

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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 Assets and a Statement of Activities and Changes in Net Assets. 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 Assets. The Statement of Activities and Changes in Net Assets presents revenues, expenditure and fund transfers that produce changes in net assets. 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 interfund 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 Assets 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.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Net assets should be reported as restricted when constraints placed on net asset 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 assets 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. Nonmajor 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 assets as presented in these statements to the net assets 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.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 – Summary of Significant Accounting Policies (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 required to be accounted for in another fund.
- *General Obligation Bond 2003* - This fund is used to account for the General Obligation Bond, Series 2003, issued to finance the repair and improvement of recreational facilities; structural improvements to the fire department, police department and city hall buildings; residential street improvements; bike path improvements, construction and safety lighting; create and improve new and existing parks; and resurface city streets.
- *Civic Center Improvement Bonds* – This fund is used to account for the General Obligation Bond, Series 2007, issued to finance the structural improvements of the fire department, police department and city hall buildings.
- *General Obligation Bond II* – This fund is used to account for the General Obligation Bond, Series 2007, issued to finance the repair and improvement of recreational facilities; structural improvements to the fire department, police department and city hall buildings; residential street improvements; bike path improvements, construction and safety lighting; create and improve new and existing parks; and resurface city streets. This is the second issuance of the 2002 Election Bonds. The first issuance was issued in June 2003 for \$8,000,000.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, 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 sewage transmission provided to City residents. The cost of this service, including depreciation, is recovered through user charges.

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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 2 – Summary of Significant Accounting Policies (Continued)

The City's internal service funds at June 30, 2008 are the Community Development Equipment Reserve Fund, Worker's Compensation Fund, General Liability Fund, and the Compensated Absences Fund. The Community Development Equipment Reserve Fund is used to accumulate resources to be used for replacement of public works and park equipment. The Worker's 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 assets. The statement of revenues, expenses and changes in fund net assets presents increases (revenues) and decreases (expenses) in total net assets. 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 assets and a statement of changes in net assets. The City's fiduciary funds represent 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 City of Albany Police and Fire Relief or Pension Fund.

Agency funds are custodial in nature and do not require reporting of the results of operations and no measurement focus is applied to these funds. The accrual basis of accounting is utilized for reporting revenues and expenditures in agency funds. The City collects and distributes 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 D51.

C. 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 Administrator 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.

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 – Summary of Significant Accounting Policies (Continued)

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 resolution.
4. All intrafund transfers above \$5,000 require the approval of the City Administrator (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 Administrator 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 budgets, is employed as a management control device during the year for the General Fund, Special Revenue Funds and all Capital Projects Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is achieved through general obligation bond indenture provisions and other debt agreements.
6. Budgets for General, Special Revenue, and Capital Projects Funds are adopted on a basis consistent with accounting principles generally accepted 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 City Council for approval. Budgeted amounts appearing in these statements are as amended by the City Council through June 30, 2008.

D. Revenue Recognition for the Sewer Enterprise Fund

Sewer service charges are billed and collected by the County Auditor-Controller's Office. Semi-annual payments are due November 1 and February 1 of the fiscal year in which the service is provided. Any charges billed but not received, as of the end of the fiscal year, are accrued.

E. Compensated Absences

City employees have a vested interest in accrued vacation time and twenty-five percent of accrued sick leave time. This accrued leave time will eventually be used by employees or paid-off by the City. The City has obligations for accrued vacation and sick leave in the amount of \$1,244,152, which is recorded in the Compensated Absences Internal Service Fund. The current portion of the liability is \$2,000, and the noncurrent portion is \$1,242,152.

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 – Summary of Significant Accounting Policies (Continued)

F. Property Tax

Alameda County officials assess property, issue assessments and collect the tax proceeds. The County distributes taxes, plus any related interest and penalties, to the City.

Secured property tax is due in two installments, on November 1 and March 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.

G. 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.

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 market 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.

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 Assets as a reduction in the book value of capital assets.

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 – Summary of Significant Accounting Policies (Continued)

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.

Furniture and Equipment	5-10 years
Sewer transmission lines	50 years
Vehicles	5 years
Buildings	20-50 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.

J. New Accounting Pronouncements

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB Statement 48 established criteria to determine whether certain transactions should be regarded as sales or collateralized borrowings. It also requires employers to disclose future revenues pledged to support debt and intra-entity transfers of assets and future revenues. Implementation of GASB Statement 48 is required for the City of Albany effective this fiscal year. Disclosure for the City's future revenues pledged to support debt is included in Notes 6 and 8.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*. GASB Statement 50 is an amendment of GASB Statements No. 25 and No. 27. This statement more closely aligns the financial requirements for pensions with those for other postemployment benefits. Implementation of GASB Statement 50 is required for the City of Albany effective this fiscal year. Disclosure of the City's pension plan is included in Notes 12 and 13.

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.

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 – Summary of Significant Accounting Policies (Continued)

L. Reclassifications/Comparative Data

Changes in the level of activities in selected funds have required that funds be grouped differently in the current year than they were grouped in the prior year. To provide comparative prior year totals, some funds have been reclassified from the prior year classifications to conform with the current year classifications. Prior year total columns on the accompanying financial statements are not necessary for a fair presentation of the financial statements, but are presented to facilitate financial analysis.

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 cash 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 Albany Police and Fire Relief or Pension Plan investments can be found in Note 12.

