

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany, California (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the City as of June 30, 2007, were audited by other auditors whose report dated October 26, 2007, expressed an unqualified opinion on those statements.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2008, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

Subsequent to the basic 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 City 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 basic financial Statements.

As explained in Note 19 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.

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As described in Note 1 to the basic financial statements, the City adopted Statement of Governmental Accounting Standards Board No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, budgetary comparison information and other information as listed in the table of contents are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Capricci & Larson*

Oakland, California  
December 3, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This is management's discussion and analysis of the City of Albany's financial activities and performance for the fiscal year ended June 30, 2008. Please read this discussion and analysis in conjunction with the transmittal letter, which can be found in the introductory section at the front of this report, and with the City's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

#### Government-wide Financial Statements

- The Government-wide Statement of Net Assets is the first statement of the Basic Financial Statements (page B1) and is summarized on page A8 of this Management's Discussion and Analysis. The statement shows the City's assets of \$88,736,000, liabilities of \$35,809,000, and net assets of \$52,927,000.
- Net assets, as measured in the government-wide financial statements, increased \$5,017,000. Capital assets increased \$3,772,000 and net long-term debt increased \$10,950,000. The major capital asset additions were Police Department, Fire Department, City Hall buildings, and park improvements. Construction of structural improvements to the Police, Fire and City Hall buildings began in May 2008. Projects at Memorial, Ocean View and Terrace Parks were completed during the fiscal year. The increase in long-term debt resulted from the issuance of general obligation bonds of \$5,000,000 pursuant to Measure C, approved in 2006, and \$6,500,000 of the second series of bond pursuant to Measure F, approved in 2002. The Measure C bonds were issued to augment funds previously designated for the City Center renovation. The Measure F bond proceeds are being used for various capital projects including the City Center renovation, park improvements, and street projects.
- The Government-wide statement of activities and changes in net assets is summarized on page A9. This statement shows an increase in net assets of \$5,017,000 for the fiscal year ended June 30, 2008, as compared to an increase of \$4,446,000 for the fiscal year ended June 30, 2007. Revenues for the year increased \$1,377,000 and expenses increased by \$806,000 over the prior year. The major increases in revenue occurred in property taxes and charges for services. Property tax revenue increased \$1,404,000 as the results of increases in assessed value of property taxed, and the levying of an additional tax of .0405% to pay for the interest and principal on the bonds issued during the year. Charges for services revenue increased \$346,000, primarily due to the collection of parkland in-lieu fees from a new development, increased revenues from ambulance fees, and increases in vehicle and parking fines. The increase in revenues was reduced by decreases incurred in other revenue categories.
- Total expenses increased \$806,000 over the prior year. The largest increase was in the general government category, where expenses related to relocation for City Center renovation were recorded. During the year, the City Administration Office, Community Development Department, and Finance Department moved to temporary offices at 405 Kains Ave., and 979 San Pablo Ave. The Police and Fire Departments moved into temporary modular buildings at 1051 Monroe Street in August 2008.

#### Governmental Funds Financial Statements

- A more targeted view of the financial status of the City is provided in the Governmental Funds Financial Statements. These statements appear on pages B3 – B4 of this report, and are discussed in detail in the Fund Financial Statements section of this Management's Discussion and Analysis.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- The core operations of the City are accounted for in the General Fund, and the General Fund fund balance is a key measure of the financial health of the City. As of June 30, 2008, the General Fund balance was \$4,779,000, a net increase of \$176,000 over the balance at June 30, 2007. As of June 30, 2008, the unreserved-undesignated fund balance for the General Fund was \$3,209,000.
- Transfers of \$3,038,000 were made to the General Fund from the Sewer Enterprise Fund and other Special Revenue Funds. These transfers to the General Fund are to reimburse the General Fund for expenditures made in support of activities funded outside the General Fund. Transfers of \$1,775,000 from the General Fund were made to reserve funds of Safety equipment replacement - \$99,000, self insurance reserve accounts - \$507,000, accrued liabilities for compensated absences - \$209,000, waterfront plan for funding of planning activities - \$260,000, and to reserve funds for capital expenditures - \$700,000.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The City's Basic Financial Statements consist of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to Basic Financial Statements. This Financial Section of this report also contains supplementary information in pension funding, combining financial statements, and budgetary comparisons for individual funds.

#### Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They provide information about the activities of the City as a whole and present a long-term view of the City's finances.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between assets and liabilities reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Albany is strengthening or weakening.

The Statement of Activities and Changes in Net Assets presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash receipts or disbursements (full accrual basis accounting). Thus, revenues and expenses are reported in this statement for some items that will only result in cash receipts or disbursements in future fiscal periods, such as property taxes assessed for the year ended June 30, but received between July 1 and August 31, or vacation leave earned in the current year but not utilized until a subsequent year.

In the government-wide financial statements, the activities of the City are classified as governmental or business-type. Total activities are presented for both the current and prior years.

