

## MOFD Balance Sheet

GASB 27 and 45 accounting for pension and OPEB moved out of footnotes into balance sheet  
Assets and liabilities bifurcated into Operations and Employee Benefits

	Audited	Revised Financials 2014		Discount	note	Change (A)-(B)	Change from 2013	Revised Financials 2013
	FYE 6/30/2014 (A)	Discounted (B)	Undiscounted					
<b>Consolidated</b>								
Assets								
Operations	39,986,513	16,860,927				(23,125,586)	853,179	16,007,748
Employee Benefits	0	125,942,170				0	6,048,372	119,893,798
Total	39,986,513	142,803,097				(23,125,586)	6,901,551	135,901,546
Liabilities								
Operations	30,187,414	1,210,282				(28,977,132)	(349,248)	1,559,530
Employee Benefits	0	205,571,337				0	(7,559,352)	213,130,689
Total	30,187,414	206,781,619				(28,977,132)	(7,908,600)	214,690,219
Net								
Operations	9,799,099	15,650,645				5,851,546	1,202,427	14,448,218
Employee Benefits	0	(79,629,167)				0	13,607,724	(93,236,891)
Total	9,799,099	(63,978,522)			10	5,851,546	14,810,151	(78,788,673)
<b>Operations</b>								
Assets								
Cash and investments	3,712,115	3,712,115			1	0	188,850	3,523,265
Restricted Cash	2,205,621	2,205,621			1	0	167,911	2,037,710
Other receivables	675,581	675,581			1	0	(167,333)	842,914
Other assets	23,158	23,158			1	0	(87,008)	110,166
Prepaid Items	23,439,946	314,360			2	(23,125,586)	134,941	179,419
Capital Assets	9,930,092	9,930,092			1	0	615,818	9,314,274
Total	39,986,513	16,860,927				(23,125,586)	853,179	16,007,748
Liabilities								
Accounts payable	138,288	138,288			1	0	(45,461)	183,749
Salaries and benefits payable	574,951	574,951			1	0	(213,927)	788,878
Interest payable	575,505				7	(575,505)		
Compensated Absences	460,000	460,000			1	0	225,239	234,761
Current Portion of Long Term Liabilities	1,630,000				7	(1,630,000)		
Long term liabilities								
Pension Bond	20,420,000				7	(20,420,000)		
OPEB	6,351,627				8	(6,351,627)		
Compensated Absences	37,043	37,043			1	0	(315,099)	352,142
Total	30,187,414	1,210,282				(28,977,132)	(349,248)	1,559,530
Net								
	9,799,099	15,650,645				5,851,546	1,202,427	14,448,218
<b>Employee Benefits</b>								
Assets								
OPEB		0			3			
Pension Plan Asset Valuation Value		125,942,170			4		6,048,372	119,893,798
Pension Plan Asset projected earnings				(155,866,432)	5			
Pension Plan Assets (future value)			281,808,602		5			
Total	0	125,942,170	281,808,602	(155,866,432)			6,048,372	119,893,798
Liabilities								
Interest payable		575,505			7		(37,193)	612,698
Pension Bond discounted value		22,050,000			7		(1,425,000)	23,475,000
Pension Bond discount				(5,069,679)	7			
Pension Bond total liability			27,119,679		7			
OPEB discounted value (6/30/2013)		16,900,000			8		(7,204,000)	24,104,000
OPEB discount				(11,100,000)	8			
OPEB total liability			28,000,000		8			
Pension Plan discounted value		166,045,832			9		1,106,841	164,938,991
Pension Plan discount				(503,954,168)	9			
Pension Plan total liability			670,000,000		9			
Total	0	205,571,337					(7,559,352)	213,130,689
Net								
	0	(79,629,167)					13,607,724	(93,236,891)
Deferred gain in pension assets		11,424,356			11	11,424,356	7,982,383	3,441,973
Market Value of pension assets		137,366,526					14,030,755	123,335,771
Net Including deferred gain		(68,204,811)						(89,794,918)