A. Summary of Cash and Investments

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 44,056,071
Debt service reserves held with trustee	198,145
Fiduciary funds:	
Cash and investments	13,068,089
Debt service reserves held with trustee	483,107
Total cash and investments	<u>\$ 57,805,412</u>

B. Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 15,351
Deposits with financial institutions	227,350
Investments	<u>57,562,711</u>
Total cash and investments	<u>\$ 57,805,412</u>

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 – Cash and Investments (Continued)

C. 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of *Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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.

D. 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, 2008

NOTE 3 – Cash and Investments (Continued)

Investment Type	Fair Value	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Federal agency securities	\$ 515,724	\$ 515,724	-	-	-
State investment pool	37,886,021	37,886,021	-	-	-
CalTrust investment pool	6,071,369	6,071,369	-	-	-
Money market funds	63	63	-	-	-
Held by bond trustee:					
Money market funds	681,253	681,253	-	-	-
Total	\$ 45,154,430	\$ 45,154,430	\$ -	\$ -	\$ -

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. Presented below is the actual rating as of year end for each investment type.

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Year End	
			AAA	Not Rated
Federal agency securities	\$ 515,724		\$ 515,724	
State investment pool	37,886,021			\$ 37,886,021
CalTrust investment pool	6,071,369			6,071,369
Money market funds	63			63
Held by bond trustee:				
Money market funds	681,253	\$ 681,253		
Total	\$ 45,154,430	\$ 681,253	\$ 515,724	\$ 43,957,453

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, 2008, 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 market 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.

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 – Cash and Investments (Continued)

As of June 30, 2008, City deposits of \$100,000 were held in accounts covered by depository insurance, and deposits of \$1,055,232 were held in accounts collateralized with securities held by the financial institution. As of June 30, 2008, there were no investments held by the same broker-dealer that was used by the City to buy the securities. Securities purchased through Wells Fargo Institutional Securities, LLC are held in the custody of Wells Fargo Bank National Association, in the name of the City.

E. 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 \$37,886,021 whose pro-rata share of fair value was estimated by the state Treasurer to be \$37,884,135. 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, 2008 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 2008, the State Treasurer had invested 14.72% of the pool's funds in structured notes and asset-backed securities. Fair value of LAIF investments was calculated by applying a factor of 0.999950219 to total book value of investments held by LAIF.

F. Fair Value of Investments

Accounting pronouncement GASB Statement 31 generally applies to investments in external investment pools, investments purchased with maturities greater than one year, mutual funds, and certain investment pools/agreements. Generally, governmental entities need to report the "fair value" changes for these investments at year-end and records these gains or losses on their income statement.

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**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 – Cash and Investments (Continued)

Methods and assumptions used to estimate fair value: The City maintains investment accounting records on amortized cost, and adjusts those records to “fair value” for external reporting purpose. The Funds investment custodians provide market values on each investment instrument on a monthly basis. The investments held by the Funds are widely traded in the financial markets, and trading values are readily available from numerous published sources. The Funds have elected to report their money market investments (those investments with maturities of less than one year) at amortized cost adjusted to fair value. Unrealized gains and losses are recorded and the carrying value of their investments is considered “fair value”.

NOTE 4 – Receivables

Note Receivable

Per the employment agreement between the City and the City Administrator, the City, in September 2001, loaned the City Administrator \$400,000 to be used toward the purchase of her principal residence. The loan includes interest at one-eighth of a percentage point above the interest that the City earned from LAIF (Local Agency Investment Fund Account) as of the date of the loan. The outstanding principal balance of the loan at June 30, 2008, was \$352,903, and is recorded in the General Fund as a note receivable.

NOTE 5 – Capital Assets

The following is a summary of capital assets as of June 30, 2008:

	Governmental Activities	Business- Type Activities	Total
Capital assets not being depreciated:			
Land and improvements	\$ 12,030,253	\$ -	\$ 12,030,253
Construction in progress	2,522,409	-	2,522,409
	<u>14,552,662</u>	<u>-</u>	<u>14,552,662</u>
Depreciable capital assets:			
Buildings	8,254,565	-	8,254,565
Furniture and fixtures	547,249	-	547,249
Machinery and equipment	848,309	56,928	905,237
Vehicles	1,907,764	-	1,907,764
Sewer lines	-	15,981,681	15,981,681
Infrastructure	8,917,045	-	8,917,045
Total	<u>20,474,932</u>	<u>16,038,609</u>	<u>36,513,541</u>
Less: accumulated depreciation	6,422,285	3,437,262	9,859,547
Depreciable capital assets, net	<u>14,052,647</u>	<u>12,601,347</u>	<u>26,653,994</u>
Total capital assets, net	<u>\$ 28,605,309</u>	<u>\$ 12,601,347</u>	<u>\$ 41,206,656</u>

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 – Capital Assets (Continued)

Transactions and balances of capital assets were as follows:

