

WATER EMPLOYEE SERVICES AUTHORITY

**A COMPONENT UNIT OF THE
ELSINORE VALLEY MUNICIPAL
WATER DISTRICT**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

WATER EMPLOYEE SERVICES AUTHORITY

A COMPONENT UNIT OF THE ELSINORE VALLEY MUNICIPAL WATER DISTRICT

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(With Comparative Amounts for the Fiscal Year Ended June 30, 2016)

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Independent Auditor's Report

To the Board of Directors
Water Employee Services Authority

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We have audited the accompanying financial statements of the Water Employee Services Authority (the Authority), a component unit of the Elsinore Valley Municipal Water District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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California Society of
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion is not affected by this missing information.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
November 9, 2017

WATER EMPLOYEES SERVICES AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2017

	JUNE	JUNE
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 939,240	\$ 1,973,312
Accounts receivable	48,952	51,570
Accrued compensated absences, current portion (Note 1d and e)	908,405	907,074
Due from member agencies:		
Meeks and Daley Water Company	19,427	5,526
Prepaid expenses (Note 3)	11,290	28,125
Total Current Assets	1,927,314	2,965,607
NONCURRENT ASSETS:		
Due from Elsinore Valley Municipal Water District		
Pension Receivable	17,166,934	17,200,676
Accrued compensated absences (Note 1d and e)	2,959,693	2,937,541
Total Noncurrent Assets	20,126,627	20,138,217
TOTAL ASSETS	22,053,941	23,103,824
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows- employer pension contributions (Note 6)	2,747,053	2,658,544
Deferred Outflows- Actuarial (Note 6)	5,274,247	2,505,229
Total Deferred Outflows of Resources	8,021,300	5,163,773
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	-	101,521
Accrued expenses	397,619	467,308
Accrued compensated absences, current portion (Note 1d and e)	908,405	907,074
Payroll withholding liabilities	271,117	115,875
Due to Elsinore Valley Municipal Water District:		
Personnel and operating expenses	65,464	1,089,122
Total Current Liabilities	1,642,605	2,680,900

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

WATER EMPLOYEES SERVICES AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2017

	JUNE	JUNE
	2017	2016
NONCURRENT LIABILITIES:		
Accrued compensated absences (note 1d and e)	2,959,693	2,937,541
Net pension liability (Note 6)	22,529,337	18,299,369
Total Noncurrent Liabilities	25,489,030	21,236,910
 TOTAL LIABILITIES	 27,131,635	 23,917,810
 DEFERRED INFLOWS OF RESOURCES		
Deferred Infows - employee pension actuarial (Note 6)	2,658,897	4,065,080
 NET POSITION:		
Unrestricted	284,708	284,708
 TOTAL NET POSITION	 \$ 284,708	 \$ 284,708

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

WATER EMPLOYEES SERVICES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
12 MONTHS ENDED JUNE 30, 2017

	JUNE 2017	JUNE 2016
OPERATING REVENUE:		
Charges for Services:		
Elsinore Valley Municipal Water District	\$ 20,364,814	\$ 20,975,912
Meeks and Daley Water Company	29,404	24,350
Other Income	5,311	637
Total Operating Revenue	20,399,529	21,000,899
OPERATING EXPENSES:		
Salaries	11,444,511	11,480,520
Fringe benefits	8,738,074	7,910,539
Personnel related expenses	97,938	105,037
Maintenance agreements	200	401,687
Supplies and other expenses	123,070	303,231
Consulting, Contractual and other outside services	34,534	33,143
Repairs and maintenance	448	271,336
Rent, lease expense	6,060	160,387
Travel expenses	222,356	156,343
Legal expenses	21,753	40,101
General liability and property insurance	-	138,074
Miscellaneous expenses	(289,415)	501
Total Operating Expenses	20,399,529	21,000,899
OPERATING INCOME (LOSS)	-	-
NON OPERATING INCOME (EXPENSES)		
Capital Contributions	-	(1,573,192)
Total Non operating Income (Loss)	-	(1,573,192)
Change in Net Position	-	(1,573,192)
NET POSITION, beginning of the year	284,708	1,857,900
NET POSITION, year to date	\$ 284,708	\$ 284,708

