

MOFD Balance Sheet for Fiscal Year Ending June 30, 2015

Assets and Liabilities Bifurcated into Operations and Employee Benefits

	Audited	Revised	note	Change (A)-(B)	Change from 2014	Audited	Revised	note	Change (A)-(B)	Change from 2013	Revised	Change from 2012	Revised	Change from 2011	Revised	Change from 2010	Revised
	Financials FYE 6/30/2015 (A)	Financials Discounted (B)				Financials FYE 6/30/2014 (A)	Financials Discounted (B)				Financials 2013		Financials 2012		Financials 2011		Financials 2010
Consolidated																	
Assets																	
Operations	40,837,381	16,461,842			1,806,536	39,986,513	14,655,306			874,118	13,970,038	(2,545,098)	16,515,136	446,723	16,068,413	588,711	15,479,702
Employee Benefits	0	145,278,032			17,130,241	0	128,147,791			6,216,283	121,931,508	50,690	121,880,818	(1,232,496)	123,113,314	(1,944,983)	125,058,297
Total	40,837,381	161,739,874		(120,902,493)	18,936,777	39,986,513	142,803,097		(102,816,584)	7,090,401	135,901,546	(2,494,408)	138,395,954	(785,773)	139,181,727	(1,356,272)	140,537,999
Liabilities																	
Operations	63,717,455	1,616,926			406,644	30,187,414	1,210,282			(349,248)	1,559,530	89,405	1,470,125	(93,201)	1,563,326	26,265	1,537,061
Employee Benefits	0	204,902,439			(668,898)	0	205,571,337			(7,559,352)	213,130,689	17,772,741	195,357,948	4,476,199	190,881,749	3,332,256	187,549,493
Total	63,717,455	206,519,365		(142,801,910)	(262,254)	30,187,414	206,781,619		(176,594,205)	(7,908,600)	214,690,219	17,862,146	196,828,073	4,382,998	192,445,075	3,358,521	189,086,554
Net Assets / (Liabilities)																	
Operations	(22,880,074)	14,844,916			1,399,892	9,799,099	13,445,024			1,223,366	12,410,508	(2,634,503)	15,045,011	539,924	14,505,087	562,446	13,942,641
Employee Benefits	0	(59,624,407)			17,799,139	0	(77,423,546)			13,775,635	(91,199,181)	(17,722,051)	(73,477,130)	(5,708,695)	(67,768,435)	(5,277,239)	(62,491,196)
Total	(22,880,074)	(44,779,491)			19,199,031	9,799,099	(63,978,522)	8		14,999,001	(78,788,673)	(20,356,554)	(58,432,119)	(5,168,771)	(53,263,348)	(4,714,793)	(48,548,555)
Using market value of pension assets	(22,880,074)	(44,779,491)	9	21,899,417	7,774,674	21,223,455	(52,554,166)		73,777,621	22,792,534	(75,346,700)	(8,181,690)	(67,165,010)	(6,323,465)	(60,841,545)	7,269,870	(68,111,415)
Operations																	
Assets																	
Cash and investments	8,462,405	6,074,199		2,388,206	2,362,084	5,917,736	3,712,115		(2,205,621)	188,850	3,523,265	(3,044,309)	6,567,574	(264,716)	6,832,290	(97,744)	6,930,034
