year. In addition to hiring a new Director and Senior Accountant, all Accounting Technicians now report to the Senior Accountant. A new standard procedure has been implemented requiring that the Senior Accountant is responsible for double checking all entries, as well as performing daily cash reconciliation and monthly bank reconciliations. For fiscal year 2018-19, the Financial Department is up to date on main bank account reconciliations. This is a significant improvement in accountability as compared to the lack of reconciliation that occurred in the 2016-17 fiscal year.

Policies and procedures for specific tasks are in the process of being drafted. While there are ongoing issues with the ERP implementation, we have taken great strides in the past 6 months to address these issues. For example, we have adjusted a setting within the payroll module requiring the Payroll Technician to manually enter checks instead of the system automatically entering the cash disbursement. In addition, we have scheduled additional implementation and training sessions with the software company to ensure the ERP system is being utilized effectively and efficiently. An Organizational and Operational study of the Finance Department was completed in 2018 and the City is working to implement some of the suggestions to ensure appropriate oversight going forward.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2017

2017-002 Cash and Investments (Material Weakness)

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 cash and investments includes frequent and timely reconciling of account balances to information provided by the bank and custodians.

Condition:

During the engagement to perform the audit, we noted that bank reconciliations were not performed until the start of the engagement. Also, we noted that the City's reconciliation process only involved reconciling control accounts that are included in the City's pooled cash fund, however related cash accounts represented in each fund (those reported in the financial statements) were not reconciled back to the control accounts.

As a result, we noted that the total cash and investments represented in individual funds did not agree to the sum of City's pooled and non-pooled cash and investments by \$1.9 million.

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 perform the bank reconciliations timely as there was not sufficient cross training in place to ensure continuity of the process. The City also incorrectly setup the new financial system incorrectly for cash reconciliations which resulted in manual journal entries being prepared to correct the problem.

Context and Effect:

The City was not able to complete the closing process and also was not able to analyze accounts sufficiently to determine the composition and nature of account balances in the general ledger.

Recommendation:

We recommend the City develop formal written policies over cash and investments that include the timely reconciling of accounts and include cash and investment accounts reported in each fund.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2017

Management Response:

Management is aware of the reconciliation issue between the pooled cash fund and other individual funds. During the audit, staff traced numerous transactions through from beginning to end and became comfortable that all transactions were recorded in the pooled cash fund; however, transactions were not necessarily allocated to the correct specific fund (general fund, special revenue fund, etc.). Staff is in the process of reviewing individual deposits and allocating the cash to the correct fund, however this will take some time as an error in the ERP system implementation must be fixed. Staff's main priority has been ensuring future revenues are recorded correctly to make sure the problem does not continue.

As previously indicated, policies and procedures for specific tasks are in the process of being drafted. While there are ongoing issues with the ERP implementation, we have taken great strides in the past 6 months to address these issues. In addition, we have scheduled additional implementation and training sessions with the software company to ensure the ERP system is being utilized effectively and efficiently. An Organizational and Operational study of the Finance Department was completed in 2018 and the City is working to implement some of the suggestions to ensure appropriate oversight going forward.

2017-003 Capital Assets (Material Weakness)

Criteria:

A good internal control reporting system over capital assets requires the maintenance of detail records of all its capital assets to be able to support amounts reported on the financial statements and to ensure safeguarding of assets.

Condition:

During the engagement to perform the audit, we noted that the City's capital asset schedules were not prepared timely and could be missing capital asset activity such as capital projects' activity, and disposal/sale of capital assets.

The City had also not performed a physical inventory of assets to determine whether they were still in the City's possession at the end of the fiscal year.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2017

Cause:

Due to turnover and limited written policies and procedures, procedures over capital assets, accounting procedures regularly expected for reconciling capital asset activity were not performed or not performed timely.

Context and Effect:

Capital assets reported at the end of the fiscal year may be inaccurate or incomplete.

Recommendation:

We recommend that the City perform a physical inventory of all capital assets, prepare updated written policies and procedures over capital assets, and review capital expenditures and sale/disposal authorizations to determine accurate capital asset records.

Management Response:

As of November, Finance staff has updated the capital asset listing with the help of other departments. Finance staff is working in conjunction with Public Works staff and is in the process of scheduling implementation and training sessions with the software company to allow for optimal use of the ERP system's fixed asset module which will allow the Finance Department to track asset procurement and disposal in real time. In addition, a new procedure has been developed and monitoring fixed assets has been added as a job task to the Financial Analyst job description to ensure ownership of the process.

2017-004 Journal Entries (Material Weakness)

Criteria:

Journal entries should be independently prepared, reviewed, and posted to the general ledger. In addition, journal entries should be adequately documented to support its accuracy and purpose.

Condition:

During the engagement to perform the audit, we noted that the City was unable to provide us with documentation or documentation was insufficient for journal entries selected for review.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2017

Cause:

The City does not have formal written procedures for journal entries.

Context and Effect:

Journal entries recorded in the City's accounting system may be inaccurate or unsupported.

Recommendation:

We recommend that the City implement formal written procedures and policies over journal entries to ensure only accurately prepared and supported journal entries are recorded to the general ledger.

Management Response:

During the audit, in an attempt to resolve reconciliation issues, current and temporary staff reversed many of the journal entries that had been made with no supporting documentation. As of August, the Finance Department has implemented a procedure within the accounting system requiring all entries made by Accounting Technicians to be reviewed by a supervisor prior to posting. Generally, this is done by the Senior Accountant who ensures all appropriate documentation has been provided. Policies and procedures for other tasks are in the process of being drafted.

2017-005 Payroll Master File (Significant Deficiency)

Criteria:

An effective internal control over payroll includes a segregation of duties or implementation of other mitigating controls over personnel who process payroll and personnel responsible for making changes to the payroll master file.

Condition:

During the engagement to perform the audit, we noted that the payroll technician is able to modify the payroll master file and process payroll. Previously a list of edits to the master file was reviewed as part of the payroll process, however the process was eliminated as part of implementation of the new financial system.

Cause:

The City's internal controls over payroll did not include an assessment for changes to the payroll master file.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2017

Context and Effect:

Changes made to the payroll master file may be made inaccurately or may be unsupported.

Recommendation:

We recommend that the City segregate the duties and responsibilities over management of the payroll master file or update its policies and procedures to review changes made to the payroll master file.

Management Response:

As previously indicated, policies and procedures for specific tasks are in the process of being drafted. While there are ongoing issues with the ERP implementation, we have taken great strides in the past 6 months to address these issues. In addition, we have scheduled additional implementation and training sessions with the software company to ensure the ERP system is being utilized effectively and efficiently. Finance staff are working directly with Human Resources staff to create more distinct separation of duties. In addition, the Finance Director reviews each payroll prior to issuance. That review now includes a review of the payroll master file.

**City of
Albany**
Albany, California

Basic Financial Statements

For the year ended June 30, 2018

Prepared by:
Finance Department

City of Albany
Basic Financial Statements

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany, California (City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 opinions on these financial statements based on conducting the 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. Because of the matters described in the basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

- (1) The City did not perform timely reconciliations of cash, investments, and other balance sheet accounts, for which some could not be completed. We do not believe we can satisfy ourselves with the allocation, existence, or completeness of these account balances, as internal controls over these account balances were not performed.
- (2) The City posted many adjustments in an attempt to address issues encountered after implementing a new ERP system. These entries affect material revenue, expenditure, and balance sheet accounts. Due to limited documentation or ability to obtain explanations from the City with regard to these matters, we do not believe we can obtain sufficient audit evidence with regard to such adjustments.

- (3) We were not able to obtain sufficient audit evidence for the fiscal year 2017 account balances (beginning balances for fiscal year ended June 30, 2018).
- (4) We were unable to verify the appropriate allocation of cash and investments to individual funds.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Required Supplementary Information

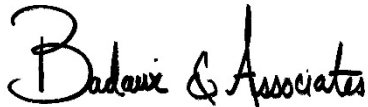
Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required 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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the matters described in the basis for disclaimer of opinion paragraph. We do not express an opinion or provide any assurance on the information

Management has omitted the management, discussion, and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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.

To the Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019 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* in considering the City's internal control over financial reporting and compliance.

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

Badawi and Associates
Certified Public Accountants
Oakland, California
January 28, 2019

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**BASIC
FINANCIAL STATEMENTS**

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Albany
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 28,487,769	\$ 9,251,633	\$ 37,739,402
Debt service reserves held with trustee	346,516	-	346,516
Receivables:			
Taxes	97,099	-	97,099
Accounts	2,961,354	43,842	3,005,196
Deposits and prepayments	60,834	-	60,834
Total current assets	<u>31,953,572</u>	<u>9,295,475</u>	<u>41,249,047</u>
Noncurrent assets:			
Capital assets:			
Non-depreciable	10,262,631	1,670,682	11,933,313
Depreciable, net	33,309,706	13,884,135	47,193,841
Total capital asset	<u>43,572,337</u>	<u>15,554,817</u>	<u>59,127,154</u>
Total noncurrent assets	<u>43,572,337</u>	<u>15,554,817</u>	<u>59,127,154</u>
Total assets	<u>75,525,909</u>	<u>24,850,292</u>	<u>100,376,201</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	455,091	72,434	527,525
Deferred employer pension contributions	2,033,128	-	2,033,128
Deferred outflows of resources - pension	6,380,580	-	6,380,580
Deferred outflows of resources - OPEB	8,876	-	8,876
Total deferred outflows of resources	<u>8,877,675</u>	<u>72,434</u>	<u>8,950,109</u>
LIABILITIES			
Current liabilities:			
Accounts payable	6,049,834	156,977	6,206,811
Accrued salaries & benefits	1,844,128	44,970	1,889,098
Interest payable	330,760	-	330,760
Deposits payables	156,326	-	156,326
Unearned revenue	(17,866)	-	(17,866)
Compensated absences, due within one year	288,964	-	288,964
Claims liabilities, due within one year	478,576	-	478,576
Long term debt, due within one year	918,977	515,000	1,433,977
Total current liabilities	<u>10,049,699</u>	<u>716,947</u>	<u>10,766,646</u>
Noncurrent liabilities:			
Net OPEB liability	3,771,010	-	3,771,010
Net pension liability	34,136,268	-	34,136,268
Compensated absences, due in more than one year	1,008,899	-	1,008,899
Claims payable, due in more than one year	569,122	-	569,122
Long term debt, due in more than one year	15,649,187	3,090,000	18,739,187
Total noncurrent liabilities	<u>55,134,486</u>	<u>3,090,000</u>	<u>58,224,486</u>
Total liabilities	<u>65,184,185</u>	<u>3,806,947</u>	<u>68,991,132</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	3,173,345	-	3,173,345
Total deferred inflows of resources	<u>3,173,345</u>	<u>-</u>	<u>3,173,345</u>
NET POSITION			
Net investment in capital assets	27,004,173	12,022,251	39,026,424
Restricted for:			
Debt Service	2,907,681	-	2,907,681
Capital Projects	6,724,663	-	6,724,663
Public safety	577,651	-	577,651
Highway and streets	(101,104)	-	(101,104)
Special assessments	1,592,021	-	1,592,021
Safety retirement funding	326,229	-	326,229
Other	1,140,400	-	1,140,400
Total restricted	<u>13,167,541</u>	<u>-</u>	<u>13,167,541</u>
Unrestricted	(24,125,660)	9,093,528	(15,032,132)
Total net position	<u>\$ 16,046,054</u>	<u>\$ 21,115,779</u>	<u>\$ 37,161,833</u>

See accompanying Notes to Basic Financial Statements.