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

WATER EMPLOYEES SERVICES AUTHORITY
STATEMENT OF CASH FLOWS
12 MONTHS ENDED JUNE 30, 2017
(With Comparative Amounts for the fiscal year ended June 30, 2016)

	<u>JUNE</u> <u>2017</u>	<u>JUNE</u> <u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from member agencies	\$ 19,374,848	\$ 21,323,894
Cash payments to employees for services	(20,236,891)	(20,429,731)
Cash payments to suppliers for goods and services	(172,029)	(1,401,337)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(1,034,072)</u>	<u>(507,173)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,973,312</u>	<u>2,480,485</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 939,240</u>	<u>\$ 1,973,312</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating Loss	\$ -	\$ -
Adjustment to reconcile operating loss to net cash provided (used) by operating activities:		
Net Pension expense	4,229,968	1,507,013
Changes in assets and liabilities:		
(Increase) decrease in Accounts receivable	2,618	(3,782)
(Increase) decrease in Due from member agencies:		
Elsinore Valley Municipal Water District	(1,013,399)	328,276
Meeks and Daley Water Company	(13,901)	(1,499)
(Increase) decrease in Prepaid expenses	17,891	108,765
(Increase) decrease in Inventory	-	26,106
(Increase) decrease deferred outflow of resources	(2,857,527)	(2,662,614)
Increase (decrease) Accounts payable	(102,576)	(20,752)
Increase (decrease) accrued expenses	(69,689)	97,862
Increase (decrease) payroll withholding	155,242	(14,259)
Increase (decrease) Accrued compensated absences payable	23,484	(78,134)
Increase (decrease) deferred inflow of resources	<u>(1,406,183)</u>	<u>205,845</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (1,034,072)</u>	<u>(507,173)</u>

Allow for rounding differences

The accompanying notes are an integral part of these statements

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Water Employee Services Authority (“WESA”), a Joint Powers Authority (“JPA”), was formed in August 2003 through an agreement with Elsinore Valley Municipal Water District (“EVMWD”) and Meeks & Daley Water Company (“Meeks and Daley”). The JPA agreement provides WESA the powers and functions of a municipal water district; and is an independent entity separate and apart from its members, with separate agreements and employees.

The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board (“GASB”) Statement 14 as amended by GASB 61. EVMWD is the primary government unit. Although legally separate, WESA is so intertwined with EVMWD that it is in substance, part of EVMWD’s operations. Accordingly, the balances and transactions of the component unit are reported within the accounts of EVMWD. Component units are those entities which are financially accountable to the primary government. Blended component units, although separate legal entities, are in substance part of the government’s operations. WESA is a blended component unit of EVMWD. WESA’s Board of Directors is comprised of the EVMWD’s Board of Directors and WESA provides services almost entirely to EVMWD.

In September 2003, EVMWD and Meeks & Daley approved an Operating Agreement with WESA for the purpose of providing professional water and wastewater employee services.

- a. Basis of Accounting – WESA operates and reports as an enterprise fund utilizing the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. An enterprise fund is accounted for on the flow of economic resources measurement focus. This means that all assets and liabilities associated with the activity (whether current or noncurrent) are included on the statement of net position.

WESA distinguishes operating and non-operating revenues and expenses. Operating revenues are those revenues that are generated by providing professional water and wastewater employee services, while operating expenses pertain directly to the furnishing of the services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of providing professional water and wastewater employee services.

- b. Use of Estimates – The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from those amounts.
- c. Cash and Cash Equivalents – For the purpose of the statement of cash flows, all cash and investments have been classified as cash and cash equivalents.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- d. Due from (to) Member Agencies – WESA and EVMWD are considered related parties. Thus transactions between the two are recorded as Due from (to) member agencies. Due from EVMWD means EVMWD owes WESA while Due to EVMWD means WESA owes EVMWD. As a blended company, the Due from (to) accounts have a zero effect on the consolidated financial statements.