*Governmental activities* are activities that are principally supported by taxes and intergovernmental revenues. For the City of Albany, governmental activities include police services, fire and emergency medical services, community development and environmental

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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resources, recreation and community services, general government administration, and the activities of four component units.

Component units are organizations whose governing body is: (1) either the governing body of the primary reporting government or (2) a body who reports to the governing body of the primary reporting government, or (3) organizations for which the nature and significance of their relationship with the primary reporting government is such that exclusion would cause the reporting government's financial statements to be misleading or incomplete.

The City of Albany is the primary reporting government in this report, and incorporated into these financial statements are the financial statements of the City of Albany Police and Fire Relief or Pension Fund (Trust), the City of Albany Public Facilities Financing Authority, the Albany Community Reinvestment Agency, and the Albany Municipal Services Joint Powers Authority.

*Business-type activities* are activities that are primarily funded through user charges. The only business-type activity to be reported by the City of Albany is sewer services.

### **Governmental Funds Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Albany, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds used by the City are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

#### Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, which focus on the long-term, governmental funds financial statements focus on short-term inflows and outflows of spendable resources and the balances of these resources that are available for spending. This information is useful in evaluating a government's short-term financing requirements.

To assist the user of these financial statements in understanding the differences and the relationship between the government-wide financial statements and the governmental funds financial statements, reconciliations between the two sets of statements have been included in this report.

The reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets highlights the inclusion of capital assets and long-term liabilities in the government-wide financial statements.

The reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities and Changes in Net Assets highlights the exclusion of capital expenditures, depreciation of capital assets, amortization of intangible assets, and cash flows related to long-term debt from the governmental funds statements.

The City of Albany maintains numerous individual governmental funds, which for financial reporting are grouped according to their type (general fund, special revenue, capital projects, and debt service). Funds whose expenditures exceed 10% of the total expenditures for all

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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governmental funds, or that meet other specific criteria for determining their importance to the financial statement user, are designated Major Funds, and are reported separately in the governmental funds statements. All other funds are grouped together for reporting purposes. Major funds for the City of Albany are:

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

Individual fund data for each non-major governmental fund is provided in combining statements included in the *Combining Financial Statements and Other Supplementary Information* section of this report.

### Proprietary funds

Proprietary funds have as their focus the determination of operating income or cost recovery. There are two types of proprietary funds: enterprise funds and internal service funds.

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.
- Internal service funds are used to accumulate and allocate costs internally among the City's various funds and departments, and to record assets and liabilities related to self-insurance programs and compensated absences.

The City accounts for the construction and maintenance of City sewers in the Sewer Enterprise Fund. Revenues are obtained through special district assessments collected with property taxes. The assessment rate for fiscal year 2007-08 was \$269.52 per residential unit. Total assessment revenue for the year was \$1,987,000; this was an increase of \$149,000 from the prior year. Revenues less expenditures and transfers, including interest on bonds of \$293,000, resulted in an increase in net assets of \$684,000.

The City uses an internal service fund to account for anticipated replacement costs of public works and park equipment. Because this reserve predominantly benefits governmental activities, it has been included within the governmental activities in the government-wide financial statements.

### Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the reporting government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City utilizes two types of fiduciary funds:

- Trust funds are used to record the assets and liabilities held for the benefit of others, under a trust agreement that specifies the degree of management performed by the trustee organization. The City accounts for the activities of the City of Albany Police and Fire Relief or Pension Fund in the Police and Fire Relief or Pension Trust Fund. There are no current employee members of this plan, but the City will continue to hold its assets in trust and administer the plan as long as there are members receiving benefits.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- Agency funds are used to record assets of separate organizations for which the City serves as a custodian for the organization. All assets in agency funds are offset by a liability to the organization on whose behalf they are held. The City currently maintains four agency funds that are reported in the Statement of Fiduciary Net Assets.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Required Supplementary Information**

This section consists of schedules of funding progress for the City's PERS (California Public Employee Retirement System) pension plans and the Albany Police and Fire Relief Pension Plan.

### **Combining Financial Statements and Other Supplementary Information**

This section contains combining financial statements and budgetary comparison statements for the summary fund groups reported in the basic financial statements.

### **Statistical Section**

Graphic presentations of financial information and non-financial information, and statistical tables are included in this section, as an aid to understanding and evaluating the overall operation and status of the City.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### Analysis of Net Assets

