

**WESTERN MUNICIPAL WATER DISTRICT
RETIREMENT MEDICAL BENEFITS PLAN
(DEFINED BENEFIT OTHER POST
EMPLOYMENT BENEFIT PLAN)**

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**

Prepared by:

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WESTERN MUNICIPAL WATER DISTRICT
RETIREMENT MEDICAL BENEFITS PLAN

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Western Municipal Water District
Retirement Medical Benefits Plan
Riverside, California

Report on the Financial Statements

We have audited the accompanying financial statements of Western Municipal Water District Retirement Medical Benefits Plan (the Plan) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 auditors' 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 auditors consider 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 position of Western Municipal Water District Retirement Medical Benefit Plan as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Plan as of and for the year ended June 30, 2015, were audited by other auditors whose report dated December 24, 2015, expressed an unmodified opinion on those statements.

Other Matter

Required Supplementary Information

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 on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of funding progress and employer contributions on page 12 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.

White Nelson Diehl Evans LLP

Irvine, California
February 15, 2017

**Western Municipal Water District
Retirement Medical Benefits Plan
Statements of Plan Net Position
June 30, 2016 and 2015**

	2016	2015
Assets:		
Cash and investments (Note 2)	\$ 13,407,663	\$ 13,178,993
Prepaid expenses	-	29,181
Total Assets	13,407,663	13,208,174
Liabilities:		
Accrued expenses	5,277	5,287
Net Position:		
Restricted for Plan Benefits	\$ 13,402,386	\$ 13,202,887

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, 2016 and 2015**

	2016	2015
Additions:		
Employer contributions	\$ 469,436	\$ 469,436
Investment Income:		
Net increase (decrease) in fair value of investments	(183,076)	(187,883)
Interest	22	16
Dividends	318,886	303,765
Total investment income	135,832	115,898
Less: investment expense	(26,021)	(26,354)
Net Investment Income	109,811	89,544
Total Additions	579,247	558,980
Deductions:		
Benefits	361,978	350,313
Administrative expense	17,770	20,340
Total Deductions	379,748	370,653
Changes in Plan Net Position	199,499	188,327
Net Position Restricted for Plan Benefits:		
Beginning of Year	13,202,887	13,014,560
End of Year	\$ 13,402,386	\$ 13,202,887

See accompanying notes to the financial statements

**Western Municipal Water District
Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2016 and 2015**

Note 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.

Tax Status

The Internal Revenue Service has determined and informed the District by letter dated April 20, 2007, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code. Therefore, the Plan is qualified and the related Trust Fund was tax-exempt as of June 30, 2016.

New Accounting Pronouncement

In fiscal year 2015-2016, the Plan implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "*Fair Value Measurement and Application*". GASB Statement No. 72 requires the Plan to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the Plan's financial statements as a result of the implementation of GASB Statement No. 72.

Use of Estimates

The preparation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America 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.

**Western Municipal Water District
Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2016 and 2015**

Note 2: Cash and Investments

Cash and investments as of June 30, 2016 and 2015 are classified on the financial statements as follows:

	2016	2015
Cash and investments	\$ 13,407,663	\$ 13,178,993

Cash and investments as of June 30, 2016 and 2015 consist of the following:

	2016	2015
Money Market Funds	\$ 102,169	\$ 65,336
Mutual Funds	13,305,494	13,113,657
Total Cash and Investments	\$ 13,407,663	\$ 13,178,993

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.

Authorized Investment Class	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Mutual Funds:			
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/Money Market Funds	N/A	10%	No Limit

**Western Municipal Water District
Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2016 and 2015**

Note 2: Cash and Investments (Continued)

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.

Maturities of investments at June 30, 2016 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Money Market Funds	\$ 102,169	\$ 102,169	\$ -	\$ -	\$ -
Mutual Funds	13,305,494	13,305,494	-	-	-
Total	<u>\$ 13,407,663</u>	<u>\$ 13,407,663</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
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>

**Western Municipal Water District
Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2016 and 2015**

Note 2: Cash and Investments (Continued)

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 at June 30, 2016 were as follows:

Investment Type	Minimum Legal Rating	Fair Value	Ratings as of Year-End			Not Rated
			AAA	AA	A	
Money Market Funds	N/A	\$ 102,169	\$ 102,169	\$ -	\$ -	\$ -
Mutual Funds	N/A	13,305,494	-	-	-	13,305,494
Total		\$ 13,407,663	\$ 102,169	\$ -	\$ -	\$13,305,494

Credit ratings of investments at June 30, 2015 are as follows:

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

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.

Fair Value Measurements

The Plan categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant observable inputs. When quoted prices in active markets are not readily available, fair values are based on pricing models or matrices maximizing the use of observable inputs for similar securities as received by the District's investment manager from a third party service provider. Level 3 inputs are significant unobservable inputs.

**Western Municipal Water District
Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2016 and 2015**

Note 2: Cash and Investments (Continued)

Fair Value Measurements (Continued)

The hierarchy of the Plan's investments at June 30, 2016 is as follows:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
Money Market Mutual Fund	\$ 102,169	\$ -	\$ -	\$ 102,169
Mutual Funds	13,305,494	-	-	13,305,494
Total Investments	\$ 13,407,663	\$ -	\$ -	\$ 13,407,663

Note 3: Plan Description and Contribution Information

Membership of the Plan consisted of the following at July 1, 2016, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	64
Active plan members	134
Total	198

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, 2016 and 2015**

Note 3: Plan Description 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.

Note 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:

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
7/01/2016	\$ 13,407,663	\$ 14,112,607	\$ 704,944	95.0%	\$ 13,840,640	5.1%

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.

**Western Municipal Water District
Retirement Medical Benefits Plan
Notes to the Financial Statements
June 30, 2016 and 2015**

Note 4: Funded Status and Funding Progress - OPEB Plan (Continued)

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:

Latest Actuarial Valuation	July 1, 2016
Actuarial Cost Method	Entry Age Normal level percent of pay
Amortization Method	Open, level percentage of projected payroll amortization over maximum allowable period of 30 years
Remaining Amortization Period	30 years
Asset Valuation Method	Fair Value of Assets
Actuarial Assumptions:	
Investment Rate of Return	7%
Healthcare Cost Trend Rate	7.5% per annum, graded down each year in .3% increments to an ultimate rate of 4.5%
Salary Increase Rate	3%

Note 5: Subsequent Events

Events occurring after June 30, 2016 have been evaluated for possible adjustments to the financial statements or disclosure as of February 15, 2017, which is the date these financial statements were available to be issued.

**Western Municipal Water District
Retirement Medical Benefits Plan
Required Supplementary Information
For the years ended June 30, 2016 and 2015**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Funded Ratio AVA (a)/(b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(b)-(a)]/c]
06/30/2007	\$ 6,280,781	\$ 7,207,526	\$ 926,745	87.1%	\$ 5,627,438	16.5%
07/01/2010	7,529,501	9,223,686	1,694,185	81.6%	8,091,122	20.9%
07/01/2013	11,017,749	11,091,974	74,225	99.3%	11,546,684	0.6%
07/01/2016	13,407,663	14,112,607	704,944	95.0%	13,840,640	5.1%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2011	\$ 590,992	100.00%
2012	590,992	100.00%
2013	590,992	100.00%
2014	469,436	100.00%
2015	469,436	100.00%
2016	469,436	100.00%