Under the terms of WESA's agreement with member agencies, WESA charges the member agencies for administrative costs provided such as labor, fringe benefits, and other personnel related operating costs. The Operating Agreement issued in September 2003 and the First Amended Operating Agreement of November 2007 provide that the billings of WESA are to be based on the costs incurred for the administrative services provided. As a result, revenues earned under the Operating Agreement are equal to the amount of the administrative service costs that have been incurred by WESA. Revenues have been accrued to equal the amount of the labor, fringe benefits, and other personnel related operating expenses incurred. Amounts shown as due from member agencies are the result of such intercompany billings.

- e. Compensated Absences – WESA records accrued receivables related to compensated absences to be received from its member agencies. The current portion is part of the due from member agencies and the long-term portion is a non-current asset. The Authority also records accrued compensated absences due to its employees. The accumulated liabilities for unpaid vacation for \$671,403, sick pay for \$1,447,365, and employee savings clause for \$1,749,330 (See Note 4) are accrued when incurred. Total accrued compensated absences are \$3,868,098 at June 30, 2017, of which \$908,405 is current and \$2,959,693 is noncurrent.
- f. Comparative Data & Reclassifications – Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in WESA's financial position and operations.
- g. Net Position – WESA classifies net position in the financial statements as follows:

Unrestricted Net Position typically includes unrestricted liquid assets.

Net position flow assumption - Sometimes WESA will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is WESA's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

- h. Implementation of New Pronouncement – There are no new GASB pronouncements that are applicable to WESA.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

i. Future Accounting Pronouncements

GASB has issued Statement No. 82, "*Pension Issues – an Amendment of GASB No. 67, No. 68, and No. 73.*" The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

- j. Reclassifications – Certain amounts in the June 30, 2016 financial statements have been reclassified to conform to the June 30, 2017 presentation.

2. CASH & CASH EQUIVALENTS:

Cash and cash equivalents is \$939,240 for June 30, 2017. All amounts are held in a financial institution. Cash and cash equivalents are strictly funded by EVMWD and Meeks & Daley for the repayment of the operating expenses incurred for the professional water and wastewater services.

The California Government Code and WESA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

The market value of pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure WESA deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

2. CASH & CASH EQUIVALENTS (Continued):

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. GASB Statement No. 40 requires disclosure if deposits into a financial institution are not covered by FDIC depository insurance and are uncollateralized.

As of June 30, 2017, the carrying amount of WESA's deposits was \$939,240 and the corresponding bank balance was \$966,442. The difference of \$27,202 was primarily due to outstanding warrants, wires, and deposits in transit. Of the bank balance, \$250,000 was insured by the FDIC depository insurance.

3. PREPAID EXPENSES:

The prepaid expense balance is \$11,290 for June 30, 2017, and represents advances for prepaid travel expenses.

4. EMPLOYEE SAVINGS CLAUSE PLAN:

WESA has two "savings clause" plans; one that is administered for the benefit of the Employee Association ("EA") for employees hired prior to January 1, 2012 and the other for the benefit of the Management Team Association ("MTA") for employees hired prior to January 1, 2013. EA employees hired after January 1, 2012 and MTA employees hired after January 1, 2013 are no longer eligible to the employee savings clause benefits. Both plans credit employees with 160 hours of savings allowance upon completion of 60 months of active service. Beginning with the 63rd month of active service, employees are credited with an additional 40 hours and receive 40 hours of additional savings clause accrual for each 12 months of active service thereafter, to a maximum total of 800 hours. Employees are paid the savings benefit at the rate of pay the employees were earning on their last day of employment with WESA. The balance accrued is reported with the compensated absences balance. The amount under this plan is \$1,749,330 and \$1,787,961 as of June 30, 2017 and June 30, 2016, respectively.

5. DEFERRED OUTFLOW OF RESOURCES AND DEFERRED INFLOW OF RESOURCES:

GASB 63 took effect for fiscal years beginning after December 31, 2011. The statement requires all public agencies to reclassify any deferred amounts into appropriate categories for all years presented, and disclose in the footnotes the effect of any such reclassification prior to fiscal year 2015, there were no applicable deferred outflows and inflows of resources for WESA.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

5. DEFERRED OUTFLOW OF RESOURCES AND DEFERRED INFLOW OF RESOURCES
(Continued):

Deferred outflow of resources is defined as the current *consumption* of net position that is applicable to a *future* reporting period while deferred inflows of resources is defined as the current *acquisition* of net position that is applicable to a *future* reporting period.

