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, 2016

WATER EMPLOYEE SERVICES AUTHORITY

A COMPONENT UNIT OF THE ELSINORE VALLEY MUNICIPAL WATER DISTRICT

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For the Fiscal Year Ended June 30, 2016
(With Comparative Amounts for the Fiscal Year Ended June 30, 2015)

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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, 2016, 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. 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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Rogers, Anderson, Malody & Scott, LLP

San Bernardino, California
November 16, 2016

WATER EMPLOYEES SERVICES AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2016
(With Comparative Amounts for the fiscal year ended June 30, 2015)

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,973,312	$ 2,480,485
Accounts receivable	51,570	47,789
Accrued compensated absences, current portion	907,074	875,141
Due from member agencies:		
Elsinore Valley Municipal Water District	-	-
Meeks and Daley Water Company	5,526	4,027
Prepaid expenses	28,125	136,889
Inventory	-	26,106
Total Current Assets	2,965,607	3,570,437
NONCURRENT ASSETS:		
Due from Elsinore Valley Municipal Water District		
Pension receivable	17,200,676	18,150,432
Accrued compensated absences	2,937,541	3,047,608
Capital assets, depreciated - net	-	1,573,192
Total Noncurrent Assets	20,138,217	22,771,232
TOTAL ASSETS	23,103,824	26,341,669
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows- employee pension contributions	2,658,544	2,501,159
Deferred outflows- actuarial	2,505,229	-
Total Deferred Outflows of Resources	5,163,773	2,501,159
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	101,521	122,274
Accrued expenses	467,308	369,446
Accrued compensated absences, current portion	907,074	875,141
Payroll withholding liabilities	115,875	130,134
Due to Elsinore Valley Municipal Water District:		
Personnel and operating expenses	1,089,122	1,788,736
Total Current Liabilities	2,680,900	3,285,731

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

WATER EMPLOYEES SERVICES AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2016
(With Comparative Amounts for the fiscal year ended June 30, 2015)

	2016	2015
NONCURRENT LIABILITIES:		
Accrued compensated absences	$ 2,937,541	$ 3,047,608
Net pension liability	18,299,369	16,792,356
Total Noncurrent Liabilities	21,236,910	19,839,964
TOTAL LIABILITIES	23,917,810	23,125,695
DEFERRED INFLOWS OF RESOURCES		
Deferred infows - employee pension actuarial	4,065,080	3,859,235
NET POSITION:		
Net investment in capital assets	-	1,573,192
Unrestricted	284,708	284,708
TOTAL NET POSITION	$ 284,708	$ 1,857,900

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

WATER EMPLOYEES SERVICES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FISCAL YEAR ENDED JUNE 30, 2016
(With Comparative Amounts for the fiscal year ended June 30, 2015)

	2016	2015
OPERATING REVENUE:		
Charges for Services:		
Elsinore Valley Municipal Water District	$ 20,975,912	$ 21,767,190
Meeks and Daley Water Company	24,350	25,227
PCard rebate	637	-
Total Operating Revenue	21,000,899	21,792,417
OPERATING EXPENSES:		
Salaries	11,480,520	11,176,312
Fringe benefits	7,910,539	8,256,734
Personnel related expenses	105,037	88,704
Maintenance agreements	401,687	855,927
Supplies and other expenses	303,732	329,439
Consulting, contractual and other outside services	33,143	29,442
Repairs and maintenance	271,336	494,792
Rent/Lease expense	160,387	264,992
Travel expenses	156,343	90,545
Legal expenses	40,101	64,451
General liability and property insurance	138,074	139,989
Bad debt expense	-	1,091
Depreciation	-	303,099
Total Operating Expenses	21,000,899	22,095,517
OPERATING INCOME (LOSS)	-	(303,100)
NON OPERATING INCOME (EXPENSES)		
Gain on disposal of assets	-	59,102
Capital Contributions	(1,573,192)	-
Total Non operating Income (Loss)	(1,573,192)	59,102
Change in Net Position	(1,573,192)	(243,998)
NET POSITION, beginning of the year	1,857,900	2,101,898
NET POSITION, end of year	$ 284,708	$ 1,857,900