City of Albany
Statement of Activities
For the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 14,896,221	\$ 81,868	\$ -	\$ 97,000	\$ 178,868
Police	6,856,634	191,993	166,672	-	358,665
Fire and emergency medical services	5,300,567	744,003	372,466	-	1,116,469
Community development and environmental resources	5,844,414	762,175	152,171	1,550,162	2,464,508
Recreation and community services	3,589,785	1,617,939	53,079	-	1,671,018
Interest on long-term debt	558,372	-	-	-	-
Total governmental activities	37,045,993	3,397,978	744,388	1,647,162	5,789,528
Business-type activities:					
Sewer	1,654,862	3,533,356	-	-	3,533,356
Total business-type activities	1,654,862	3,533,356	-	-	3,533,356
Total primary government	\$ 38,700,855	\$ 6,931,334	\$ 744,388	\$ 1,647,162	\$ 9,322,884

General Revenues:

Taxes:

Property taxes

Sales taxes

Franchise and other taxes

Total taxes

Investment earnings

Unrestricted revenues from other agencies

Other revenue

Total general revenues

Change in net position

Net position - beginning of year

Net position - end of year

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (14,717,353)	\$ -	\$ (14,717,353)
(6,497,969)	-	(6,497,969)
(4,184,098)	-	(4,184,098)
(3,379,906)	-	(3,379,906)
(1,918,767)	-	(1,918,767)
(558,372)	-	(558,372)
<u>(31,256,465)</u>	<u>-</u>	<u>(31,256,465)</u>
-	1,878,494	1,878,494
-	1,878,494	1,878,494
<u>(31,256,465)</u>	<u>1,878,494</u>	<u>(29,377,971)</u>
12,415,783	-	12,415,783
3,511,510	-	3,511,510
<u>5,961,885</u>	<u>-</u>	<u>5,961,885</u>
21,889,178	-	21,889,178
277,356	-	277,356
38,957	-	38,957
<u>3,334,331</u>	<u>-</u>	<u>3,334,331</u>
<u>25,539,822</u>	<u>-</u>	<u>25,539,822</u>
(5,716,643)	1,878,494	(3,838,149)
<u>21,762,697</u>	<u>19,237,285</u>	<u>40,999,982</u>
<u>\$ 16,046,054</u>	<u>\$ 21,115,779</u>	<u>\$ 37,161,833</u>

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund accounts for the resources traditionally associated with governmental funds which are not required legally or by sound financial management to be accounted for in another fund.

City Capital Project Fund accounts for the expenditures of City capital projects.

Street & Storm Fund accounts for property tax revenues, debt proceeds, and expenditures for various street and storm drain projects.

Non-Major Governmental Fund is the aggregate of all the non-major governmental funds.

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City of Albany
Balance Sheet
Governmental Funds
June 30, 2018

	Major Funds			Non-Major Governmental Funds	Total Governmental Funds
	General Fund	City Capital Project	Street & Storm Funds		
ASSETS					
Cash and investments	\$ 9,364,390	\$ -	\$ 4,377,432	\$ 11,045,685	\$ 24,787,507
Debt service reserves held with trustee	-	-	-	346,516	346,516
Receivables:					
Taxes	-	-	7,593	89,506	97,099
Accounts	2,940,974	-	-	20,380	2,961,354
Prepaid Items	60,834	-	-	-	60,834
Due from other funds	956,654	-	-	-	956,654
Total assets	\$ 13,322,852	\$ -	\$ 4,385,025	\$ 11,502,087	\$ 29,209,964
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,803,023	\$ 1,617,767	\$ 371,485	\$ 1,257,562	\$ 6,049,837
Accrued salaries & benefits	1,545,930	-	21,463	276,735	1,844,128
Due to other funds	-	860,971	-	95,683	956,654
Deposit payable	155,312	-	-	1,014	156,326
Unearned revenue	(27,655)	-	-	9,789	(17,866)
Total liabilities	4,476,610	2,478,738	392,948	1,640,783	8,989,079
Fund Balances: (Note 9)					
Nonspendable	60,834	-	-	-	60,834
Restricted	-	-	3,992,077	11,056,992	15,049,069
Assigned	-	-	-	1,988,593	1,988,593
Unassigned	8,785,408	(2,478,738)	-	(3,184,281)	3,122,389
Total fund balances	8,846,242	(2,478,738)	3,992,077	9,861,304	20,220,885
Total liabilities, deferred inflows of resources, and fund balances	\$ 13,322,852	\$ -	\$ 4,385,025	\$ 11,502,087	\$ 29,209,964

City of Albany
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2018

Total Fund Balances - Total Governmental Funds \$ 20,220,885

Amounts reported for governmental activities in the Statement of Net Position were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet.

	Total
Non-depreciable	\$ 10,262,631
Depreciable, net	33,309,706
	43,572,337

In the Government-Wide Financial Statements, certain differences between actuarial amounts and actual results for pension and OPEB are deferred and amortized over a period of time, however these differences do not impact the Governmental Funds Balance Sheet:

Deferred outflows of resources - pension	6,380,580
Deferred outflows of resources - OPEB	8,876
Deferred inflows of resources - pension	(3,173,345)

Employer contributions for pension were recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statements these contributions are deferred. 2,033,128

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the Governmental Funds Balance Sheet. (330,760)

The difference between the carrying value of refunded debt and the reacquisition price is deferred and amortized over the shorter of the remaining life of the refunded debt or the refunding debt. 455,091

Internal service funds were used by management to charge the costs of certain activities such as insurance and compensated absences to individual funds. The assets and liabilities of the Internal service funds were included in governmental activities in the Government-Wide Statement of Net Position. 1,354,704

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

	Government-Wide Statement of Net Position	Internal Service Funds	Total
Compensated absences - due within one year	\$ (288,964)	\$ 288,964	\$ -
Claims payable - due within one year	(478,576)	478,576	-
Long term debt - due within one year	(918,977)	-	(918,977)
Net OPEB Obligation	(3,771,010)		(3,771,010)
Net pension liability	(34,136,268)	-	(34,136,268)
Compensated absences - due in more than one year	(1,008,899)	1,008,899	-
Claims payable - due in more than one year	(569,122)	569,122	-
Long term debt - due in more than one year	(15,649,187)	-	(15,649,187)
	\$ (56,821,003)	\$ 2,345,561	(54,475,442)

Net Position of Governmental Activities \$ 16,046,054

See accompanying Notes to Basic Financial Statements.

City of Albany
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2018

	Major Funds			Non-Major Governmental Funds	Total Governmental Funds
	General Fund	City Capital Project	Street & Storm Funds		
REVENUES:					
Property taxes	\$ 7,176,748	\$ -	\$ 1,089,145	\$ 4,876,115	\$ 13,142,008
Sales taxes	3,511,510	-	-	-	3,511,510
Franchise and other taxes	4,020,717	-	-	-	4,020,717
Licenses and permits	1,204,391	-	-	-	1,204,391
Fines and forfeitures	188,954	-	-	-	188,954
Earnings on investments	277,354	-	-	2	277,356
Revenues from other agencies	191,384	71,019	29,603	2,013,006	2,305,012
Current service charges	2,061,243	-	-	872,033	2,933,276
Other revenue	684,106	2,916,133	-	138,240	3,738,479
Total revenues	19,316,407	2,987,152	1,118,748	7,899,396	31,321,703
EXPENDITURES:					
Current:					
General government	4,412,073	632	30,977	20,696	4,464,378
Police	6,754,786	-	-	-	6,754,786
Fire and emergency medical services	2,756,394	-	-	2,471,845	5,228,239
Community development and environmental resources	2,490,140	-	231,524	1,454,663	4,176,327
Recreation and community services	2,519,910	-	-	854,373	3,374,283
Capital outlay	825,923	6,279,608	496,655	3,337,980	10,940,166
Debt service:					
Principal	43,423	-	-	1,098,372	1,141,795
Interest	4,134	-	-	550,478	554,612
Total expenditures	19,806,783	6,280,240	759,156	9,788,407	36,634,586
REVENUES OVER (UNDER) EXPENDITURES	(490,376)	(3,293,088)	359,592	(1,889,011)	(5,312,883)
OTHER FINANCING SOURCES (USES):					
Transfers in	1,262,885	-	-	472,698	1,735,583
Transfers out	-	-	(21,000)	(1,714,583)	(1,735,583)
Total other financing sources (uses)	1,262,885	-	(21,000)	(1,241,885)	-
Net change in fund balances	772,509	(3,293,088)	338,592	(3,130,896)	(5,312,883)
FUND BALANCES:					
Beginning of year	8,073,733	814,350	3,653,485	12,992,200	25,533,768
End of year	\$ 8,846,242	\$ (2,478,738)	\$ 3,992,077	\$ 9,861,304	\$ 20,220,885

See accompanying Notes to Basic Financial Statements.

City of Albany

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities

For the year ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ (5,312,883)
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Amounts reported for governmental activities in the Statement of Activities were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period. 124,422

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds. (2,076,356)

In the statement of activities, only the gain or (loss) on the sale of capital assets is reported, whereas in the governmental funds proceeds from sales increases financial resources. The difference between proceeds and the loss on disposal of capital assets. -

Employer contributions for pension were recorded as expenditures in the governmental funds. However, in the Government-Wide Financial Statements these contributions are deferred. 2,033,128

Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position. 1,141,795

Proceeds of new debt are recorded as other financing sources in the governmental funds, however are recorded as a liability on the Statement of Net Position. -

Other post-employment benefit expense reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances. (278,431)

Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however pension expense is not recognized in the governmental funds. (1,386,428)

Interest expense on long-term debt is reported on the accrual basis on the Government-Wide Statements, but expenditures on long-term debt in the governmental funds statements are recorded when paid. The following amount represents the changes in accrued interest from the prior year. 7,785

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service funds is reported in the Statement of Activities but not in the Statement of Revenues, Expenditures, and Changes in Fund Balances. 30,325

Change in Net Position of Governmental Activities	<u>\$ (5,716,643)</u>
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See accompanying Notes to Basic Financial Statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

Sewer Fund accounts for wastewater and sewage collection provided to the City residents and businesses.

City of Albany
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-Type Activities Enterprise Fund Sewer Fund	Governmental- Activities Internal Service Fund
ASSETS		
Current assets:		
Operating cash and investments	\$ 9,251,633	\$ 3,700,265
Accounts receivable	43,842	-
Total current assets	<u>9,295,475</u>	<u>3,700,265</u>
Noncurrent assets:		
Capital assets, non-depreciable	1,670,682	-
Capital assets, depreciable	13,884,135	-
Total capital assets	<u>15,554,817</u>	<u>-</u>
Total assets	<u>\$ 24,850,292</u>	<u>\$ 3,700,265</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	72,434	-
Total deferred outflows of resources	<u>72,434</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 156,977	\$ -
Accrued salaries & benefits	44,970	-
Compensated absences	-	288,964
Claims liabilities	-	478,576
Current portion of long term debt	515,000	-
Total current liabilities	<u>716,947</u>	<u>767,540</u>
Noncurrent liabilities:		
Compensated absences	-	1,008,899
Claims liabilities	-	569,122
Long-term debt	3,090,000	-
Total noncurrent liabilities	<u>3,090,000</u>	<u>1,578,021</u>
Total liabilities	<u>3,806,947</u>	<u>2,345,561</u>
NET POSITION		
Net investment in capital assets	12,022,251	-
Unrestricted	9,093,528	1,354,704
Total net position	<u>\$ 21,115,779</u>	<u>\$ 1,354,704</u>

See accompanying Notes to Basic Financial Statements.

City of Albany
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended June 30, 2018

	Business-Type Activities Enterprise Fund Sewer Fund	Governmental- Activities Internal Service Fund
OPERATING REVENUES:		
Services charges	\$ 3,533,356	\$ 30,325
Total operating revenues	3,533,356	30,325
OPERATING EXPENSES:		
Personnel services	416,273	-
Materials, supplies and other	679,930	-
Major repairs	13,488	-
Depreciation	457,499	-
Total operating expenses	1,567,190	-
OPERATING INCOME	1,966,166	30,325
NONOPERATING REVENUES (EXPENSES):		
Interest expense	(87,672)	-
Total nonoperating revenues (expenses)	(87,672)	-
Change in net position	1,878,494	30,325
NET POSITION		
Beginning of year	19,237,285	1,324,379
End of year	\$ 21,115,779	\$ 1,354,704

See accompanying Notes to Basic Financial Statements.