	<u>Balances June 30, 2007</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balances June 30, 2008</u>
Governmental activities:				
Nondepreciable assets:				
Land and improvements	\$ 8,027,131	\$ 4,003,122	\$ -	\$ 12,030,253
Construction in progress	3,313,459	1,211,475	2,002,525	2,522,409
Total nondepreciable assets	<u>11,340,590</u>	<u>5,214,597</u>	<u>2,002,525</u>	<u>14,552,662</u>
Depreciable assets:				
Buildings	8,254,565	-	-	8,254,565
Furniture and fixtures	180,357	366,892	-	547,249
Machinery and equipment	786,293	97,474	35,458	848,309
Vehicles	1,559,406	115,336	167,116	1,507,626
Infrastructure	8,377,168	539,877	-	8,917,045
Total depreciable assets	<u>19,157,789</u>	<u>1,119,579</u>	<u>202,574</u>	<u>20,074,794</u>
Less accumulated depreciation for:				
Buildings	2,618,019	164,380	-	2,782,399
Furniture and fixtures	86,065	27,029	-	113,094
Machinery and equipment	527,176	77,305	35,458	569,023
Vehicles	1,242,816	122,664	162,988	1,202,492
Infrastructure	1,089,670	265,469	-	1,355,139
Total accumulated depreciation	<u>5,563,746</u>	<u>656,847</u>	<u>198,446</u>	<u>6,022,147</u>
Total depreciable assets, net	<u>13,594,043</u>	<u>462,732</u>	<u>4,128</u>	<u>14,052,647</u>
Internal service fund fixed assets:				
Depreciable assets:				
Vehicles	431,043	-	30,905	400,138
Total depreciable assets	<u>431,043</u>	<u>-</u>	<u>30,905</u>	<u>400,138</u>
Less: accumulated depreciation	426,920	3,090	29,872	400,138
Total depreciable assets, net	<u>4,123</u>	<u>(3,090)</u>	<u>1,033</u>	<u>-</u>
Total governmental activities	<u>\$ 24,938,756</u>	<u>\$ 5,674,239</u>	<u>\$ 2,007,686</u>	<u>\$ 28,605,309</u>

Depreciation was charged to function as follows:

Governmental activities:	
General government	\$ 51,199
Police	100,662
Fire and emergency medical services	31,071
Community development and environmental resources	310,170
Recreation and community services	166,835
Total governmental activities depreciation expense	<u>\$ 659,937</u>

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 – Capital Assets (Continued)

	<u>Balances</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances</u> <u>June 30, 2008</u>
Business-type activities:				
Sewer Enterprise Fund fixed assets:				
Depreciable Assets:				
Sewer lines	\$ 15,606,492	\$ 375,189	\$ -	\$ 15,981,681
Machinery and equipment	10,565	46,363	-	56,928
Total depreciable assets	<u>15,617,057</u>	<u>421,552</u>	<u>-</u>	<u>16,038,609</u>
Less accumulated depreciation for:				
Sewer lines	3,118,312	311,838	-	3,430,150
Machinery and equipment	4,226	2,886	-	7,112
Total accumulated depreciation	<u>3,122,538</u>	<u>314,724</u>	<u>-</u>	<u>3,437,262</u>
 Total depreciable assets, net	 <u>\$ 12,494,519</u>	 <u>\$ 106,828</u>	 <u>\$ -</u>	 <u>\$ 12,601,347</u>

NOTE 6 – 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.

<u>Debt-Governmental Activities</u>	<u>Balances</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances</u> <u>June 30, 2008</u>	<u>Due within</u> <u>one year</u>
Long-term debt:					
1997 Refunding COPS					
4.25-4.8%, 9/1/12	\$ 1,965,000	\$ -	\$ 375,000	\$ 1,590,000	\$ 395,000
2003 general obligation					
bonds 3.00-4.00%, 8/1/33	7,550,000	-	165,000	7,385,000	170,000
Civic Center Improvement					
general obligation bonds					
4.00-8.00%, 8/1/37	-	5,000,000	-	5,000,000	70,000
General obligation					
bonds II 4.00-7.00%, 8/1/37	-	6,500,000	-	6,500,000	95,000
	<u>9,515,000</u>	<u>11,500,000</u>	<u>540,000</u>	<u>20,475,000</u>	<u>730,000</u>
Unamortized bond premium	-	310,756	9,495	301,261	-
Landfill postclosure costs	750,000	-	-	750,000	-
Total long-term debt	<u>\$ 10,265,000</u>	<u>\$ 11,810,756</u>	<u>\$ 549,495</u>	<u>\$ 21,526,261</u>	<u>\$ 730,000</u>

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 – Governmental Activities Debt (Continued)

The liability for landfill postclosure costs relates to a construction landfill known as the Albany Bulb. It is anticipated that this land will be transferred to Eastshore State Park without additional costs to the City.

A. 1997 Refunding Certificates of Participation

On December 1, 1997 the City issued \$4,760,000 in Refunding Certificates of Participation (COPS) with interest rates ranging from 4.25 percent to 4.80 percent, to advance refund the \$1,465,000 1989 Refunding COPS with interest rates ranging from 6.6 percent to 7.85 percent, and the \$2,980,000 1992 Refunding COPS with interest rates ranging from 4.75 percent to 6.9 percent. The Net proceeds of \$ 4,579,934 (after payment of \$180,466 in underwriting fees, insurance, and other issuance costs) plus an additional \$500,516 of 1989 and 1992 reserve funds, were deposited into trust to defease the 1989 and 1992 bonds. The 1989 and 1992 lease revenue bonds that have been advanced refunded financed improvements to the maintenance center, and the acquisition of the Library/Community Center complex site and construction of the Center. The 1997 COPS are collateralized by the City's non-cancelable lease covering the Library/Community Center Complex, which terminates September 1, 2012.

