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, 2018

WATER EMPLOYEE SERVICES AUTHORITY

A COMPONENT UNIT OF THE ELSINORE VALLEY MUNICIPAL WATER DISTRICT

TABLE OF CONTENTS

For the Fiscal Year Ended June 30, 2018
(With Comparative Amounts for the Fiscal Year Ended June 30, 2017)

ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

Independent Auditor's Report

To the Board of Directors
Water Employee Services Authority

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, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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, 2018, 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

Prior Year Comparative Information

We have previously audited the Authority's 2017 financial statements, and we expressed an unmodified opinion in our report dated November 9, 2017. In our opinion, the summarized comparative information presented herein, as of and for the year then ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
November 20, 2018

WATER EMPLOYEE SERVICES AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018
(With Comparative Amounts for the fiscal year ended June 30, 2017)

	JUNE 2018	JUNE 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	$ 949,623	$ 939,240
Accounts receivable	49,496	48,952
Accrued compensated absences, current portion (Note 1d and e)	939,509	908,405
Due from member agencies		
Meeks and Daley Water Company	4,877	19,427
Prepaid expenses (Note 3)	26,345	11,290
Total Current Assets	1,969,850	1,927,314
NONCURRENT ASSETS		
Due from Elsinore Valley Municipal Water District		
Pension receivable (Note 8)	19,059,810	17,166,934
Accrued compensated absences (Note 1d and e)	2,915,593	2,959,693
Total Noncurrent Assets	21,975,403	20,126,628
TOTAL ASSETS	23,945,253	22,053,941
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflows- employee pension contributions (Note 5 and 6)	2,908,487	2,747,053
Deferred outflows- employee pension actuarials (Note 5 and 6)	4,583,025	5,274,247
Total Deferred Outflows of Resources	7,491,512	8,021,300
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	111,819	-
Accrued expenses	371,672	397,619
Accrued compensated absences, current portion (Note 1d and e)	939,509	908,405
Payroll withholding liabilities	208,424	271,117
Due to Elsinore Valley Municipal Water District:		
Personnel and operating expenses (Note 8)	53,717	65,464
Total Current liabilities	1,685,142	1,642,605

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

WATER EMPLOYEE SERVICES AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018
(With Comparative Amounts for the fiscal year ended June 30, 2017)

	JUNE 2018	JUNE 2017
NONCURRENT LIABILITIES		
Accrued compensated cbsences (Note 1d and e)	2,915,593	2,959,693
Net pension liability (Note 6)	26,103,706	22,529,337
Total Non-Current Liabilities	29,019,298	25,489,030
TOTAL LIABILITIES	30,704,440	27,131,635
DEFERRED INFLOW OF RESOURCES		
Deferred inflows- employee pension actuarial (Note 5 and 6)	447,617	2,658,897
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 EMPLOYEE SERVICES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE 12 MONTHS ENDED JUNE 30, 2018
(With Comparative Amounts for the fiscal year ended June 30, 2017)

	JUNE 2018	JUNE 2017
OPERATING REVENUE:		
Charges for Services:		
Elsinore Valley Municipal Water District	$ 22,731,587	$ 20,364,814
Meeks and Daley Water Company	34,533	29,404
Other income	115,975	5,311
Total Operating Revenue	22,882,095	20,399,529
OPERATING EXPENSES:		
Salaries	11,397,218	11,444,511
Fringe benefits	10,927,024	8,738,074
Personnel related expenses	102,738	97,938
Licenses and maintenance agreements	-	200
Supplies and other expenses	108,127	123,070
Consulting and professional fees	105,482	34,534
Repairs and maintenance	-	448
Rent / lease expenses	5,852	6,060
Travel expenses	190,206	222,356
Legal expenses	44,725	21,753
Miscellaneous expenses	723	(289,415)
Total Operating Expenses	22,882,095	20,399,529
OPERATING INCOME (LOSS)	-	-
NET POSITION, beginning of the year	284,708	284,708
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 EMPLOYEE SERVICES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE 12 MONTHS ENDED JUNE 30, 2018
(With Comparative Amounts for the fiscal year ended June 30, 2017)

