

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

Agenda date: 12/15/08
Review by: BP

SUBJECT: June 30, 2008 Financial Statements and Reports of The Independent Auditors

REPORT BY: Beth Pollard, City Administrator
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STAFF RECOMMENDATION

Receive presentation by the City's independent auditors of the results of their examination of the City's financial reports for fiscal year end June 30, 2008.

BACKGROUND

The City Council has engaged the Certified Public Accounting firm of Caporicci & Larson, CPAs, to serve as independent auditors of the City's financial reports. The scope of work performed by the auditors encompassed examinations of the City's Comprehensive Annual Financial Report, the annual financial reports of the Albany Reinvestment Agency, the Albany Police and Fire Relief or Pension Fund, ACTIA Measure B Funds, Transportation Development Act Report, and the City of Albany Appropriation Limit. The auditors also report to the City Council their findings and recommendations regarding the City's internal control structure and compliance with terms of grant agreements. The engagement agreement provided for the auditors to perform a "Single Audit" of federal grants in excess of \$500,000, but federal grants did not exceed \$500,000 in fiscal year 2007-08.

DISCUSSION/ANALYSIS

Comprehensive Annual Financial Report (CAFR)

The independent auditors' reports, which appear on page A1 of the City of Albany Comprehensive Annual Financial Report is an unqualified report, meaning that the auditors report that the financial statements present fairly, in all material respects, the financial position of the City at June 30, 2008. This is the highest level of auditor assurance the City can achieve in an audit.

The Comprehensive Annual Financial Report (CAFR) presents financial information on the status of the City's financial affairs, first on a city-wide basis (*Government-wide Financial Statements*) in which all City activities are reported as either governmental activities and business-type activities. A second set of statements (*Governmental Funds Financial Statements*) report separately the activities of 51 funds:

Major Funds

- General Fund
- General Obligation 2003 Bond Fund
- Civic Center Improvement
- General Obligation II

Proprietary Funds

- Sewer Enterprise Fund
- Internal Service Funds (3)

Fiduciary Funds

- Pension Trust Fund
- Agency Funds (4)

Special Revenue Funds (20)

Other Capital Projects Funds (13)

Debt Service Funds (5)

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

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

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

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

financial condition of the City, and the net increase or decrease in the undesignated fund balance is an important measure of the City's operations for the fiscal year.

In our October 6, 2008 report to Council, of the unaudited financial results for the year, we reported an increase in the Unrestricted General Fund balance of \$176,212 from current operations and a total ending fund balance of \$4,778,702, of which \$3,209,486 is unreserved and undesignated. The independent audit did not result in any change in the unaudited result reported.

A comparison of actual to budget for the year is shown on page A14 of the MD&A. Revenues exceeded budget by \$811,000, the major variances were:

- *Property taxes* – exceeded budget by \$201,000. This 4% favorable budget variance was largely the result of supplemental taxes assessed to property sold during the year.
- *Other taxes* – exceeded budget by \$133,000. This 4% favorable budget variance was due to property transfer tax revenue, which declined from the prior year but exceeded the budget which had been lower in recognition of the decline in real estate sales.
- *Earnings on investments* - exceeded budget by \$129,000. This 34% favorable variance is largely reflective of a change in the allocation of earnings between the general fund and various reserve funds, from when the budget was adopted two years ago, and the payment to the City of \$30,000 by the Reinvestment Agency of interest on advances, which was not included in the budget.
- *Services charges and Other revenue* – exceeded budget by \$146,000. The most significant item being the reimbursement of wages and benefits for fire fighters/paramedics who served in strike teams for Southern California wild fires.

A more extensive analysis of the budget variances accompanied the October 6, 2008 staff report for the unaudited June 30, 2008 financial statements.

