

CITY OF ALBANY
COUNCIL AGENDA
STAFF REPORT

Agenda date: 12/05/05

Review by: _____

TO: City Council

FROM: Beth Pollard, City Administrator
Charles Adams, Finance and Administrative Services Director

SUBJECT: **JUNE 30, 2005 FINANCIAL STATEMENTS AND REPORTS OF
THE INDEPENDENT AUDITORS**

STAFF RECOMMENDATION

That Council accept the June 30, 2005 reports of City's independent auditors:

- Comprehensive Annual Financial Report
- Albany Community Reinvestment Agency
- Albany Police and Fire Relief and Pension Fund
- ACTIA Measure B Funds
- Appropriations Limit
- Auditor's Fiscal 2005 Report to City Council

BACKGROUND

Each year, an independent financial audit is performed of the financial statements of the City of Albany, the Albany Community Reinvestment Agency, and the Albany Police and Fire Relief and Pension Fund. Additional audits and agreed-upon procedures are performed as required by grants and awards received during the year. Also the auditors report to the City Council their findings and recommendations regarding the City's internal control structure. For the fiscal year ending June 30, 2005, this work was performed by the Certified Public Accounting firm of Odenberg Ullakko Muranishi & Co. LLP.

AUDIT

The independent auditors' reports, which appear on page A1 of the City of Albany Comprehensive Annual Financial Report and page 1 of the Basic Financial Statements of the Albany Community Reinvestment Agency are unqualified reports, meaning that the auditors believe the financial statements present fairly, in all material respects, the financial positions of the City and Reinvestment Agency at June 30, 2005. This is the highest level of auditor assurance the City can achieve in an audit.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Description

The Comprehensive Annual Financial Report (CAFR) presents financial information on the status of the City's financial affairs, first on a city-wide (*Government-wide Financial Statements*) in which all City activities are combined into two groups: governmental activities and business-type activities. A second set of statements (*Governmental Funds Financial Statements*) report separately the activities of 43 funds:

- The General Fund
- 1996-1 Assessment District Bond Fund
- General Obligation 2003 Bond Fund
- Sewer Enterprise Fund
- Internal Service Fund
- Pension Trust Fund
- Agency Funds (4)
- Special Revenue Funds (19)
- Other Capital Projects Funds (11)
- Debt Service Funds (3)

The CAFR includes a transmittal letter, which describes the City government organization, major events and activities occurring during the year and an assessment of the economic outlook for the City, and a management discussion and analysis (MD&A) of the City's financial activities for the year. The statistical section of the report includes charts and tables on the City's revenues, expenditures, demographics and miscellaneous data.

Discussion

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

On the combined activities basis (*Government-wide Financial Statements*), the schedule on page A8, shows the City to have net assets of \$40.6 million with a ratio of assets to liabilities of 2.6. The ratio of asset to liabilities declined from 2.8 in the prior year, as a result of the issuance of \$8.7 of Sewer Revenue Bonds. The change in net assets for the year was a favorable increase in assets of \$3.1 million.

The General Fund continues to be the point of focus for assessment of the short-term financial stability of the City and of the ability of the City government to deliver basic services. General Fund activity for the year is summarized in the schedule on page A12.

The results for the year were a favorable increase in fund balance of \$107,000. While the objective of a governmental entity is not to take in more money than is required to perform its mission, it is prudent for the City to build and maintain reserves, so as to assure continuation of basic services in times of economic adversity.

A comparison of actual to budget for the year is shown on page A14 of the MD&A. Revenues exceeded budget by \$466,000, the major variances were:

- Service charges of \$133,000 due to a higher than budgeted level of development activity in the city.
- Earnings on investments of \$112,000 as a result of improved earnings rate on LAIF investments and favorable cash flow patterns providing increased funds for investment.
- Other taxes of \$112,000, principally property transfer taxes.

Unbudgeted revenues of \$308,000 were the proceeds of the sale of the Vehicle License Fee receivable from the State and an insurance premium rebate.

Expenditures exceeded budget by \$216,000 due to the larger than budgeted level of fees services provided and management's decision to increase funded reserves for workers compensation insurance and reserves for compensated leave payments to terminating employees.

Transfers out from the General Fund exceeded budget by \$500,000 as a result of the movement of \$300,000 to equipment replacement reserves and \$200,000 to the capital projects fund.

REINVESTMENT AGENCY

The increase in net assets of the Reinvestment Agency was \$97,691 as compared to an increase of \$55,385 in the prior year. The major source of revenue for the Agency is property tax increment, which was \$119,514, an increase of \$46,839 over the prior year. The cumulative fund balance deficit of the Agency was reduced from \$631,918 to \$534,227.

POLICE AND FIRE RELIEF AND PERSION FUND

The audit confirmed the fully funded status of the Plan as of June 30, 2005. While Plan net assets declined \$127,531, from \$14,990,916 to \$14,863,385, this declined is the desired result as assets of the closed plan are distributed to plan participants.

APPROPRIATIONS LIMIT

As required by State law, our auditors reviewed our computation of the City's appropriation limit (Gann Limit), and found no discrepancies in the limit. While the City has a comfortable unused capacity under the limit (20% of budget), the margin is declining and it has become conceivable that spending could approach the limit in several years if the current trends continue.

ACTIA MEASURE B FUNDS

The Alameda County Transportation Improvement Authority (ACTIA) required that receiving agencies have financial statements for Measure B funds audited by their independent auditors. The City of Albany received an unqualified opinion on its Measure B financial statements.

AUDITOR'S REPORT ON INTERNAL CONTROLS

Each year, the independent auditors submit findings and recommendations on improvements to the City's internal controls within its financial systems. There were no new finding reported in this year's examination.

FINANCIAL IMPACT

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

Attachments:

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