As of June 30, 2017, WESA reported a balance of \$8,021,300 in deferred outflow of resources; \$2,747,053 is the amount of the current year's employer pension contribution. \$5,274,247 represents the net difference between projected and actual earnings on pension plan investments.

As of June 30, 2017, WESA reported a balance of \$2,658,897 in deferred inflow of resources - employee pension actuarial. Detailed description of this account and how it was calculated is discussed in Note 6 (page 20).

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN):

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

General Information about the Pension Plans:

Plan Description

The Plan is an agent, multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System ("CalPERS"). A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not account purposes), and membership information are listed in the June 30, 2015, Annual Actuarial Valuation Report (funding valuation). Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)
(Continued):

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following; the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan operates under the provisions of the California Public Employees' Retirement Law ("PERL"), the California Public Employees' Pension Reform Act of 2013 ("PEPRA"), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases, require approval by the CalPERS Board.

The Plan's provisions and benefits in effect at June 30, 2017 are summarized as follows:

	Miscellaneous		
	Inactive before January 1, 2008	Active & Classic On or Before January 1, 2013	New Members On or After January 1, 2013
Hire Date			
Benefit Formula	2.0% @ 55	2.7% @ 55	2.0% @ 62
Benefit Vesting Schedule	5 years service	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life	monthly for life
Retirement Age	50 - 63	50 - 55	52 - 67
Monthly Benefits, as a % of Eligible Compensation	1.1% to 2.4%	2.0 % to 2.7%	1.0% to 2.0%
Required Employee Contribution Rates	7.0%	8.0%	6.75%
Required Employer Contribution Rates	21.926%	21.926%	21.926%

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)
(Continued):

Employees Covered

At June 30, 2017, the following employees were covered by the benefit terms:

	<u>Miscellaneous</u>
Inactive employees or beneficiaries currently receiving benefits	121
Inactive employees entitled to but not yet receiving benefits	254
Active employees	<u>161</u>
Total	<u><u>536</u></u>

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1st following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Employer Contributions to the Plan for the fiscal year ended June 30, 2017, were \$2,747,053.

Net Pension Liability

WESA's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)
(Continued):

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2015, valuation was rolled forward to determine the June 30, 2016, total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ⁽¹⁾	Derived using CALPERS' Membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance floor on purchasing power

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011 including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained at CalPERS' website at www.calpers.ca.gov under Forms and Publications.

Change in Assumption

There were no changes of assumptions.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The test revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)
(Continued):

The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (“PERF”). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff considered both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Considering historical returns of all the Public Employees Retirement Funds’ asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)
(Continued):

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective July 1, 2015.

Asset Allocation:

<u>Asset Class</u>	<u>Current Strategic Allocation</u>	<u>Real Return Years 1 -10 ¹</u>	<u>Real Return Years 11+ ²</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position:

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at www.calpers.ca.gov. The plan's fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)
(Continued):

Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at: 6/30/2015	\$ 78,079,621	\$ 59,780,252	\$ 18,299,369
Changes Recognized for the Measurement Period:			
* Service Cost	2,449,304		2,449,304
* Interest on the Total Pension liability	5,933,814		5,933,814
* Changes of Benefit Terms	-		-
* Differences between Expected and Actual Experience	(219,718)		(219,718)
* Plan to Plan Resource Movement	-		-
* Changes of Assumptions		-	-
* Contributions- employer		2,656,957	(2,656,957)
* Contributions- employee		972,455	(972,455)
* Net Investment Income		340,453	(340,453)
* Benefit Payments, including Refunds of Employee Contributions	(3,036,730)	(3,036,730)	-
* Administrative Expense		(36,433)	36,433
Net Changes during 2015-2016	\$ 5,126,670	\$ 896,702	\$ 4,229,968
Balance at: 6/30/2016	\$ 83,206,291	\$ 60,676,954	\$ 22,529,337

