FOR THE FISCAL YEAR ENDED JUNE 30, 2019

WESA
Water Employee Services Authority

ANNUAL FINANCIAL REPORT

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, 2019

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WATER EMPLOYEE SERVICES AUTHORITY
A COMPONENT UNIT OF THE ELSINORE VALLEY MUNICIPAL WATER DISTRICT

For The Fiscal Year Ended June 30, 2019
(With Comparative Amounts For The Fiscal Year Ended June 30, 2018)

INDEPENDENT AUDITOR'S REPORT

For The Fiscal Year Ended June 30, 2019

WESA
Water Employee Services Authority

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Independent Auditor's Report

To the Board of Directors
Water Employee Services Authority
Lake Elsinore, California

Report on the Financial Statements

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, 2019, and the related notes to the financial statements, which collectively comprise the 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.

STABILITY. ACCURACY. TRUST.

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, 2019, 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 2018 financial statements, and we expressed an unmodified opinion in our report dated November 20, 2018. In our opinion, the summarized comparative information presented herein, as of and for the year then ended June 30, 2018, 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 22, 2019 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
November 22, 2019

BASIC FINANCIAL STATEMENTS

For The Fiscal Year Ended June 30, 2019

WESA
Water Employee Services Authority

STATEMENT OF NET POSITION
AS OF JUNE 30, 2019
(With Comparative Amounts as of June 30, 2018)

	JUNE 2019	JUNE 2018
ASSETS:		
Current Assets		
Cash and Cash Equivalents (Note 2)	$ 1,032,498	$ 949,623
Accounts Receivable	34,497	49,496
Accrued Compensated Absences, current portion (Note 1d & e)	878,861	939,509
Due from Member Agencies:		
Meeks and Daley Water Company	19,299	4,877
Prepaid Expenses (Note 3)	130,914	26,345
Total Current Assets	2,096,069	1,969,850
Noncurrent Assets		
Due from Elsinore Valley Municipal Water District:		
Pension Receivable (Note 8)	20,435,719	19,059,810
Accrued Compensated Absences (Note 1d & e)	3,381,567	2,915,593
Total Noncurrent Assets	23,817,286	21,975,403
Total Assets	25,913,355	23,945,253
DEFERRED OUTFLOW OF RESOURCES:		
Deferred Outflows- Employee Pension Contributions (Note 5 & 6)	3,303,806	2,908,487
Deferred Outflows- Employee Pension Actuarials (Note 5 & 6)	1,911,909	4,583,025
Total Deferred Outflows of Resources	5,215,715	7,491,512
LIABILITIES:		
Current Liabilities		
Accounts Payable	29,727	111,819
Accrued Expenses	414,792	371,672
Accrued Compensated Absences, current portion (Note 1d & e)	878,861	939,509
Payroll Withholding Liabilities	-	208,424
Due to Elsinore Valley Municipal Water District:		
Personnel and Operating Expenses (Note 8)	487,981	53,717
Total Current Liabilities	1,811,361	1,685,141

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

STATEMENT OF NET POSITION
AS OF JUNE 30, 2019
(With Comparative Amounts as of June 30, 2018)

	JUNE 2019	JUNE 2018
Noncurrent Liabilities		
Accrued Compensated Absences (Note 1d & e)	$ 3,381,567	$ 2,915,593
Net Pension Liability (Note 6)	24,836,475	26,103,706
Total Noncurrent Liabilities	28,218,042	29,019,299
Total Liabilities	30,029,403	30,704,440
DEFERRED INFLOW OF RESOURCES:		
Deferred Inflows- Employee Pension Actuarial (Note 5 & 6)	814,959	447,617
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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(With Comparative Amounts for the Fiscal Year Ended June 30, 2018)

