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GASBhelp Financial Report

Dear Suresh,

Thank you for using GASBhelp. This report contains information that must be included in your Comprehensive Annual Financial Report (CAFR).

The information in this report relies on the valuation that was previously completed using GASBhelp. Your auditor or financial advisor may use the results from this report for your benefit. This report must be updated annually as stipulated by GASB. Please contact 860.687.0148 or email us at GASBhelp@milliman.com if you have any question about this report or the results contained herein.

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*This report was prepared solely to provide assistance to (the) Monterey Peninsula Water Management District in Monterey, CA in determining values to be reported under GASB 45 and GASB 43. It may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this report.
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SECTION 1
FINANCIAL REPORTING CALCULATIONS

The information in the exhibit below must be reported in the Comprehensive Annual Financial Report (CAFR).

Exhibit 1. Calculation of Net OPEB Obligation

Description	Calculated Amount
Annual Required Contribution (ARC)	\$250,635
Interest on Net OPEB Obligation (NOO)	\$40,789
Adjustment to Annual Required Contribution (ARC)	(\$40,745)
Annual OPEB Cost (Expense)	\$250,679
Age Adjusted Contributions Made	(\$63,724)
Change in Net OPEB Obligation (NOO)	\$186,955
Net OPEB Obligation (NOO) - Beginning of Year	\$815,777
Net OPEB Obligation (NOO) - End of Year	\$1,002,732

Annual Required Contribution (ARC): The ARC is the employer's periodic required contribution to a defined benefit OPEB plan. The ARC is the sum of two parts: (1) the Normal cost, which is the cost for OPEB benefits attributable to the current year of service, and (2) an Amortization payment, which is a catch-up payment for past service costs to fund the Unfunded Actuarial Accrued Liability (UAAL) over the amortization period. Under GASB 45, it is not required that entities actually pay the ARC each year, but it does need to be calculated and disclosed in the public employer's annual financial statements.

Interest on Net OPEB Obligation (NOO): An adjustment to the prior year financial statement's Net OPEB Obligation (NOO) to reflect interest on the obligation over the past year. It is calculated as (Prior Year NOO) x (Discount Rate). This is one of two adjustments made to the prior year NOO when deriving the current year's NOO. The other calculation is the Adjustment to the Annual Required Contribution.

Adjustment to Annual Required Contribution (ARC): An adjustment to the prior year financial statement's Net OPEB Obligation (NOO) to approximate the amount included in the ARC for amortization of past contributions in excess of, or less than, the ARC. It is removed from the ARC via this adjustment, so that the current ARC will not be over- or understated due to past overcontributions or contribution deficiencies. This is one of two adjustments made to the prior year NOO when deriving the current year's NOO. The other calculation is the Interest on Net OPEB Obligation.

Annual OPEB Cost (Expense): A measure of the annual cost of an OPEB plan, under accrual accounting guidelines. It is calculated as the ARC plus the interest on the NOO plus the adjustment to the ARC.

Age Adjusted Contributions Made: Contributions made for OPEB in relation to the employer's Annual Required Contribution (ARC) , adjusted to include the effect of any implicit subsidy inherent in the retiree premiums. This age adjusted contribution may differ from the actual contribution made, because, if premiums for retiree OPEB are not representative of the true cost of their benefits, GASB 45 methodology requires that the premiums be adjusted to better reflect those true cost levels.

Change in Net OPEB Obligation (NOO): The change in the value of the NOO from the beginning of the reporting period to the end of the reporting period. It is calculated as the difference between the OPEB Cost, which is the accrual-based cost of the OPEB plan for the current period, and the age adjusted contribution toward OPEB made during the same period. It serves as a measure of how much the NOO will move up or down during the current period; contributions in excess of cost will reduce the NOO, whereas contributions less than cost will increase the NOO.

Net OPEB Obligation (NOO) - Beginning of Year: The NOO is the cumulative difference between the annual OPEB cost and the actual contributions made by the employer. At an entity's transition to GASB 45 accounting, the NOO may be set to zero. For any reporting period, the Beginning NOO is the NOO from the prior period's financial statements.

Net OPEB Obligation (NOO) - End of Year: The Ending NOO is derived by adjusting the beginning NOO by the calculated Change in NOO. See above definition for Change in NOO.

Actual Contribution, or Contribution: Contributions made for OPEB in relation to the employer's Annual Required Contribution (ARC) include: (1) payments of benefits directly to or on behalf of a retiree or beneficiary, (2) premium payments to an insurer, or (3) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer or plan administrator. Revocable assets that are set aside for future benefits do not qualify as OPEB assets according to GASB 45.

Revocable assets that are set aside for future benefits do not qualify as OPEB assets according to GASB 45.

SECTION 2 **IMPLICIT SUBSIDY CALCULATIONS**

The information in Section 2 is for information purposes only and does not need to be reported in the Comprehensive Annual Financial Report (CAFR).

Some employers may think that they do not have an OPEB liability because, although they offer post-employment benefits, the retirees pay the full cost of those benefits. If a retiree pays the full cost of benefits (100% of the premium), it might seem at first glance that there is no liability for the employer; but there may still be a liability because of an implicit rate subsidy.