Net assets are a measure of a government's financial position and, over time, a trend of increasing or decreasing net assets is an indicator of the financial health of the organization. The City of Albany's net assets exceeded liabilities by \$52,927,000 at June 30, 2008. A schedule of net assets is presented in the following table.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Net Assets June 30, 2008 and 2007 (thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2008	2007	2008	2007	2008	2007	
Current and other assets	\$ 40,358	\$ 27,661	\$ 7,172	\$ 6,834	\$ 47,530	\$ 34,495	38%
Capital assets	28,605	24,939	12,601	12,495	41,206	37,434	10%
<b>Total assets</b>	<b>68,963</b>	<b>52,600</b>	<b>19,773</b>	<b>19,329</b>	<b>88,736</b>	<b>71,929</b>	<b>23%</b>
Current liabilities	4,135	5,072	513	432	4,648	5,504	-16%
Noncurrent liabilities	23,934	10,967	7,227	7,548	31,161	18,515	68%
<b>Total liabilities</b>	<b>28,069</b>	<b>16,039</b>	<b>7,740</b>	<b>7,980</b>	<b>35,809</b>	<b>24,019</b>	<b>49%</b>
<b>Net assets:</b>							
Invested in capital assets, net of related debt	21,476	19,778	7,263	7,191	28,739	26,969	7%
Restricted	14,448	12,086	2,164	3,041	16,612	15,127	10%
Unrestricted	4,970	4,697	2,606	1,117	7,576	5,814	30%
<b>Total net assets</b>	<b>\$ 40,894</b>	<b>\$ 36,561</b>	<b>\$ 12,033</b>	<b>\$ 11,349</b>	<b>\$ 52,927</b>	<b>\$ 47,910</b>	<b>10%</b>

Net assets invested in capital assets (e.g., land, buildings, equipment and infrastructure) of \$28,739,000 represent the cost of these assets less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future expenditures. Resources needed to repay the outstanding debt must be provided from other sources other than the related assets, because the capital assets themselves cannot be used to repay these debts.

Restricted net assets of \$16,612,000 represent resources that are subject to restrictions on how they may be used. The largest component of restricted net assets is \$11,645,000 that is restricted for future capital projects, special revenue funds have combined restricted net assets of \$3,730,000, and the balance of restricted net assets of \$1,237,000 is contained in bond debt service funds.

Unrestricted net assets of \$7,576,000 may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. However, all net assets are not liquid, meaning that they are not cash or securities that could be converted to cash within a year. (An analysis of liquid fund balance is provided in the funds financial statements at B3 and B7.)



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Analysis of Changes in Net Assets

The City's net assets increased \$5,017,000 during the current fiscal year. This growth in the City's net assets is principally from the governmental activities. Information about changes in net assets is presented in the summary table below:

**Activities and Changes in Net Assets  
For the Fiscal Years Ended June 30, 2008 and 2007  
(thousands)**

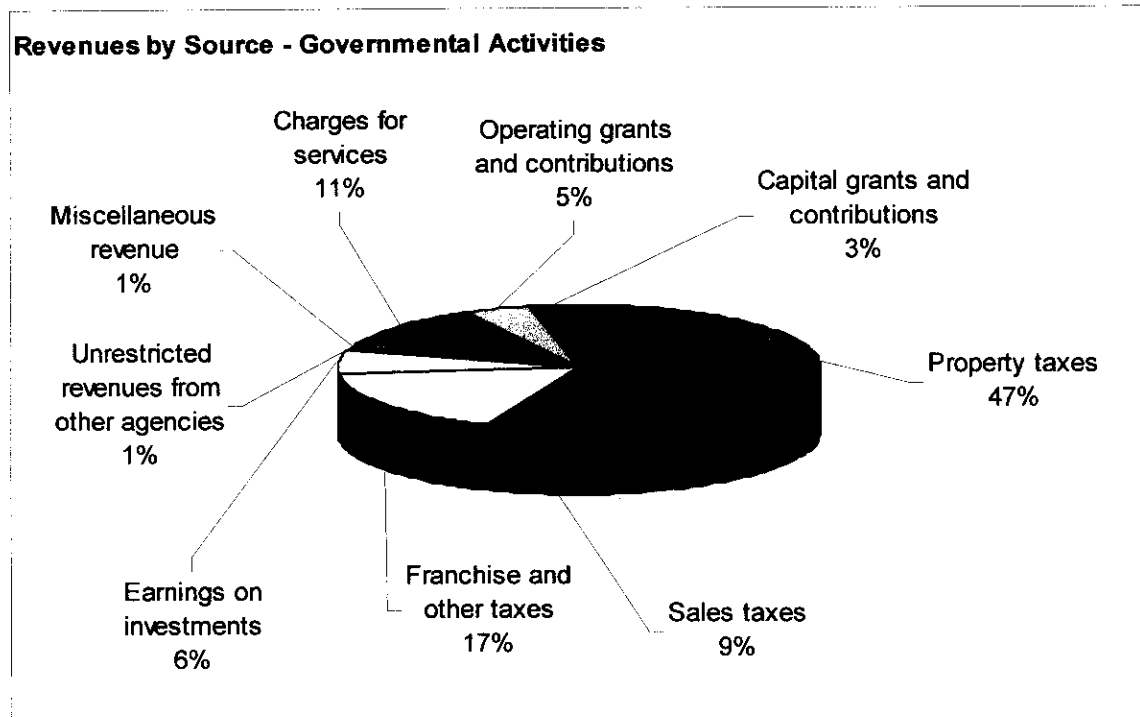
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2008	2007	2008	2007	2008	2007	
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services	\$ 2,505	\$ 2,159	\$ 1,987	\$ 1,838	\$ 4,492	\$ 3,997	12%
Operating grants and contributions	1,085	1,017	-	-	1,085	1,017	7%
Capital grants and contributions	773	1,181	-	-	773	1,181	-35%
<b>General revenues:</b>							
Property taxes	11,166	9,762	-	-	11,166	9,762	14%
Sales taxes	2,183	2,242	-	-	2,183	2,242	-3%
Franchise and other taxes	4,135	4,317	-	-	4,135	4,317	-4%
Earnings on investment	1,467	1,237	262	325	1,729	1,562	11%
Unrestricted revenues from other agencies	183	281	-	-	183	281	-35%
Other revenue	332	342	-	-	332	342	-3%
<b>Total revenues</b>	<b>23,829</b>	<b>22,538</b>	<b>2,249</b>	<b>2,163</b>	<b>26,078</b>	<b>24,701</b>	<b>6%</b>
<b>Program expenses:</b>							
General government	3,330	2,511	-	-	3,330	2,511	33%
Police	5,319	5,226	-	-	5,319	5,226	2%
Fire and emergency medical services	4,220	4,046	-	-	4,220	4,046	4%
Community development and environmental resources	4,122	5,105	-	-	4,122	5,105	-19%
Recreation and community services	2,528	2,268	-	-	2,528	2,268	11%
Interest on long-term debt	856	398	-	-	856	398	115%
Sewer	-	-	686	701	686	701	-2%
<b>Total program expenses</b>	<b>20,375</b>	<b>19,554</b>	<b>686</b>	<b>701</b>	<b>21,061</b>	<b>20,255</b>	<b>4%</b>
<b>Increase/(decrease) in net assets before transfers and other sources</b>	<b>3,454</b>	<b>2,984</b>	<b>1,563</b>	<b>1,462</b>	<b>5,017</b>	<b>4,446</b>	<b>13%</b>
Transfers	879	864	(879)	(864)	-	-	
<b>Change in net assets</b>	<b>4,333</b>	<b>3,848</b>	<b>684</b>	<b>598</b>	<b>5,017</b>	<b>4,446</b>	<b>13%</b>
Net assets - beginning of year	36,561	32,713	11,349	10,751	47,910	43,464	10%
<b>Net assets - end of year</b>	<b>\$ 40,894</b>	<b>\$ 36,561</b>	<b>\$ 12,033</b>	<b>\$ 11,349</b>	<b>\$ 52,927</b>	<b>\$ 47,910</b>	<b>10%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Governmental Activities

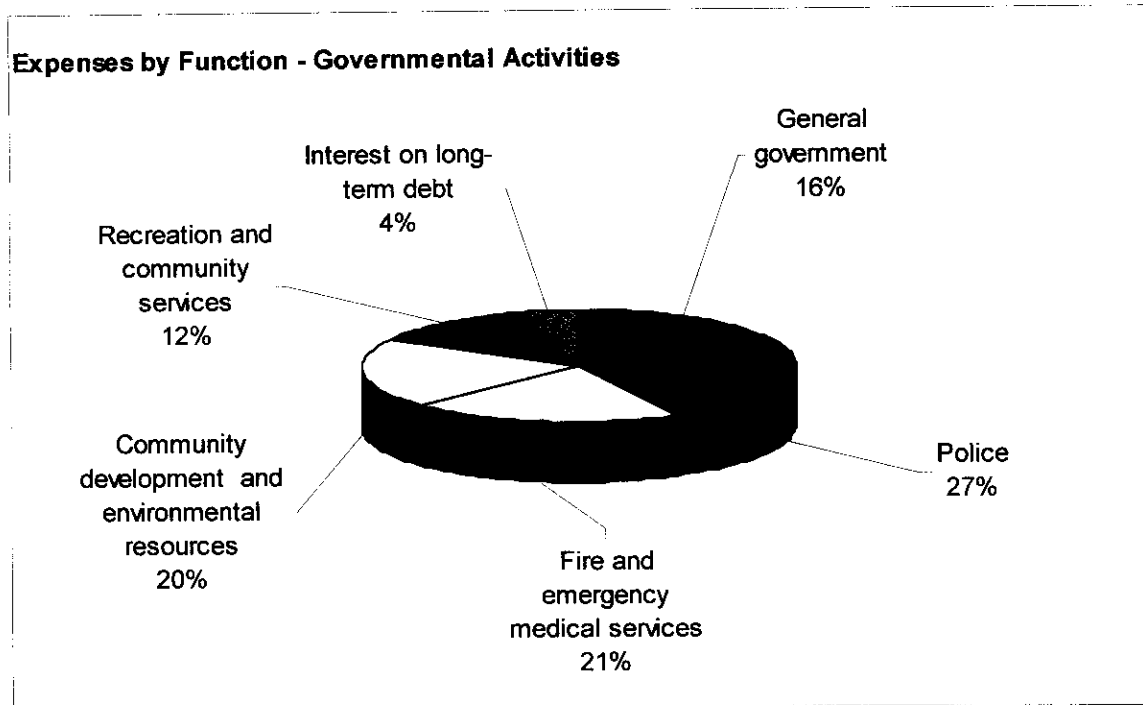
Net assets of governmental activities increased \$4,333,000 in fiscal year 2007-08. An increase in net assets occurs when revenue exceeds expenditures or when capital assets are acquired utilizing revenues received in the current year, and the cost of the acquired asset is to be expensed over the useful life of the asset.