	JUNE 2019	JUNE 2018
OPERATING REVENUES:		
Charges for Services:		
Elsinore Valley Municipal Water District	$ 24,531,931	$ 22,731,587
Meeks and Daley Water Company	37,698	34,533
Other Income	10,274	115,975
Total Operating Revenues	24,579,903	22,882,095
OPERATING EXPENSES:		
Salaries	12,511,667	11,397,218
Fringe Benefits	11,087,735	10,927,024
Personnel Related Expenses	114,044	102,738
General Liability & Property Insurance	355,888	-
Supplies and Other Expenses	112,218	108,127
Consulting and Professional Fees	109,156	105,482
Repairs and Maintenance	15,713	-
Rent/Lease Expenses	6,384	5,852
Travel Expenses	243,109	190,206
Legal Expenses	20,576	44,725
Miscellaneous Expenses	3,413	723
Total Operating Expenses	24,579,903	22,882,095
OPERATING INCOME / (LOSS)	-	-
NET POSITION, BEGINNING OF YEAR	284,708	284,708
NET POSITION, END OF YEAR	$ 284,708	$ 284,708

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(With Comparative Amounts for the Fiscal Year Ended June 30, 2018)

	JUNE 2019	JUNE 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from member agencies	$23,233,509	$21,004,473
Cash payments to employees for services	(22,104,649)	(20,603,609)
	(1,045,985)	(390,481)
Net Cash Provided/(Used) by Operating Activities	82,875	10,383
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	949,623	939,240
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,032,498	$ 949,623

RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED BY/(USED FOR) OPERATING ACTIVITIES:

	JUNE 2019	JUNE 2018
Operating Income/(Loss)	$ -	$ -
Adjustment to reconcile operating loss to net cash provided (used) by operating activities:		
Net Pension expense	(1,267,231)	3,574,369
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivable	14,999	(544)
(Increase)/decrease in due from member agencies:		
Elsinore Valley Municipal Water District	(1,346,972)	(1,891,628)
Meeks and Daley Water Company	(14,421)	14,550
(Increase)/decrease in prepaid expenses	(104,569)	(16,111)
Increase/(decrease) in accounts payable	(82,092)	112,875
Increase/(decrease) in accrued expenses	50,720	(25,947)
Increase/decrease) in payroll withholding	(216,024)	(62,693)
Increase/(decrease) in accrued compensated absences payable	405,326	(12,996)
(Increase)/decrease in deferred outflow of resources	2,275,798	529,788
Increase/(decrease) in deferred inflow of resources	367,342	(2,211,280)
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	$ 82,876	$ 10,383

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For The Fiscal Year Ended June 30, 2019

WESA
Water Employee Services Authority

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 units 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.

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 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 $913,383, sick pay for $1,854,492, and employee savings clause for $1,492,553 are accrued when incurred. Total accrued compensated absences are $4,260,428 at June 30, 2019, of which $878,861 is current and $3,381,567 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.

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 Statement No. 83, *"Certain Asset Retirement Obligations."* The objective of this Statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2019. This new pronouncement is not applicable to WESA for the period ending June 30, 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 the 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 30, 2019. This new pronouncement is not applicable to WESA for the period ending June 30, 2019.

GASB Statement No. 90, "Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61)". The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. This new pronouncement is not applicable to WESA for the period ending June 30, 2019.

i. Future Accounting Pronouncements

GASB Statement No. 84, "Fiduciary Activities". This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements are the fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 31, 2019.

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 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 31, 2020.

GASB Statement No.89, "Accounting for Interest Cost Incurred before the end of a Construction Period". The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for certain interest costs. 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 31, 2020.

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

2. CASH & CASH EQUIVALENTS:

Cash and cash equivalents is $1,032,498 for June 30, 2019. 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.

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, 2019, the carrying amount of WESA's deposits was $1,032,498 and the corresponding bank balance was $1,167,645. The difference of $135,147 was primarily due to outstanding checks, wires, and deposits in transit. Of the bank balance, $250,000 was insured by the FDIC depository insurance, the remaining amount is fully collateralized as described above.

3. PREPAID EXPENSES:

The prepaid expense balance is $130,914 for June 30, 2019 and represents advances for prepaid travel expenses and general liability insurance related to WESA employees. The general liability insurance expense was paid for by the District in previous years. To properly account for WESA's liability that may result from the actions of its employees, WESA started paying for this insurance expense beginning FY 2019.