Allow for rounding differences

The accompanying notes are an integral part of these financial statements

WATER EMPLOYEES SERVICES AUTHORITY
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED JUNE 30, 2016
(With Comparative Amounts for the fiscal year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from member agencies	$ 21,323,895	$ 2,893,056
Cash payments to employees for services	(20,429,731)	(925,634)
Cash payments to suppliers for goods and services	(1,401,337)	(2,148,534)
NET CASH (USED) BY OPERATING ACTIVITIES	(507,173)	(181,112)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase, construction, and disposal of capital assets	-	5,895
Proceeds from sale of assets	-	67,300
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES:	-	73,195
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(507,173)	(107,917)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,480,485	2,588,404
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,973,312	$ 2,480,486
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating Loss	$ -	$ (303,099)
Adjustment to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	-	303,099
Net pension expense	1,507,013	16,792,356
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,782)	(5,643)
(Increase) decrease in due from member agencies:		
Elsinore Valley Municipal Water District	328,276	(18,891,846)
Meeks and Daley Water Company	(1,499)	(1,872)
(Increase) decrease in prepaid expenses	108,765	101,441
(Increase) decrease in inventory	26,106	(1,271)
(Increase) decrease in deferred outflow of resources	(2,662,614)	(2,501,159)
Increase (decrease) in accounts payable	(20,753)	14,074
Increase (decrease) in accrued expenses	97,862	52,538
Increase (decrease) in payroll withholding	(14,259)	244,186
Increase (decrease) in accrued compensated absences	(78,134)	156,849
Increase (decrease) in deferred inflow of resources	205,845	3,859,235
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (507,173)	$ (181,112)
Schedule of Noncash Investing, Capital and Financing Activities:		
Capital Contributions	$ -	$ -

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 the EVMWD's Board of Directors and WESA provides services almost entirely to EVMWD.

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

a. <u>Basis of Accounting</u> – 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. <u>Use of Estimates</u> – 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. <u>Cash and Cash Equivalents</u> – 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. Capital Assets – On January 14, 2016, the Board approved the transfer of all capital assets of WESA back to EVMWD. It was determined to be economically efficient and more consistent with WESA's mission and purpose to keep all capital assets with EVMWD.

e. 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.

f. Inventory – On January 14, 2016, WESA transferred back all inventory items to EVMWD, based on Board approval of an amendment to the First Operating Agreement between EVMWD and WESA.

g. 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 $686,955, sick pay for $1,369,699, and employee savings clause for $1,787,961 are accrued when incurred. Total accrued compensated absences are $3,844,615 at June 30, 2016, of which $907,074 is current and $2,937,541 is noncurrent.

h. Comparative Data & Reclassifications – Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in WESA's financial position and operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

i. Net Position – WESA classifies net position in the financial statements as follows:

Net investment in capital assets includes WESA's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. For Fiscal year 2016, net investment in capital assets is zero as a result of the transfer of all capital assets to EVMWD.

Unrestricted Net Position typically includes unrestricted liquid assets.

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

j. Implementation of New Pronouncement – WESA implemented GASB Statement No. 72, "*Fair Value Measurement and Application.*" The objective of this Statement is to address accounting and financial reporting issues related to the fair value measurement. The statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. WESA did not maintain any investments subject to GASB Statement 72.

GASB has issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles.

WESA is in compliance in ranking the GASB implementation guide whenever an accounting treatment of an event is not specified in authoritative GAAP.

k. Reclassifications – Certain amounts in the June 30, 2015 financial statements have been reclassified to conform to the June 30, 2016 presentation.

2. CASH & CASH EQUIVALENTS:

Cash and cash equivalents is $1,973,312 for June 30, 2016. 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, 2016, the carrying amount of WESA's deposits was $1,973,312 and the corresponding bank balance was $2,038,619. The difference of $64,307 was primarily due to outstanding warrants, wires, and deposits in transit. Of the bank balance, $250,000 was insured by the FDIC depository insurance.

3. PREPAID EXPENSES:

The prepaid expense balance is $28,125 for June 30, 2016, and represents advances for prepaid travel expenses.

4. CAPITAL ASSETS:

At June 30, 2016, WESA had transferred all capital assets to EVMWD, thus ending balances are zero. Details are as follows.

