

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

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FOR THE FISCAL YEAR ENDED JUNE 30, 2008

CITY OF ALBANY
POLICE AND FIRE
RELIEF OR PENSION FUND

COMPONENT UNIT FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
City of Albany Police and Fire Relief or Pension Fund
Albany, California

We have audited the accompanying financial statements of the City of Albany Police and Fire Relief or Pension Fund (Pension Fund), a component unit of the City of Albany, California (City), as of and for the year ended June 30, 2008, as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Subsequent to the financial statement date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions that, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, the Pension Fund has not been informed and is not aware of any investment losses other than that described below. Accordingly, such investment losses, if any, have not been reflected in the accompanying financial statements.

As explained in Note 4 to the basic financial statements, the investments of the Albany Police and Fire Relief or Pension Fund declined by 9% as of September 30, 2008. The decline occurred after the end of the fiscal year and the impact on the City was approximately \$1,100,000.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pension Fund as of June 30, 2008, and changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

Caporicci & Larson

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CITY OF ALBANY
POLICE AND FIRE RELIEF OR PENSION FUND
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS

Operating cash and investments	\$ 8,114
Interest receivable	1,904
Investments, at fair value:	
Local Agency Investment Fund	101,576
Mutual Funds	<u>12,306,684</u>
Total investments, fair value	<u>12,408,260</u>
Total assets	<u>12,418,278</u>

LIABILITIES

Accounts payable	<u>5,250</u>
Net Assets	<u>\$ 12,413,028</u>

CITY OF ALBANY
POLICE AND FIRE RELIEF OR PENSION FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

ADDITIONS (DECREASE)

Investment income:	
Net decrease in fair value of investments	\$ (1,527,808)
Interest	240,982
Dividends	262,539
Total investment income	<u>(1,024,287)</u>
Less investment expenses	108,860
Total decrease in net assets	<u>(1,133,147)</u>

DEDUCTIONS

Benefits paid	1,319,843
Administrative expenses	21,462
Other expenses	4,800
Total deductions from net assets	<u>1,346,105</u>
Change in net assets	(2,479,252)
Net assets, beginning of year	14,892,280
Net assets, end of year	<u><u>\$ 12,413,028</u></u>

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Fund Accounting

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

C. Basis of Accounting

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

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

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

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

NOTE 2 – Investments

A. Method Used to Value Investments

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

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 2 – Investments (Continued)

B. Investment Management

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

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

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

<u>Authorized Investment Type</u>	<u>Target Allocation</u>	<u>Minimum Percentage of Portfolio</u>	<u>Maximum Percentage of Portfolio</u>
Large Cap Equity	40%	30%	50%
International Equity	10%	5%	15%
Fixed Income	50%	40%	60%
Cash	N/A	N/A	5%

As of June 30, 2008, the Fund's allocations met the requirements set by the Fund's policy as described above.

Investments at June 30, 2008 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Local Agency Investment Fund (LAIF)	\$ 101,576
Mutual funds:	
Stock fund	4,681,909
Income fund	6,387,821
International stock fund	<u>1,236,954</u>
Total	<u>\$ 12,408,260</u>

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 – Investments (Continued)

The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of fund investments. Unrealized gains and losses on investments that had been held for more than one year were included in net appreciation (depreciation) reported in prior years.

Net appreciation in fair value of investments for the year ended June 30, 2008 consisted of the following:

Net realized gains	\$ 1,507,182
Net unrealized gains	(3,034,990)
Total net depreciation in fair value of investments	<u>\$ (1,527,808)</u>

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, 2008.

NOTE 3 - Police and Fire Relief or Pension Fund

A. Fund Description

The Police and Fire Relief or Pension Fund ("Fund") is a sole employer defined benefit pension plan for the City of Albany's police and fire department employees hired before July 1, 1971. The Fund is closed to new participants. Participants in the fund are as follows:

Terminated vested participants:	
Retired	13
Disabled	9
Survivor	7
	<u>29</u>

Employees who retired, regardless of age, with 30 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to two-thirds of the most recent 3 year average compensation attached to the rank he or she held at retirement. A member may retire with an early allowance (computed in the same manner as above, but reduced by one-thirtieth for each year of service less than thirty) after attaining age 50, and 25 years credited service. The Fund also provides death, disability, and survivor benefits. These benefit provisions and all other requirements are established by City Charter.