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. Effective January 1, 2018, employees were granted the option to cash out their savings clause early, without the ability or right to continue to earn any additional savings clause and/or to receive any savings clause at retirement or termination. The balance accrued is reported with the compensated absences balance. The balance accrued is reported with the compensated absences balance. The amount under this plan was $1,492,553 and $1,488,395 as as of June 30, 2019 and June 30, 2018, respectively.

5. DEFERRED OUTFLOW 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.

As of June 30, 2019, WESA reported a balance of $5,215,715 in deferred outflow of resources; $3,303,806 is the amount of the current year's employer pension contribution. $1,911,909 represents the net difference between projected and actual earnings on pension plan investments.

As of June 30, 2019, WESA reported a balance of $814,959 in deferred inflow of resources - employee pension actuarial. Detailed description of this account and how it was calculated is discussed in Note 6.

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

Overview

Governmental Accounting Standards Board (GASB) Statement No.68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (GASB 68), requires public employers to comply with new accounting and financial reporting standards. GASB 68 outlines a different approach to the recognition and calculation of pension obligations. Under GASB 68, employers that participate in a defined benefit pension plan administered as a trust or equivalent arrangement are required to record their portion of the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position.

Net pension liability is the plan's total pension liability based on the entry age normal actuarial cost method less the plan's fiduciary net position. This may be a net pension asset when the Plan's fiduciary net position exceeds its total pension liability.

Pension expense is the change in net pension liability from the previous reporting period to the current reporting period less adjustments. This may be a negative expense (pension income), which should be reported as a credit in pension expense.

Deferred outflows of resources and deferred inflows of resources related to pensions are certain changes in total pension liability and fiduciary net position that are to be recognized in future pension expense.

Summary of Significant Accounting Policies

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, 2017
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	July 1, 2017 to June 30, 2018

General Information about the Pension Plan:

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, 2017, 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.

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 or 52 depending on the plan, 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 Plans' provisions and benefits in effect at June 30, 2019, 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	7.00%	8.00%	6.75%
Required Employer Contribution Rates	12.20%	12.20%	12.20%
Employer Payment of Unfunded Liability	12.77%	12.77%	12.77%

Employees Covered

At June 30, 2019, the following employees were covered by the benefit terms:

	Miscellaneous
Inactive employees or beneficiaries currently receiving benefits	145
Inactive employees entitled to but not yet receiving benefits	259
Active employees	150
Total	554

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, 2019, were $3,303,806.

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, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2017 valuation was rolled forward to determine the June 30, 2018 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
Actutarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
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, 2.50% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the Dcember 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Long-term Expected Rate of Return

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 expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 fund. The expected rate of return was set by calculating the rounded 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 to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The Expected real rates of return by asset are as follows:

Asset Class (1)	Assumed Asset Allocation	Real Return Years 1-10 (2)	Real Return Years 11+ (3)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0	1.0	2.62
Inflation Assets	0.0	0.77	1.81
Private Equity	8.0	6.3	7.23
Real Assets	13.0	3.75	4.93
Liquidity	1.0	0	-0.92

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is includedd in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.0% used for this period.

(3) An expected inflation of 2.92% used for this period.

Change in Assumption

In 2018, the accounting discount rate remained at 7.15 percent which resulted in a net decrease of $682,360 in total pension liability and an increase of $1,703,725 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.

Asset Allocation

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.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (c) = (a) - (b)
Balance at: 6/30/2017	$93,839,849	$67,736,143	$26,103,706
Beginning of Year Adjustment	-	-	-
Adjusted Balance at: June 30, 2017	93,839,849	67,736,143	26,103,706
Changes Recognized for the Measurement Period:			
Service Cost	2,466,139	-	2,466,139
Interest on the Total Pension liability	6,593,931	-	6,593,931
Changes of Assumptions	(682,360)	-	(682,360)
Differences between Expected and Actual Experience	(287,200)	-	(287,200)
Net Plan to Plan Resource Movement	-	(169)	169
Contributions- employer	-	2,907,458	(2,907,458)
Contributions- employee	-	1,041,634	(1,041,634)
Net Investment Income	-	5,714,814	(5,714,814)
Benefit Payments, including Refunds of Employee Contributions	(3,761,071)	(3,761,071)	-
Administrative Expense	-	(105,552)	105,552
Other Miscellaneous Income/(Expense) (1)	-	(200,444)	200,444
Net Changes during 2017-2018	$4,329,439	$5,596,670	$(1,267,231)
Balance at: 6/30/2018	$98,169,288	$73,332,813	$24,836,475

(1) During the Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CALPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California agent pension plans during Fiscal Year 2017-18 CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial for Pensions (GASB 68).