City of Albany
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2018

	Business-Type Activities Enterprise Fund Sewer Fund	Governmental- Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from others		
Cash received from customers	\$ 3,525,774	\$ 30,325
Cash paid to employees	(416,273)	-
Cash paid to suppliers	(685,763)	-
Net cash provided by operating activities	2,423,738	30,325
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments - bonds	(505,000)	-
Interest paid	(87,672)	-
Net cash (used in) capital and related financing activities	(592,672)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,831,066	30,325
CASH AND CASH EQUIVALENTS - Beginning of year	7,420,567	3,669,940
CASH AND CASH EQUIVALENTS - End of year	\$ 9,251,633	\$ 3,700,265
FINANCIAL STATEMENT PRESENTATION:		
Cash and investments	\$ 9,251,633	\$ 3,700,265
Total	\$ 9,251,633	\$ 3,700,265
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 1,966,166	\$ 30,325
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	457,499	-
Changes in assets and liabilities		
Increase (decrease) in accounts receivable	(7,582)	-
Increase (decrease) in accounts payable and accrued liabilities	7,655	-
Total adjustments	457,572	-
Net cash provided by operating activities	\$ 2,423,738	\$ 30,325

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Private Purpose Trust Funds

Police and Fire Pension Trust Fund accounts for the City's Police and Fire Relief or Pension Trust Fund.

Successor Agency Trust to the Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. As discussed in Note 14, all Californian redevelopment agencies were dissolved as of January 31, 2012 and replaced with Successor Agencies responsible for winding down the affairs of the redevelopment agencies including disposing of their assets. This fund continues payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies. The financial activities of the fund are excluded from the Government-wide financial statements, but are presented in the separate Fiduciary Fund financial statements.

Agency Funds

Agency Fund accounts for the amounts held by the City acting as an agent for a third party.

City of Albany
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Pension Trust Fund (Police and Fire Pension)	Agency Funds
ASSETS		
Current assets		
Operating cash and investments	\$ 19,148	\$ 404,237
Debt service reserves held with trustee	-	479,824
Investments, at fair value		
Local Agency Investment Fund	264,263	-
Cash and Money Market Fund	111,644	-
Mutual funds	5,329,750	-
Total investments, at fair value	5,705,657	-
Total assets	\$ 5,724,805	\$ 884,061
LIABILITIES		
Liabilities:		
Current liabilities		
Accounts payable	341,238	6,386
Due to bondholders	-	667,842
Member deposits	-	40,494
Refundable deposits	-	169,339
Total noncurrent liabilities	-	209,833
Total liabilities	341,238	\$ 884,061
NET POSITION		
Net Position restricted for pensions	5,383,567	
Total net position of Trust Funds	\$ 5,383,567	

See accompanying Notes to Basic Financial Statements.

City of Albany
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended June 30, 2018

	Pension Trust Fund (Police and Fire Pension)
ADDITIONS:	
Employer contributions	\$ 218,723
Total additions	<u>218,723</u>
Investment income:	
Net appreciation (depreciation) in fair value of investments	42,773
Interest	10
Dividends	<u>270,929</u>
Total investment income	<u>313,712</u>
Total additions to assets	<u>532,435</u>
DEDUCTIONS:	
Pension benefits paid	1,279,564
Administration	<u>101,709</u>
Total deductions from assets	<u>1,381,273</u>
Changes in net position	(848,838)
NET POSITION:	
Beginning of year	<u>6,232,405</u>
End of year	<u>\$ 5,383,567</u>

See accompanying Notes to Basic Financial Statements.

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CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – Background

The City of Albany is a largely residential community located on San Francisco Bay in Alameda County, California. The City was incorporated in 1908. The population as of January 2018 estimated by the State of California, Department of Finance to be 19,053.

The City operates under the Council-City Manager form of government, with a full-time City Manager. The governing body is a five-member council, with one council member serving as mayor. The members are elected at large to serve a four year term. The City Treasurer is also an elected official.

In addition to finance and administrative functions, the City Manager oversees 84 fulltime-equivalent employees in the functions of:

- *Police services* - the Police Department is composed of a Chief of Police, two Lieutenants, five Sergeants, an Administrative Supervisor, fourteen patrol officers, three Detectives, six Public Safety Dispatchers, and various support services personnel for the equivalent of thirty-seven full-time employees. In addition to enforcement of laws and protection of life and property, the department supports the Albany Police Activities League (APAL) and numerous other community service programs.
- *Fire and Emergency Medical Services* - the Fire and Emergency Medical Services Department is composed of a Chief, a Battalion Chief, and eighteen fire fighters and paramedic personnel. The Fire Department is responsible for operation of the City's Emergency Operations Center. Department personnel perform numerous services to benefit the community, such as Christmas toy drives, sale of low cost bicycle helmets and conducting CPR courses.
- *Recreation and Community Services* - the City provides many recreational activities for its citizens, with emphasis on services to youth and seniors. City owned recreational facilities operated by the department are:
 - Community Center
 - Senior Center and a Senior Center Annex
 - Child Care Centers
 - Albany Teen Center
- *Community Development and Environmental Resources* - the functions of City infrastructure maintenance and administration of licensing, permit and zoning activities are assigned to this department. The department is composed of the following two divisions:
 - Planning and Building
 - Environmental Resources
- *Finance and Administrative Services* – performs financial accounting, budgeting, insurance administration, investment management, capital projects accounting, and other finance and administrative tasks, as required.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – Summary of Significant Accounting Policies

The following is a summary of the accounting policies of the City, which conform with generally accepted accounting principles in the United States of America as applicable to governments.

A. Reporting Entity

The financial statements of the City include the financial activities of the City as well as separate legal entities, called component units, which are controlled by or dependent on the City. While these are separate legal entities, the City Council may serve, in separate session, as their governing body and their financial activities are integral to those of the City. Their financial activities have been aggregated and merged or “blended” with those of the City, in the accompanying financial statements. The one exception is the *City of Albany Police and Fire or Pension Fund*, which does issue separate financial statements.

- *The City of Albany Police and Fire Relief or Pension Fund (Trust)* is a separate legal trust whose purpose is to provide pension benefits for certain eligible City employees. The Trust’s governing board is composed of a City Council person, City Treasurer, City Clerk, and two members of the Trust. All accounting and administrative functions are performed by the City, at the direction of the Trust Board of Commissioners. The activities of the Trust have been included in the Police and Fire Relief Pension Trust Fund. Separate financial statements for the Trust may be obtained from the City of Albany administrative offices located at 1000 San Pablo Avenue, Albany, CA 94706.
- *The City of Albany Public Facilities Financing Authority* is a financing authority whose purpose is to provide financing assistance to the City for acquiring real property and improvements for the benefit of the City and surrounding areas. The Authority’s board is composed of the City Council, and all accounting and administrative functions are performed by City staff. The Authority is dependent upon the City for its cash flows, and the activities of the Authority have been recorded in the Public Facilities Financing Authority Debt Service Fund of the City. Separate financial statements are not issued for the Authority.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements

The City Government-wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City, accompanied by a total column. Internal Service Funds activities are excluded to avoid “doubling up” revenues and expenses. Fiduciary activities of the City are not included in the government-wide statements.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting/Measurement Focus

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents revenues, expenditure and fund transfers that produce changes in the net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which the liability is incurred.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board Statement No. 34 in regards to inter-fund activities, payables and receivables. The City does not have internal payments that are treated as program revenue. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, transactions between governmental and business-type activities have not been eliminated.

Net position should be reported as restricted when constraints placed on the net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting/Measurement Focus (Continued)

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements.

Revenues subject to accrual are property taxes, franchise taxes, interest revenue, and charges for services. Sales taxes collected and held by the State at year-end on behalf of the City also are recognized as revenue. Licenses and permits are not subject to accrual because, generally, they are not measurable until received in cash.

Expenditures are generally recognized when a liability is incurred, under the modified accrual basis of accounting. Principal and interest on general long-term debt are recognized when due. Financial resources are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Thus, amounts are not current liabilities of the debt service fund, as their settlement will not require expenditure of existing fund assets.

All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as subject to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The major governmental funds of the City are:

- *General Fund* – This is the general operating fund of the City. It is used to account for all financial resources except those accounted for in another fund.
- *City Capital Project Fund* – This fund is used to account for City capital project expenditures.
- *Street & Storm Capital Project Fund* – This fund is used to record property tax revenues, debt proceeds and expenditures for various street and storm drain projects.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting/Measurement Focus (Continued)

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

The City of Albany reports the Sewer Enterprise Fund as a major proprietary fund type. The Sewer Enterprise Fund accounts for wastewater and sewage collection provided to City residents and businesses. The cost of this service, including depreciation, is recovered through user charges.

The City's internal service funds at June 30, 2018 are the Workers' Compensation Fund, General Liability Fund, and the Compensated Absences Fund. The Workers' Compensation Fund is used to cover known and unknown claims that may occur relating to worker injuries. The General Liability Fund is used to cover future general liability claims against the City. The Compensated Absences Fund is used to reserve funds required to pay off accrued liabilities for vacations, compensatory time and sick leave upon employees' retirement or other termination of employment.

Proprietary funds are accounted for using the *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund; all other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund, and all other expenses are reported as non-operating expenses.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting/Measurement Focus (Continued)

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a statement of net position and a statement of changes in net position. The City's fiduciary funds represent a Pension trust fund, Private-purpose trust fund, and agency funds. Pension Trust Funds are used to report resources that are required to be held in trust by the City for the members and beneficiaries of defined benefit pension plans and defined contribution pension plans, Private-purpose trust funds are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments, and Agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City includes in its Comprehensive Annual Financial Report (CAFR) the Police and Fire Pension Trust Fund, which accounts for the activities of the Police and Fire Relief or Pension Fund Trust. The Successor Agency Fund is reported as a Private-purpose trust fund.

Agency funds are used by the City to report activity relating to amounts collected and distributed by the City, which include fees, special assessments, and deposits for outside parties based on agreements. Agency fund transactions are presented in the statement of changes in fiduciary assets and liabilities on page 41.

C. Revenue Recognition for the Sewer Enterprise Fund

Sewer service charges are billed and collected by the Alameda County Tax Collector as part of the property tax bill. Semi-annual payments are due November 1 and February 1 of the fiscal year in which the service is provided. Any charges, of a material amount, billed but not received, as of the end of the fiscal year, are accrued.

D. Compensated Absences

City employees under state laws are entitled to payment of accrued and unused vacation leave hours. In addition the City bargaining agreements and personnel rules allow for those who retire with unused sick leave to receive payment of twenty-five percent of accrued and unused sick leave, at the time of retirement. The City has obligations for accrued vacation and sick leave in the amount \$1,297,863, which is recorded in the Compensated Absences Internal Service Fund. The current portion of the liability is \$288,964, and the noncurrent portion is \$1,008,899.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – Summary of Significant Accounting Policies (Continued)

E. Property Tax

Alameda County officials assess property, calculate and collect taxes due. The County distributes taxes, plus related interest and penalties, allocated to the City.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and become delinquent on August 31. The term “unsecured” refers to taxes on personal property other than real estate, land, and buildings, which are secured by liens on the property being taxed.

Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above.

F. Cash and Cash Equivalents, and Cash Flows

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Proprietary fund types operating cash and investments have been used to prepare the statements of cash flows. Debt service reserves with trustees have original maturity terms of more than three months, and are not included as cash equivalent in the statement of cash flows. For the purpose of the statement of cash flows of the proprietary funds types, cash and cash equivalents include all investments, as the City operates an internal cash management pool which maintains the general characteristics of a demand deposit account.

G. Prepaid Items

Prepaid items represent amounts paid in advance for a benefit not yet received. This type of expenditure normally includes costs paid in one fiscal year (or period) that benefits a future year (or period). The City uses the consumption method of accounting for prepaid items under which purchases are debited to a prepaid asset account and are recorded as expenditures or expenses when used.

H. Capital Assets

Governmental activity capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Infrastructure assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Capital assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is charged to governmental activities, by function.

Business-type activity capital assets are recorded at cost and depreciated over their estimated useful lives. The purpose of depreciation is to spread the costs of business-type capital assets equitably among all customers over the life of these assets, so that each customer’s bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of business-type activities capital assets.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

The capitalization threshold for capital assets is \$5,000 with a useful life of at least two years. Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Capital Assets as a reduction in the book value of capital assets.

Depreciation of capital assets in service is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years, and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets.

Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and fixtures	5-10 years
Machinery and equipment	2-10 years
Vehicles	5 years
Sewer transmission lines	50 years
Infrastructure	20-70 years

I. Deferred Compensation Plan

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until it is distributed to them; distributions may be made only at termination of employment, retirement, death, or in an emergency as defined by the Plan. In accordance with GASB Statement No. 32, the funds have been placed in a trust administered by ICMA-Retirement Corporation and are not available to the City's general creditors. Accordingly, the City does not report the assets in the financial statements.

J. Net Position and Fund Balances

In the government-wide financial statements, net positions are classified in the following categories:

Net Investment in Capital Assets: This category groups all capital assets into one component of net position. Accumulated depreciation on these assets and the outstanding principal of related debt reduce this category.

Restricted Net Position: This category represents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position: This category represents the net position of the City that are not externally restricted for any project or other purpose.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – Summary of Significant Accounting Policies (Continued)

J. Net Position and Fund Balances (Continued)

In the fund financial statements, governmental funds are classified in the following categories in accordance with a policy adopted by the City Council:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes established by the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally (for example: resolution).

Assigned Fund Balance – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) City Council or (b) a body (a budget, finance committee, or management (City Wide Leadership team, which consists of City Manager and Executive Department Heads)) to which the assigned amounts are to be used for specific purposes. The City Council adopted Resolution No. 2012-2 that delegated this authority to the City Manager. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) other than the General Fund, that are not classified as nonspendable, restricted, or committed.

Unassigned Fund Balance – the residual classification for the General Fund and includes all not contained in the other classifications. Governmental funds report residual negative balances as unassigned fund balance.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

K. Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

L. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City’s California Public Employees’ Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – Summary of Significant Accounting Policies (Continued)

M. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

O. New Pronouncements

In fiscal year 2018, the City adopted the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements* – The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement did not apply to the City for the current fiscal year.
- GASB Statement No. 85, *Omnibus 2017* – The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and other postemployment benefits (OPEB). There was no effect on net position as a result of implementation of this statement. Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement did not apply to the City for the current fiscal year.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – Summary of Significant Accounting Policies (Continued)

O. New Pronouncements (Continued)

- GASB Statement No. 86, *Certain Debt Extinguishment Issues* – The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement did not apply to the City for the current fiscal year.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 –Cash and Investments

The City's dependence on property tax receipts and seasonal revenue sources requires it to maintain significant cash reserves to finance operations. Except debt service reserves with trustees, bond proceeds from special assessment districts, and bond proceeds from sewer revenue bonds, the City pools operating cash and investments from all sources and funds, so that these funds may be invested at the maximum yield, consistent with safety and liquidity, while allowing expenditures from individual funds at any time. Disclosure for the Police and Fire Relief Pension Fund investments can be found in Note 10.

The following is a summary of pooled cash and investments, including debt service reserves with trustees at June 30, 2018:

	Government-Wide Statement of Net Position		Fiduciary Funds	Total
	Governmental Activities	Business-Type Activities	Statement of Net Position	
Operating cash and investments	\$ 28,487,769	\$ 9,251,633	\$ 6,129,042	\$ 43,868,444
Debt service reserves held with trustee	346,516	-	479,824	826,340
Total	\$ 28,834,285	\$ 9,251,633	\$ 6,608,866	\$ 44,694,784

At June 30, 2018 the City's pooled cash and investments, including debt service reserves with trustees consisted of the following:

City Treasury:	
Deposits:	
Cash on hand	\$ 2,646
Deposits with financial institutions	8,849,548
Total Deposits	8,852,194
Investments:	
State investment pool	27,196,020
Mutual funds	5,378,821
CalTrust investment pool	2,378,836
Cash and money market funds	62,573
Total investments	35,016,250
Total City Treasury	43,868,444
Debt service reserves held with trustee	826,340
Total City and trustee cash and investments	\$ 44,694,784

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – Operating Cash and Investments (Continued)

A. Authorized Investments

The table below identifies the investment types that are authorized by the City’s Investment Policy. The table also identifies certain provisions of the City’s Investment Policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the City’s investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of *Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	N/A	N/A	N/A
U.S. Agency Securities	N/A	N/A	N/A
Banker's Acceptance	180 days	40%	10%
Commercial Paper	270 days	15%	10%
Medium-Term Notes	One year	15%	5%
Money Market Mutual Funds	N/A	N/A	N/A
Repurchase Agreements	7 days	N/A	N/A
Local Agency Investment Fund (LAIF)	N/A	N/A	N/A
Investment Trust of California (CalTrust)	N/A	25%	N/A
Negotiable Certificates of Deposits	One year	15%	N/A

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Debt Service Reserves with trustee are invested in accordance with indentures governing the related debt. The trustee may invest in U.S. treasury notes and bonds, and in pooled investments that invest in those securities.

B. 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 City 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 City monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio. In accordance with the City’s investment policy, the City is not allowed to invest more than 25% of its investment portfolio in maturities greater than one year. Investments which exceed five years in maturity require City Council’s approval. Further, each individual security is limited to one million dollars.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – Operating Cash and Investments (Continued)

B. Risk Disclosures (Continued)

At June 30, 2017 all of the City’s investments had remaining maturities of twelve months or less.

Investment Type	Fair Value	Maturity: 12 Months Or Less
State investment pool	\$ 27,196,020	\$ 27,196,020
Mutual funds	5,378,821	5,378,821
CalTrust investment pool	2,378,836	2,378,836
Cash and money market funds	62,573	62,573
Total	\$ 35,016,250	\$ 35,016,250

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 City’s investment facilities listed above were not assigned ratings by a nationally recognized credit rating organization.

The City’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, 2018 there are no investments in any one issuer that represent 5% or more of total City investments.

Custodial Credit Risk. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a depositor will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a depositor will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2018, bank balances were \$8,831,197 at one institution. The Federal Deposit Insurance Corporation fully insures up to \$250,000. The remaining amount was collateralized with securities held by the pledging financial institutions in the City’s name.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – Operating Cash and Investments (Continued)

C. Investment in State Investment Pool

The City 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 City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holding in LAIF. The City had a contractual withdrawal value of \$27,196,020 whose pro-rata share of fair value was estimated by the state Treasurer to be \$27,196,020. The fair value change in this investment for the year came to an amount that was not material for presentation in the financial statements.

The City's investments with LAIF at June 30, 2018 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 2018, the State Treasurer had invested 2.81% of the pool's funds in structured notes and asset-backed securities.

D. Fair Value of Investments

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, 2018 are described on the following page.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – Operating Cash and Investments (Continued)

D. Fair Value of Investments (Continued)

Investment Type	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Mutual Funds-Bond Funds				
DODGE & COX INCOME FUND	\$ 1,801,505	\$ 1,801,505	\$ -	\$ -
PIMCO INVESTMENT GRADE	691,185	691,185	-	-
Mutual Funds-Equity Funds				
DODGE & COX STOCK FUND	2,009,162	2,009,162	-	-
IVA INTL FD CL I	347,995	347,995	-	-
MAINSTAY EPOCH GLOBAL	411,875	411,875	-	-
NEUBERGER BERMAN EQTY	117,099	117,099	-	-
Subtotal Mutual Funds	<u>5,378,821</u>	<u>5,378,821</u>	<u>-</u>	<u>-</u>
Total investments subject to levelling	<u>\$ 5,378,821</u>	<u>\$ 5,378,821</u>	<u>\$ -</u>	<u>\$ -</u>

The City's investments in bond and equity mutual funds are based on direct quotes from active markets for similar investments.

E. Albany Police and Fire Relief Pension Fund

The following information pertains to the Albany Police and Fire Relief Pension Fund only.

Cash

At June 30, 2018, the Fund's cash balance was a \$19,148. The Fund's bank balance of \$16,422 (inclusive of outstanding checks) was held at one institution, which was fully covered by depository insurance.

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 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 Fund's governing board, which meets with the investment manager quarterly.

At June 30, 2018, the Fund's assets were invested in the Schwab Money Market Fund (SWMXX); Dodge & Cox Income Fund (DODIX); PIMCO Investment Grade (PIGIX); Dodge & Cox Stock Fund (DODGX); IVA Intl Fund CL I (IVIQX); Mainstay Epoch Global (EPSYX); and Neuberger Berman Equity (NBHIX).

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – Operating Cash and Investments (Continued)

E. Albany Police and Fire Relief Pension Fund (Continued)

The 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.

Authorized Investment Type	Target Allocation	Minimum Percentage of Portfolio	Maximum Percentage of Portfolio
Large Cap Equity	40%	25%	55%
International Equity	10%	5%	15%
Fixed Income	50%	40%	60%
Cash	5%	N/A	10%

As of June 30, 2018, the Fund's allocations reflected the general guidelines set by the Fund's policy as described above.

Investments at June 30, 2018 are as follows:

Investment Type	Fair Value
Money market funds	\$ 62,573
State investment pool (LAIF)	264,263
Mutual funds:	
Bond Funds	2,492,690
Equity Funds	2,886,131
Total	<u>\$ 5,705,657</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 increase in fair value of investments for the year ended June 30, 2018 was \$42,773.

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.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – Operating Cash and Investments (Continued)

E. Albany Police and Fire Relief Pension Fund (Continued)

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, 2018, there are no investments in any one issuer that represent 5% or more of total Fund 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 is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. 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 \$307,059. 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, 2018.

The Fund's investments with LAIF at June 30, 2018 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 2018, the State Treasurer had invested 2.81% of the pool's funds in structured notes and asset-backed securities.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – Capital Assets

The following is a summary of capital assets as of June 30, 2018:

	Governmental Activities	Business-Type Activities	Total
Nondepreciable assets:			
Land	\$ 9,443,728	\$ -	\$ 9,443,728
Construction in progress	818,903	1,670,682	2,489,585
Total nondepreciable assets	10,262,631	1,670,682	11,933,313
Depreciable assets:			
Buildings	21,230,005	-	21,230,005
Improvements other than buildings	8,657,334	-	8,657,334
Furniture and fixtures	772,879	-	772,879
Machinery and equipment	2,365,327	-	2,365,327
Vehicles	3,513,728	-	3,513,728
Sewer lines	-	21,204,274	21,204,274
Infrastructure	21,878,771	56,928	21,935,699
Total depreciable assets	58,418,044	21,261,202	79,679,246
Less accumulated depreciation:	(25,108,338)	(7,377,067)	(32,485,405)
Depreciable capital assets, net	33,309,706	13,884,135	47,193,841
Total capital assets, net	\$ 43,572,337	\$ 15,554,817	\$ 59,127,154

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – Capital Assets (Continued)

Transactions and balances of capital assets were as follows:

	Balance June 30, 2017	Additions	Transfers/ Retirements	Balance June 30, 2018
Governmental Activities:				
Nondepreciable assets:				
Land	\$ 9,443,728	\$ -	\$ -	\$ 9,443,728
Construction in progress	818,903	-	-	818,903
Total nondepreciable assets	<u>10,262,631</u>	<u>-</u>	<u>-</u>	<u>10,262,631</u>
Depreciable assets:				
Buildings	21,230,005	-	-	21,230,005
Improvements other than buildings	8,657,334	-	-	8,657,334
Furniture and fixtures	648,457	124,422	-	772,879
Machinery and equipment	2,365,327	-	-	2,365,327
Vehicles	3,513,728	-	-	3,513,728
Infrastructure	21,878,771	-	-	21,878,771
Total depreciable assets	<u>58,293,622</u>	<u>124,422</u>	<u>-</u>	<u>58,418,044</u>
Less accumulated depreciation for:				
Buildings	6,250,268	407,706	-	6,657,974
Improvements other than buildings	4,279,189	389,684	-	4,668,873
Furniture and fixtures	547,627	52,137	-	599,764
Machinery and equipment	1,835,454	86,281	-	1,921,735
Vehicles	2,980,114	216,762	-	3,196,876
Infrastructure	7,139,330	923,786	-	8,063,116
Total accumulated depreciation	<u>23,031,982</u>	<u>2,076,356</u>	<u>-</u>	<u>25,108,338</u>
Total depreciable assets, net	<u>35,261,640</u>	<u>(1,951,934)</u>	<u>-</u>	<u>33,309,706</u>
Total governmental activities capital assets:	<u>\$ 45,524,271</u>	<u>\$ (1,951,934)</u>	<u>\$ -</u>	<u>\$ 43,572,337</u>