The fiduciary net position includes receivables for employee's service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. As described on prior page, this may differ from the plan assets reported in funding actuarial valuation report.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)
(Continued):

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Miscellaneous Plans' Net Pension Liability / (Asset)	\$ 34,653,526	\$ 22,529,337	\$ 12,608,391

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)
(Continued):

The EARS� for the Plan for measurement period ending the June 30, 2016 measurement is 2.9 years, which was obtained by dividing the total service years of 1,544 (the sum of remaining service lifetimes of the active employees) by 536 (the total number of participants: active, inactive, and retired). Inactive employees and retirees have remaining service lifetimes equal to -0-. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Pension Expense/(Income) for Measurement Period ended June 30, 2016

As of the start of the measurement period (July 1, 2015), the net pension liability was \$18,299,369.

For the measurement period ending June 30, 2016 (the measurement date), the Authority incurred a pension expense/(income) of \$2,747,053 for the Plan. A complete breakdown of the pension expense is as follows:

Description	Amount
Service Cost	\$ 2,449,304
Interest on the Total Pension Liability	5,933,814
Changes of Benefit Terms	-
Recognized Differences between Expected and Actual Experience	(171,400)
Recognized Changes of Assumptions	(489,692)
Net Plan to Plan Resource Movement	-
Employee Contributions	(972,455)
Projected Earnings on Pension Plan Investments	(4,584,609)
Recognized Differences between Projected and Actual Earnings on Plan Investments	510,329
Administrative Expense	36,433
Other Miscellaneous Income	35,329
Total Pension Expense/(Income)	\$ 2,747,053

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)
(Continued):

Deferred Outflows and Deferred Inflows of Resources Related to Pensions:

The following table represents deferred outflows and deferred inflows of resources related to pensions as of June 30, 2016. Note that no adjustments have been made for contributions subsequent to the measurement date. Appropriate treatment of any contributions made after the measurement date is the responsibility of the employer.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,747,053	
Differences between Expected and Actual Experience	-	\$ (489,692)
Changes in Assumptions	-	(239,588)
Net Difference between Projected and Actual Earnings on Pension Plan Investment	5,274,247	(1,929,617)
Total	\$ 8,021,300	\$ (2,658,897)

\$2,747,053 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources (net amount of \$2,615,350) related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2017	\$ (150,763)
2018	442,142
2019	1,475,139
2020	848,832
2021	-
Thereafter	-

Note: For employers with June 30th year-end, the fiscal year will be one year later than the measurement period. For example, the 2017 measurement period presented in the above table will be listed as year 2018 in the employer's fiscal year ending June 30, 2017 financial statements.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

6. WESA EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)
(Continued):

Payable to the Pension Plan

At June 30, 2017, the Authority reported a payable of \$124,022 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

7. RISK MANAGEMENT:

WESA is a member of the Association of California Water Agencies Joint Powers Insurance Authority (“JPIA”).

- a. Description of the JPIA – The JPIA is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. Seq. The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.
- b. Self-Insurance Programs of the JPIA – At June 30, 2017 WESA’s participation in the self-insurance programs of the JPIA are as follows:

Workers’ Compensation: Insured for statutory limits, and Employer’s Liability is insured up to \$2,000,000 per accident and \$2,000,000 per disease. With a \$15,000 retrospective allocation point, the JPIA is self-insured up to \$2,000,000 and excess insurance coverage has been purchased.

General Liability: Insured up to \$60,000,000 per occurrence with a \$50,000 retrospective allocation point. The JPIA is self-insured up to \$2,000,000 and excess insurance coverage has been purchased.

Public Officials Liability: Insured up to \$60,000,000 per occurrence with a \$50,000 retrospective allocation point. The JPIA is self-insured up to \$2,000,000 and excess insurance coverage has been purchased.

Errors and Omissions: Insured up to \$60,000,000 per occurrence with a \$50,000 retrospective allocation point. The JPIA is self-insured up to \$2,000,000 and excess insurance coverage has been purchased.