A portion of the assessments from the City's Lighting and Landscape Assessment District Fund are being pledged to pay for the debt. Annual principal and interest payments on the debt require about 67% of the assessments (the portion contributed from assessments). The total principal and interest remaining to be paid on the bonds is \$1,763,794. Principal and interest paid for the current year and assessments were \$470,698 and \$526,974, respectively.

B. 2003 General Obligation Bonds

In November 2002, voters passed a ballot measure authorizing the issuance of general obligation bonds in the amount of \$14,500,000, the proceeds to be used for various capital improvements over a period of several years. In June 2003, the City issued \$8,000,000 of the bonds. 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, 2033.

C. Civic Center Improvement General Obligation Bonds

In November 2006, voters passed a ballot measure authorizing the issuance of general obligation bonds in the amount of \$5,000,000, the proceeds to be used for the structural improvements of the fire department, police department and city hall buildings. The bonds were issued In August 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.

D. General Obligation Bonds II

This is the second issuance of the \$14,500,000 bonds approved by the voters in November 2002. The first issuance of \$8,000,000 was issued in June 2003. The remaining \$6,500,000 was issued in August 2007 along with the \$5,000,000 Civic Center Improvement bonds. The proceeds to be used for various capital improvements including the civic center retrofit project. 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.

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6 – Governmental Activities Debt (Continued)

E. Arbitrage

Arbitrage calculations for outstanding bonds have not resulted in potential arbitrage liabilities.

F. Landfill Postclosure Costs

See Note 16 for a complete discussion of the landfill postclosure costs.

G. Future Governmental Activities Debt Service

Debt service schedules for the COPS, general obligation bonds and lease purchases are as follows:

	Principal				
	1997 COPS	2003 GO Bonds	Civic Center Improvement GO Bonds	GO Bonds II	Total
2009	\$ 395,000	\$ 170,000	\$ 70,000	\$ 95,000	\$ 730,000
2010	415,000	175,000	80,000	105,000	775,000
2011	245,000	180,000	85,000	110,000	620,000
2012	260,000	185,000	90,000	120,000	655,000
2013	275,000	190,000	100,000	125,000	690,000
2014-2018		1,075,000	575,000	740,000	2,390,000
2019-2023		1,305,000	690,000	905,000	2,900,000
2024-2028		1,625,000	855,000	1,125,000	3,605,000
2029-2033		2,020,000	1,075,000	1,395,000	4,490,000
2034-2038		460,000	1,380,000	1,780,000	3,620,000
Totals	\$ 1,590,000	\$ 7,385,000	\$ 5,000,000	\$ 6,500,000	\$ 20,475,000

	Interest				
	1997 COPS	2003 GO Bonds	Civic Center Improvement GO Bonds	GO Bonds II	Total
2009	\$ 67,178	\$ 240,480	\$ 289,776	\$ 312,065	\$ 909,499
2010	47,936	234,479	282,876	305,065	870,356
2011	32,096	228,729	275,776	297,540	834,141
2012	19,846	223,479	268,476	289,490	801,291
2013	6,738	217,779	260,976	280,915	766,408
2014-2018		1,015,082	1,203,892	1,299,150	3,518,124
2019-2023		883,221	996,060	1,130,203	3,009,483
2024-2028		713,313	706,068	910,145	2,329,525
2029-2033		484,375	319,906	620,999	1,425,280
2034-2038		179,500	9,775	231,250	420,525
Totals	\$ 173,794	\$ 4,420,435	\$ 4,613,581	\$ 5,676,821	\$ 14,884,631

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 – Governmental Activities Debt (Continued)

General Fund, Sewer Fund, and Landscape and Lighting Special Revenue Fund revenues are used to service the COPS.

The City is required to maintain amounts of 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 totaled \$198,037 and \$200,457, respectively at June 30, 2008 and 2007.

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 7 – 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, 2008 is \$4,330,000.

NOTE 8 – Business-Type Activities Debt

On September 1, 2004, the City issued \$8,675,000 in Sewer Revenue Bonds, in which a portion of the proceeds was used to defease the City's 1993 Sewer Revenue Bonds in the amount of \$2,750,000 as of the issue date. The reacquisition price exceeded the net carrying amount of the old debt by \$142,377. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The remaining proceeds will be used to finance certain improvements to the City's sewer system. The bonds mature serially, each September 1, and semi-annual interest payments are due each September 1 and March 1.

The Bonds are special obligations of the City and are secured by and payable solely from operating revenue of the Sewer Enterprise Fund. The bonds maturing on or before September 1, 2014, are not subject to optional redemption prior to maturity. The bonds maturing on or after September 1, 2015, are subject to redemption prior to their respective maturity dates, at the option of the City, from any source of available funds, as a whole on any date on or after September 1, 2014, at a redemption price equal to the principal amount of the bonds together with a premium. These mandatory redemptions are to be made from sinking fund payments made by the City in the year of redemption. Bonds maturing on or after September 1, 2014 may be redeemed at par plus a 2 percent premium, which decreases until September 1, 2016, at which time they may be redeemed at par. The interest rates range from 2.00% to 4.40%.

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 8 – Business-Type Activities Debt (Continued)

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 require about 47% of the net revenue. The bonds are payable solely from net revenues and are payable through 2024. The total principal and interest remaining to be paid on the bonds is \$10,641,103. Principal and interest paid for the current year and net revenues were \$623,403 and \$1,321,003, respectively.