Depreciation was charged to governmental functions as follows:

Governmental activities:

General government	\$ 22,479
Police	101,848
Fire and emergency medical services	72,329
Community development and environmental resources	1,668,085
Recreation and community services	211,615
Total governmental activities depreciation expense	<u>\$ 2,076,356</u>

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – Capital Assets (Continued)

	Balance June 30, 2017	Additions	Transfers/ Retirements	Balance June 30, 2018
Business-Type Activities:				
Non-Depreciable assets:				
Construction in progress	\$ 1,670,682	\$ -	\$ -	\$ 1,670,682
Total non-depreciable assets	<u>1,670,682</u>	<u>-</u>	<u>-</u>	<u>1,670,682</u>
Depreciable assets:				
Sewer lines	\$ 21,204,274	\$ -	\$ -	\$ 21,204,274
Machinery and equipment	56,928	-	-	56,928
Total depreciable assets	<u>21,261,202</u>	<u>-</u>	<u>-</u>	<u>21,261,202</u>
Less accumulated depreciation for:				
Sewer lines	6,862,640	457,499	-	7,320,139
Machinery and equipment	56,928	-	-	56,928
Total accumulated depreciation	<u>6,919,568</u>	<u>457,499</u>	<u>-</u>	<u>7,377,067</u>
Total depreciable assets, net	<u>14,341,634</u>	<u>(457,499)</u>	<u>-</u>	<u>13,884,135</u>
Total business-type activities capital assets	<u>\$ 16,012,316</u>	<u>\$ (457,499)</u>	<u>\$ -</u>	<u>\$ 15,554,817</u>

NOTE 5 – Governmental Activities Debt

The City generally incurs debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The City's debt issues and transactions related to governmental activities are summarized below and discussed in detail subsequently.

Governmental Activities	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
2016 GO Refunding Bonds 2.00-5.00%, 8/1/37	15,874,519	-	755,000	15,119,519	515,000
2009 Street & Storm Drain Parcel tax note, 4.60%, 8/1/21	1,574,658	-	322,618	1,252,040	337,629
Lease purchase agreement 4.52%, 9/3/18	88,809	-	43,423	45,386	45,386
2011 California Energy Commission 1.0%, 6/2025	171,973	-	20,754	151,219	20,962
Total long-term debt	<u>\$ 17,709,959</u>	<u>\$ -</u>	<u>\$ 1,141,795</u>	<u>\$ 16,568,164</u>	<u>\$ 918,977</u>

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – Governmental Activities Debt (Continued)

A. 2016 General Obligation Refunding Bonds I

In September 2016, the City issued the 2016 General Obligation Refunding Bonds in the amount of \$14,750,000. The proceeds were used to refinance the City's outstanding General Obligation Bonds, Election of 2002, Series 2003, General Obligation Bonds, Election of 2002, Series 2007, and General Obligation Bonds, Election of 2006, Series 2007. Interest payments are due February 1st and August 1st and principal payments are due August 1st of each year, with the final payment due August 1, 2037. The refunding resulting in a difference in aggregate future debt service cash payments in the amount of \$3,687,396 and an economic gain (net present value savings) of \$2,898,165. The unamortized balance of the original issuance premium as of June 30, 2018 was \$1,124,519.

B. 2009 Street & Storm Drain Parcel Tax Note

In June 2006, voters passed a ballot measure (Measure F) authorizing a street paving and storm drain parcel tax to finance citywide street paving and storm drain facility repairs and improvements. In April 2009, the City entered into a parcel tax note agreement with Capital One Public Financing, LLC in the amount of \$3,465,156. The financing provided funding to advance storm drain improvements. Interest payments are due August 1st and February 1st and beginning in 2010 principal payments are due August 1st and February 1st of each year, with the final payment due August 2, 2021.

C. Lease Purchase Agreement

On September 3, 2008, the City entered into a lease purchase agreement with Sun Trust Equipment Finance & Leasing Corp in the amount of \$374,990 to finance the purchase of a fire engine. Ownership of the fire engine passes to the City at the end of the lease. The cost of the fire engine has been included in the City's financial statements.

F. California Energy Commission Note

In March 2010 the City entered into an agreement with the California Energy Commission to replace existing high pressure sodium vapor street lights with energy efficient light-emitting diode lights. As part of this agreement, the City issued a note of \$290,805 with an interest rate of 1% and a term of 14 years.

G. Arbitrage

As of June 30, 2017, it is not anticipated that any bond funds will incur arbitrage liabilities within the next year. Management does not anticipate that any potential arbitrage liability would have material effect on the bond funds to which they were assessed.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – Governmental Activities Debt (Continued)

H. Future Governmental Activities Debt Service

Debt service schedules for the COP's, general obligation bonds, and lease purchases are as follows at June 30, 2016:

Year Ending June 30:	Total Principal	Total Interest
2019	\$ 918,977	\$ 523,254
2020	914,508	478,912
2021	961,164	434,506
2022	812,892	387,836
2023	651,816	352,470
2024-2028	3,724,288	1,262,569
2029-2033	4,285,000	698,313
2034-2038	3,175,000	217,225
Subtotal	\$ 15,443,645	\$ 4,355,085
Original issuance premium	1,124,519	
	\$ 16,568,164	

PRINCIPAL

Year Ending June 30	2016 GO Refunding Bonds	2009 Street & Storm Drain Parcel Tax Note	Lease Purchase Agreement	California Energy Commission	Total
2019	\$ 515,000	\$ 337,629	\$ 45,386	\$ 20,962	\$ 918,977
2020	540,000	353,339	-	21,169	914,508
2021	570,000	369,779	-	21,385	961,164
2022	600,000	191,293	-	21,599	812,892
2023	630,000			21,816	651,816
2024-2028	3,680,000	-	-	44,288	3,724,288
2029-2033	4,285,000	-	-	-	4,285,000
2034-2038	3,175,000	-	-	-	3,175,000
Subtotal	13,995,000	1,252,040	45,386	151,219	15,443,645
Original Issuance Premium	1,124,519	-	-	-	1,124,519
Total	\$ 15,119,519	\$ 1,252,040	\$ 45,386	\$ 151,219	\$ 16,568,164

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – Governmental Activities Debt (Continued)

H. Future Governmental Activities Debt Service (Continued)

INTEREST						
Year Ending June 30	GO Bonds II	2009 Street & Storm Drain Parcel Tax Note	Lease Purchase Agreement	California Energy Commission	Total	
2019	\$ 465,988	\$ 53,755	\$ 2,051	\$ 1,460	\$ 523,254	
2020	439,613	38,046	-	1,253	478,912	
2021	411,863	21,605	-	1,038	434,506	
2022	382,613	4,400	-	823	387,836	
2023	351,863			607	352,470	
2024-2028	1,262,013	-	-	556	1,262,569	
2029-2033	698,313	-	-	-	698,313	
2034-2038	217,225	-	-	-	217,225	
Totals	\$ 4,229,491	\$ 117,806	\$ 2,051	\$ 5,737	\$ 4,355,085	

The City is required to maintain amounts of restricted cash and investments with trustees or fiscal agents under the terms of the above debt issues. These funds are pledged as reserves to be used if the City fails to meet its obligations under debt issues. These reserves total \$346,516 at June 30, 2018. The California Government Code requires these funds to be invested in accordance with the City ordinance, bond indentures or State statute. All funds have been invested as permitted under the Code.

NOTE 6 – Special Assessment District Debt

On February 10, 1999 the City issued Limited Obligation Improvement Bonds in the amount of \$6,230,000, pursuant to the provisions of the Improvement Bond Act of 1915 and the 1972 LLMD Act. The bonds were issued to finance certain improvements and acquisitions in the City's Open Space, Recreational Playfield, and Creek Restoration Assessment District No. 1996-1 (the District). Assessments sufficient to meet annual debt service on the bonds are billed by the County of Alameda to owners of assessment parcels located within the District.

Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof is pledged to the payment of the bonds. Therefore, the debt is not recorded in the City's Government-wide Financial Statements.

The outstanding balance of the bonds as of June 30, 2018 is \$890,000.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – Business-Type Activities Debt

During fiscal year 2016, the City issued \$4,810,000 in Sewer Revenue Bonds, which were used to refund the City’s 2004 Sewer Revenue Bonds in the amount of \$5,100,000 as of the issue date. The reacquisition price exceeded the net carrying amount of the old debt by \$68,985. The bonds mature serially, each September 1st, and semi-annual interest payments are due each August 1st and February 1st.

The Bonds are special obligations of the City and are secured by and payable solely from operating revenue of the Sewer Enterprise Fund. The interest rate on the bonds is 2.17%.

The City has pledged future sewer service charges, net of specified operating expenses, to repay the debt. Annual principal and interest payments on the debt are payable solely from net revenues through 2024. The total principal and interest remaining to be paid on the bonds is \$4,476,025. Principal and interest paid for the current year was \$801,608 and sewer revenue net of operating expenses (excluding depreciation expense) was \$910,478.

The following is a summary of changes in business-type activities long-term debt.

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Due Within in One Year
2016 Sewer revenue bonds	\$ 4,110,000	\$ -	\$ 505,000	\$ 3,605,000	\$ 515,000
Total long-term debt	<u>\$ 4,110,000</u>	<u>-</u>	<u>505,000</u>	<u>\$ 3,605,000</u>	<u>\$ 515,000</u>

Annual debt service repayment requirements to repay the Sewer Revenue Bonds and amortization of bond issuance costs and refunding discount at June 30, 2018 are:

June 30	Principal	Interest	Total
2019	\$ 515,000	\$ 75,136	\$ 590,136
2020	530,000	63,852	593,852
2021	540,000	52,297	592,297
2022	555,000	40,525	595,525
2023	565,000	28,427	593,427
2024-2025	900,000	19,638	919,638
Totals	<u>\$ 3,605,000</u>	<u>\$ 279,875</u>	<u>\$ 3,884,875</u>

Internal Service Fund Debt

The liability related to compensated absences at June 30, 2018 is summarized below:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Estimated Payments in One Year
Compensated Absences	<u>\$ 1,297,863</u>	<u>\$ 288,964</u>	<u>\$ 288,964</u>	<u>\$ 1,297,863</u>	<u>\$ 288,964</u>

All liabilities for compensated absences are liquidated by charges to the General Fund.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – Interfund Transactions

Due To / From

During the normal course of business the General Fund may make a temporary inter-fund transfer to cover deficit cash balances caused by expenditures for reimbursement type grants and other reimbursements or timing differences between when revenue is received.

<u>Due from other funds</u>	<i>Due to other funds</i>		<u>Total Due to other funds</u>
	CITY CAPITAL PROJECT	NON MAJOR GOVERNMENTAL FUNDS	
MAJOR GOVERNMENTAL FUNDS			
General Fund	\$ 860,971	\$ 95,683	\$ 956,654
Total Due from other funds	\$ 860,971	\$ 95,683	\$ 956,654

Interfund Transfers (Transfers In / Out)

A summary of all Interfund Transfers for the year ended June 30, 2018 were as follows:

<u>Transfers in</u>	<u>Transfers out</u>		<u>Total</u>
	<u>Street & Storm Drain</u>	<u>Non-Major Govt Funds</u>	
Major Funds			
General Fund	\$ -	\$ 1,262,885	\$ 1,262,885
Non-major Govtl Funds	21,000	451,698	472,698
Total	\$ 21,000	\$ 1,714,583	\$ 1,714,583

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 – Net Position and Fund Balances

The format of the Government Wide Financial Statements use the term “Net position” to describe what had been previously referred to as “net assets” in previous Comprehensive Annual Financial Reports (CAFR’s). The Net Position is further categorized as Restricted or Unrestricted. Restricted portions of net position include external restrictions as well as restrictions based on policies established by the City Council. Unrestricted portions of the net position reflect categories that are not restricted or net investment in capital assets.