B. Funding Status and Progress

The entry age actuarial cost method was used in determining the actuarial accrued liability. Significant actuarial assumptions used included: (a) a rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, and (b) a projected inflation rate of 4 percent per year.

CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

The method for determining the actuarial value of assets adjusts market value to recognize, over a five-year period, the differences between assumed and actual investment return. That is, only 20 percent of realized and unrealized gains and losses are recognized in any one-year. These modified asset values are called the Actuarial Book Value.

The actuarial accrued liability and assets for participants as of the most recent actuarial study dated September 30, 2008 is as follows:

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

During the year ended June 30, 2004, a contribution of \$534,513 was made to the Fund by the City. There were no contributions made to the Fund for the four following years, as the Fund was considered fully funded as of June 30, 2004. Due to the severe decline in the financial market after June 30, 2008, the Fund's investment value has declined significantly. Based on the actuarial valuation performed for the period ended September 30, 2008, the Fund is no longer fully funded. Actuarial valuation of the Fund is performed as frequently as deemed necessary by the Fund's Board of Trustees, but not less than every three years.

C. Contribution Requirements and Contributions Made

The City Charter requires an annual contribution to the Fund equal to 18 percent of the gross wages of active fund participants; however, there are no active fund participants as of June 30, 2008 and the Fund is closed to new participants.

In the fiscal year ended June 30, 2004, the City made a contribution to the Fund of \$534,513. No additional contributions were required from fiscal year 2004-05 through fiscal year 2007-08. As discussed above, the Fund has an unfunded liability as of September 30, 2008. It is anticipated that City contribution will resume in fiscal year 2009-10, in an amount sufficient to amortize the existing unfunded liability over a fifteen-year period.

D. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due and an indication of whether all required contributions have been made. Assumptions used to compile data presented below are the same as those described above.

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CITY OF ALBANY

POLICE AND FIRE RELIEF OR PENSION FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

D. Trend Information

A schedule of funding status is as follows:

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Liability/ (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
1992	\$ 5,477,000	\$ 14,785,000	\$ 9,308,000	37%	\$ 440,540	2113%
1993	5,869,000	14,785,000	8,916,000	40%	476,607	1871%
1994	6,272,000	14,785,000	8,513,000	42%	269,989	3153%
1995	7,076,325	14,528,411	7,452,086	49%	230,459	3234%
1998*	9,613,552	14,861,531	5,247,979	65%	197,328	2660%
2000*	11,452,836	16,020,009	4,567,173	71%	162,826	2805%
2002	13,453,340	15,573,854	2,120,514	86%	79,385	2671%
2003*	14,415,847	14,950,360	534,513	96%	32,055	1667%
2006*	14,479,158	14,075,219	(403,939)	103%	-	N/A
2008**	10,939,000	12,258,000	1,319,000	89%	-	N/A

* The Pension System did not perform an actuarial valuation for fiscal years 1995-96, 1996-97, 1998-99, 2000-2001, 2003-2004, 2004-05, and 2006-07.

** The actuarial valuation was performed for the period ended September 30, 2008.

Annual contributions received by the Fund were as follows:

Fiscal Year	Employee	Employer	Employer Additional	Total
1998-1999	\$ 18,451	\$ 18,451	\$ 943,373	\$ 980,275
1999-2000	14,798	14,798	1,046,235	1,075,831
2000-2001	11,175	11,175	1,006,065	1,028,415
2001-2002	7,199	7,199	1,164,678	1,179,076
2002-2003	2,885	2,885	1,251,176	1,256,946
2003-2004	-	-	534,513	534,513
2004-2005	-	-	-	-
2005-2006	-	-	-	-
2006-2007	-	-	-	-
2007-2008	-	-	-	-

NOTE 4 – Subsequent Events

The recent declines in the financial markets have had a substantive impact on the Fund's investments. The fair market value of investments declined by 9% from June 2008 to September 2008. More capital losses may occur due to continued volatility in the financial markets after September.