The largest revenue source is property taxes; they increased 4 percentage points over the prior year, and are now 47% of total revenue. This increase in proportionate revenue share is due to the increase in the property tax rate of .0405%, to service the principal and interest payments on the Civic Center Improvement and General Obligation Bonds issued during the year. The additional tax revenue totaled \$717,000.



The chart of revenues by source above, illustrates that property taxes are the largest source of operating revenue for the City. It is also one of the most stable and consistent growth revenues. Property taxes, at 47% of revenue, include the safety pension override tax, special district assessments, and bonded indebtedness, as well as the City's share of the 1.0% countywide tax. Franchise and other taxes are the second largest source of operating revenue, representing 17% of total revenues. Major components of this revenue category are: business license, property transfer taxes, utility user taxes, race track taxes, garbage collection franchise fees and cable TV transmission franchise fees. Property transfer taxes composed 29% of this revenue category. Property transfer taxes declined from \$1,457,000 for fiscal year 2006-07 to \$1,185,000 for fiscal year 2007-08, a decrease of 20%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS



The chart of expenses graphically portrays the relative proportion of expenditures by function, as listed in the summary statement on page A9 and the Statement of Activities and Changes in Net Assets Statement on page B2. The percentages for all expense categories are comparable to prior year except for the Community Development and Environmental Resources Department. Expenses for this department represent 20% of the total expenses, down from 26% in the prior year. The decrease is due to completion of the Codornice Creek Restoration Phase II project in prior fiscal year. Majority of the restoration costs incurred during fiscal year 2006-07.

### Business-type Activities

The increase in business-type activities net assets of \$684,000 represents activity in the Sewer Enterprise Fund. The principal source of revenue of \$1,987,000 for this fund is charges for usage, and users are assessed on the basis of equivalent residential units (ERU). The assessment for this fiscal year was \$269.52/ERU, an increase of 6.34% over the prior year rate. Earnings on investments decreased from \$325,000 to \$262,000 as a result of lower earnings rate of LAIF (Local Agency Investment Fund). Bond interest expense and major maintenance expenses are recorded in this fund. Routine sewer operating and maintenance expenses are recorded in the General Fund, and net transfers of \$879,000 were made from the Sewer Fund to the General Fund to cover these expenditures.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure compliance with legal and grantor requirements and restrictions on expenditures of funds. The fund basis financial statements presented in this report demonstrate the City's compliance with financial restrictions, and they allow users of the statements to separately analyze individual funds. The City maintains three types of funds: Governmental, Proprietary and Fiduciary.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Governmental Funds

Activity of the Governmental funds is summarized in the following table (the full statement is located on page B4):

**Governmental Funds**  
**Revenues, Expenditures and Other Changes in Fund Balances**  
**For the Fiscal Year Ended June 30, 2008**  
 (thousands)

	General Fund	Other Major Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 13,878	\$ 992	\$ 8,989	\$ 23,859
Current expenditures	14,964	20	3,409	18,393
Capital outlay	-	2,526	1,806	4,332
Debt service	-	-	1,211	1,211
	<u>14,964</u>	<u>2,546</u>	<u>6,426</u>	<u>23,936</u>
Net transfers & debt proceeds	1,263	11,500	(788)	11,975
Net change in fund balances	177	9,946	1,775	11,898
Fund balances, beginning of year	4,602	4,808	12,239	21,649
Fund balances, end of year	<u>\$ 4,779</u>	<u>\$ 14,754</u>	<u>\$ 14,014</u>	<u>\$ 33,547</u>

The focus of the City's governmental funds is to provide information on cash near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2008, the City's combined governmental funds reported an ending fund balance of \$33,547,000, an increase of \$11,898,000 from the prior year. The increase was primarily resulted from bond issuance of \$11,500,000. Two general obligation bond issuances took place during the year for \$5,000,000 and \$6,500,000, respectively. The proceeds are restricted for the City Hall Retrofit project and various other capital projects. More discussion about these bonds is presented below. Of the \$33,547,000 fund balance: \$1,169,000 is reserved for prepaid expenses and long-term receivables (notes receivable and advances to the Redevelopment Agency), \$23,800,000 is reserved to fund capital projects, \$1,238,000 is reserved for debt service, \$4,131,000 has been designated for specific purposes or is held in special revenue funds, and unreserved fund balances are a net of \$3,209,000.