Total General Fund expenditures were \$300,000 below budget. Salary and benefits costs were \$209,000 below budget, resulting from vacant positions and lower PERS contribution rates for Police and Fire as a result of the \$1,000,000 side fund pay down made in June 2007. Overtime costs were \$104,000 greater than in fiscal year 2006-07, but \$40,000 below the fiscal year 2007-08 budget. Equipment and Council discretionary expenditures were \$97,000 below budget. Total favorable budget variances for 12 expense categories were \$453,000. These budget saving were partially offset by unfavorable variances in 6 expense categories, totaling \$152,000. The largest unfavorable expense variance was 87,000, a 7% variance, in professional services.

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

Transfers-in to the General Funds of \$3,038,052 were made to cover expenditures recorded in the General Fund as follows:

- Sewer maintenance and operations \$ 782,641
- Paramedic services 1,120,991
- Landscape & Lighting bonds and operations 35,260
- Gasoline tax 348,883
- Pension Override tax 750,000
- Capital Facilities 277

Transfer-out of the General Fund of \$1,775,476 were made for the following purposes:

- Self-insurance reserves \$ 506,890
- Capital projects 700,000
- Police and Fire replacement reserves 99,000
- Accrued leave 209,873
- Waterfront Planning Study 259,713

Government-wide Financial Statement - On the combined activities basis the schedule on page A8, shows the City to have net assets of \$52.9 million with a ratio of assets to liabilities of 2.5. The ratio of asset to liabilities declined from 3.0 in the prior year, principally as a result of the issuance of \$11 million of general obligation bonds.

Auditors' Report to City Council

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

Albany Reinvestment Agency

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

Net assets of the Reinvestment Agency increased \$374,745 to a balance of \$610,014. The Low & Moderate Housing Fund, the Capital Projects Fund, and the Debt Service Fund have fund balances of \$397,493, \$187,410, and \$25,111 respectively.

We anticipate that in fiscal year 2008-09, the Agency will generate sufficient revenues to pay accrued interest, plus a partial repayment of cash advances from the City of \$120,406.

Police and Fire Relief or Pension Fund

The auditors issued an unqualified opinion on the financial statements of the Police and Fire Relief or Pension Fund, and reported no findings of material weaknesses. There are 29 vested participants in the pension plan. The plan was fully funded (assets exceeded

projected pension payments) as of June 30, 2008, and no contributions to the Fund were required for the year then ended.

Because of significant declines in the market values of securities in August and September 2008, the Pension Board commissioned an actuarial review of the “Fund’s assets and liabilities as of September 30, 2008. This review found that due to the decline in value of investments, that the Fund had an unfunded liability at September 30, 2008 of \$1.3 million. We anticipate that additional declines may occur and not be recovered as of June 30, 2009, and as a result, it will be necessary for the City to resume contributions to the Fund in fiscal year 2008-09.

ACTIA Measure B Funds

The auditors issued an unqualified opinion on the financial statements of the Alameda County Transportation Improvement Authority Measure B Funds, and reported no findings of material weaknesses or non-compliance with the agreement between the City and ACTIA.

Revenues for fiscal year 2007-08 were \$427,091 and expenditures were \$439,507, as compared to revenues of \$416,253 and expenditures of \$409,645 for fiscal year 2006-07.

City of Albany Appropriation Limit

The auditors performed agreed upon procedures, as specified in their report, on the City’s calculation of the annual appropriation limit (Gann Limit) for the fiscal years ending June 30, 2008, and June 30, 2009. They noted no exceptions in the calculation.

The fiscal year 2007-08 appropriation limit is \$13,041,960 and the fiscal year 2008-09 limit is \$13,781,439. The authorization of General Fund obligation debt issued in November 2007 will increase the City’s appropriation limit and we project that future expenditures will not exceed the applicable limit.

SUSTAINABILITY IMPACT

None

FINANCIAL IMPACT

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

Attachments:

- Comprehensive Annual Financial Report
- Auditors’ Report to City Council
- Albany Reinvestment Agency Report
- Albany Police and Fire Relief or Pension Fund
- ACTIA Measure B Funds

- City of Albany Appropriation Limit 2008 & 2009
- Transportation Development Act