The Governmental Accounting Standards Board (GASB) established fund balance classifications for governmental funds, which are also incorporated in an adopted City policy. The City Council has adopted a Resolution setting forth its policy using the GASB designations. In the Fund Financial Statements, in accordance with Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

Non-spendable

Fund balance amounts that cannot be spent because they are either (a) not expected to be converted to cash or (b) legally or contractually required to be maintained intact.

Restricted

Fund balance amounts that are subject to externally enforceable legal restrictions or constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed

Fund balance amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of the City Council. The adopted policy the City Council must take action to allow for removal or change to the constraint.

Assigned

Fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. In accordance with the adopted City Policy (Resolution No. 2012-2) the City Council has authorized the City Manager to assign balances.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 – Fund Balances and Net Position (Continued)

Unassigned

Positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Fund balances are classified in the above categories as follows:

Fund Balances	Major Governmental Funds			Non Major Government Funds	Total Government
	General	City Capital Projects	Street and Storm Fund		
Nonspendable fund balance:					
Prepaid items	\$ 60,834	\$ -	\$ -	\$ -	\$ 60,834
	60,834	-	-	-	60,834
Restricted fund balance for:					
Debt Service	-	-	-	2,952,999	2,952,999
Construction Projects	-	-	3,992,077	2,741,213	6,733,290
Police Retirement Funding	-	-	-	326,218	326,218
Other	-	-	-	5,036,562	5,036,562
	-	-	3,992,077	11,056,992	15,049,069
Assigned fund balance for:					
Capital Projects	-	-	-	1,988,593	1,988,593
	-	-	-	1,988,593	1,988,593
Unassigned fund balance	8,785,408	(2,478,738)	-	(3,184,281)	3,122,389
Total Fund Balances	\$ 8,846,242	\$ (2,478,738)	\$ 3,992,077	\$ 9,861,304	\$ 20,220,885

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 – Employee Retirement Plans

A. Summary of Pension Plan Balances

Pension related balances presented on the Statement of Net Position as of June 30, 2017 by individual plan are described in the following table:

	Deferred Employer Contributions	Deferred Outflows - Pension	Net Pension Liability	Deferred Inflows - Pension	Pension Expense
Single Employer Plan - Police and Fire Relief Fund	218,723	499,536	6,391,925	-	(1,247,540)
CalPERS Cost Sharing Plan	1,814,405	5,881,044	27,744,343	3,173,345	2,633,968
Total	<u>2,033,128</u>	<u>6,380,580</u>	<u>34,136,268</u>	<u>3,173,345</u>	<u>1,386,428</u>

B. Single Employer Plan – Police and Fire Relief Fund

I. General Information about the Pension 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 are presented below:

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.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 – Employee Retirement Plans (Continued)

B. Single Employer Plan – Police and Fire Relief Fund (Continued)

I. General Information about the Pension Plan (Continued)

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.

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.

Employees Covered – At June 30, 2017, the following employees were covered by the benefit terms for each Plan:

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	-
Active employees	-
Total	22

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.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – Employee Retirement Plans (Continued)

B. Single Employer Plan – Police and Fire Relief Fund (Continued)

II. Net Pension Liability

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, 2017, using an annual actuarial valuation as of June 30, 2017. A summary of principal assumptions and methods used to determine the net pension liability is shown below:

Actuarial Assumptions – The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions:	
Discount Rate	4.54%
Inflation	2.50%
Investment Rate of Return	6.75%
Death after Retirement	RP-2000 mortality table for annuitants with a 7-year projection, applied on a static basis using Scale AA, from valuation date.

Discount Rate – The discount rate used to measure the total pension liability was 4.54%.

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 2027.

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, 2017 (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):

Asset Class	Long-Term Expected Return
Equity	6.60%
Fixed Income	2.20%
Short Term and Receivables	1.60%

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – Employee Retirement Plans (Continued)

B. Single Employer Plan – Police and Fire Relief Fund (Continued)

III. Changes in the Net Pension Liability

The changes in the Net Pension Liability for the Plan follow:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016	\$ 14,163,304	\$ 6,843,257	\$ 7,320,047
Changes in the year:			
Service cost	-	-	-
Interest on the total pension liability	556,000	-	556,000
Differences between actual and expected experience	-	-	-
Changes in assumptions	(377,454)	-	(377,454)
Changes in benefit terms	-	-	-
Contribution - employer	-	218,723	(218,723)
Contribution - employee	-	-	-
Investment income	-	887,945	(887,945)
Administrative expenses	-	-	-
Benefit payments , including refunds of employee contributions	(1,283,577)	(1,283,577)	-
Net changes	(1,105,031)	(176,909)	(928,122)
Balance at June 30, 2017	\$ 13,058,273	\$ 6,666,348	\$ 6,391,925

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for the Plan, calculated using the discount rate for the Plan, as well as what the City’s 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		3.54%
Net Pension Liability	\$	7,411,974
Current Discount Rate		4.54%
Net Pension Liability	\$	6,391,925
1% Increase		5.54%
Net Pension Liability	\$	5,501,881

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 – Employee Retirement Plans (Continued)

B. Single Employer Plan – Police and Fire Relief Fund (Continued)

III. Changes in the Net Pension Liability, Continued

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.

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

For the year ended June 30, 2018, the City recognized pension expense of \$(1,247,540). At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 218,723	
Net differences between projected and actual earnings on plan investments	499,536	-
Total	\$ 718,259	\$ -

\$218,723 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	
2019	79,541
2020	79,542
2021	216,915
2022	123,538

V. Payable to Pension Plan

As of June 30, 2018, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

I. Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous risk pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors eleven rate plans (six miscellaneous and five safety). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

II. Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employee's Retirement Law.

The rate plan provisions and benefits in effect at June 30, 2018 are summarized on the following page.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

II. *Benefits Provided*

	<u>City Miscellaneous</u>	<u>City Miscellaneous - 2nd Tier</u>
Hire Date	Prior to January 1, 2013	Prior to January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payment	Monthly for life	Monthly for life
Retirement age	55	60
Monthly benefits, as a % of annual salary	2.50%	2.00%
Required employee contribution rates	8.000%	7.000%
Required employer contribution rates	9.539%	7.200%
Required UAL Payment	\$ 257,821	\$ 502

	<u>City Miscellaneous-PEPRA</u>	<u>City Safety - Fire</u>
Hire Date	On or after January 1, 2013	Prior to January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	57	55
Monthly benefits, as a % of annual salary	2.70%	3.00%
Required employee contribution rates	6.250%	9.000%
Required employer contribution rates	6.533%	17.875%
Required UAL Payment	\$ 551	\$ 359,156

	<u>City Safety - Police</u>	<u>City Safety - Police PEPRA</u>
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	57
Monthly benefits, as a % of annual salary	3.00%	2.70%
Required employee contribution rates	9.000%	11.500%
Required employer contribution rates	17.875%	11.990%
Required UAL Payment	\$ 379,636	\$ 1,454

	<u>City Safety - Fire 2nd Tier</u>	<u>City Safety - Fire PEPRA</u>
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	57
Monthly benefits, as a % of annual salary	3.00%	2.70%
Required employee contribution rates	9.000%	11.500%
Required employer contribution rates	16.842%	11.990%
Required UAL Payment	\$ 1,786	\$ 1,755

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

II. Benefits Provided, Continued

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers are to be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The City’s contributions to the Plan for the year ended June 30, 2017 were \$1,570,862.

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

As of June 30, 2018, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$27,744,343.

The City’s net pension liability for the Plan is measured as the proportionate share of the total net pension liability of the Plan. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City’s proportionate of the net pension liability was based on the City’s plan liability and asset-related information where available, and proportional allocations of individual plan amounts as of the valuation date where not available.

The City’s proportionate share of the net pension liability for the Plan as of measurement dates June 30, 2016 and 2017 were as follows:

Proportion - June 30, 2016	0.27660%
Proportion - June 30, 2017	<u>0.27976%</u>
Change - Increase (Decrease)	<u>0.00316%</u>

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

III. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

For the year ended June 30, 2018, the City recognized pension expense of \$2,633,968. At June 30, 2018, 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
Pension contributions subsequent to measurement date	\$ 1,814,405	\$ -
Changes of assumptions	4,536,084	347,388
Differences between expected and actual experience	68,987	50,144
Changes in employer's proportion	276,041	1,074,688
Differences between the employer's contribution and the employer's proportionate share of contributions	-	1,701,125
Net differences between projected and actual earnings on plan investments	999,932	-
Total	\$ 7,695,449	\$ 3,173,345

\$1,814,405 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

Other 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	
Ending June 30:	
2019	\$ (190,639)
2020	2,185,866
2021	1,300,172
2022	(587,700)

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

III. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date		June 30, 2016
Measurement Date		June 30, 2017
Actuarial Cost Method		Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate		7.15%
Inflation		2.75%
Projected Salary Increase		Varies by entry age and service
Investment Rate of Return	(1)	7.15%
Mortality		Derived by CalPERS membership data for all funds

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

III. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

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 Plan, calculated using the discount rate for the Plan, 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	6.15%
Net Pension Liability	\$ 42,719,897
Current Discount Rate	7.15%
Net Pension Liability	\$ 27,744,343
1% Increase	8.15%
Net Pension Liability	\$ 15,454,978

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – Employee Retirement Plans (Continued)

C. Cost Sharing Plan – CalPERS

III. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2018 the City reported a payable of \$0 for outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTE 11 – Other Postemployment Benefits

A. Plan Description

The City of Albany Retiree Health Plan is a single-employer defined benefit healthcare plan administered by the California Public Employees’ Retirement System (CalPERS). The Plan provides medical insurance benefits to eligible retirees and their eligible dependents. In accordance with Public Employees’ Retirement Law (Article 2), the CalPERS Board of Administration has the responsibility to approve health benefit plans and may contract with carriers offering health benefit plans. The Board of Administration is responsible for adopting all rules and regulations, including the scope and content of basic health plans. The California Government Code also defines certain rules for contract agencies to purchase health insurance benefits

B. Benefits Provided

Eligibility for retiree health benefits requires retirement from the City on or after age 50 (age 52 for PEPRA New hires) with at least five years of CalPERS service. Eligible employees who were hired prior to July 1, 2005, receive 100% of medical premium to age 65, subject to the following age and service requirements. Employees who retire on or after age 63 with at least five years of service will receive 100% of the medical premium for employee only coverage. Employees who retire at on or after age 60 with at least 10 years of service will receive 100% of the medical premium for employee, spouse and dependent coverage. Eligible employees who were hired on or after July 1, 2005, but before January 1, 2016, receive 100% of medical premium to from age 55 to age 65, subject to the following age and service requirements. Employees who retire with at least 10 years of service will receive 100% of the medical premium for employee only coverage. Employees who retire with at least 15 years of service will receive 100% of the medical premium for employee and spouse coverage. Employees who retire with at least 20 years of service will receive 100% of the medical premium for employee, spouse and dependent coverage. City Council, City Manger and City Clerks receive who retire with at least four years of service receive four years of medical coverage for employee, spouse and dependent coverage. They will receive an additional six months for each year served beyond four. Eligible Employees hired after the dates listed above, or with less than 10 years of service will receive the PEMHCA minimum benefit.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 – Other Postemployment Benefits (Continued)

C. Employees Covered by Benefit Terms

As of June 30, 2018, the following employees were covered by the benefit terms for the plan:

Inactive employees or beneficiaries currently receiving benefits	43
Inactive employees entitled to but not yet receiving benefits	-
Active employees	103
Total	146

D. Funding Policy

The City pays benefits as they come due.

E. Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement date..

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	3.50%
Mortality	Derived using CalPERS' Membership Data for all Funds
Healthcare cost trend rates:	6.5% in the first year, trending down to 3.84% over 58 years

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50%. The City's OPEB Plan is an unfunded plan, therefore the discount rate was set to the rate of tax-exempt, high quality 20-year municipal bonds, as of the valuation date.