The General Fund is the principal operating fund of the City. At June 30, 2008, the total fund balance was \$4,779,000, of which \$3,209,000 was unreserved and undesignated. The unreserved-undesignated fund balance serves as an operating reserve, and as such, it is important that it is maintained at an appropriate level in relationship to annual operating expenditures. The unreserved-undesignated fund balance increased by \$27,000 over the prior years balance, and it was 21% of General Fund expenditures. Current year surplus contributed to the increase in fund balance.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Other Major Funds are: 2003 General Obligation Bond Fund, Civic Center Improvement Bond Fund, and the General Obligation Bond II Fund. Descriptions of these funds are provided at Page D44. The designation as a major fund is based upon a fund having either assets, liabilities, revenues or expenditures equal to or greater than 10% of their fund type total or 5% of the grand total of all funds. Funds designated as major funds in fiscal year 2007-08 differ from those of fiscal year 2006-07; thus, comparisons to the prior year funds are not meaningful.

The 2003 General Obligation Bond Fund, commonly referred to as Measure F, had expenditures of \$2,545,000 for various projects. At June 30, 2008 the fund remained a fund balance of \$2,820,000, which is fully committed to current capital projects.

The Civic Center Improvement Bond Fund is a new capital projects fund created during fiscal year 2007-08. This fund was used to record debt proceeds of \$5,000,000, which the funds will be used for the civic center improvements. In addition, the interest earnings from the proceeds were recorded in this fund. The fund balance was \$5,189,000 at the end of the fiscal year.

The General Obligation Bond II Fund is another new capital projects fund created during fiscal year 2007-08. This fund was used to record debt proceeds of \$6,500,000, which will be used for the civic center improvements and various other capital projects. Interest earnings from the proceeds were recorded in this fund. The fund balance was \$6,746,000 at the end of the fiscal year.

Other Governmental Funds are a combination of 38 funds that are scheduled at pages D8 through D52.

### Proprietary Funds

At June 30, 2008, net assets of the Sewer Fund (an enterprise fund) were \$12,033,000 and net assets of the internal service funds were \$255,000. The Sewer Fund net assets increased \$684,000 over their balance at June 30, 2007. The increase was attributed to excess revenues over expenses and transfers. Total revenues increased by 6% and expenses decreased by 2% over prior year. Because the Sewer Fund is an enterprise fund, its fund balance largely represents capital assets, not assets that are available for future expenditures. The unrestricted fund balance is \$2,606,000, and it is planned that these funds will be utilized in completion of a five-year plan for renovation of the sewer system.

The internal service funds consist of the following four funds:

- Community Development Reserve Fund
- Workers' Compensation Claims
- General Insurance Retention
- Compensated Absences Reserves

The Community Development Reserve Fund is used to fund replacement costs for public works and park equipment. The Workers Compensation and General Liability Funds are funded by transfers from the General Fund that are based upon actuarial estimates of future claims expenses, and are fully funded at the end of the year. The Compensated Absence Fund is funded by transfers from the General Fund, based an actual recorded vacation, compensatory time and sick leave. The accrued benefits were fully funded at the end of June 30, 2008. Cash and investments held in these funds were \$3,602,000 at June 30, 2008.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Fiduciary Funds

The major fiduciary fund maintained by the City is the Police and Fire Relief or Pension Fund. The net assets of this fund totaled \$12,413,000 at June 30, 2008, a decrease of \$2,479,000 from the prior year. The decrease is the result of depreciation in fair value of investments. As discussed in Note 12 of the financial statements, the projected liability for future pension payments exceeds actuarial value of plan assets.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The original Fiscal Year 2007-08 budget was adopted in June 2006 as the second year of a two-year budget. The budget was amended during fiscal year 2007-08. The budget projected an excess of resources over charges to appropriations of \$27,000. The table below summarizes the variances between budget and actual results for the year ended June 30, 2008.

**General Fund Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2008  
(thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final Budget</u>
<b>Beginning fund balances, July 1, 2007</b>	\$ 4,550	\$ 4,602	\$ 4,602	\$ -
<b>Resources:</b>				
Revenues	12,845	13,067	13,878	811
Transfers in	2,931	2,831	3,038	207
<b>Total Resources</b>	<u>15,776</u>	<u>15,898</u>	<u>16,916</u>	<u>1,018</u>
<b>Appropriations:</b>				
Expenditures	16,063	15,264	14,964	(300)
Transfers out	102	607	1,775	1,168
<b>Total Appropriations</b>	<u>16,165</u>	<u>15,871</u>	<u>16,739</u>	<u>868</u>
<b>Resources over (under) appropriations</b>	<u>(389)</u>	<u>27</u>	<u>177</u>	<u>150</u>
<b>Ending fund balances, June 30, 2008</b>	<u>\$ 4,161</u>	<u>\$ 4,629</u>	<u>\$ 4,779</u>	<u>\$ 150</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Transfers

Transfers in to the General Fund are generally made to match restricted revenue with related costs that have been recorded in the General Fund. An example of this type of transfer is the special assessment revenue for EMS (Emergency Medical Services) that is used to pay wages of firefighters/paramedics. Transfers out of the General Fund are most frequently made to fund reserves or to provide for capital expenditures that have been recorded in capital project funds.

