



MORAGA-ORINDA FIRE DISTRICT
MEMORANDUM

TO: The Finance Committee
FROM: Gloriann Sasser, Administrative Services Director
DATE: October 29, 2013
SUBJECT: Item 3.2 – Fiscal Year 2012-13 Financial Statements and Auditor Reports on Internal Control

Background

Annually the District is responsible to prepare financial statements. The financial statements are audited by a certified public accountant. The District's Administrative Services Division has prepared the financial statements for fiscal year 2012-13. The financial statements have been audited by Cropper Accountancy Corporation (CAC). CAC has also prepared a Communication Report on Internal Control Related Matters and a required Auditor's Communications.

During preparation of the financial statements, staff identified material accounting issues related to the District's pension obligation bonds, which were issued in 2005. The District's bond issue was a complex taxable pension obligation bond issuance in which Lehman Brothers Inc. was the sole purchaser of the bonds. The accounting issues identified were further complicated by the bankruptcy of Lehman Brothers in 2008.

As part of the bond issuance, the District entered into two agreements with Wells Fargo Bank. The agreements resulted in the establishment of two accounts with Wells Fargo Bank: a Bond Fund account and a Depository account. As of June 30, 2013, the Bond Fund account balance was \$2,037,710 and the Depository account balance was \$503,088. To date, the District has recorded both accounts as unrestricted cash and investments in the General Fund.

Based on review of the two agreements and review of the Wells Fargo Bank statements, it was determined additional information was needed to determine whether the accounts are legally restricted under the terms of the agreements or whether the accounts are available for general District use. Several people were consulted including CAC, Wells Fargo Bank, District General Counsel and specialized bond counsel.

Based on the consultations, it was determined the Bond Fund investments are legally restricted and the Depository account investments are available for general District use. As a result, the Bond Fund investments have been reclassified in the June 30, 2013 financial statements. The Bond Fund investments have been moved out of the General Fund into a Debt Service Fund in order to clearly segregate these restricted funds.

What this says is that there has been a "bond fund" in existence since 2005 and the money in that fund is "restricted" but until now has not been reported as such. That money, essentially, is equal to the next bond debt service. The \$2mm noted above was paid out on 7/1/2013.

In addition, a new governmental accounting standard related to fund balance became effective in fiscal 2010-11 (GASB 54). The new standard required the District to adopt a formal resolution designating fund balances as restricted, committed, assigned and unassigned; as well as the order in which these funds are to be spent. A resolution was never presented to the Board. The required fund balance classifications were not recorded in the District's general ledger.

The District's 2012-2013 financial statements reflect the following:

- A Debt Service Fund has been established in order to clearly segregate the restricted funds for the pension obligation bonds.
- The restricted cash with fiscal agent is recorded in the Debt Service Fund, not the General Fund.
- Beginning fund balance in the General Fund was reduced \$1,874,809 and beginning fund balance in the Debt Service Fund was increased in the same amount.

In addition, a GASB 54 compliant Fund Balance Policy has been developed and is included as a separate item on the meeting Agenda.

Fiscal Year 2012-13 Financial Statements

The fiscal year 2012-13 financial statements include several significant items as follows:

- General Fund expenditures exceeded revenues in the amount of \$1,510,886.
- General Fund expenditures exceeded budget \$801,140.
- The budgeted or planned use of General Fund reserves amount was \$967,701. Actual use of reserves was \$1,510,886. **This used the entire general fund from last year.**
- Due to the significant use of General Fund reserves in 2012-13, at June 30, 2013 an interfund loan was required from the Capital Projects Fund to the General Fund in order to sustain operations in the amount of \$88,391. **They have already started using the capital fund.**
- At June 30, 2013, unassigned fund balance in **the General Fund was in a deficit position of \$103,719** and the Statement of Net Position had an unrestricted deficit of \$2,697,070
- At June 30, 2013, Capital Projects fund balance was \$3,607,437.

Communications on Internal Control and Audit

CAC is required to complete a Communication Report on Internal Control Related Matters and a required Auditor's Communications. The reports recommend the District:

- Establish a balanced budget.
- Adhere to established fiscal policies and procedures.
- Update the OPEB actuarial report.
- Adopt a GASB 54 resolution.
- Establish a strong tone from the top to adhere to policies that are currently in place and mitigate areas that may need to be strengthened.

District Sustainability

Moving forward, the financial statement results of fiscal year 2012-13 have a significant effect on the District. Due to the pension obligation bond accounting issues, fund balance in the General Fund is significantly less than previously reported. In addition, the District used significantly more

General Fund reserves than planned in 2012-13. Finally, the District's Long Range Financial Plan is also negatively affected because it included pension obligation bond restricted funds in the available General Fund fund balance amount.

The CAC internal control communication states the District is on an *unsustainable* fiscal path. The report also notes that subsequent to year end, the District purchased property at a price including fees of \$1,229,571. This amount is 35% of the combined fund balance remaining at June 30, 2013.

The Fiscal Year 2013-14 General Fund Budget projects use of General Fund reserves in the amount of \$950,425. In response to the significant deficit, earlier this month the Board directed the Fire Chief to reduce minimum daily staffing. This reduction is projected to save \$550,000 in fiscal year 2013-14. As a result, the revised deficit projection has been reduced to \$400,425. A formal budget adjustment is recommended in a separate item.

Without additional significant reductions of General Fund expenditures and/or significant increases in revenue, it is projected the General Fund will again be required to borrow from the Capital Projects Fund in fiscal year 2013-14.

Staff Recommendation

- 1) Receive report; 2) Deliberate; 3) Direct Staff to present the FY 2012-13 Financial Statements, Independent Accountants' Report on Internal Control Over Financial Reporting for the Year Ended June 30, 2013 and the Required Auditor's Communications for the Year Ended June 30, 2013 to the Board.

Attachments

- Attachment A – Moraga-Orinda Fire Protection District Basic Financial Statements June 30, 2013.
- Attachment B – Independent Accountants' Communication Report on Internal Control Related Matters for the Year Ended June 30, 2013.
- Attachment C – Required Auditor's Communications for the Year Ended June 30, 2013.