	JUNE 2018	JUNE 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from member agencies	$ 21,004,473	$ 19,374,848
Cash payments to employees for services	(20,603,609)	(20,236,891)
Cash payments to suppliers for goods and services	(390,481)	(172,029)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	10,382	(1,034,072)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	939,240	1,973,312
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 949,623	$ 939,240
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	3,574,369	4,229,968
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(544)	2,618
(Increase) decrease in due from member agencies:		
Elsinore Valley Municipal Water District	(1,891,628)	(1,013,399)
Meeks and Daley Water Company	14,550	(13,901)
(Increase) decrease in prepaid expenses	(16,111)	17,891
(Increase) decrease deferred outflow of resources	529,788	(2,857,527)
Increase (decrease) accounts payable	112,875	(102,576)
Increase (decrease) accrued expenses	(25,947)	(69,689)
Increase (decrease) payroll withholding	(62,693)	155,242
Increase (decrease) accrued compensated absences payable	(12,996)	23,484
Increase (decrease) deferred inflow of resources	(2,211,280)	(1,406,183)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 10,382	$ (1,034,072)

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

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 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.

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 $787,949, sick pay for $1,578,758, and employee savings clause for $1,488,395 are accrued when incurred. Total accrued compensated absences are $3,855,102 at June 30, 2018, of which $939,509 is current and $2,915,593 is noncurrent.

f. Comparative Data & Reclassifications – Comparative data for the prior year have been presented in certain sections of the accompanying financial statements 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 applied. It is WESA's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

h. Implementation of New Pronouncement - The Governmental Accounting Standards Board has issued the following Statements, which may affect the District's financial reporting in the future.

GASB has issued Statement No. 85," *Omnibus 2017".* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86, **"***Certain Debt Extinguishment Issues".* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

i. Future Accounting Pronouncements

GASB has issued Statement No. 83, "*Certain Asset Retirement Obligations*." This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 87, "*Leases*". The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 88, "*Certain Disclosures Related to Debt*". The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of the Statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89, "*Accounting for Interest Cost Incurred before the end of a Construction Period"*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

j. Reclassifications – There were no reclassifications made this fiscal year.

2. CASH & CASH EQUIVALENTS:

Cash and cash equivalents is $949,623 for June 30, 2018. All amounts are held in a financial institution. Cash and cash equivalents are strictly funded by EVMWD and Meeks & Daley Water Company 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.

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, 2018, the carrying amount of WESA's deposits was $949,623 and the corresponding bank balance was $967,810. The difference of $18,187 was primarily due to outstanding checks, 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 $26,345 for June 30, 2018 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 $1,488,395 and $1,749,330 as of June 30, 2018 and June 30, 2017, 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.

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.

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

As of June 30, 2018, WESA reported a balance of $7,491,512 in deferred outflow of resources; $2,908,487 is the amount of the current year's employer pension contribution. $4,583,025 represents the net difference between projected and actual earnings on pension plan investments.

As of June 30, 2018, WESA reported a balance of $447,617 in deferred inflow of resources - employee pension actuarial. Detailed description of this account and how it was calculated is discussed in Notes 6 (page 21).

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, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

<u>General Information about the Pension Plan:</u>

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, 2016, 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.

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, 2018 are summarized as follows:

	Miscellaneous		
Hire Date	Inactive before January 1, 2008	Active & Classic On or Before January 1, 2013	New Members On or After January 1, 2013
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%

The Remainder of this page is left blank intentionally

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

Employees Covered

At June 30, 2018, the following employees were covered by the benefit terms:

	Miscellaneous
Inactive employees or beneficiaries currently receiving benefits	134
Inactive employees entitled to but not yet receiving benefits	252
Active employees	158
Total	544

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. Payments made by the employer to satisfy contribution requirements that are identified by the person plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2018, were $2,908,487.

Net Pension Liability

The Authority'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, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

The Remainder of this page is left blank intentionally

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actutarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Table [1]	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Floor on Purchasing Power applies, 2.75% thereafter

[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 the actuarial valuation assumptions used in the June 30, 2016 valuation were based on the results on an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study Report may be accessed on the CalPERS website at www.calpers.ca.gov under Forms and Publications.

Change in Assumption

In 2017, the accounting discount rate reduced from 7.65 to 7.15 percent which resulted in a net increase of $5,623,164 in net pension liability and an increase of $1,449,330 in pension expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 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 7.15 percent discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent 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.

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

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.