	Balance June 30, 2015	Additions	Retirements	Transfers	Balance June 30, 2016
Capital assets not being depreciated:					
Construction in Progress	$ -	$ 14,415	$ (14,415)	$ -	$ -
Capital assets being depreciated:					
Vehicles and equipment	7,568,432	14,415	(1,069,087)	$ (6,513,760)	-
Less accumulated depreciation for:					
Vehicles and equipment	(5,995,241)	(130,496)	1,034,440	$ 5,091,297	-
Total capital Assets being depreciated, net	1,573,191	(116,081)	(34,647)	(1,422,463)	-
Capital assets, net	$ 1,573,191	$ (101,666)	$ (49,062)	$ (1,422,463)	$ -

5. 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 $1,787,961 and $1,897,878 as of June 30, 2016 and June 30, 2015, respectively.

6. 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.

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

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

As of June 30, 2016, WESA reported a balance of $5,163,773 in deferred outflow of resources; $2,658,544 is the amount of the current year's employer pension contribution. $2,505,229 represents the net difference between projected and actual earnings on pension plan investments.

As of June 30, 2016, WESA reported a balance of $4,065,080 in deferred inflow of resources - employee pension actuarial. Detailed description of this account and how it was calculated is discussed in Notes 7 (page 21).

7. 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, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

<u>General Information about the Pension Plans:</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, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in

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

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 provide 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, 2016 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	21.60%	21.60%	21.60%

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

Employees Covered

At June 30, 2014 (valuation date), the following employees were covered by the benefit terms:

	Miscellaneous
Inactive employees or beneficiaries currently receiving benefits	110
Inactive employees entitled to but not yet receiving benefits	251
Active employees	164
Total	525

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) 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 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Employer Contributions to the Plan for the fiscal year ended June 30, 2016 were $2,658,544.

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, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

7. 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 accrodance with the requirements of GASB 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65%. Net of Plan Investment Expenses, includes inflation
Mortality Rate Table [1]	Derived using CALPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011 including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change in Assumption

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.5% used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015, measurement date without reduction of pension plan administrative expense.

Discount Rate

The discount rate used to measure the total pension liability for measurement date June 30, 2015 was 7.65%. The discount rate used to measure the total pension liability in the previous year was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is

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

applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of 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 took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the fund's asset classes, expected compound (geometric) returns were calculated over the short-tem (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 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 equivalent 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 July 1, 2014.

Asset Allocation

Asset Class	Current Strategic Allocation	Real Return Years 1 -10 [1]	Real Return Years 11+ [2]
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%

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

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

7. 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.

7. 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.

Miscellaneous Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at: 6/30/2014 (VD)[1]	$ 74,365,247	$ 57,572,891	$ 16,792,356
Changes Recognized for the Measurement Period:			
* Service Cost	2,408,523	-	2,408,523
* Interest on the Total Pension liability	5,551,505	-	- 5,551,505
* Changes of Benefit Terms	-	-	-
* Differences between Expected and Actual Experience	(286,905)	-	(286,905)
* Changes of Assumptions	(1,469,076)	-	(1,469,076)
* Contributions - Employer	-	2,500,495	(2,500,495)
* Contributions - Employee	-	967,375	(967,375)
* Net Investment Income	-	1,296,452	(1,296,452)
* Benefit Payments, including Refunds of Employee Contributions	(2,489,673)	(2,489,673)	-
* Administrative Expense		(67,288)	67,288
Net Changes during 2014-2015	$ 3,714,374	$ 2,207,361	$ 1,507,013
Balance at: 6/30/2015 (MD)[1]	$ 78,079,621	$ 59,780,252	$ 18,299,369

[1] Valuation Date (VD), Measurement Date (MD)

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.

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

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

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

	Discount Rate - 1% (6.65%)	**Current Discount Rate (7.65%)**	**Discount Rate + 1% (8.65%)**
Miscellaneous Plan's Net Pension Liability / (Asset)	$ 29,808,823	$ 18,299,369	$ 8,886,772

Subsequent Events

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

Recognition of Gains and Losses

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

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

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

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

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

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

The EARSL for the Plan for the June 30, 2015 measurement is 3.0 years, which was obtained by dividing the total service years of 1,577 (the sum of remaining service lifetimes of the active employees) by 525 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to -0-. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2014), the net pension liability was $16,792,356. For the measurement period ending June 30, 2015 (the measurement date), the Authority incurred a pension expense/(income) of $1,708,124 for the Plan. A complete breakdown of the pension expense is as follows:

Description	**Amount**
Service Cost	$ 2,408,523
Interest on the Total Pension Liability	5,551,505
Changes of Benefit Terms	-
Recognized Differences between Expected and Actual Experience	(95,635)
Recognized Changes of Assumptions	(489,692)
Employee Contributions	(967,375)
Projected Earnings on Pension Plan Investments	(4,427,988)
Recognized Differences between Projected and Actual Earnings on Plan Investments	(338,502)
Administrative Expense	67,288
Total Pension Expense/(Income)	**$ 1,708,124**

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

As of June 30, 2016, the Authority has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	$ -	$ (191,270)
Changes in Assumptions	-	(979,384)
Net Difference between Projected and Actual Earnings on Pension Plan	-	-
Investment	2,505,229	(2,894,426)
Pension Contributions Subsequent to Measurement Date	2,658,544	-
Total	$ 5,163,773	$ (4,065,080)

These amounts above are net of outflows and inflow recognized in the 2014-15 measurement period expense. $2,658,544 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 ended June 30, 2017. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2016	$ (923,829)
2017	(923,829)
2018	(338,501)
2019	626,308
2020	-
Thereafter	-

Payable to the Pension Plan

At June 30, 2016, the Authority reported a payable of $1,506 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

8. 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, 2016 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.

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

For the past four fiscal years, WESA had no settlements exceeding insurance coverage for these categories of risk. At June 30, 2016, 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.

9. RELATED PARTY TRANSACTIONS:

The net receivable from EVMWD of $16,111,554 represents the net of the pension receivable of $17,200,676 and the current payable of $1,089,122 from personnel and related operating expenses as of June 30, 2016.

WATER EMPLOYEE SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

Schedule of Changes in Net Pension Liability and Related Rations
Last Ten Years*

MEASUREMENT PERIOD	2015	2014
TOTAL PENSION LIABILITY		
Service Cost	$ 2,408,523	$ 2,458,216
Interest	5,551,505	5,183,730
Changes of Benefit Terms	-	-
Difference Between Expected and Actual Experience	(286,905)	-
Changes of Assumptions	(1,469,076)	-
Benefit Payments, Including Refunds of Employee Contributions	(2,489,673)	(2,327,994)
Net Change in Total Pension Liability	**3,714,374**	**5,313,952**
Total Pension Liability - Beginning	**74,365,247**	**69,051,295**
Total Pension Liability - Ending (a)	**$ 78,079,621**	**$ 74,365,247**
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	$ 2,500,495	$ 2,232,962
Contributions - Employee	967,375	1,026,237
Net Investment Income	1,296,452	8,461,126
Benefit Payments, Including Refunds of Employee Contributions	(2,489,673)	(2,327,994)
Administrative Expense	(67,288)	-
Net Change in Fiduciary Net Position	**2,207,361**	**9,392,331**
Plan Fiduciary Net Position - Beginning	**57,572,891**	**48,180,560**
Plan Fiduciary Net Position - Ending (b)	**$ 59,780,252**	**$ 57,572,891**
Plan Net Position Liability/(Asset) - Ending (a) - (b)	**$ 18,299,369**	**$ 16,792,356**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.56%	77.42%
Covered-Employee Payroll[1]	**$ 12,307,222**	**$ 11,676,322**
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	**148.69%**	**143.82%**

[1] Covered-employee Payroll presented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation, therefore, only two years are shown.

Notes to Schedule of Changes in Net Pension Liability and Related Ratios:
Changes in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. 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: The discount rate was changed from 7.5% (net of administrative expense) to 7.65 percent.

WATER EMPLOYEE SERVICES AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

Schedule of Plan Contributions for the Measurement Periods Ended June 30[1]
Last Ten Years*

	2015	2014
Actuarially Determined Contribution[2]	$ 2,500,495	$ 2,232,962
Contributions in Relation to the Actuarially Determined Contribution[2]	(2,500,495)	(2,232,962)
Contribution Deficiency (Excess)	$ -	$ -
Covered-Employee Payroll[3, 4]	$ 12,307,222	$ 11,676,322
Contributions as a Percentage of Covered-Employee Payroll[3]	20.32%	19.12%

[1] As prescribed in GASB 68, paragraph 46, the information presented in the Schedule of Plan Contributions should also be determined 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 choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

[3] Covered-Employee Payroll presented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings of covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

[4] Payroll from prior year $11,948,759 was assumed to increase by 3.00 percent payroll growth assumption.

* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation, therefore, only two years are shown.