General Fund	1,739,388	1,739,388		0	1,477,074	262,314	262,314	1	0	262,314	0	(3,489,195)	3,489,195	(337,778)	3,826,973	22,576	3,804,397
Capital Fund	3,910,257	3,910,257		0	460,456	3,449,801	3,449,801	1	0	(73,464)	3,523,265	444,886	3,078,379	73,062	3,005,317	(120,320)	3,125,637
Capital Fund (restricted)	424,554	424,554		0	424,554	0	0		0	0	0	0	0	0	0	0	0
Debt Fund (restricted)	2,388,206		11	2,388,206	0	2,205,621		10	(2,205,621)	0	0	0	0	0	0	0	0
Other receivables	1,127,244	749,477	3	377,767	73,896	675,581	675,581	1	0	(167,333)	842,914	79,000	763,914	4,133	759,781	38,141	721,640
Other assets	21,357	21,357		0	(1,801)	23,158	23,158	1	0	(87,008)	110,166	110,166	0	0	0	0	0
Prepaid Items	21,760,333	150,767	4	21,609,566	(163,593)	23,439,946	314,360	2	(23,125,586)	134,941	179,419	77,677	101,742	(25,878)	127,620	12,130	115,490
Capital Assets	9,466,042	9,466,042		0	(464,050)	9,930,092	9,930,092	1	0	615,818	9,314,274	232,368	9,081,906	733,184	8,348,722	636,184	7,712,538
Total Assets	40,837,381	16,461,842	10.1809	24,375,539	1,806,536	39,986,513	14,655,306		(27,536,828)	874,118	13,970,038	(2,545,098)	16,515,136	446,723	16,068,413	588,711	15,479,702
Liabilities																	
Accounts payable	6,151,680	148,610	5	6,003,070	10,322	138,288	138,288	1	0	(45,461)	183,749	6,902	176,847	(27,463)	204,310	65,975	138,335
Salaries and benefits payable	572,024	572,024		0	(2,927)	574,951	574,951	1	0	(213,927)	788,878	35,272	753,606	(54,607)	808,213	(14,870)	823,083
Interest payable	508,755		2	508,755	0	575,505	575,505	5	(575,505)	0	0	0	0	0	0	0	0
Compensated Absences	165,000	165,000		0	(295,000)	460,000	460,000	1	0	225,239	234,761	18,892	215,869	(4,452)	220,321	(9,936)	230,257
Current Portion of Long Term Liabilities	1,936,862	81,862	6	1,855,000	81,862	1,630,000	1,630,000	5	(1,630,000)	0	0	0	0	0	0	0	0
Long term liabilities				0	0												
Pension Plan	28,612,847		1, 7	28,612,847	0												
Pension Bond	18,565,000		6	18,565,000	0	20,420,000	20,420,000	5	(20,420,000)	0	0	0	0	0	0	0	0
OPEB	6,555,857			6,555,857	0	6,351,627	6,351,627	6	(6,351,627)	0	0	0	0	0	0	0	0
Compensated Absences	306,738	306,738		0	269,695	37,043	37,043	1	0	(315,099)	352,142	28,339	323,803	(6,679)	330,482	(14,904)	345,386
Other	342,692	342,692		0	342,692	0	0		0	0	0	0	0	0	0	0	0
Total Liabilities	63,717,455	1,616,926		62,100,529	406,644	30,187,414	1,210,282		(28,977,132)	(349,248)	1,559,530	89,405	1,470,125	(93,201)	1,563,326	26,265	1,537,061
Net Assets / (Liabilities)	(22,880,074)	14,844,916		(37,724,990)	1,399,892	9,799,099	13,445,024		1,440,304	1,223,366	12,410,508	(2,634,503)	15,045,011	539,924	14,505,087	562,446	13,942,641