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – Other Postemployment Benefits (Continued)

F. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 3,492,579
Changes in the year:	
Service cost	260,164
Interest on the total pension liability	129,175
Differences between actual and expected experience	54
Changes in assumptions	10,072
Changes in benefit terms	-
Plan to Plan Resource Movement	-
Contribution - employer	(42,942)
Implicit rate subsidy fulfilled	(78,092)
Net changes	278,431
Balance at June 30, 2018	\$ 3,771,010

Sensitivity of the Total OPEB liability to Changes in the Discount Rate – The following presents the total OPEB liability of the City for the Plan, calculated using the discount rate for the Plan, as well as what the City’s total OPEB 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 - 2.50%	
Total OPEB liability	\$ 3,931,655
Current Discount Rate - 3.50%	
Total OPEB liability	\$ 3,771,010
1% Increase - 4.50%	
Total OPEB liability	\$ 3,142,669

Sensitivity of the Total OPEB liability to Changes in the Healthcare Cost Trend Rate – The following presents the total OPEB liability of the City for the Plan, calculated using the healthcare cost trend rate for the Plan, as well as what the City’s total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease - 5.50% Decreasing to 2.84%	
Total OPEB liability	\$ 3,040,995
Current Discount Rate - 6.50% Decreasing to 3.84%	
Total OPEB liability	\$ 3,771,010
1% Increase - 7.50% Decreasing to 4.84%	
Total OPEB liability	\$ 4,075,326

**CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – Other Postemployment Benefits (Continued)

OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of \$390,589. . At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	8,829	-
Differences between expected and actual experience	47	-
Total	\$ 8,876	\$ -

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

Fiscal Year Ending June 30:	
2019	\$ 1,250
2020	1,250
2021	1,250
2022	1,250
2023	1,250
Thereafter	2,626

NOTE 12 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. The City manages risk by participating in the public entity risk pools described below and by retaining certain risks.

Public entity risk pools are formally organized separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these risk pools exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board.

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 – Risk Management (Continued)

A. Risk Pools

The City participates in the Bay Cities Joint Powers Insurance Authority (BCJPIA) general liability risk pool, which in turn participates in the California Affiliated Risk Management Authorities (CARMA) risk pool. BCJPIA covers general liability claims in an amount up to \$1,000,000. The City has a deductible (or uninsured liability) of up to \$50,000 per claim. Once the City's deductible is met BCJPIA becomes responsible for payments of all claims up to \$1,000,000. CARMA covers claims from \$1,000,000 to \$28,000,000.

The City is a participant in the BCJPIA workers compensation risk pool, which in turn participates in the Local Agency Workers Compensation Excess Insurance Joint Powers Authority's (LAWCX) risk pool, and LAWCX in turn purchases coverage above the \$1 million coverage provided by its pool. The City has a self-insured retention of \$150,000 for claims, and the BCJPIA pool covers claims from \$150,000 to \$1,000,000. Claims from \$1,000,000 to the statutory limit are covered by LAWCX.

The City's contributions with each risk pool equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

During the past four fiscal (claims) years, none of the above programs have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

Financial statements for BCJPIA and LAWCX may be obtained from Bickmore Risk Services, 1750 Creekside Oaks Drive, Suite 200, Sacramento, California 95833.

B. Liability for Uninsured Claims

The City estimates its liability for the uninsured portion of claims, including a provision for claims incurred but not reported (IBNR), which is based on claims experience and estimates provided by BCJPIA. Changes in the balance of claim liabilities are as follows:

	Workers' Compensation	General Liability	Total
Balance July 1, 2016	\$ 906,000	\$ 141,698	\$ 1,047,698
Incurred claims and changes in estimates	274,906	81,868	356,774
Claim paid	(274,906)	(81,868)	(356,774)
Balance June 30, 2017	906,000	141,698	1,047,698
Incurred claims and changes in estimates	274,906	81,868	356,774
Claim paid	(274,906)	(81,868)	(356,774)
Balance June 30, 2018	<u>\$ 906,000</u>	<u>\$ 141,698</u>	<u>\$ 1,047,698</u>

CITY OF ALBANY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – Commitments and Contingent Liabilities

The City participates in several Federal and State grant programs. These programs have been audited by the City's independent accountants when required, in accordance with the provisions of the Federal Single Audit Act and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

The City is currently in the process of resolving findings provided by CalPERS regarding treatment of earnings and calculations of required contributions. The resolutions of these findings may require additional amounts to be paid to CalPERS to resolve past funding requirements.

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the City.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Albany

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

General Fund

For the year ended June 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 6,591,012	\$ 6,951,012	\$ 7,176,748	\$ 225,736
Sales taxes	3,949,504	4,229,504	3,511,510	(717,994)
Franchise and other taxes	4,730,814	4,730,814	4,020,717	(710,097)
Licenses and permits	300,450	294,950	1,204,391	909,441
Fines and forfeitures	345,000	345,000	188,954	(156,046)
Earnings on investments	128,785	128,785	277,354	148,569
Revenues from other agencies	269,697	269,697	191,384	(78,313)
Current service charges	2,149,310	2,149,310	2,061,243	(88,067)
Other revenue	182,710	182,710	684,106	501,396
Total revenues	18,647,282	19,281,782	19,316,407	34,625
EXPENDITURES:				
Current:				
General government	4,769,688	4,910,824	4,412,073	498,751
Police	7,237,618	7,237,618	6,754,786	482,832
Fire and emergency medical services	2,664,602	2,664,602	2,756,394	(91,792)
Community development and environmental resources	1,575,327	1,631,465	2,490,140	(858,675)
Recreation and community services	2,509,922	2,577,370	2,519,910	57,460
Capital outlay	1,255,101	1,517,838	825,923	691,915
Debt service:				
Principal	-	-	43,423	(43,423)
Interest, and fiscal charges	-	-	4,134	(4,134)
Total expenditures	20,012,258	20,539,717	19,806,783	732,934
REVENUES OVER (UNDER) EXPENDITURES	(1,364,976)	(1,257,935)	(490,376)	767,559
OTHER FINANCING SOURCES (USES):				
Transfers in	891,100	891,100	1,262,885	371,785
Transfers out	-	-	-	-
Total other financing sources (uses)	891,100	891,100	1,262,885	371,785
Net change in fund balance	\$ (473,876)	\$ (366,835)	772,509	\$ 1,139,344
FUND BALANCE:				
Beginning of year			8,073,733	
End of year			<u>\$ 8,846,242</u>	

**CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

Budgetary Policies

Procedures followed in establishing the budgetary data reflected in the financial statements are presented below:

1. By June 1, of even-numbered years, the City Manager submits to the City Council an operating budget and capital improvement budget for the two fiscal years commencing the following July 1. The operating budget includes proposed expenditures and the sources of financing.
2. Public hearings and work sessions are conducted to obtain comments from interested individuals and organizations.
3. The budget is formalized and legally enacted through City Council adoption.
4. All intrafund transfers above \$5,000 require the approval of the City Manager (or designee). All intrafund transfers below \$5,000 require the approval of the Finance and Administrative Services Director (or designee). Interfund transfer approval must be obtained from both the City Manager and Finance and Administrative Services Director. Such approval shall only be given provided the interfund transfer does not change the total initial appropriation for all funds requiring budgets. Changes in appropriations at the fund level must be approved by the City Council.
5. Formal budgetary integration, in the form of the annual budget, is employed as a management control device during the year for the General Fund, Special Revenue Funds, Capital Project Funds, and Debt Service Funds.
6. Budgets for General, Special Revenue, Capital Projects, and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles in the United States of America. Appropriations lapse at the end of the fiscal year.
7. As needed, budgeted amounts are subjected to amendments presented to the City Council for approval. Budgeted amounts appearing in these statements are as amended by the City Council though June 30, 2018.

**CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

DEFINED PENSION PLAN – SINGLE EMPLOYER PLAN

Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period

Measurement Period (1)	2016-17	2015-16	2014-2015	2013-14
TOTAL PENSION LIABILITY				
Service Cost	\$ -	\$ -	\$ -	\$ -
Interest	556,000	689,200	667,737	774,708
Changes of Benefit Terms	-	-	-	-
Difference Between Expected and Actual Experience	-	-	1,348,531	-
Changes of Assumptions	(377,454)	1,228,156	499,219	945,018
Benefit Payments, Including Refunds of Employee Contributions	(1,283,577)	(1,351,708)	(1,411,164)	(1,384,481)
Net Change in Total Pension Liability	(1,105,031)	565,648	1,104,323	335,245
Total Pension Liability - Beginning	14,163,305	13,597,657	12,493,334	12,158,089
Total Pension Liability - Ending (a)	\$ 13,058,274	\$ 14,163,305	\$ 13,597,657	\$ 12,493,334
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	\$ 218,723	\$ -	\$ -	\$ 82,401
Contributions - Employee	-	-	-	-
Net Investment Income (2)	887,945	(103,177)	131,946	1,287,597
Benefit Payments, Including Refunds of Employee Contributions	(1,283,577)	(1,351,708)	(1,411,164)	(1,384,481)
Other Changes in Fiduciary Net Position	-	-	-	-
Net Change in Fiduciary Net Position	(176,909)	(1,454,885)	(1,279,218)	(14,483)
Plan Fiduciary Net Position - Beginning	6,843,258	8,298,143	9,577,361	9,591,844
Plan Fiduciary Net Position - Ending (b)	\$ 6,666,349	\$ 6,843,258	\$ 8,298,143	\$ 9,577,361
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 6,391,925	\$ 7,320,047	\$ 5,299,514	\$ 2,915,973
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	51.05%	48.32%	61.03%	76.66%

(1) – Prior information unavailable.

(2) – Net of administrative expenses.

Notes to Schedules

The plan is closed to new members and currently has no active members, hence covered payroll for the plan for all years presented is \$0.

Benefit Changes: None (other than cost of living adjustments under the terms of the Plan)

Changes of Assumptions: None other than change in discount rate from 5.66% to 5.33% in 2015, to 4.11% in 2016, and to 4.54% in 2017.

**CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

DEFINED PENSION PLAN – SINGLE EMPLOYER PLAN (Continued)

Schedule of Plan Contributions

	Fiscal Year 2016-17	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially determined contribution	\$ 218,723	\$ 218,723	\$ 218,723	\$ 82,401
Contribution in relation to the actuarially determined contributions	(218,723)	(218,723)	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ 218,723	\$ 82,401

DEFINED BENEFIT PENSION PLAN - COST SHARING PLAN

A. *Schedule of the City's Proportionate Share of the Net Pension Liability – Last 10 Years**

Fiscal year:	2018	2017	2016	2015
Measurement date:	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	0.27976%	27.66000%	0.29008%	0.23892%
Proportionate share of the net pension liability	\$ 27,744,343	\$ 23,934,673	\$ 18,050,164	\$ 16,399,349
Covered payroll	\$ 9,649,389	\$ 9,368,339	\$ 8,831,933	\$ 8,553,930
Proportionate share of the net pension liability as a percentage of covered payroll	287.52%	255.48%	204.37%	191.72%
Plan's share of fiduciary net position as a percentage of total pension liability	73.31%	74.06%	78.40%	79.82%

* Fiscal year 2015 was the 1st year of implementation.