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)	$39,078,751	$24,836,475	$13,187,893

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

Expected Average Remaining Service Lifetime ("EARSL"):

The EARSL for the Plan for measurement period ending the June 30, 2018 measurement is 2.9 years, which was obtained by dividing the total service years of 1,590 (the sum of remaining service lifetimes of the active employees) by 554 (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.

<u>Pension Expense/(Income) for Measurement Period ended June 30, 2018</u>

As of the start of the measurement period (July 1, 2017), the net pension liability was $26,103,706.

For the measurement period ending June 30, 2018 (the measurement date), the Authority incurred a pension expense/(income) of $4,678,685 for the Plan. A complete breakdown of the pension expense is as follows:

Description	Amount
Service Cost	$ 2,466,139
Interest on the Total Pension Liability	6,593,931
Changes of Benefit Terms	-
Recognized Changes of Assumptions	1,703,725
Recognized Differences between Expected and Actual Experience	(366,921)
Net Plan to Plan Resource Movement	169
Employee Contributions	(1,041,634)
Projected Earnings on Pension Plan Investments	(4,832,792)
Recognized Differences between Projected and Actual Earnings on Plan Investments	(149,928)
Administrative Expense	105,552
Other Miscellaneous Income/(Expense) (1)	200,444
Total Pension Expense/(Income)	**$ 4,678,685**

(1) During the Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CALPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California agent pension plans during Fiscal Year 2017-18 CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial for Pensions (GASB 68).

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, 2018 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	$ 3,303,806	$ -
Changes in Assumptions	1,745,120	(447,063)
Differences between Expected and Actual Experience	-	(367,896)
Net Difference between Projected and Actual Earnings on Pension Plan Investment	166,789	-
Total	$ 5,215,715	$ (814,959)

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Periods Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2019	$2,045,940
2020	(112,324)
2021	(660,260)
2022	(176,406)
2023	-
Thereafter	-

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 the 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, 2019 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. Authority is self-insured up to $2,000,000 and excess insurance coverage has been purchased. The Authority's retrospective allocation point is $250 per occurrence.

General, Automobile, Employment Practices & Public Officials' Liability: Broad coverage against third-party claims for the District, its directors, employees and volunteers. Covered up to the following limits: the JPIA pools for the first $5,000,000 and purchases excess coverage with limit up to $60,000,000 with aggregated policy limits. The District retrospective allocation point is $50,000 per occurrence.

Cyber Liability: Including Cyber Security up to $3,000,000 per occurrence and $5,000,000 Aggregate Limit. Cyber Liability Deductible varies from $10,000 to $50,000 depending on the Authority's revenue.

c. Employee Dishonesty/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.

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, 2019, 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 $19,947,738 represents the net of the pension receivable of $20,435,719 and the current payable of $487,981 from personnel and related operating expenses as of June 30, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

For The Fiscal Year Ended June 30, 2019

WESA
Water Employee Services Authority

Schedule of Changes in Net Pension Liability and Related Ratios for the Measurement Periods Ended June 30
Last 10 Years (3)