MOFD Balance Sheet for Fiscal Year Ending June 30, 2015

Assets and Liabilities Bifurcated into Operations and Employee Benefits

	Audited Financials FYE 6/30/2015 (A)	Revised Financials Discounted (B)	note	Change (A)-(B)	Change from 2014	Audited Financials FYE 6/30/2014 (A)	Revised Financials Discounted (B)	note	Change (A)-(B)	Change from 2013	Revised Financials 2013	Change from 2012	Revised Financials 2012	Change from 2011	Revised Financials 2011	Change from 2010	Revised Financials 2010
Employee Benefits																	
Assets																	
Deferred pension outflows		0	3		0												
Debt Fund (Pension Bond) restricted cash		2,388,206	11		182,585		2,205,621	10		167,911	2,037,710	2,037,710		0			
OPEB		84,000			84,000		0										
Pension Plan Asset Value (1)		142,805,826	7		16,863,656		125,942,170	3		6,048,372	119,893,798	(1,987,020)	121,880,818	(1,232,496)	123,113,314	(1,944,983)	125,058,297
Pension Plan Asset projected earnings		179,194,174						4									
Pension Plan Assets (future value)		322,000,000	10					4									
Total Assets		145,278,032			17,130,241	0	128,147,791			6,216,283	121,931,508	50,690	121,880,818	(1,232,496)	123,113,314	(1,944,983)	125,058,297
not discounted		324,472,206															
Liabilities																	
Interest payable		532,962	2		(42,543)		575,505	5		(37,193)	612,698	(32,103)	644,801	(27,535)	672,336	(23,229)	695,565
Deferred pension Inflows		0	5		0												
Pension Bond discounted value		20,420,000	6		(1,630,000)		22,050,000	5		(1,425,000)	23,475,000	(1,230,000)	24,705,000	(1,055,000)	25,760,000	(890,000)	26,650,000
Pension Bond discount		3,968,244						5									
Pension Bond total liability		24,388,244						5									
OPEB discounted value		12,530,804	8		(4,369,196)		16,900,000	6		(7,204,000)	24,104,000		24,104,000		24,104,000		24,104,000
OPEB discount		15,469,196						6									
OPEB total liability		28,000,000						6									
Pension Plan discounted value		171,418,673			5,372,841		166,045,832	7		1,106,841	164,938,991	19,034,844	145,904,147	5,558,734	140,345,413	4,245,485	136,099,928
Pension Plan discount		443,581,327						7									
Pension Plan total liability		615,000,000	10					7									
Total Liabilities		204,902,439			(668,898)	0	205,571,337			(7,559,352)	213,130,689	17,772,741	195,357,948	4,476,199	190,881,749	3,332,256	187,549,493
without discounting		667,921,206															
Net Assets / (Liabilities)		(59,624,407)			17,799,139	0	(77,423,546)			13,775,635	(91,199,181)	(17,722,051)	(73,477,130)	(5,708,695)	(67,768,435)	(5,277,239)	(62,491,196)
without discounting		(343,449,000)															
Deferred gain in pension assets		0			(11,424,356)		11,424,356	9	11,424,356	7,982,383	3,441,973	12,174,864	(8,732,891)	(1,154,694)	(7,578,197)	11,984,663	(19,562,860)
Market Value of pension assets		142,805,826			5,439,300		137,366,526		14,030,755	123,335,771	10,187,844	113,147,927	(2,387,190)	115,535,117	10,039,680	105,495,438	
Net Pension Asset / (Liability) Including deferred gain		(28,612,847)	1, 7		66,459		(28,679,306)			12,923,914	(41,603,220)	(8,847,000)	(32,756,220)	(7,945,924)	(24,810,296)	5,794,195	(30,604,491)
Net Employee Benefit Asset / (Liability) Including deferred pension asset gain		(59,624,407)			6,374,782		(65,999,190)			21,758,018	(87,757,208)	(5,547,187)	(82,210,021)	(6,863,389)	(75,346,632)	6,707,424	(82,054,056)
Net Total Asset / (Liability) Including deferred pension asset gain		(44,779,491)			7,774,674		(52,554,166)			22,792,534	(75,346,700)	(8,181,690)	(67,165,010)	(6,323,465)	(60,841,545)	7,269,870	(68,111,415)

MOFD Balance Sheet for Fiscal Year Ending June 30, 2015

Assets and Liabilities Bifurcated into Operations and Employee Benefits

Notes 2015

(1) CAFR reports GASB 68 results. GASB 68 reports only net asset or liability. Hides the true magnitude of risk under the rug. That's how we got into the problem we are in; not understanding the magnitude of risk we are taking.

(2) Audited financials show \$508,755 of interest due. This is 50% of the total interest due on the Pension Obligation Bond for FY 2016 (footnote 7, page 38 of the CAFR). However, there is a \$1,855,000 principal payment due on 7/1/2015 meaning the first payment in FY 2016 will be \$532,962 (which should be the Interest Due) and the second payment will be \$484,548.