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	Change from 2012	Revised Financials 2012	Change from 2011	Revised Financials 2011	Change from 2010	Revised Financials 2010
<b>Consolidated</b>						
<b>Assets</b>						
Operations	(507,388)	16,515,136	446,723	16,068,413	588,711	15,479,702
Employee Benefits	(1,987,020)	121,880,818	(1,232,496)	123,113,314	(1,944,983)	125,058,297
<b>Total</b>	<b>(2,494,408)</b>	<b>138,395,954</b>	<b>(785,773)</b>	<b>139,181,727</b>	<b>(1,356,272)</b>	<b>140,537,999</b>
<b>Liabilities</b>						
Operations	89,405	1,470,125	(93,201)	1,563,326	26,265	1,537,061
Employee Benefits	17,772,741	195,357,948	4,476,199	190,881,749	3,332,256	187,549,493
<b>Total</b>	<b>17,862,146</b>	<b>196,828,073</b>	<b>4,382,998</b>	<b>192,445,075</b>	<b>3,358,521</b>	<b>189,086,554</b>
<b>Net</b>						
Operations	(596,793)	15,045,011	539,924	14,505,087	562,446	13,942,641
Employee Benefits	(19,759,761)	(73,477,130)	(5,708,695)	(67,768,435)	(5,277,239)	(62,491,196)
<b>Total</b>	<b>(20,356,554)</b>	<b>(58,432,119)</b>	<b>(5,168,771)</b>	<b>(53,263,348)</b>	<b>(4,714,793)</b>	<b>(48,548,555)</b>
<b>Operations</b>						
<b>Assets</b>						
Cash and investments	(3,044,309)	6,567,574	(264,716)	6,832,290	(97,744)	6,930,034
Restricted Cash	2,037,710		0		0	
Other receivables	79,000	763,914	4,133	759,781	38,141	721,640
Other assets	110,166		0		0	
Prepaid Items	77,677	101,742	(25,878)	127,620	12,130	115,490
Capital Assets	232,368	9,081,906	733,184	8,348,722	636,184	7,712,538
<b>Total</b>	<b>(507,388)</b>	<b>16,515,136</b>	<b>446,723</b>	<b>16,068,413</b>	<b>588,711</b>	<b>15,479,702</b>
<b>Liabilities</b>						
Accounts payable	6,902	176,847	(27,463)	204,310	65,975	138,335
Salaries and benefits payable	35,272	753,606	(54,607)	808,213	(14,870)	823,083
Interest payable						
Compensated Absences	18,892	215,869	(4,452)	220,321	(9,936)	230,257
Current Portion of Long Term Liabilities						
Long term liabilities						
Pension Bond						
OPEB						
Compensated Absences	28,339	323,803	(6,679)	330,482	(14,904)	345,386
<b>Total</b>	<b>89,405</b>	<b>1,470,125</b>	<b>(93,201)</b>	<b>1,563,326</b>	<b>26,265</b>	<b>1,537,061</b>
<b>Net</b>	<b>(596,793)</b>	<b>15,045,011</b>	<b>539,924</b>	<b>14,505,087</b>	<b>562,446</b>	<b>13,942,641</b>
<b>Employee Benefits</b>						
<b>Assets</b>						
OPEB						
Pension Plan Asset Valuation Value	(1,987,020)	121,880,818	(1,232,496)	123,113,314	(1,944,983)	125,058,297
Pension Plan Asset projected earnings						
Pension Plan Assets (future value)						
<b>Total</b>	<b>(1,987,020)</b>	<b>121,880,818</b>	<b>(1,232,496)</b>	<b>123,113,314</b>	<b>(1,944,983)</b>	<b>125,058,297</b>
<b>Liabilities</b>						
Interest payable	(32,103)	644,801	(27,535)	672,336	(23,229)	695,565
Pension Bond discounted value	(1,230,000)	24,705,000	(1,055,000)	25,760,000	(890,000)	26,650,000
Pension Bond discount						
Pension Bond total liability						
OPEB discounted value (6/30/2013)	0	24,104,000	0	24,104,000	0	24,104,000
OPEB discount						
OPEB total liability						
Pension Plan discounted value	19,034,844	145,904,147	5,558,734	140,345,413	4,245,485	136,099,928
Pension Plan discount						
Pension Plan total liability						
<b>Total</b>	<b>17,772,741</b>	<b>195,357,948</b>	<b>4,476,199</b>	<b>190,881,749</b>	<b>3,332,256</b>	<b>187,549,493</b>
<b>Net</b>	<b>(19,759,761)</b>	<b>(73,477,130)</b>	<b>(5,708,695)</b>	<b>(67,768,435)</b>	<b>(5,277,239)</b>	<b>(62,491,196)</b>
Deferred gain in pension assets	12,174,864	(8,732,891)	(1,154,694)	(7,578,197)	11,984,663	(19,562,860)
Market Value of pension assets	10,187,844	113,147,927	(2,387,190)	115,535,117	10,039,680	105,495,438
<b>Net Including deferred gain</b>		<b>(82,210,021)</b>		<b>(75,346,632)</b>		<b>(82,054,056)</b>

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## Notes to Balance Sheet

(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) OPEB (retiree medical benefits liabilities) is completely unfunded. There are no assets associated with it.

(4) 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.

(5) 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.

(7) 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.

(8) 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.

(9) 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.

(10) 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".

(11) 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.