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

	Balances June 30, 2007	Additions	Retirements	Balances June 30, 2008	Due within one year
Sewer revenue bonds	\$ 8,030,000	\$ -	\$ 330,000	\$ 7,700,000	\$ 340,000
Deferred amortization on refunding	(94,917)	-	(15,820)	(79,097)	-
Original issue discount	(57,283)	-	(3,369)	(53,914)	-
	<u>\$ 7,877,800</u>	<u>\$ -</u>	<u>\$ 310,811</u>	<u>\$ 7,566,989</u>	<u>\$ 340,000</u>

Annual debt service repayment requirements to repay the Sewer Revenue Bonds and amortization of bond issuance costs and refunding discount at June 30, 2008 are:

Year ending June 30,	Bond Service Payments			Amortization		
	Principal	Interest	Total	Issuance Cost	Refunding Discount	Total
2009	\$ 340,000	\$ 286,362	\$ 626,362	\$ 10,133	\$ 19,189	\$ 29,322
2010	350,000	278,160	628,160	10,133	19,189	29,322
2011	355,000	268,550	623,550	10,133	19,189	29,322
2012	370,000	257,575	627,575	10,133	19,189	29,322
2013	380,000	245,383	625,383	10,133	19,189	29,322
2014-2018	2,125,000	1,007,950	3,132,950	50,665	16,845	67,510
2019-2023	2,585,000	544,139	3,129,139	50,665	16,845	67,510
2024-2025	1,195,000	52,984	1,247,984	10,135	3,376	13,511
Totals	<u>\$ 7,700,000</u>	<u>\$ 2,941,103</u>	<u>\$10,641,103</u>	<u>\$ 162,130</u>	<u>\$ 133,011</u>	<u>\$ 295,141</u>

Internal Service Fund Debt

The liability related to compensated absences at June 30, 2008 is summarized below:

Debt	Balances June 30, 2007	Additions	Retirements	Balances June 30, 2008	Due within one year
Compensated absences	<u>\$ 1,036,997</u>	<u>\$ 208,892</u>	<u>\$ 1,737</u>	<u>\$ 1,244,152</u>	<u>\$ 2,000</u>

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9 – Fund Equity

A. Designation

Designations are resources designated for future activities associated with special programs. The City intends to use the designated funds for Community Development, Recreation, Police, and Fire projects. These projects include various street and facility maintenance programs, park, open space and library operations, front line law enforcement activities, and safety pension plans.

B. Deficit Fund Balance

The following fund has a deficit in fund balance at June 30, 2008:

<u>Other governmental funds</u>	
Park Bond	\$36,016

Park Bond

The Park Bond Fund incurred costs for the Community Center Repairs during fiscal year 2006-07. This project is partially funded by the State's Prop 40 bond funds and will be completed in fiscal year 2008-09. Upon completion the State will reimburse the costs to the City. The payment will eliminate the deficit fund balance in the Park Bond Fund.

C. Major Fund Budget Variances – General Fund

- Property taxes were \$4,794,633, which exceeded the budgeted amount by \$200,828. The excess in taxes resulted from increase in assessed valuation and reassessment of properties due to improvements and change of ownership. Franchise and other taxes were above the budget by \$190,809. The increase was consisted of a few large components including property transfer taxes, telephone and gas utility user taxes, race track taxes, and Cable TV franchise fees. Earnings on investments of \$504,524 exceeded the budgeted amount by \$128,701. The excess revenue resulted from better than expected cash balance maintained during the year. Other revenues of \$378,051 were \$122,234 higher than budget. This was primarily contributed to the school resource officer and fire strike team reimbursements.
- Expenditures of \$1,973,817 for the General Government and \$4,882,681 for the Police Department were below budget by \$174,471 and \$128,486, respectively. The lower than budgeted expenditures mainly resulted from salary and benefit savings on vacant positions, fewer grants/donations given to non-profit organizations, and less expenditures incurred for equipment purchases.
- The transfers out of \$1,775,476 were above the budget by \$1,168,605. Transfers were made to the capital facilities reserve fund, waterfront plan fund, and the equipment replacement reserve fund. The funds will be also used to fund the waterfront planning activities, acquisition of a permanent maintenance facility, and future equipment replacement and purchase of financial software. In addition, transfers were made to the internal service fund for compensated absences reserve. All transfers are detailed in the schedule at Note 11, and all transfers were approved by the City Council.

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 10 – Net Assets

Accounting pronouncement GASB Statement 46 requires state and local government to disclose the amount of the primary government's net assets at the end of the reporting period that are restricted by enabling legislation. As of June 30, 2008, the government-wide statement of net assets reports \$14,160,728 of restricted net assets, of which \$3,730,164 is restricted by enabling legislation, grantors, and other government agencies. Restricted net assets will be used for the purposes specified by the legislation. The City's restricted net assets represent unspent resources received from grantor agencies, fees imposed to offset future costs, and taxes levied for specific programs.

NOTE 11 – Interfund Transactions

Interfund Transfers

The principal purpose of interfund transfers is to match revenue, which is recorded in funds designated for specific purposes, with the expenditures funded by these revenues. Examples are the Emergency Medical Services fees that are used to pay paramedic service expenses recorded in the General Fund, and Lighting and Landscape Assessment fees that are used to pay expenditures in the debt service funds. Interfund transfers are also used to fund insurance reserves and equipment replacement funds.