Measurement Period	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY:					
Service Cost	$ 2,466,139	$ 2,636,694	$ 2,449,304	$ 2,408,523	$ 2,458,216
Interest on Total Pension Liability	6,593,931	6,285,034	5,933,814	5,551,505	5,183,730
Changes of Assumptions	(682,360)	5,623,164	-	(1,469,076)	-
Difference Between Expected and Actual Experience	(287,200)	(579,128)	(219,718)	(286,905)	-
Benefit Payments, Including Refunds of Employee Contributions	(3,761,071)	(3,332,206)	(3,036,730)	(2,489,673)	(2,327,994)
Net Change in Total Pension Liability	**4,329,439**	**10,633,558**	**5,126,670**	**3,714,374**	**5,313,952**
Total Pension Liability - Beginning	93,839,849	83,206,291	78,079,621	74,365,247	69,051,295
Total Pension Liability - Ending (a)	**$ 98,169,288**	**$ 93,839,849**	**$ 83,206,291**	**$ 78,079,621**	**$ 74,365,247**
PLAN FIDUCIARY NET POSITION:					
Contributions - Employer	2,907,458	2,742,846	2,656,957	2,500,495	2,232,962
Contributions - Employee	1,041,634	979,078	972,455	967,375	1,026,237
Net Investment Income	5,714,814	6,761,115	340,453	1,296,452	8,461,126
Benefit Payments, Including Refunds of Employee Contributions	(3,761,071)	(3,332,206)	(3,036,730)	(2,489,673)	(2,327,994)
Net Plan to Plan Resource Movement	(169)	(2,059)	-	-	-
Administrative Expense	(105,552)	(89,585)	(36,433)	(67,288)	-
Other Miscellaneous Income (1)	(200,444)	-	-	-	-
Net Change in Fiduciary Net Position	**5,596,670**	**7,059,189**	**896,702**	**2,207,361**	**9,392,331**
Plan Fiduciary Net Position - Beginning (2)	67,736,143	60,676,954	59,780,252	57,572,891	48,180,560
Plan Fiduciary Net Position - Ending (b)	**$ 73,332,813**	**$ 67,736,143**	**$ 60,676,954**	**$ 59,780,252**	**$ 57,572,891**
Plan Net Position Liability/(Asset) - Ending (a) - (b)	**$ 24,836,475**	**$ 26,103,706**	**$ 22,529,337**	**$ 18,299,369**	**$ 16,792,356**

	2018	2017	2016	2015	2014
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	**74.7%**	**72.2%**	**72.9%**	**76.6%**	**77.4%**
Covered Payroll	$ 12,085,954	$ 12,560,469	$ 12,648,198	$ 12,307,222	$ 11,676,322
Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll	**205.5%**	**207.8%**	**178.1%**	**148.7%**	**143.8%**

(1) During Fiscal year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CalPERS reported proportionate share of activity related to postemployment benefits for partificipation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a corection to previously reported financial statements to propertly reflect is proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

(2) Includes any beginning of year adjustment

(3) Measurement period 2013-2014 (fiscal year2015) was the 1st year of implementation, therefore, only five years are shown.

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, 2017 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 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. 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 expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

Schedule of Plan Contributions for the Fiscal Years Ended June 30 [1]
Last 10 Years [5]

Employer Fiscal Year End	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution [2]	[4]	$ 2,907,458	$ 2,742,846	$ 2,656,957	$ 2,500,495	$ 2,232,962
Contributions in Relation to the Actuarially Determined Contribution [2]	(3,303,806)	(2,907,458)	(2,742,846)	(2,656,957)	(2,500,495)	(2,232,962)
Contribution Deficiency (Excess)	$ (3,303,806)	$ -	$ -	$ -	$ -	$ -
Covered Payroll [3]	$ 13,200,674	$ 12,085,954	$ 12,560,469	$ 12,648,098	$ 12,307,222	$ 11,676,322
Contributions as a Percentage of Covered Payroll [3]	25.03%	24.06%	21.87%	21.02%	20.32%	19.12%

[1] As prescribed in GASB 68, paragraph 46, the information in the Schedule of Plan Contributions should also be presented as of 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 chose 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 2.75 percent payroll assumption for fiscal year ended June 30, 2018; 3.0 percent payroll assumption for fiscal years ended June 30, 2014-17.

[4] Information not available

[5] Measurement period 2013-2014 (fiscal year 2015) was the 1st year of implementation, therefore, only six years are shown.

Notes to Schedule of Plan Contributions:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 were derived from the June 30, 2015 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2015 Funding Valuation Report.
Asset Valuation Method	Market Value of Assets. For details, see June 30, 2015 Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses; includes inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of Retirement of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

Other Information:

For changes to previous' year's information, refer to past GASB 68 reports.