MORAGA-ORINDA FIRE DISTRICT
FINANCE FACT SHEET – PENSION OBLIGATION BONDS

In October of 2013, during a routine review of the District's balance sheet, District staff discovered a series of accounting errors that began in 2005, when the District issued pension obligation bonds purchased by Lehman Brothers. In 2008, when Lehman Brothers went bankrupt, the bonds were liquidated and purchased by Citibank.

The bond issuance was complex and unusual because the issuance was a taxable private placement with Lehman Brothers, rather than a public offering. The bond issuance requires the Contra Costa County Auditor-Controller to annually transfer to Wells Fargo Bank from the apportionment of property taxes due to the District, money to pay for the District's debt service obligation on the bonds. Wells Fargo Bank holds this money in a Bond Fund account for the District. The District recorded the money held in the Bond Fund account as unrestricted funds from 2005 to 2012.

When District staff discovered this issue, a number of bond experts were consulted and a meeting was held with Wells Fargo Bank to determine if the money could be liquidated by the District or if it was indeed restricted. Based on this meeting, staff determined the deposit should be recorded as restricted. This decision is also supported by generally accepted accounting principles and Governmental Accounting Standards Board Statement No. 54.

In October of 2013, the correction was made. The District's audited financial statements as of June 30, 2013 reflect this correction. As of June 30, 2013, the District's General Fund had a negative unassigned fund balance of $103,719. This deficit will need to be recovered from future years' revenues.

The District is committed to financial sustainability and providing transparent financial information to the public that conforms to generally accepting accounting principles.

MORAGA-ORINDA FIRE DISTRICT
Q & A FACT SHEET – PENSION OBLIGATION BONDS

What happened with the Pension Obligation Bonds?

District staff determined that $2 Million was incorrectly recorded as unrestricted money and should have been recorded as restricted. This means that the money cannot be used for the General or Capital Projects Fund and must remain unspent until the pension obligation bonds are paid-in-full in 2022. Once the debt service is complete, the District will receive the money back.

Who is to blame?

It is difficult to assign blame because the bonds issued were an unusual, complex transaction. It was only because of District staff's background as an auditor and CPA, that the problem was discovered. Several different administrations and auditors considered the money unrestricted.

Why wasn't the District following GASB 54?

Governmental Accounting Standard Board Statement No. 54 was partially implemented in 2011. The District is now fully-compliant with GASB 54.

Would the District have discovered this sooner if they had fully implemented GASB 54?

Yes, this is likely.

Was anything illegal happening?

No.

What is the District doing to fix the accounting issue?

The District promoted a new Fire Chief in July and hired a new Administrative Services Director in August. They have corrected the accounting error and implemented correct accounting practices. The Board of Directors adopted a new GASB 54 compliant Fund Balance Policy on November 6, 2013.

What happened to the District's financial situation?

Several issues have negatively affected the District's financial situation. 1) The economic downturn negatively impacted District revenue; 2) District retirement costs have increased and will continue to increase next fiscal year; 3) The $2M pension obligation accounting issue negatively affected the District's General Fund.

What is the District doing to fix the financial situation?

In response to the District's significant deficit, on October 16, 2013 the Board directed the Fire Chief to reduce minimum daily staffing. Subsequently the meet and confer process with Local 1230 was completed. The reduction in minimum daily staffing will commence in early November 2013. This staffing change is projected to save $550,000 in fiscal year 2013-14 and $876,000 in fiscal year 2014-15.

In addition, the District is taking a hard look at all expenditures. The District has reduced administrative staff, implemented a more efficient staffing model and eliminated some costs.