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 – Interfund Transactions (Continued)

Fund	Transfers in	Transfers out
MAJOR GOVERNMENTAL FUNDS		
General	\$ 3,038,052	\$ 1,775,476
Total major funds	3,038,052	1,775,476
NON-MAJOR GOVERNMENTAL FUNDS		
Special revenue funds:		
Gas Tax	-	391,224
Pension Property Tax	-	750,000
Streets	42,341	-
Lighting and Landscape Assessment District	-	386,290
Emergency Medical Services	-	1,143,491
Asset Forfeiture	981	-
	43,322	2,671,005
Debt service funds:		
Debt Service APFFA	447,742	-
	447,742	-
Capital projects funds:		
Fire Equipment	24,000	-
Police Equipment	51,000	-
Emergency Medical Service Equipment	22,500	-
Fire Operations Equipment	24,000	-
Capital Facilities Developer Fee	-	277
Capital Facilities	500,000	-
Waterfront Plan	259,713	-
Equipment Replacement Reserve	200,000	-
	1,081,213	277
Total non-major governmental funds	1,572,277	2,671,282
PROPRIETARY FUNDS		
Internal Service Funds:		
Worker's Compensation	282,220	-
General Liability	224,670	-
Compensated Absences	208,892	-
	715,782	-
Enterprise Fund		
Sewer Fund	-	879,353
	-	879,353
Total proprietary funds	715,782	879,353
Total Interfund Transfers	\$ 5,326,111	\$ 5,326,111

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 11 – Interfund Transactions (Continued)

Interfund Balances

The following is a summary of interfund balances as of June 30, 2008:

MAJOR GOVERNMENTAL FUNDS

General fund	\$ 447,923	\$ -
Total major funds	<u>447,923</u>	<u>-</u>

NON-MAJOR GOVERNMENTAL FUNDS

Special revenue funds:

Community Development Block Grant	-	7,503
Alameda County Measure B	-	31,784
Emergency Medical Services	-	80,580
Park Bond	-	101,581
	<u>-</u>	<u>221,448</u>

Capital projects funds:

Reinvestment	-	13,110
1996-1 Assessment District Bond Fund	-	100,285
	<u>-</u>	<u>113,395</u>

Debt service funds:

APFFA Debt Service	-	8,041
Reinvestment Debt Service	-	16,877
	<u>-</u>	<u>24,918</u>

Total non-major governmental funds

<u>-</u>	<u>359,761</u>
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PROPRIETARY FUNDS

Internal Service Funds:

Worker's Compensation	-	88,162
	<u>-</u>	<u>88,162</u>

Total proprietary funds

<u>-</u>	<u>88,162</u>
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Total

<u>\$ 447,923</u>	<u>\$ 447,923</u>
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Funds are primarily advanced from the General Fund to cover current cash flow requirements. The amounts shown above are expected to be repaid in the following fiscal year.

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 – Interfund Transactions (Continued)

Advances to and from other funds at June 30, 2008 were as follows:

Fund	Advances to Other Funds	Advances from Other Funds
MAJOR GOVERNMENTAL FUNDS		
General	\$ 686,203	\$ -
Total major governmental funds	686,203	-
NON-MAJOR GOVERNMENTAL FUNDS		
Capital - Reinvestment	-	300,000
Debt Service - Reinvestment	-	386,203
Total non-major governmental funds	-	686,203
Total	\$ 686,203	\$ 686,203

The General Fund advanced certain monies on behalf of the Debt Service – Reinvestment Fund to finance certain costs and expenses, as set forth in the Cooperation Agreement between the City and the Albany Community Reinvestment Agency. Under the terms of the agreement, interest is accrued at rates based on the current Local Agency Investment Fund rate. Any unpaid accrued interest is added to the total obligation on an annual basis. At June 30, 2008, the balance of principal was \$386,203. The total obligation is subordinate to any external debt of the Agency as well as the \$300,000 advance discussed below. The Agency expects to repay the obligation using future incremental tax revenues. There is no fixed due date for repayment.

A \$400,000 advance from the General Fund to the Capital Projects – Reinvestment Fund was made for the specific purpose of providing funds for the development of the Buchanan-Eastshore Highway Interchange project located in the Cleveland Avenue/Eastshore Highway Project Area. This advance is expected to be repaid from property tax increment revenues, in installments of principal plus interest at rates based on the current Local Agency Investment Fund rate. At June 30, 2008, the balance of principal was \$300,000.

NOTE 12 – Albany Police and Fire Relief or Pension Fund

A. Plan Description

The Albany 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 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
	29
	29

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 12 – Albany Police and Fire Relief or Pension Fund (Continued)

Employees who retire, 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 amount of the average yearly compensation attached to the rank he or she held during three years preceding 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 with 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. Cash and Investments

Investments are reported at fair value. Certain short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange, are valued at the last reported sales price. Investments that do not have an established market value are reported at estimated fair value. Net gains and losses, includes gains and losses from the sale of investments and unrealized net increases or decreases in market value.

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 investments were held by Dodge & Cox Funds in 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.