- c. Employee Dishonest/Crime Supplement – Insured up to \$100,000 per occurrence with a \$1,000 deductible for employee dishonesty which covers all employees, the Board of Directors, and the Treasurer. Insured up to \$100,000 per occurrence with a \$1,000 deductible for forgery or alteration. Insured up to \$100,000 per occurrence with a \$1,000 deductible for computer fraud. JPIA is self-insured up to \$100,000 per loss.

WATER EMPLOYEE SERVICES AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

7. RISK MANAGEMENT (Continued):

Separate financial statements of JPIA can be obtained at 2100 Professional Drive, Roseville, CA 95661.

For the past four fiscal years, WESA has had no settlements exceeding insurance coverage for these categories of risk. At June 30, 2017, in the opinion of legal counsel, WESA had no material claims which would require loss provision in the financial statements and therefore no claims liability has been recorded.

8. RELATED PARTY TRANSACTIONS:

The net receivable or net due from (to) EVMWD as of June 30th, 2017 was \$17,101,470. This amount represents the combined pension receivable of \$17,166,934 (non-current asset) and \$65,464 of accounts payable from personnel and related operating expenses (current liabilities).

WATER EMPLOYEE SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017

*Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Years**

Measurement Period	2016	2015	2014
TOTAL PENSION LIABILITY			
Service Cost	\$ 2,449,304	\$ 2,408,523	\$ 2,458,216
Interest	5,933,814	5,551,505	5,183,730
Changes of Benefit Terms	-	-	-
Changes of Assumptions	-	(1,469,076)	-
Difference Between Expected and Actual Experience	(219,718)	(286,905)	-
Benefit Payments, Including Refunds of Employee Contributions	(3,036,730)	(2,489,673)	(2,327,994)
Net Change in Total Pension Liability	5,126,670	3,714,374	5,313,952
Total Pension Liability - Beginning	78,079,621	74,365,247	69,051,295
Total Pension Liability - Ending (a)	\$ 83,206,291	\$ 78,079,621	\$ 74,365,247
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	\$ 2,656,957	\$ 2,500,495	\$ 2,232,962
Contributions - Employee	972,455	967,375	1,026,237
Net Investment Income	340,453	1,296,452	8,461,126
Benefit Payments, Including Refunds of Employee Contributions	(3,036,730)	(2,489,673)	(2,327,994)
Administrative Expense	(36,433)	(67,288)	-
Net Change in Fiduciary Net Position	896,702	2,207,361	9,392,331
Plan Fiduciary Net Position - Beginning	59,780,252	57,572,891	48,180,560
Plan Fiduciary Net Position - Ending (b)	\$ 60,676,954	\$ 59,780,252	\$ 57,572,891
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 22,529,337	\$ 18,299,369	\$ 16,792,356
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.92%	76.56%	77.42%
Covered-Employee Payroll	\$ 12,648,198	\$ 12,307,222	\$ 11,676,322
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	178.12%	148.69%	143.82%

Notes to Schedule of Changes in Net Pension Liability and Related Ratios:

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in Assumptions: In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expenses.) In 2014, amounts reported were based on the 7.5 percent discount rate.

* Measurement period 2013-2014 (fiscal year 2015) was the 1st year of implementation, therefore, only three years are shown.

WATER EMPLOYEE SERVICES AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2017

*Schedule of Plan Contributions for the Measurement Periods Ended June 30
 Last 10 Years**

Fiscal Year	2017	2016	2015	2014
Actuarially Determined Contribution ¹	\$ - ⁽³⁾	\$ 2,656,957	\$ 2,500,495	\$ 2,232,962
Contributions in Relation to the Actuarially Determined Contribution	(2,747,053)	(2,658,544)	(2,501,159)	(2,232,962)
Contribution Deficiency (Excess)	-	(1,587)	(664)	-
Covered-Employee Payroll ²	12,528,752	12,648,098	12,307,222	11,676,322
Contributions as a Percentage of Covered-Employee Payroll ²	22.00%	21.01%	20.32%	19.12%

¹ Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

² Includes one year's payroll growth using 3.00 percent payroll assumption.

³ Information not available

* Measurement period 2013-2014 (fiscal year 2015) was the 1st year of implementation, therefore, only four years are shown.