Actual transfers to other funds were above budget by \$1,168,000. There were transfers to capital projects funds and special revenue funds of \$960,000 for future equipment replacement, acquisition of a permanent maintenance center, and funding of waterfront planning activities. In addition, a transfer was made to the Compensated Absences Reserve Fund for \$209,000, to fully fund the accrued vacation and sick leave at June 30, 2008.

### Operating Variances

The City experienced positive results for the year in a comparison of actual resources and appropriations to the budget. The budget projected a net increase in fund balance of \$27,000, but the actual results were a net increase of \$177,000, a positive variance of \$150,000.

Total revenues exceeded budget by \$811,000. The major components of this budget variance were:

- Property taxes exceeded budget by \$201,000, as increases in assessed values and reassessments of properties due to improvements and change of ownership were greater than projected in the budget.
- Franchise and other taxes exceeded budget by \$191,000. All of the major components: property transfer taxes, telephone and gas utility user taxes, racetrack taxes, and Cable TV franchise fees generated revenue above the budgeted amounts.
- Earnings on investments exceeded budget by \$129,000, largely due to the maintaining of larger than projected cash balances in investment accounts during the year.
- Other revenue exceeded budget by \$122,000, the major items exceeding the budget were the school resource officer and fire strike team reimbursements.

Total expenditures were under budget by \$300,000, largely due to savings from salaries and benefits for vacant positions. Salaries were \$151,000 below budget, fringe benefits were \$58,000 below budget, and overtime expenditures were \$40,000 below budget. These savings resulted from vacant salaried positions that existed during the year in the Police and Community Development and Environmental Resources Departments. Overtime savings were from the Police and Fire Departments.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Detailed information regarding composition and activity in capital assets is provided in Note 5 to the financial statements. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounted to \$41,206,000 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings,

## MANAGEMENT'S DISCUSSION AND ANALYSIS

furniture and fixtures, machinery and equipment, vehicles, streets, highways, drainage systems, and construction in progress.

Major events affecting capital assets during the current fiscal year included the following:

- Additions to Oceanview Park, Memorial Park and Terrace Park improvements totaled \$2,062,000. These park projects were completed during the year.
- Addition to construction in progress for City Hall Retrofit project amounted \$925,000.

### Capital Assets, Net of Accumulated Depreciation June 30, 2008 and 2007 (thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land and construction in progress	\$ 14,553	\$ 11,203	\$ -	\$ -	\$ 14,553	\$ 11,203
Facilities, infrastructure, and equipment, net	14,052	13,736	12,601	12,495	26,653	26,231
<b>Total</b>	<b>\$ 28,605</b>	<b>\$ 24,939</b>	<b>\$ 12,601</b>	<b>\$ 12,495</b>	<b>\$ 41,206</b>	<b>\$ 37,434</b>

Additional information about the City's capital assets can be found in Note 5 to the financial statements.

### Long-term Debt

At June 30, 2008, the City had total long-term debts and obligations as summarized below.

### Outstanding Long-term Obligations June 30, 2008 and 2007 (thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
1997 Refunding COPS	\$ 1,590	\$ 1,965	\$ -	\$ -	\$ 1,590	\$ 1,965
2003 general obligation bonds	7,385	7,550	-	-	7,385	7,550
Civic Center Improvement general obligation bonds	5,000	-	-	-	5,000	-
General obligation bonds II	6,500	-	-	-	6,500	-
Sewer revenue bonds	-	-	7,567	7,878	7,567	7,878
Unamortized bond premium	301	-	-	-	301	-
Other long-term obligations	750	750	-	-	750	750
<b>Total</b>	<b>\$ 21,526</b>	<b>\$ 10,265</b>	<b>\$ 7,567</b>	<b>\$ 7,878</b>	<b>\$ 29,093</b>	<b>\$ 18,143</b>

The City issued Sewer Revenue bonds in the amount of \$8,675,000 in September 2004. The bond proceeds were used for defeasance of outstanding bonds of \$2,750,000, and the balance will be used for major sewer rehabilitation and replacement projects over the next



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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four years. Additional information about the City's long-term debt can be found in Notes 6, 7 and 8 to the financial statements.