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 12 – Albany Police and Fire Relief or Pension Fund (Continued)

The Fund's assets (except for LAIF) are in the bank's name, but are held by its Trust Department in a separate account in the Fund's name. As of June 30, 2008, the Fund held the following securities:

Investment Type	Fair Value	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Local Agency Investment Fund (LAIF)	101,576	101,576	-	-	-
Mutual funds:					
Stock fund	4,681,909	4,681,909	-	-	-
Income fund	6,387,821	6,387,821	-	-	-
International stock fund	1,236,954	1,236,954	-	-	-
Total	\$ 12,408,260	\$ 12,408,260	\$ -	\$ -	\$ -

C. Funding Status and Progress

The actuarial accrued liability presented below was determined as part of an actuarial valuation at September 30, 2008. The entry age actuarial cost method and significant actuarial assumptions were used in determining the actuarial accrued liability and included: (a) a rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, and (b) projected inflation rate of 4 percent per year.

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 asset for participants at September 30, 2008 (most recent available) is as follows:

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

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 12 – Albany Police and Fire Relief or Pension Fund (Continued)

D. Contribution Requirements and Contribution Made

There are no active Plan participants and the plan is closed to new participants. Because the Plan carried an unfunded actuarial liability through June 30, 2003, an employer contribution was made each year, utilizing revenue from the property override tax initiated in 1982 to partially fund pension cost. Following the contribution of \$534,513 made in the fiscal year ended June 30, 2004, the Plan was fully funded and no additional contributions were made from fiscal year 2004-05 through fiscal year 2007-08. Due to the meltdown 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. Additional contributions will be required effective next fiscal year. Actuarial valuation of the Plan continues on a three-year cycle under normal circumstances.

As the Plan was considered fully funded in fiscal year 2003-04, annual pension cost and net pension obligation were not applicable to the Plan for the four following years; thus there is no three-year trend information to be presented for the Plan.

E. Contributions

Annual contributions received by the Plan were as follows:

Fiscal Year	Employee	Employer	Pension Tax Override	Total
1997-1998	\$ 17,396	\$ 17,396	\$ 859,910	\$ 894,702
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
2005-2006	-	-	-	-
2006-2007	-	-	-	-
2007-2008	-	-	-	-

F. Separate stand-alone financial statements for the Police and Fire Relief and Pension Plan can be obtained from the City of Albany administrative offices located at 405 Kains Avenue, Albany, CA 94706.

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 13 – PERS Pension Plan

A. Plan Description

The City of Albany contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office – 400 P Street – Sacramento, California 95814.

B. Funding Policy

Participants are required to contribute 8 percent (9 percent for safety employees) of their annual covered salary. The City's actuarially determined contribution rates for fiscal year 2007-08 were:

City Miscellaneous	10.262%
Safety Police	20.244%
Safety Fire	17.778%
Albany JPA Miscellaneous	10.646%

As discussed in paragraph E of this note, the City's CalPERS plans have been placed in risk pools, and beginning in fiscal year 2005-06 the employer contribution to each of the plans will be based on a combination of a declining percentage of the normal cost of the plan as a stand-alone plan and an increasing percentage of the pools normal cost until fiscal year 2010-11 when the plans will be subject to 100% of the pool's normal cost.

C. Annual Pension

For fiscal 2007-08, the City's annual pension cost of \$1,992,648 for PERS plans was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service age, and type of employment, and (c) 3.25 percent per year payroll growth. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments such that the actuarial value of assets is 90% and 110% of the actual market value. Unfunded actuarial accrued liabilities are being amortized as a level percentage of assumed future payrolls. All changes in liability due to plan amendments are amortized separately over a closed 20-year period. Gains and losses are tracked and 10% of the net unamortized gain or loss is amortized each year.

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 13 – PERS Pension Plan (Continued)

D. Three Year Trend Information – Combined Contributions Made

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	1,874,797	100%	-
6/30/2007	1,826,613	100%	-
6/30/2008	1,992,648	100%	-

E. Risk Pool & Side Funds

As part of a program to smooth the changes in required employer contributions for smaller plans, resulting from changes in actuarial assumptions and short-term experience factors, PERS placed plans of 100 or fewer members into "risk pools." Funding status for individual pool plan members is not available.

Formation of the risk pools required the establishment of "side funds," that represent unfunded liabilities, which are to be amortized over periods of 9 to 18 years for the City's four plans. As of June 30, 2008, the balances of the side funds totaled \$2,180,463.

F. Social Security

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing systems as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's Local 790 union members and part-time employees are covered under Social Security, which requires these employees and the City to each contribute 6.2 percent of the employee's pay to the Social Security Fund. Total contributions to Social Security during the year ended June 30, 2008 were \$197,801, of which the City paid one-half.

The City's seasonal and temporary employees are covered under an ICMA alternative plan that requires these employees to contribute 7.5 percent of the pay to the plan. Total contributions to the plan during the year ended June 30, 2008 were \$18,836. There is no matching contribution requirement for the City.

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 14 – Post-Retirement Benefits

The City does not provide post-retirement benefits to retirees. However, retirees are allowed to remain in the City's health benefit plans after retirement paying for their own health premium. The City's health plans are administered by the California Public Employees Retirement System. The City does not make contributions toward retirees' portion of premium. Under the Public Employee's Medical & Hospital Care Act (PEMHCA), the City is required to pay an employer portion of the health premium. Payments are made to the plan administrator directly each month. It is based on a pay-as-you-go basis. There are 17 retired members in the City's health benefit plans. The employer rates are ranged from \$15.50 to \$67.90. In fiscal year 2007-08, the City paid \$8,348 for the employer's share. The employer's premium rates are determined by the plan administrator and not expected to increase significantly in the future. Based on past experience, a small number of retirees elect to stay in the City's health plans. Due to the small number of retirees and insignificant contribution to these plans, the City considers it is not cost-effective to perform an actuarial valuation. The disclosure in this note is deemed appropriate to satisfy the requirement of GASB Statement 43.

