

Western Municipal Water District Retirement Medical Benefits Plan

Financial Report

For the Fiscal Years Ended June 30, 2015 and 2014



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Retirement Medical Benefits Plan

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June 30, 2015 and 2014

Prepared by:

Western Municipal Water District

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CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors of
Western Municipal Water District Retirement Medical Benefits Plan

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Report on the Financial Statements

We have audited the accompanying financial statements of Western Municipal Water District Retirement Medical Benefits Plan (Plan), which comprise the statements of plan net position as of June 30, 2015 and 2014, and the related statement of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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 audits. We conducted our audits 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 Plan'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 Plan'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 status of Western Municipal Water District Retirement Medical Benefit Plan as of June 30, 2015 and 2014, and the changes in its financial status for the years 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 funding progress on page 10 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.

Rogers Anderson Maloney & Scott, LLP

San Bernardino, CA
December 24, 2015

Western Municipal Water District Retirement Medical Benefits Plan
Statements of Plan Net Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and investments (Note 2)	\$ 13,178,993	\$ 12,987,672
Prepaid expenses	<u>29,181</u>	<u>32,026</u>
Total assets	<u>13,208,174</u>	<u>13,019,698</u>
 Liabilities		
Accrued expenses	<u>5,287</u>	<u>5,138</u>
Net position restricted for Plan benefits	<u>\$ 13,202,887</u>	<u>\$ 13,014,560</u>

See accompanying notes to the financial statements

Western Municipal Water District Retirement Medical Benefits Plan
Statements of Changes in Plan Net Position
For The Years Ended June 30, 2015 and 2014

	2015	2014
Additions		
Employer contributions	\$ 469,436	\$ 469,436
Investment income		
Net increase (decrease) in fair value of investments	(187,883)	1,550,294
Interest	16	20
Dividends	303,765	349,004
Total investment income	115,898	1,899,318
Less: Investment expense	26,354	24,293
Net investment income	89,544	1,875,025
Total additions	558,980	2,344,461
Deductions		
Benefits	350,313	360,559
Administrative expense	20,340	12,987
Total deductions	370,653	373,546
Net increase	188,327	1,970,915
Net position restricted for Plan benefits		
Beginning of year	13,014,560	11,043,645
End of year	\$ 13,202,887	\$ 13,014,560

See accompanying notes to the financial statements

Western Municipal Water District Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2015

(1) Summary of Significant Accounting Policies

Basis of Accounting

Western Municipal Water District Retirement Medical Benefits Plan (the “Plan”) financial statements are prepared using the accrual basis of accounting. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments

Investments are reported in the financial statements at fair value based on the last reported sales price published on a national exchange. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. In addition to the change in fair value, other investment income includes interest earnings and any gains or losses realized upon liquidation or sale of investments.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

Cash and investments as of June 30 are classified on the financial statements as follows:

	<u>2015</u>	<u>2014</u>
Cash and investments	\$ 13,178,993	\$ 12,987,672

Cash and investments as of June 30 consist of the following:

	<u>2015</u>	<u>2014</u>
Money Market Funds	\$ 65,336	\$ 104,847
Mutual Funds	13,113,657	12,882,825
Total cash and investments	\$ 13,178,993	\$ 12,987,672

Investments Authorized by the Trust Agreement

Investments of the Plan are held by the trustee governed by provisions of the Trust Agreement rather than the general provisions of the California Government Code. The table below identifies the investment classes that are authorized for investments held by the trustee. The table also identifies certain provisions of the trust agreement that address interest rate risk and concentration of credit risk.

Western Municipal Water District Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2015

(2) Cash and Investments, continued

Investments Authorized by the Trust Agreement, continued

Authorized Investment Class	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Equities	No limit	75%	No limit
Domestic	No limit	75%	No limit
International	No limit	50%	No limit
Real Estate	No limit	25%	No limit
Domestic	No limit	25%	No limit
International	No limit	10%	No limit
Commodities	No limit	25%	No limit
Bonds	No limit	75%	No limit
Domestic	No limit	75%	No limit
International	No limit	35%	No limit
Cash	N/A	10%	No limit

Custodial Credit Risk

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Plan's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds. All investments are in the name of the Trust and held by a third party custodian.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Western Municipal Water District Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2015

