

Moraga-Orinda Fire Protection District



BOARD OF DIRECTORS SPECIAL BOARD MEETING MINUTES

December 14, 2016
(Approved January 4, 2017)

Opening Ceremonies

The Board of Directors convened in Open Session at 5:30 P.M. on December 14, 2016 at the Hacienda Mosaic Room, 2100 Donald Drive, Moraga, California. President Anderson called the meeting to order.

Present were the following Directors and Staff:

President Anderson	Director Jorgens
Director Barber	Stephen Healy, Fire Chief
Director Famulener	Gloriann Sasser, Admin Services Director
Director Jex	Grace Santos, District Clerk

2. Public Comment

There were no comments from the public.

3. Consent Agenda

Director Jorgens asked to pull the minutes from the December 7, 2016 meeting to discuss separately.

Motion by Director Famulener and seconded by Director Barber to receive and file Item 3.2 Monthly Financial Report. Said motion carried a 4-0 roll-call vote (Ayes: Anderson, Barber, Famulener and Jorgens; Abstain: Jex).

Director Jorgens commented on the last paragraph of item 8.1 of the December 7, 2016 minutes. The minutes state that the Board "received report and authorize the spending." Director Jorgens stated that the board did not specifically approve the report, and he is not quite sure he understands the definition of what "receive the report" means. He was under the impression that the report was to be addressed again after it was reviewed.

President Anderson stated that "receive the report" means that staff provided the report and, by receiving it, the Board accepted it. It was neither approved or rejected, and receiving the report does not necessarily mean that the Board is happy with it. He stated that staff and the actuary have committed to readdress the issues on the report, and the Board intends to revisit it.

Director Jorgens asked if it was normal practice to include information in the minutes that wasn't actually covered during the meeting. He was referring to the first ten paragraphs of Item 8.1, which was taken from the staff report. President Anderson stated that the minutes should reflect what was discussed and said. He continued to state that by receiving the report, the Board received it. Director Jorgens withdrew his question.

Chief Healy stated that he did some research and spoke with District Counsel Bakker regarding the issue of "received" versus "approved". District Counsel Bakker confirmed that reports are received, and budgets and minutes are approved.

Director Barber asked that if "receiving" requires no action by the board, would it be appropriate to take a vote. He stated that "receiving" it is not something that the Board can say yes or no to.

Chief Healy stated that there may have been some confusion on the two-part recommendation to receive the report and approve the appropriation of the \$138,000. When those two terms were mixed together, it was easy to understand why it would be confusing.

Director Jorgens stated that if "receive" was a passive thing, then the Board would have already received it, and it would not need to be included in the agenda. Director Famulener stated that the Board has the authority to reject the entire report and not receive it. Director Jorgens stated that if that were the case, he would reject the entire report.

President Anderson stated the Board did not accept the report because ASD Sasser and the actuary have additional work to do.

Director Barber stated that it would be helpful to have District Counsel Bakker attend the meetings to answer questions from the Board. He continued to state that if “receiving” is simply the act of physically receiving it, but doesn’t imply any approval, he doesn’t see why a vote would be required. If it is a vote to reject it, is the Board passively accepting it if there is no vote. Director Barber expressed his confusion.

District Clerk asked the Board for their direction on the minutes. President Anderson stated that they would not approve the minutes until after they receive information from staff and the report has been revisited. Director Famulener stated that is just for approval of the minutes of the meeting and suggest that the minutes be approved as written and bring it back.

Motion by Director Jorgens and seconded by Director Famulener to remove the words “receive report and” from the last paragraph of section 8.1. Said motion carried a 4-0 roll-call vote (Ayes: Anderson, Barber, Famulener and Jorgens; Abstain: Jex).