In November 2002, voters passed Measure F to authorize the issuance of \$14.5 million of general obligation bonds. The first issuance of \$8 million took place in fiscal year 2003. In November 2006, voters also passed Measure C to authorize the issuance of \$5 million of general obligation bonds. The Measure C bonds and the remaining \$6.5 million Measure F bonds were issued in August 2007. The proceeds from both issuances will be used for various capital facilities as approved by the voters of the City.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City of Albany is a full-service city, responsible for providing most of the essential services required by its citizens. The City's abilities to provide high level of services to its citizens requires the support of a stable revenue stream and consistent revenue growth over time. While the City's economic health is tied to the state and the nation's economy, the economic fluctuations for the City have been moderate, and we expect them to continue to be moderate.

The City's major revenues include property taxes, sales taxes, and property transfer taxes. The growth of these tax revenues depends on the well being of the overall economy. The economy's impacts on these three revenue sources are discussed below. The State currently has a budget deficit and there is no solution in sight. In the past, the State has taken revenues from cities to balance its budget; however, passage of Proposition 1A in 2004 has limited the State's abilities to redirect local revenues, but it can still borrow funds from local governments under certain conditions, and those conditions exist at this time.

The State has ordered a redistribution of redevelopment district tax increment revenue for fiscal year 2008-09, and this will mean the loss of \$30,000 to the Albany Reinvestment Agency. If the State chooses to borrow other local revenue, such as property or sales taxes, to balance its budget, it will have a negative effect on the City's fiscal year 2008-09 and 2009-10 budgets. The recent meltdown in the financial market caused by the subprime mortgage and credit crisis has a substantial impact on the City's investment earnings, but this City has not lost principal in its General Fund investments.

The investments held in the City's Police & Fire Pension Fund have suffered major declines and the Plan has gone from being funded to having an unfunded liability of approximately \$1,319,000 at September 30, 2008. The City will have to resume contributions to the Plan in fiscal year 2009-10, but these contributions will come from the Pension Override Tax, and will not impact the General Fund.

Property tax is the City's largest revenue source and we expect it to continue to grow at a rate of two to three percent per year, which is significantly below the six to eight percent growth experienced in recent years. For the budget year 2008-09, the General Fund property tax revenue is projected to grow 2% over the fiscal year 2007-08 actual revenue. Some counties in the state, including Alameda County, may experience declining property tax revenue as a result of reduced appraised value of homes sold in the last five years. The decline in property values has been moderate in Albany, but the possibility exists that overall county declines could affect the allocation of property taxes to Albany. Home foreclosures are at all time highs in California, but Albany has seen only moderate increases in foreclosure activity, and while property sales are likely to remain below the average of recent years, severe price declines are not projected.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Sales tax is the third largest revenue source for the City. Albany has consistently outperformed surrounding cities in sale tax generation in the past. However, the City is likely to generate less sales tax due to the gloomy economy and cutback from consumer spending. We have reduced the fiscal year 2008-09 projection to 92% of the fiscal year 2007-08 actual revenue.

Property transfer tax is part of the franchise and other taxes category, which is the second largest revenue source for the City. The number of home sales in the first quarter of 2008-09 was 43, down from 64 in the same quarter in fiscal year 2007-08. The first quarter revenue decreased 40% over prior year's revenue for the same period. We have revised the projection to \$860,000 from the budgeted amount of \$1,165,000 for fiscal year 2008-09 to reflect the current housing market condition.

CalPERS, the state administered retirement system, to which Albany belongs, has incurred significant losses in its investment portfolio in 2008, and had negative earnings in the third quarter. These losses will almost certainly result in increases in required employer contributions for all CalPERS plans. CalPERS has projected increases ranging from .1% to 5.0% of payroll in fiscal year 2011-12. Albany has chosen to maintain its retirement benefits at levels that can be sustained by reasonably expected growth in revenues, and it has chosen to use excess revenues to reduce its unfunded retirement plan liabilities. As a result, the City will be better able to absorb the increase in costs, but planning for the increased costs will have to begin in the fiscal year 2009-10 budget, in order to avoid a budget crisis in 2011-12.

Labor agreements expire March 2009 for administrative employees, October 2009 for Police and December 2010 for Fire/Paramedics. There are no wage re-openers in the agreements and the City expects to be able to absorb the scheduled wage increases. Increases in the costs of medical care benefits remain a matter of concern, but the announced increases for fiscal year 2008-09 are within the City's budget provisions.

The City has no unfunded obligations for post employment benefits.

Renovation of the City Hall, Police Department and Fire Station began during this fiscal year, and the project is expected to be complete in late 2009. City administrative and safety services have been relocated to temporary locations. Current projections are that construction and relocation costs will be within the approved budget.

### REQUESTS FOR INFORMATION

This financial report is designed to provide a comprehensive and understandable portrayal of the City's finances, and to fulfill the City's financial accountability to Albany citizens, governmental entities, and other interested parties. This report is available on the City's website at: <http://www.albanyca.org>, click Departments, Finance, Financial Reports. Questions about this report, requests to purchase printed or computer disk copies of this report, and requests for separate financial statements for the Albany Community Reinvestment Agency, and the City of Albany Police and Fire Relief or Pension Fund may be addressed to:

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