(2) Cash and Investments, continued

Interest Rate Risk, continued

Maturity of investments at June 30, 2015 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			<u>More Than 10</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	
Money Market Funds	\$ 65,336	\$ 65,336	\$ -	\$ -	\$ -
Mutual Funds	13,113,657	13,113,657	-	-	-
Total	<u>\$ 13,178,993</u>	<u>\$ 13,178,993</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Maturity of investments at June 30, 2014 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			<u>More Than 10</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	
Money Market Funds	\$ 104,847	\$ 104,847	\$ -	\$ -	\$ -
Mutual Funds	12,882,825	12,882,825	-	-	-
Total	<u>\$ 12,987,672</u>	<u>\$ 12,987,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Credit ratings of investments as of June 30, 2015 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Ratings as of Year-End</u>			<u>Not Rated</u>
				<u>AAA</u>	<u>AA</u>	<u>A</u>	
Money Market Funds	\$ 65,336	N/A	\$ -	\$ 65,336	\$ -	\$ -	\$ -
Mutual Funds	13,113,657	N/A	-	-	-	-	13,113,657
	<u>\$ 13,178,993</u>		<u>\$ -</u>	<u>\$ 65,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,113,657</u>

Western Municipal Water District Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2015

(2) Cash and Investments, continued

Credit Risk, continued

Credit ratings of investments as of June 30, 2014 were as follows:

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Ratings as of Year-End			Not Rated
				AAA	AA	A	
Money Market Funds	\$ 104,847	N/A	\$ -	\$ 104,847	\$ -	\$ -	\$ -
Mutual Funds	12,882,825	N/A	-	-	-	-	12,882,825
	\$ 12,987,672		\$ -	\$ 104,847	\$ -	\$ -	\$ 12,882,825

Concentration of Credit Risk

The Plan's investment policy contains no limitations on the amounts that can be invested in any one issuer. The Plan does not hold investments in any one issuer other than Mutual Funds that represent 5% or more of total investments.

(3) Plan Descriptions and Contribution Information

Membership of the Plan consisted of the following at July 1, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	60
Active plan members	<u>121</u>
Total	<u><u>181</u></u>

Plan Description

The Plan is a single-employer defined benefit postemployment healthcare plan, established June 15, 2006, that provides health insurance benefits to eligible retired employees of Western Municipal Water District (Western), in accordance with Plan provisions. Article VI of the Plan assigns the authority to establish and amend the benefit provisions of the plan to Western.

Eligible participants for the Plan are based on two groups:

- a. Group 1 consists of classified and non-classified employees hired on or before December 18, 2002, who are at least fifty-five years old at retirement and have completed ten years of service. Benefits are provided for the employee and spouse.
- b. Group 2 consists of classified and non-classified employees hired after December 18, 2002, who are at least fifty-five years old at retirement and have completed ten years of service. Benefits are provided for the employee only.

Western Municipal Water District Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2015

(3) Plan Descriptions and Contribution Information, continued

Contributions

Plan members do not contribute to the Plan. The contribution requirement of the Plan is established and may be amended by Western's Board of Directors. Western contributes to the voluntary employees' beneficiary association (VEBA) trust an amount equal to the annual required contribution (ARC). Administrative costs of the plan are financed through investment earnings.

(4) Funded Status and Funding Progress—OPEB Plan

The funded status of the Plan as of the most recent actuarial valuation date is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio (AVA/AAL)</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
7/1/2013	\$ 11,017,749	\$ 11,091,974	74,225	99.3%	\$ 11,546,684	0.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions present trend information about the amounts contributed to the Plan in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of Government Accounting Standards Board (GASB) Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period, not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Western Municipal Water District Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2015

(4) Funded Status and Funding Progress—OPEB Plan, continued

Valuation date	July 1, 2013
Actuarial cost method	Projected Unit Credit
Amortization method	Closed, level dollar amortization over maximum allowable period of 30 years
Remaining amortization period	28
Asset valuation method	Fair value of assets
Actuarial assumptions:	
Investment rate of return	5%
Healthcare cost trend rate	7% per annum, graded down each year in .5% increments to an ultimate rate of 4.5%

**Western Municipal Water District Retirement Medical Benefits Plan
Required Supplementary Information**

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio (AVA/AAL)</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
6/30/2007	\$ 6,280,781	\$ 7,207,526	926,745	87.1%	\$ 5,627,438	16.5%
7/1/2010	7,529,501	9,223,686	1,694,185	81.6%	8,091,122	20.9%
7/1/2013	11,017,749	11,091,974	74,225	99.3%	11,546,684	0.6%

Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 590,992	100%
2012	590,992	100%
2013	590,992	100%
2014	469,436	100%
2015	469,436	100%

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