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 on July 1, 2014.

Asset Allocation

Asset Class	Current Strategic Allocation	Real Return Years 1 -10 [1]	Real Return Years 11+ [2]
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%

[1] An expected inflation of 2.5% used for this period
[2] An expected inflation of 3.0% used for this period

The Remainder of this page is left blank intentionally

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

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.

The Remainder of this page is left blank intentionally

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: 6/30/2016	$ 83,206,291	$ 60,676,954	$ 22,529,337
Changes Recognized for the Measurement Period:			
* Service Cost	2,636,694		2,636,694
* Interest on the Total Pension liability	6,285,034		6,285,034
* Changes of Benefit Terms	-		-
* Changes of Assumptions	5,623,164.00	-	5,623,164
* Differences between Expected and Actual Experience	(579,128)		(579,128)
* Net Plan to Plan Resource Movement	-	(2,059.00)	2,059
* Contributions- employer		2,742,846	(2,742,846)
* Contributions- employee		979,078	(979,078)
* Net Investment Income		6,761,115	(6,761,115)
* Benefit Payments, including Refunds of Employee Contributions	(3,332,206)	(3,332,206)	-
* Administrative Expense		(89,585)	89,585
* Other Miscellaneous Income	-	-	-
Net Changes during 2016-2017	$ 10,633,558	$ 7,059,189	$ 3,574,369
Balance at: 6/30/2017	$ 93,839,849	$ 67,736,143	$ 26,103,706

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

The Remainder of this page is left blank intentionally

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 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

	Discount Rate -1% (6.15%)	**Current Discount Rate (7.15%)**	**Discount Rate + 1% (8.15%)**
Plan's Net PensionLiability / (Asset)	$40,085,884	$26,103,706	$14,711,685

Subsequent Events

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

Amortization of Deferred Outflows and Deferred Inflows of Resources:

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

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

Expected Average Remaining Service Lifetime ("EARSL"):

The EARSL for the Plan for measurement period ending the June 30, 2017 measurement is 2.9 years, which was obtained by dividing the total service years of 1,560 (the sum of remaining service lifetimes of the active employees) by 544 (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, 2017

As of the start of the measurement period (July 1, 2016), the net pension liability was $22,529,337.

For the measurement period ending June 30, 2017 (the measurement date), the Authority incurred a pension expense/(income) of $4,797,157 for the Plan. A complete breakdown of the pension expense is as follows:

Description	Amount
Service Cost	$ 2,636,694
Interest on the Total Pension Liability	6,285,034
Changes of Benefit Terms	-
Recognized Changes of Assumptions	1,449,330
Recognized Differences between Expected and Actual Experience	(371,099)
Net Plan to Plan Resource Movement	2,059
Employee Contributions	(979,078)
Projected Earnings on Pension Plan Investments	(4,341,843)
Recognized Differences between Projected and Actual Earnings on Plan Investments	26,475
Administrative Expense	89,585
Other Miscellaneous Income	-
Total Pension Expense/(Income)	**$ 4,797,157**

The Remainder of this page is left blank intentionally

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 the June 30, 2017 measurement date. 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	$ 2,908,487	
Changes in Assumptions	3,684,142	-
Differences between Expected and Actual Experience	-	$ (447,617)
Net Difference between Projected and Actual Earnings on Pension Plan Investment	898,883	-
Total	$ 7,491,512	$ (447,617)

$2,908,487 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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources (net amount of $4,135,408) related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2018	$ 1,697,611
2019	2,556,675
2020	364,978
2021	(483,856)
2022	-
Thereafter	-

Note: For employers with June 30th year-end, the fiscal year will be one year later than the measurement period. For example, the 2018 measurement period presented in the above table will be listed as year 2019 in the employer's fiscal year ending June 30, 2018 financial statements.

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

Payable to the Pension Plan

At June 30, 2018, the Authority reported a payable of $291,643 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

7. RISK MANAGEMENT:

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

a. Description of the Authority – The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. Seq. The purpose of the Authority 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 Authority – At June 30, 2018 WESA's participation in the self-insurance programs of the Authority 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 Authority 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 Authority 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 Authority 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 Authority 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.

7. RISK MANAGEMENT (Continued):

Separate financial statements of the Authority can be obtained at 5620 Birdcage St. Suite 200, Citrus Heights, CA 95610.

