CITY OF ALBANY
ALAMEDA COUNTY
ALBANY, CALIFORNIA

MEASURE F VRF FUND

Audited Financial Statements &
Independent Auditor's Report
June 30, 2019

Chavan & Associates, LLP
Certified Public Accountants
1475 Saratoga Ave, Suite 180
San Jose, CA 95129

CITY OF ALBANY
Measure F VRF Fund
For the Fiscal Year Ended June 30, 2019

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FINANCIAL SECTION

CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure F Alameda County Vehicle Registration Fee Fund (Measure F VRF Fund) of the City of Albany, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure F VRF Fund of the City, as of June 30, 2019, and the respective changes in financial position and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 2, the financial statements present only the Measure F VRF Fund and do not purport to, and do not, present fairly the financial position of the City of Albany, as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2019 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 grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance in relation to the Measure F VRF Fund.

C & A LLP

December 16, 2019
San Jose, California

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CITY OF ALBANY
Measure F VRF Fund
Balance Sheet
June 30, 2019

Assets		
Cash and investments	$	172,207
Accounts receivable		20,030
Total Assets	$	192,237
Fund Balance		
Restricted for capital projects	$	192,237
Total Fund Balance	$	192,237

The notes to the financial statements are an integral part of this statement.

CITY OF ALBANY
Measure F VRF Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2019

Revenues	
Measure F vehicle registration fees	$ 77,574
Total Revenue	77,574
Expenditures	
General government	1,294
Capital outlay	35,571
Total Expenditures	36,865
Net Change in Fund Balance	40,709
Fund Balance Beginning	137,114
Prior Period Adjustment	14,414
Fund Balance Beginning - Adjusted	151,528
Fund Balance Ending	$ 192,237

The notes to the financial statements are an integral part of this statement.

NOTE 1 - MEASURE F VEHICLE REGISTRATION FEE PROGRAM

The Measure F Alameda County Vehicle Registration Fee (VRF) Program was approved by the voters in November 2010, with 63 percent of the vote. The fee will generate about $10.7 million per year by a $10 per year vehicle registration fee. The collection of the $10 per year vehicle registration fee started in the first week of May 2011.

The goal of the VRF program is to sustain the County's transportation network and reduce traffic congestion and vehicle related pollution. The program includes four categories of projects:

- Local Road Improvement and Repair Program (60 percent)
- Transit for Congestion Relief (25 percent)
- Local Transportation Technology (10 percent)
- Pedestrian and Bicyclist Access and Safety Program (5 percent)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

All transactions of the Measure F Alameda County Vehicle Registration Fee Fund ("Measure F VRF Fund") of the City of Albany, California (the "City") are included as a separate special revenue fund in the financial statements of the City. The Measure F VRF Fund is included as part of the State Construction and Maintenance Fund in the basic financial statements of the City. The Fund is used to account for the City's revenues earned and expenditures incurred under the City's various street maintenance and construction projects. The accompanying financial statements are for Measure F VRF Fund only and are not intended to fairly present the financial position or results of operations of the City.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting. The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources, are generally included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance for the Measure F VRF Fund presents increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Revenues - Exchange and Non-exchange Transactions

On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year to achieve comparability of reporting current periods. For this purpose, revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Sales taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

Expenditures

On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

C. Assets, Liabilities, and Equity

1. Cash, Cash Equivalents, and Investments

Cash balances held in banks and in revolving funds are insured to $250,000 by the Federal Deposit Insurance Corporation.

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Deposit and Investment Risk Disclosures - In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures* (Amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas:

- Interest Rate Risk
- Credit Risk
    - Overall
    - Custodial Credit Risk
    - Concentrations of Credit Risk

Other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as to change in interest rates.

2. Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

3. Fund Balance Policy and Classifications

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

- Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.

- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Committed fund balances are imposed by the City's Council.

- Assigned includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) City Council or (b) a body (a budget, finance committee, or management (City Wide Leadership team, which consists of City Manager and Executive Department Heads)) to which the assigned amounts are to be used for specific purposes. The City Council adopted Resolution No. 2012-2 that delegated this authority to the City Manager. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) other than the General Fund, that are not classified as non-spendable, restricted, or committed.

- Unassigned includes positive fund balance that has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then use unrestricted resources as needed. When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order: committed, assigned, and unassigned.

4. Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - CASH AND INVESTMENTS

Summary of Cash and Investments

The Measure F VRF Fund's cash and investments are pooled with the City's cash and investments in order to generate optimum interest income.

A summary of deposits as of June 30, 2019, is as follows:

	Vehicle Registration Fee Fund
Cash in City Treasury	$ 172,207

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The City has the following recurring fair value measurements as of June 30, 2019:

- California Local Agency Investment Fund (LAIF) of $2,189,624; were invested in accordance with Government Code Sections 16430 and 16480, the stated investment authority for the Pooled Money Investment Account and are not required to be categorized using the levels above as deposits and withdrawals are made on the basis of $1 and not fair value.

California Local Agency Investment Fund

The City participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities, defined as follows:

- 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 Collateralized Mortgage Obligations) or credit card receivables.

LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

LAIF allows local agencies such as the City to participate in a Pooled Money Investment Account managed by the State Treasurers Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value.

The total amount invested by all public agencies in LAIF, as of June 30, 2019, was approximately $106 billion. Of that amount, 99.26% is invested in non-derivative financial products and 0.74% in structured notes and asset-backed securities. The balance in LAIF is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

Investment Policy

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptance	180 days	40%	10%
Commercial Paper	270 days	15%	10%
Medium - Term Notes	One year	15%	5%
Money Market Mutual Funds	None	None	None
Repurchase Agreements	7 days	None	None
Local Agency Investment Fund (LAIF)	None	None	None
Investment Trust of California (CalTrust)	None	25%	None
Negotiable Certificates of Deposits	One year	15%	None

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the fluctuation in fair value of investment due to changes in interest rates. The City's exposure to losses caused by rising interest rates is minimized by limiting the average maturity of the City's investment not to exceed five years.

Credit Risk

Credit risk is the risk of loss of value of a security or investment due to downgrade of its rating due to a change in the ability of the issuer to fulfill its debt obligation. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution to reduce the City's exposure to credit risks.

Custodial Credit Risk – Deposits

The custodial credit risk for an investment is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. City investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are, therefore, exempt.

OTHER INDEPENDENT AUDITOR'S REPORTS

CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure F Alameda County Vehicle Registration Fee Fund (Measure F VRF Fund) of the City of Albany as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Measure F Alameda County Vehicle Registration Fee Fund (Measure F VRF Fund) financial statements, and have issued our report thereon dated December 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and recommendations*, we identified certain deficiencies in internal control that we consider to be material weaknesses: see findings 2019-001, 2019-002, and 2019-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Albany's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

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opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

December 16, 2019
San Jose, California

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Finding 2019-001 Financial Closing and Reporting (Material Weakness)

***Condition*:** During our audit, we noted that several accrued balances did not agree to supporting subledgers. We also noted that the City did not perform reconciliations of accounts receivable, accounts payable, and accrued wages and salaries. Subsidiary ledger reports provided for the audit did not agree to the City's trial balance.

Criteria: The City's management is responsible for the fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). In addition, having an effective internal control system over financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

***Effect*:** The City was not able to properly complete the closing process and analyze subledger accounts to ensure their agreement with the trial balance. The control deficiency caused the City to not be able to sufficiently determine the composition and nature of account balances in the general ledger and clear out incorrect entries and balances.

***Cause*:** When the City transitioned to Munis, the rollover from the old accounting system included balances that were not properly cleared. Also, during the year, the City had several changes in key personnel who needed training with the new Munis accounting system being implemented.

***Recommendation*:** We recommend that the City update its risk assessment process and business continuity planning to identify potential unusual circumstances that would result in significant delays in financial closing and reporting, and develop policies and procedures to prevent or mitigate the effects of these circumstances when they occur. The City should provide cross training of finance staff to ensure continuity during the financial reporting process and audit in case the City experience turnover in key finance positions. The City should also develop and implement formal written policies over significant accounts that include the timely reconciling of accounts to activity reported in related subsidiary ledgers. Key personnel should be trained to recognize errors in the accounting records in order to prevent, or detect and correct them in a timely manner.