4. Regular Calendar

4.1 Annual Audit and Comprehensive Annual Financial Report for the Fiscal year Ended June 30, 2016

Each year the District engages a certified public accountant to audit the financial statements of the District. The District’s Administrative Services Division prepared the financial statements for the fiscal year ending June 30, 2016. The financial statements have been audited by JJACPA Inc. In addition to the financial statement audit, JJACPA was engaged to prepare a required report on the District’s Gann appropriations spending limit calculation and a letter to the Board required by professional accounting standards discussing their audit engagement and the procedures they performed. This report includes no audit findings.

Based upon the audit procedures performed, JJACPA has rendered their opinion that the District’s financial statements present fairly the District’s financial position at June 30, 2016, and the results of the governmental activities and the budgetary comparison information for the year then ended, in accordance with generally accepted accounting principles. This is generally referred to as a “clean” or “unqualified” audit opinion.

In addition to the audited financial statements, the District prepared a Comprehensive Annual Financial Report (CAFR) that is designed to meet the requirements of the Government Finance Officers Association (GFOA). The GFOA established the Certificate of Achievement for Excellence in Financial Reporting Program (CAFR Program) in 1945 to encourage and assist state and local governments to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure. The GFOA then recognizes individual governments that succeed in achieving this goal. This is the third year the District has participated in the CAFR Program.

The District’s CAFR for the fiscal year ended June 30, 2016 will be submitted to the GFOA for consideration of a Certificate of Achievement for Excellence in Financial Reporting. The CAFR will also be posted on the District’s website.

The CAFR includes three sections: Introductory, Financial and Statistical. The Introductory Section includes a letter of transmittal to the Board. The Financial Section includes Management’s Discussion and Analysis which provides an overview and analysis of the financial activities of the District. The Statistical Section provides operational, economic and historical data that provide a context for assessing the District’s economic condition.

ASD Sasser gave a brief PowerPoint presentation. Joe Arch, auditor from JJACPA, reviewed key points of the report and answered questions from the Board.

Director Barber commented on the timing and asked if it is advisable to adopt the report before the expiration of this calendar year. Mr. Arch stated that there is no filing requirement to file the financial statements by December 31. The reason the District is presenting it at this meeting is that in order to apply for the GFOA award, the presentation has to be on the MOFD website by December 31. The regulatory requirement for financial statements required by the state government code states the audit needs to be filed with the state within one year after the fiscal year end, which is by June 30, 2017.

Mr. Arch explained that the district did an OPEB valuation, which is what extended the time frame. In the past, staff presented the report in October. The OPEB valuation delayed the process this year and staff didn't have the information it needed to put in the financial statements.

Director Barber suggested determining when the OPEB valuation is usually available so that staff and the Finance Committee could begin the review of the report before presenting it to the board. He asked ASD Sasser if the actuary is constrained in getting their information to the auditors. ASD Sasser stated that every two years the District has to have an updated actuarial report completed, which was done at the last meeting. The actuarial report took longer because the retiree data is received from CalPERS medical and is sent to Bartel Associates to complete the actuarial report. The data did not arrive until the end of August so Bartel did not complete their report until a week or two ago, which is the reason for the delay.

Director Barber suggested creating an Audit Committee. The Finance or Audit Committee could meet with ASD Sasser and the auditor early in the process before any of the information is actually in, meet again before the data is received from the actuary, and meet a final time before it is presented to the Board.

Director Jex commented on the GASB74 other post-employment benefits. He asked Mr. Arch if he could have early adopted GASB74 and have it reflected in the balance sheet. Mr. Arch stated that he could not because GASB74 and 75 were released in May 2016, and the implementation guide was not ready until afterwards. There was no way to do a retroactive adjustment without knowing how the GASB viewed the implementation of that standard. GASB74 indicates the effective date is for fiscal years beginning after June 15, 2016, which puts it into the fiscal year 2016/2017. There is no wiggle room in reporting early. By stating that, they remove language about allowing early implementation.