NOTE 15 – 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. Obligations and liabilities of these risk pools are the City's responsibility.

A. Risk Pools

The City participates in the BCJPIA general liability risk pool, which in turn participates in the California Affiliated Risk Management Authorities (CARMA) risk pool. Bay Cities Joint Powers (BCJPIA) Insurance Authority 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 \$19,000,000. The City contributed \$129,716 for coverage during the fiscal year ended June 30, 2008.

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 15 – Risk Management (Continued)

Condensed audited financial information of BCJPIA at and for the fiscal year ended June 30, 2008 is as follows:

Total assets	\$20,055,378
Total liabilities	11,743,618
Net assets	<u>\$8,311,760</u>
Total revenues	\$11,615,012
Total expenses	8,453,122
Net revenue	<u>\$3,161,890</u>

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 \$200,000,000 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 fiscal year ended June 30, 2008, the City incurred costs of \$199,462 for coverage premiums and administration of the risk pools.

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, 1831 K Street, Sacramento, CA 95814.

CITY OF ALBANY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 15- 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, based on claims experience. Claims activity for the years ended June 30, 2008 and June 30, 2007 were as follows:

	2008			Fiscal 2007
	Workers' Compensation	General Liability	Total	Total
Claims liabilities, beginning of year	\$ 2,231,276	\$ 201,863	\$ 2,433,139	\$ 2,691,843
Provision for claims losses	102,823	114,954	217,777	-
Claim payments	(316,032)	(129,479)	(445,511)	(258,704)
Change of estimates	-	-	-	-
Claims liabilities, end of year	\$ 2,018,067	\$ 187,338	\$ 2,205,405	\$ 2,433,139
Due in one year	\$ 200,000	\$ 109,526	\$ 309,526	\$ 445,511
Due in more than one year	1,818,067	77,812	1,895,879	1,987,628

NOTE 16 – Landfill Postclosure Costs

The City of Albany operated a Class III landfill (construction debris only) in a 36-acre site known as the Albany Bulb, until 1974. In 1999 the California Regional Water Control Board (Board) issued a closure order for this site. On May 16, 2005, the Board issued a finding that the City was in compliance with the closure order and that no further action is required for the site. The City anticipates transferring this site to another governmental entity to be developed for public use. The City has accrued an unfunded liability of \$750,000 for potential costs related to the transfer of the site.

NOTE 17 – Related Party Transaction

In September 2001, per the employment agreement between the City and the City Administrator, the City loaned the City Administrator \$400,000 to be used toward the purchase of her principal residence. The outstanding principal balance of the loan at June 30, 2008 was \$352,903 (see Note 4).

NOTE 18 – 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.

CITY OF ALBANY

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 18 – Commitments and Contingent Liabilities (Continued)

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 19 – Subsequent Events

The recent meltdown in the financial market has a negative impact on the City's investments. The fair market value of Albany Police and Fire Relief or Pension Fund's investments was declined by 9% from June 2008 to September 2008. The fair value of Investments held by Local Agency Investment Fund (LAIF) and Investment Trust of California (CalTrust) were below costs by less than 1%. Account balances with LAIF are not priced according to fair market value. LAIF allows its participants to withdraw cash based on cost. More capital losses are anticipated due to continued volatility in the market after September.

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**REQUIRED
SUPPLEMENTARY
INFORMATION**

**CITY OF ALBANY
PENSION PLANS
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)**

PERS:

	Valuation Date *	(b) Entry Age Actuarial Accrued Liability	(a) Actuarial Asset Value	(c) Unfunded Liability/ (Excess Assets)	(a)/(b) Funded Ratio	(d) Annual Covered Payroll	(c)/(d) UAAL as a Percentage of Payroll
Safety	6/30/2005	1,325,510,754	1,105,298,221	220,212,533	83%	161,446,071	136%
	6/30/2006	1,473,284,852	1,252,059,468	221,225,384	85%	177,088,890	125%
	6/30/2007	1,648,159,522	1,422,143,105	226,016,417	86%	200,537,256	113%
Miscellaneous	6/30/2005	579,276,103	500,388,523	78,887,580	86%	129,379,492	61%
	6/30/2006	912,988,585	787,758,909	125,229,676	86%	200,320,145	63%
	6/30/2007	1,315,454,361	1,149,247,298	166,207,063	87%	289,090,187	57%

* The most recent actuarial valuation information is presented here. The City's CalPERS plans were consolidated into risk pools in fiscal year 2003 as part of a program to smooth the changes in required employer contributions for smaller plans. See Note 13 for details.

Albany Police and Fire Relief Pension Plan:

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

** Because this plan is closed to new participants, the Pension Board adopted a policy in 1996 to perform actuarial valuations periodically, as needed. The 2008 actuarial valuation was performed for the period ended September 30, 2008. No actuarial valuations were performed for the years not listed.

**COMBINING
STATEMENTS**

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