City's Response: The City agrees with the auditor's recommendations. The Finance Department underwent significant staffing changes, in key financial position, in fiscal year 2018-19. The City had recently hired a new permanent Finance Director who is currently working to establish recommendations made by Chavan & Associates. The City also hired a CPA consultant to help implement recommendations. The City had also sought the assistance of representatives from the Munis accounting software to analyze and assist in correcting and clear erroneous entries in the accounting system due to the transition to the new Munis system. Account balances have since been corrected and reconciled to subsidiary ledgers.

Finding 2019-002 Cash and Investments (Material Weakness)

***Condition*:** During the performance of our audit, we noted that bank reconciliations were not properly prepared to agree with the City's trial balance for the respective cash and investment accounts. Also, we noted that the City did not perform timely reconciliations for all their cash and investment accounts as needed.

Criteria: The City's management is responsible for the fair presentation of financial statements, and to ensure their conformity with accounting principles generally accepted in the United States of America. In addition, an effective internal control system over cash and investments includes frequent and timely reconciliation of account balances to information provided by the respective financial institutions.

***Effect*:** The City's cash and investment balances did not properly agree to information from financial institutions and certain accounts were not properly adjusted to the correct balance as needed. Variances between the City's trial balance and information from financial institutions were not properly accounted for.

Cause: During the period under audit, the City went through a transition phase of a new accounting system and new key personnel with significant roles in the City's financial reporting and closing process. The City was not able to perform all the bank reconciliations timely as there was a lack of cross training in place to ensure continuity of the process. The City also incorrectly setup the new financial system for cash reconciliations, which resulted in manual journal entries being prepared to correct for known variances.

***Recommendation*:** We recommend that the City develop formal written policies over cash and investments that include the timely reconciliation of all accounts, to include cash and investment accounts reported in each fund. Book balances on the reconciliations should properly agree with the City's trial balance without unusual reconciling items or adjustments.

City's Response: The City agrees with the auditor's recommendations. The Finance Department underwent significant staffing changes in fiscal year 2018-19. The City is currently in the process of making improvements and brought on additional personnel. During that time, staff focused on the priorities of learning the ERP system. The City also hired a CPA consultant to help implement these recommendations and reconcile beginning cash balances for all funds.

Finding 2019-004 Beginning Balances (Material Weakness)

Condition: During our performance of the City's audit, we were unable to obtain evidence to substantiate the accuracy of beginning account balances, such as reconciliations, listings, or other schedules that agree to the beginning balances of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance.

Criteria: The City's management is responsible for the fair presentation of financial statements, and to ensure their conformity with accounting principles generally accepted in the United States of America. A good internal control system for financial reporting requires that beginning balances for accounts, such as cash and investments, accounts receivable, accounts payable, fund balance, and other, should be supported by supporting schedules and reconciliations.

***Effect*:** The City was not able to substantiate the beginning fund balance reported in the financial statements, and as a result, ending balances were not properly presented.

***Cause*:** When the City transitioned to Munis, the rollover from the old accounting system included balances that were not properly cleared. Also, during the year, the City had several changes in their key personnel who needed training with the new Munis accounting system being implemented. In addition, due to the City's recent implementation of the new Munis financial software, formal written accounting policies and procedures related to the system were not yet developed.

***Recommendation*:** We recommend the City develop formal written policies over significant accounts that include the timely reconciling of accounts to activity reported in related subsidiary ledgers. The City should consider further training of the new financial system to determine whether reports needed to analyze account balances can be generated or develop procedures to analyze the accounts. The City should work with representatives from the new accounting system to adjust or clear out erroneous beginning balances that should have been cleared from the system.

***City's Response*:** The City is aware of the beginning balance issue and has hire a CPA consulting firm to reconcile beginning balances. The City has also consulted with Munis representatives to assist in cleaning up erroneous entries and balances due to the transition into the new Munis system. The work performed by the CPA consultants was a thorough analysis of all major accounts and the proper allocation of cash balances for all funds.

Finding 2018-001 Financial Closing and Reporting (Material Weakness)

Status**:** Not implemented, see Finding 2019-001.

Finding 2018-002 Cash and Investments (Material Weakness)

Status**:** Not implemented, see Finding 2019-002.

Finding 2018-004 Beginning Balances (Material Weakness)

Status**:** Not implemented, see Finding 2019-004.

Finding 2018-005 - Payroll Master File (Significant Deficiency)

Status**:** Implemented.