Director Jex asked if the information is available, it should be reflected in the financial statements. ASD Sasser stated that the financial statements are the responsibility of management. The 2015 CAFR states that GASB74 is effective for fiscal years beginning after June 16, 2016, and the District will implement it in next year's financial statements. The activity that would have been required in the general ledger was not recorded and Mr. Arch and JJACPA could not audit it because the District never planned to implement GASB74.

Director Jorgens commented about the process. He stated that members of the previous Board approved it last year along with the previous budget. Since there is now a different Board, Director Jorgens asked if the new Board should be involved in hiring the auditor and providing instruction rather than management doing so. It seems appropriate for the Board to instruct the auditor on what to do. He stated that there should be a process with multiple meetings of the Board and Finance Committee, so that they have enough time to review the information and ask questions. He personally has five to six hours of questions that he would like answered. He wants to understand the OPEB and pension obligations, if they're properly quantified and presented. The Board should be the one to determine what a reasonable discount rate is because it could impact MOFD's capital budget, negotiations, and the whole way the District is run.

Director Jex commented on the issues he sees in terms of disclosure and accounting and needs more information and feels it is not a fair or informing presentation. He wants to refer it back to

the Finance Committee and have some time to respond to some of the information needed before making an informed decision.

President Anderson commented on the three issues need to be addressed: 1) whether or not the District receives the GFOA award; 2) where the pre-paid items appear on the balance sheet for the fiscal year that ended; and 3) going forward, the Finance Committee meetings should begin as soon as a draft is prepared.

Director Jex would like the Board to be involved before the audit starts, sometime in March.

President Anderson stated that it should be a function of the Finance Committee, not the entire Board, and if the Board desires, a separate audit committee can be established in January when the other committees are formed. However, he prefers to keep it to the Finance Committee to minimize burden on staff. He suggested early involvement with the auditor and staff so that the issues are addressed.

Director Barber agreed that the Finance Committee act as the Audit Committee and begin meeting with the Auditor and staff in March. He would like to see a draft or preliminary report prepared in September or October.

Director Jorgens stated that he was worried about the OPEB and pension valuations. He feels that they could be misstated by tens of millions of dollars, which directly impacts the District's ability to borrow and how he makes decisions. Director Jorgens stated that the report needs to go back to the Finance Committee and be thoroughly vetted, placed on the agenda for several future Finance Committee meetings, and determine what a reasonable process would be for this year and next.

President Anderson stated that the District has no control over the CCCERA discount rates – CCCERA tells the District what they require. The biggest risk to the District is the unfunded liabilities and what CCCERA earns on it. Nothing in the report is inaccurate and prevents MOFD from serving its citizens.

Director Jex stated that a fair presentation and disclosure needs to disclose the risks, which is not properly reflected. Until the issues are resolved, publishing preliminary information would be misleading.

Motion by Director Jorgens and seconded by Director Jex to not approve the CAFR and submit it to the Finance Committee, schedule Finance Committee meetings for early next year to go over it, and to probe whether there are alternative ways to present the OPEB and the pension information, or anything else, with the objective of doing so in short order, and come up with what we think is a fair representation of what the situation and financial health of the unit is.

Director Barber asked if the Board's decision, whatever it may be, would keep the District from doing its job. President Anderson stated that by dragging this history out, the Board would be delaying and hampering the mission of MOFD.

Director Jorgens stated that it is the most operational thing we have, and it is the most important factor in negotiations. Because if it turns out that we are going to owe, even if it's not owed per se to CCCERA because they send us the bill for it, but if it is funding that we believe is the actual health of our unit, which is our responsibility to pass judgement on it. It's not CCCERA's job, we don't report to CCCERA. This is our District and we sign on the bottom line for this District. We are the ones who pay the salaries. Director Jorgens asked what happens if the fund needs to be ten times as big as we think it is and it takes all the money away from the Chief and the unions. He wants to know that, and before he votes on what other moneys the District has to be spend, he wants to know how much money the District really thinks it has so he knows if it can be spent on extra salaries, pensions or new equipment. It is the two concepts that he thinks are fundamentally missing or need to be discussed and thoroughly presented. He stated that until we know what those two numbers are, and we all agree on it, he doesn't think we have the

data to carry on negotiations, buy equipment or to do anything else. In his opinion, it is the most important thing the Board has to do.