B. *Schedule of Contributions – Last 10 Years**

	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Contractually required contribution (actuarially determined)	\$ 1,814,405	\$ 1,570,862	\$ 1,498,446	\$ 1,231,831
Contribution in relation to the actuarially determined contributions	(1,814,405)	(1,570,862)	(1,498,446)	(1,231,831)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 9,938,871	\$ 9,649,389	\$ 9,368,339	\$ 8,831,933
Contributions as a percentage of covered payroll	18.26%	16.28%	15.99%	13.95%

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown

**CITY OF ALBANY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

Albany Employees Retiree Health Plan:

	2018	2017
<u>Total OPEB liability</u>		
Service cost	\$ 260,164	\$ 244,341
Interest on the total pension liability	129,175	119,827
Differences between actual and expected experience	54	-
Changes in assumptions	10,072	
Changes in benefit terms	-	-
Plan to Plan Resource Movement	-	-
Contribution - employer	(42,942)	(28,742)
Contribution - employee	-	-
Net investment income	-	-
Administrative expenses	-	-
Implicit rate subsidy fulfilled	(78,092)	(72,983)
Net changes	<u>278,431</u>	<u>262,443</u>
Total OPEB liability - beginning of year	<u>3,492,579</u>	<u>3,230,136</u>
Total OPEB liability - end of year	<u><u>\$ 3,771,010</u></u>	<u><u>\$ 3,492,579</u></u>
Covered-employee payroll	\$ 11,735,894	\$ 11,421,795
City's total OPEB liability as a percentage of covered-employee payroll	32.13%	30.58%

City of Albany

Albany, California

*Independent Auditors' 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 and
Schedule of Findings and Responses*

For the year ended June 30, 2018



INDEPENDENT AUDITORS' 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 Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California

We were engaged to audit, 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 governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany, California (City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report dated January 28, 2019. Our report disclaims an opinion on such financial statements because of the following:

- (1) The City did not perform timely reconciliations of cash, investments, and other balance sheet accounts, for which some could not be completed. We do not believe we can satisfy ourselves with the allocation, existence, or completeness of these account balances, as internal controls over these account balances were not performed.
- (2) The City posted many adjustments in an attempt to address issues encountered after implementing a new ERP system. These entries affect material revenue, expenditure, and balance sheet accounts. Due to limited documentation or ability to obtain explanations from the City with regard to these matters, we do not believe we can obtain sufficient audit evidence with regard to such adjustments.
- (3) We were not able to obtain sufficient audit evidence for the fiscal year 2017 account balances (beginning balances for fiscal year ended June 30, 2018).
- (4) We were unable to verify the appropriate allocation of cash and investments to individual funds.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the City, 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.

To the Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California
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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 have not been 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 an entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses from 2018-001 to 2018-004 to be material weaknesses.

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 2018-005 to be a significant deficiency.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the City, 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 discloses no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, instances of noncompliance or other matters may have been identified and reported herein.

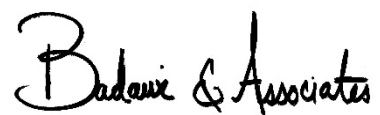
City's Response to Findings

The City's response to the findings identified in our engagement is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

To the Honorable Mayor and Members of the City Council
of the City of Albany
Albany, California
Page 3

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 engagement to perform an audit 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, CPAs
Oakland, California
January 28, 2019

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2018

2018-001 Financial Closing and Reporting (Material Weakness)

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 engagement to perform the audit, we noted that numerous closing entries needed at the end of the year were not recorded and closing entries recorded in the prior period were not reversed.

We also noted that the City did not perform reconciliations over accounts receivable, accounts payable, accrued wages and salaries, capital assets, and long-term debt. Subsidiary ledger reports for accounts receivable and accounts payable that were provided for the engagement did not agree to the City's trial balance.

Cause:

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 as there was not sufficient cross training in place to ensure continuity of the financial reporting process. There was no routine analysis of transaction recording to timely detect and correct recorded transactions or to identify unrecorded transactions.

The City implemented a new financial software, however formally written accounting policies and procedures related to the system were not developed.

There were either limitations in reporting capabilities of the new financial system or there is an incomplete understanding of the new system's reporting capabilities.

Context and Effect:

The City was not able to complete the closing process and also was not able to analyze accounts sufficiently to determine the composition and nature of account balances in the general ledger.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2018

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 experience turnover in key finance positions.

The City should furthermore develop formal written policies over significant accounts that include the timely reconciling of accounts to activity reported in related subsidiary ledgers.

Management Response:

The Finance Department underwent significant staffing changes in fiscal year 2017-18. The Finance Director left in March and the Senior Accountant left soon after. The City had an interim Finance Director from April through August, and an interim Senior Accountant for several months as well. During that time, interim staff focused on the priorities of learning the ERP system and completing the 2017 audit, intending for permanent staff to implement policies and procedures.

Since the 2017-18 fiscal year the Finance Department has undergone additional staffing and structural changes. In addition to hiring a new Director and Senior Accountant, all Accounting Technicians now report to the Senior Accountant. A new standard procedure has been implemented requiring that the Senior Accountant is responsible for double checking all entries, as well as performing daily cash reconciliation and monthly bank reconciliations. For fiscal year 2018-19, the Financial Department is now up to date on main bank account reconciliations. This is a significant improvement in accountability as compared to the lack of reconciliation in prior years.

Policies and procedures for specific tasks are in the process of being drafted. While there are ongoing issues with the ERP implementation, we have taken great strides in the past 6 months to address these issues. For example, we have adjusted a setting within the payroll module requiring the Payroll Technician to manually enter checks instead of the system automatically entering the cash disbursement. In addition, we have scheduled additional implementation and training sessions with the software company to ensure the ERP system is being utilized effectively and efficiently. An Organizational and Operational study of the Finance Department was completed in 2018 and the City is working to implement some of the suggestions to ensure appropriate oversight going forward.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2018

2018-002 Cash and Investments (Material Weakness)

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 cash and investments includes frequent and timely reconciling of account balances to information provided by the bank and custodians.

Condition:

During the engagement to perform the audit, we noted that bank reconciliations were not performed until the start of the engagement. Also, we noted that the City's reconciliation process only involved reconciling control accounts that are included in the City's pooled cash fund, however related cash accounts represented in each fund (those reported in the financial statements) were not reconciled back to the control accounts.

As a result, we noted that the total cash and investments represented in individual funds did not agree to the sum of City's pooled and non-pooled cash and investments by \$2.5 million.

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 perform the bank reconciliations timely as there was not sufficient cross training in place to ensure continuity of the process. The City also incorrectly setup the new financial system incorrectly for cash reconciliations which resulted in manual journal entries being prepared to correct the problem.

Context and Effect:

The City was not able to complete the closing process and also was not able to analyze accounts sufficiently to determine the composition and nature of account balances in the general ledger.

Recommendation:

We recommend the City develop formal written policies over cash and investments that include the timely reconciling of accounts and include cash and investment accounts reported in each fund.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2018

Management Response:

The Finance Department underwent significant staffing changes in fiscal year 2017-18. The Finance Director left in March and the Senior Accountant left soon after. The City had an interim Finance Director from April through August, and an interim Senior Accountant for several months as well. During that time, interim staff focused on the priorities of learning the ERP system and completing the 2017 audit, intending for permanent staff to implement policies and procedures.

Since the 2017-18 fiscal year the Finance Department has undergone additional staffing and structural changes. In addition to hiring a new Director and Senior Accountant, all Accounting Technicians now report to the Senior Accountant. A new standard procedure has been implemented requiring that the Senior Accountant is responsible for double checking all entries, as well as performing daily cash reconciliation and monthly bank reconciliations. For fiscal year 2018-19, the Financial Department is now up to date on main bank account reconciliations. This is a significant improvement in accountability as compared to the lack of reconciliation in prior years.

Policies and procedures for specific tasks are in the process of being drafted. While there are ongoing issues with the ERP implementation, we have taken great strides in the past 6 months to address these issues. For example, we have adjusted a setting within the payroll module requiring the Payroll Technician to manually enter checks instead of the system automatically entering the cash disbursement. In addition, we have scheduled additional implementation and training sessions with the software company to ensure the ERP system is being utilized effectively and efficiently. An Organizational and Operational study of the Finance Department was completed in 2018 and the City is working to implement some of the suggestions to ensure appropriate oversight going forward.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2018

2018-003 Capital Assets (Material Weakness)

Criteria:

A good internal control reporting system over capital assets requires the maintenance of detail records of all its capital assets to be able to support amounts reported on the financial statements and to ensure safeguarding of assets.

Condition:

During the engagement to perform the audit, we noted that the City's capital asset schedules were not prepared timely and could be missing capital asset activity such as capital projects' activity, and disposal/sale of capital assets.

The City had also not performed a physical inventory of assets to determine whether they were still in the City's possession at the end of the fiscal year.

Cause:

Due to turnover and limited written policies and procedures, procedures over capital assets, accounting procedures regularly expected for reconciling capital asset activity were not performed or not performed timely.

Context and Effect:

Capital assets reported at the end of the fiscal year may be inaccurate or incomplete.

Recommendation:

We recommend that the City perform a physical inventory of all capital assets, prepare updated written policies and procedures over capital assets, and review capital expenditures and sale/disposal authorizations to determine accurate capital asset records.

Management Response:

As of November, Finance staff has updated the capital asset listing with the help of other departments. Finance staff is working in conjunction with Public Works staff and is in the process of scheduling implementation and training sessions with the software company to allow for optimal use of the ERP system's fixed asset module which will allow the Finance Department to track asset procurement and disposal in real time. In addition, a new procedure has been developed and monitoring fixed assets has been added as a job task to the Financial Analyst job description to ensure ownership of the process.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2018

2018-004 Beginning Balances (Material Weakness)

Criteria:

Beginning balances for accounts such as cash and investments, accounts receivable, accounts payable, fund balance, and other should be supported by supporting schedules and reconciliations.

Condition:

During the engagement to perform the audit, we were unable to obtain evidence to substantiate the accuracy, existence, and completion of beginning account balances, such as reconciliations, listings, or other schedules that agree to the beginning balances (i.e. June 30, 2017) of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance.

Cause:

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 as there was not sufficient cross training in place to ensure continuity of the financial reporting process. There was no routine analysis of transaction recording to timely detect and correct recorded transactions or to identify unrecorded transactions.

The City implemented a new financial software, however formally written accounting policies and procedures related to the system were not developed.

There were either limitations in reporting capabilities of the new financial system or there is an incomplete understanding of the new system's reporting capabilities.

Context and Effect:

The City was not able to substantiate the beginning fund balance reported in the financial statements.

Recommendation:

We recommend the City develop formal written policies over significant accounts that include the timely reconciling of accounts to activity reported in related subsidiary ledgers. The City should consider further training of the new financial system to determine whether reports needed to analyze account balances can be generated or develop procedures to analyze the accounts.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2018

Management Response:

Current City staff completed a review of balances transferred from the old ERP system to the new system and noted significant variances. As background, the City began using the current ERP system for the start of fiscal year 2016-17. After review, it was noted that some account balances did not transfer correctly, some balances transferred with no detail and have had rolling balances since conversion, and audit adjustments recommended during the fiscal year 2015-16 were not completed. These issues were discovered after the 2016-17 fiscal year had been closed, so no adjustments could be made by staff to the beginning balances. Staff worked to correct these beginning balance issues in "Period 13," generally used for end of year adjustments, and provided the auditor with a mapping of those adjustments to correct 2016-17 fiscal year end balances. The auditor did not provide the City any input on these adjustments.

Conversations with the auditor regarding the amounts rolled over from the old ERP system with no detail have resulted in the determination that the most effective course of action is to reverse these accruals after some time has elapsed. These accounts are generally accrued liability accounts which include expenses that were incurred in previous years but not paid. The assumption is that after some time, those expenses would have been paid and the accrual is no longer valid.

All balances should be adjusted as the pooled cash fund is reconciled. City staff is working to correct these issues and intend to have all reconciliations done by the end of fiscal year 2018-19.

City of Albany
Schedule of Findings and Responses
For the year ended June 30, 2018

2018-005 Payroll Master File (Significant Deficiency)

Criteria:

An effective internal control over payroll includes a segregation of duties or implementation of other mitigating controls over personnel who process payroll and personnel responsible for making changes to the payroll master file.

Condition:

During the engagement to perform the audit, we noted that the payroll technician is able to modify the payroll master file and process payroll. Previously a list of edits to the master file was reviewed as part of the payroll process, however the process was eliminated as part of implementation of the new financial system.

Cause:

The City's internal controls over payroll did not include an assessment for changes to the payroll master file.

Context and Effect:

Changes made to the payroll master file may be made inaccurately or may be unsupported.

Recommendation:

We recommend that the City segregate the duties and responsibilities over management of the payroll master file or update its policies and procedures to review changes made to the payroll master file.

Management Response:

As previously indicated, policies and procedures for specific tasks are in the process of being drafted. While there are ongoing issues with the ERP implementation, we have taken great strides in the past 6 months to address these issues. In addition, we have scheduled additional implementation and training sessions with the software company to ensure the ERP system is being utilized effectively and efficiently. Finance staff are working directly with Human Resources staff to create more distinct separation of duties. In addition, the Finance Director reviews each payroll prior to issuance. That review now includes a review of the payroll master file.