For the past five fiscal years, WESA had no settlements exceeding insurance coverage for these categories of risk. At June 30, 2018, 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 from EVMWD of $19,006,093 represents the net of the pension receivable of $19,059,810 and the current payable of $53,717 from personnel and related operating expenses as of June 30, 2018.

WATER EMPLOYEE SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Schedule of Changes in Net Pension Liability and Related Ratios for the Measurement Periods Ended June 30

Last 10 Years*

Measurement Period	**2017**	**2016**	**2015**	**2014**
TOTAL PENSION LIABILITY				
Service Cost	$ 2,636,694	$ 2,449,304	$ 2,408,523	$ 2,458,216
Interest on Total Pension Liability	6,285,034	5,933,814	5,551,505	5,183,730
Changes of Benefit Terms	-	-	-	-
Changes of Assumptions	5,623,164	-	(1,469,076)	-
Difference Between Expected and Actual Experience	(579,128)	(219,718)	(286,905)	-
Benefit Payments, Including Refunds of Employee Contributions	(3,332,206)	(3,036,730)	(2,489,673)	(2,327,994)
Net Change in Total Pension Liability	**10,633,558**	**5,126,670**	**3,714,374**	**5,313,952**
Total Pension Liability - Beginning	**83,206,291**	**78,079,621**	**74,365,247**	**69,051,295**
Total Pension Liability - Ending (a)	**$ 93,839,849**	**$ 83,206,291**	**$ 78,079,621**	**$ 74,365,247**
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	$ 2,742,846	$ 2,656,957	$ 2,500,495	$ 2,232,962
Contributions - Employee	979,078	972,455	967,375	1,026,237
Net Investment Income	6,761,115	340,453	1,296,452	8,461,126
Benefit Payments, Including Refunds of Employee Contributions	(3,332,206)	(3,036,730)	(2,489,673)	(2,327,994)
Net Plan to Plan Resource Movement	(2,059)			
Administrative Expense	(89,585)	(36,433)	(67,288)	-
Other Miscellaneous Income	-	-	-	-
Net Change in Fiduciary Net Position	**7,059,189**	**896,702**	**2,207,361**	**9,392,331**
Plan Fiduciary Net Position - Beginning	**60,676,954**	**59,780,252**	**57,572,891**	**48,180,560**
Plan Fiduciary Net Position - Ending (b)	**$ 67,736,143**	**$ 60,676,954**	**$ 59,780,252**	**$ 57,572,891**
Plan Net Position Liability/(Asset) - Ending (a) - (b)	**$ 26,103,706**	**$ 22,529,337**	**$ 18,299,369**	**$ 16,792,356**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.18%	72.92%	76.56%	77.42%
Covered-Employee Payroll	**$ 12,560,469**	**$ 12,648,198**	**$ 12,307,222**	**$ 11,676,322**
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payro	**207.82%**	**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, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden

Changes in Assumptions: In 2017, the accounting discount rate reduced from 7.65 to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment for the discoun rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) 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 four years are shown.

WATER EMPLOYEE SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Schedule of Plan Contributions for the Measurement Periods Ended June 30 [1]

Last 10 Years*

Fiscal Year	**2018**	**2017**	**2016**	**2015**	**2014**
Actuarially Determined Contribution [2]	[4]	$ 2,742,846	$ 2,656,957	$ 2,500,495	$ 2,232,962
Contributions in Relation to the Actuarially Determined Contribution [2]	(2,908,487)	(2,747,053)	(2,658,544)	(2,501,159)	(2,232,962)
Contribution Deficiency (Excess)		(4,207)	(1,587)	(664)	-
Covered-Employee Payroll [3]	$ 12,156,918	$ 12,560,469	$ 12,648,098	$ 12,307,222	$ 11,676,322
Contributions as a Percentage of Covered-Employee Payroll [3]	23.92%	21.87%	21.02%	20.32%	19.12%

[1] As prescribed in GASB 68, paragraph 46, the information presented in the Schedule of Plan Contributions should also be presented as the employer's most recent fiscal year-end. The employer is responsible for determining this information as prescribed by the standard as this data is not available to CalPERS.

[2] 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.

[3] Includes one year's payroll growth using 3.00 percent payroll assumption.

[4] Information not available

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