Director Famulener stated that she doesn't disagree with Director Jorgens, but the report goes back to July of 2016. She continued to state that it sounds like what Director Jorgens wants to do is go over the mid-year budget for 2016/2017. She suggested starting an early audit for next year sometime in March. Going back will not change the numbers for 2016. It is done. No one is coming up with anything wrong with the numbers.

Director Jorgens stated that until he knows what the pension and OPEB numbers are going to be, we won't know if the budget is correct.

Director Jex stated that the information is not old history and people will make decisions based upon it. Investment bankers rely upon this document and if they find out that it is false and misleading, and not adequate disclosure, they would sue the District. He stated that a fair presentation has to reflect what the Board believes is correct, and if you don't, you would be negligent.

Mr. Arch stated that this report is about how the District funds the unfunded liability, and how it's presented in the financial statements or elsewhere. In terms of what Director Jorgens is concerned about, the numbers will not change. CCCERA had an actuary and auditor that audited the numbers, which will not change in respect to anything that isn't already disclosed in the CAFR. Mr. Arch stated that the problem Directors Jex and Jorgens are having is that they are looking at it as a funding decision, which is calculated through the rates. The effect of the District's pension plan on operations doesn't occur until 2-3 years down the line. The annual required contribution does not have an effect on operations. In the future, if you were unable to meet the annual required contribution, it would show in a dramatic increase of the unfunded liability. Some of the percentages are relevant to contributions but not financial presentation. The government-wide statement is done on accrual basis of accounting. Long term liabilities and assets don't have an effect on operations. An underwriter won't look at the statement of net position. They'll look at the fund based statements to see if the general fund has positive fund balances and if the District is setting things aside on an annual basis. It becomes meaningful if the District does not have a lot of assets but has a lot of liabilities, debt in particular. The board cannot decide to change the discount rate when a pension plan sets the rates and deliberates over them separately. The only way to change it would be to change the contract with the pension plan or change the pension plan. The numbers will not change.

Alex Evans, Orinda resident, stated that these questions and this type of discussion should continue to occur. He suggested making a distinction between what the audit says and what type of changes should be asked for in the audit. He recommends that the Board make that distinction and accept the audit as presented as an accurate reflection of accounting rules in place at the time and reserving the type of sensitivity analysis that is required to make good financial judgements going forward in other documents, in particular the five year forecast.

Director Jorgens stated that when CCCERA forecasts the unfunded liability using their discount rate, they come up with a number. If they use a different discount rate, they come up with a much different number, which the District pays an eighteenth of every year in cash. It comes out of the District's balance sheet in cash, which is not available to pay the District's other obligations. The problem is these numbers and what CCCERA comes up with does impact our cash. Every year they miss their forecast of the 7%. It's not a hypothetical accounting number, it's cash that affects it. How accurate the numbers are does make a difference and whether the District presents what we think the numbers are, to Director Jorgens, it's not just an income statement or balance sheet, it's also an MDNA discussion, which he stated was not mentioned at all.

President Anderson called for a vote on Director Jorgens' motion. Said motion carried a 3-2 roll-call vote (Ayes: Barber, Jex and Jorgens; Noes: Anderson and Famulener).

ASD Sasser reported that she has been working with Doug Pryor, from Bartel Associates, on the actuarial report, and will have an updated report available shortly.

Fire Marshal Leonard introduced the District's newly hired Fire Inspector/Plans Examiner Bill Svozil.

5. Adjournment

At 7:00 P.M., President Anderson called for adjournment of the regular meeting.



Grace Santos
Secretary to the Board