(3) Revised Financials moves Deferred Pension Outflows to Employee Benefit assets but it is unclear if they are "real" assets or "phantom" assets included for cosmetic purposes. They are defined in the CAFR as "Deferred outflows of resources related to the pension plan increased \$377,767 due to implementation of GASB 68 which requires recognition of deferred outflows of resources to smooth large movements in the net pension liability." The Revised Financials will assume that this is not a real asset but merely an accounting "gimmick" and excludes it.

(4) Revised Financials deletes Prepaid Pension asset; this is double accounting for the same asset as it arose from a payment made to CCCERA in 2005, which was included in the Pension assets which, in turn, is included in the Pension net liabilities.

(5) Revised Financials moves Deferred Pension Inflows to Employee Benefit liabilities but it is unclear if they are "real" liabilities or "phantom" liabilities included for cosmetic purposes. They are defined in the CAFR as "Deferred inflows of resources related to the pension plan increased \$6,003,070 due to implementation of GASB 68 which requires recognition of deferred inflows of resources to smooth large movements in the net pension liability." The Revised Financials will assume that this is not a real liability but merely an accounting "gimmick" and excludes it.

(6) Revised Financials includes \$1,855,000 of the Current Portion of Long Term Liabilities as a portion of the Pension Obligation Bond balance.

Notes 2014

(1) Revised value is the same as the value in the Audited Financials

(2) The vast majority of this "pre-payment" (detailed in Footnote 4 of the Audited Financials) is, in fact, part of the pension assets which should be detailed in Footnote 10 of that document (but this year, 2014, that information has been omitted). In the "revised" balance sheet, this item is removed and the full value of pension assets included as an asset.

(3) The pension plan assets are often "netted" against the liabilities so that only the net assets or net liabilities (UAAL) are reported. However, there is no legal offset involved. The pension liabilities are not "non recourse" debt. If the assets lose value, the liabilities remain unaffected. This is why when CCCERA's asset pool lost 28% of its value in 2008, MOFD went from fully funded to \$30 million in the hole. This came as a shock as no one had focused on how large these assets, or the pension liabilities, were because they were not included in the MOFD financials. This line item corrects this shortfall of a GASB balance sheet accounting and brings the pension assets, and liabilities out in plain view. For 2014 this value was omitted from MOFD's Audited Financials so was taken directly from the pension plan's (CCCERA) annual valuation.

(4) While the current assets plus deferred gains are still \$40 million short of what MOFD should have to fund its liabilities, even with no additional contributions to the asset pool they would service MOFD's pension obligations for a long time. Based on estimates of what those obligations are, these assets would pay down those obligations through 2039 and over that time frame earn an additional \$200 million in earnings, assuming a 7.25% earning rate. They would pay off \$340 million in pension obligations over that time period. However, estimates show that this is only about half of the total liabilities accrued to date.

(5) GASB accounting bifurcates liabilities into "short term" (under one year) and "long term". MOFD only has one long term liability (other than pension and OPEB / retiree medical), and that is the Pension Obligation Bond (POB). It just confuses matters to bifurcate this loan so this revision, designed to tell a simple story, puts it all in one place. This is a straight forward fixed rate loan with \$22 million of outstanding principal and an additional \$5 million of interest due (\$575,000 due currently) until it is paid off.

(6) OPEB (retiree medical). The GASB balance sheet puts some of this above the line (in the balance sheet) and some "under the covers". This revision shows it all in one place. The actuary has reported that this employee benefit, over time, when discounted at 4%, will present value to about \$17 million. He further states that when discounted at 7.25%, the cost will present value to \$12 million. So if we want to pre-fund the liabilities we have handed out, we would have to put \$12 million into an account which earns 7.25%. But since we have not funded such an account, we need to use a 4% discount rate. Over time those expenses will probably add up to \$28 million. The actuary knows what this number is and MOFD could ask for it but so far, no one has.

(7) The CCCERA GASB 68 report shows MOFD's net pension obligation as of 12/31/2014 as \$28,612,847, the amount included in the CAFR. This is the gross liability value net of the market value of MOFD's assets. CCCERA's annual actuarial report showed MOFD with net UAAL of \$34,844,301 (page 76), net of a \$136,574,372 valuation value of assets (page 7). Therefore, the gross value of MOFD's liabilities is \$171,418,673, and the market value of its assets is \$142,805,826. The Revised Financials segregates the net liabilities into these two important components.

(7) Pension Liabilities. MOFD's Achilles heel. The latest CCCERA accounting shows these liabilities (discounted at 7.25%) as having a discounted present value of \$160 million. The CCCERA report actually only reports the value of MOFD assets and its net liabilities (UAAL) but the total liabilities is obviously the sum of these two values. The big question is, however, how much are these liabilities undiscounted? CCCERA uses a 7.25% discount rate but they have had a difficult time achieving that performance. MOFD's actuary says that MOFD's retirees are older than the County, on average, so we should look at a shorter investment term, i.e. lower earning/discount rates. However, we do not know what the value or the pattern of our actual liabilities are so we cannot estimate the impact of utilizing a lower discount rate. Estimates are that the total undiscounted liabilities, stretching out 50 years or more, could be in excess of \$600 million. In 2012 CCCERA reduced their discount rate from 7.75% to 7.25% and this increased liabilities 8.3%. Reducing the rate to 6% would increase liabilities about 20% (\$35 million). In the ten years since 2003, CCCERA assets have earned at an average rate of 6.9%. Going back nine years that rate drops to 6.3%; 5.5% for the last eight years; 4.1% for seven; and only 3.7% if you start in 2008 when the assets lost 28% of their value (even though the average earnings over the past five years since has averaged 11.5%). There is a huge volatility in the annual earnings, an indication of the risk profile of the investments.

(8) The last OPEB (retiree health benefits) report MOFD received, evaluated the discounted present value of future benefits using both a 4.00% and a 7.25% discount rate. The 4% rate is required for plans which are unfunded and the 7.25% can be used for plans which are funded (7.25% being an assumption for plan asset earnings). The results were \$16,923,000 with a 4.00% discount rate and \$11,927,000 with a 7.25% discount rate. The undiscounted value of the liabilities would be approximately (there is no disclosure of this number) \$30 million. This year (2015) MOFD started funding this \$30 million liability with \$84,000 allowing them to use the higher (7.25%) discount rate. This is despite the fact that in order to fund an \$11.9 million liability that is growing with inflation (at 2.5%) over 15 years would take annual payments of \$675,000. A total liability of \$12.5 million has been included reflecting two years of growth at 2.5%.

(8) MOFD's net balance sheet position is about \$65 million in the red, not \$10 million in the black. However, this includes \$10 million of capital assets which MOFD cannot liquidate and still provide service to the community and they should have another \$10 million in reserves. Therefore, MOFD has, approximately, a \$70 million "problem".

(9) Very little has changed from 2014 but the CAFR has changed a lot, from a net asset of \$10 million to a net liability of \$22 million, but it is still \$30 million in error.

(9) MOFD's pension assets increased by \$35 million since 2010 due to strong gains in the investment pool. Accounting practice is to spread each year's gains over 5 years so currently \$11 million of gains have been deferred. This equates to about 8% of the market value of MOFD's pension assets. As the market collapse in 2008 demonstrated, one bad year can wipe out these gains so it is prudent not to book them immediately.

(10) The un-discounted pension liability is an estimate based on a sensitivity to discount rates by CCCERA contained in their GASB 68 report. It indicates that over the next 60 years MOFD is liable for two thirds of a billion dollars of employee retirement benefits and current assets, with earnings, will only cover half the cost.

(10) The Debt Fund is comprised solely of the Pension Obligation Bond which is an employee benefit item.

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