The implicit subsidy inherent in your OPEB contributions is your age adjusted contribution (a calculated value in the valuation process) minus the actual contribution you made. GASB 45 generally requires that you calculate your OPEB liability using age adjusted premiums to better reflect the true higher cost of retirees' benefits. Consequently, in your financial statements, where costs related to active employee benefits are recorded, you should decrease your employer contributions by this same amount to reflect the fact that a portion of the active contribution actually subsidizes retiree costs.

Exhibit 2. Estimate of Implicit Subsidy Inherent in Your OPEB Contribution

Description	Calculated Amount
Actual Contribution (a)	\$63,724
Age Adjusted Contribution (b)	\$63,724
Implicit Subsidy = (b) - (a)	\$0

The employer contributions listed in the annual financial statements for active employee benefits should be reduced by the implicit subsidy amount listed in the above exhibit. Thus, the age adjusted contribution for the retiree benefits and the adjusted contributions for active employee benefits should add up to the actual annual contributions made by the employer for retirees and actives combined.

Implicit Subsidy, or Implicit Rate Subsidy: The implicit rate is an inherent subsidy of retiree healthcare costs by active employee healthcare costs when healthcare premiums paid by retirees and actives are the same.

The true healthcare costs for retirees are, on average, greater than active employees' healthcare costs. Thus, if both subgroups pay the same per-capita premium for their benefits, retirees are paying less than they would if their premiums were calculated solely based on retiree-only expected healthcare costs. With an implicit rate subsidy, the active employee premiums are subsidizing the retiree premiums, and that subsidization creates a liability that needs to be recognized.

SECTION 3
REQUIRED SUPPLEMENTARY EXHIBITS

A schedule of funding progress, a history of the Net OPEB obligation and the schedule of employer contributions are required supplementary exhibits to the Comprehensive Annual Financial Report (CAFR) of many employers. Below is the content needed for those exhibits.

Exhibit 3. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2014	\$0	\$2,666,140	\$2,666,140	0.00%	\$2,251,992	118.39%

Exhibit 4. History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$250,679	\$63,724	25.4%	\$1,002,732

Exhibit 5. Schedule of Employer Contributions*

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
6/30/2014	\$250,635	25.4%

* Exhibit 5 is not a required supplementary exhibit to the Comprehensive Annual Financial Report (CAFR).

GASB 45 requires that you report the history of Net OPEB obligation and the schedule of employer contributions for the three most recent reporting periods. These exhibits reflect the employer's contribution toward OPEB funding. This report contains the current period's information, but the history of your Net OPEB obligation and the schedule of employer contributions are also required for the previous two years. Prior period information should be available in your prior periods' financial reports. If you began reporting under GASB 45 within the last three periods, you may include only the historical periods that apply.

SECTION 4
SUMMARY OF INPUTS USED IN CALCULATIONS

The information in the exhibit below must be reported in the Comprehensive Annual Financial Report (CAFR).

Exhibit 6. Summary of Inputs

Description	Value
Actual Contribution	\$63,724
Total OPEB Retiree Premium	n/a
Age Adjustment Factor	1
Annual Required Contribution (ARC)	\$250,635
Payroll Growth Rate	2.90%
Discount Rate	5.00%
Net OPEB Obligation (NOO)	\$815,777
Actuarial Value of Assets	\$0
Amortization Period	26 years
Actuarial Accrued Liability (AAL)	\$2,666,140
Fiscal Year End Date	6/30/2014
Valuation Date	6/30/2014
Amortization Method	Level Percent of Payroll Amortization

Actual Contribution: see definition from Section 1 above.

Age Adjusted Contribution: see definition in Section 1 above.

Age Adjustment Factor: The factor applied to premiums during the valuation process to better approximate the actual cost associated with retiree benefits in situations where blended premiums are charged to actives and retirees. This factor is used in the financial reporting process to similarly adjust the contribution made toward OPEB.

Annual Required Contribution (ARC): See definition from Section 1 above.

Payroll Growth Rate: The expected future annual salary change for a typical employee (e.g., 5% increase).

Discount Rate: The discount rate is used to adjust for the time value of money when the future value of an investment is assumed and the present value is being calculated. Actuarial assumptions

regarding discount rates are used in estimating the present value of the cost of future benefits payable.

Net OPEB Obligation (NOO): See definition from Section 1 above.

Actuarial Value of Assets: The AVA is the value of cash, investments, other assets and property belonging to an OPEB trust, pension fund, or similar entity, as used by the actuary for the purpose of actuarial valuation. Smoothing of investment gains and losses often make the actuarial value of assets different from the market value of assets.

Amortization Period: The Amortization Period is the number of years over which the unfunded actuarial accrued liability is spread. Per GASB 45, the maximum amortization period allowable is 30 years.

Actuarial Accrued Liability (AAL): The AAL is the present value of projected benefits (other than pension benefits, or OPEB) for retirees plus a portion of expected OPEB for active members that have been earned but are not going to be paid in the current year. The AAL is calculated using one of six Actuarial cost methods acceptable under GASB 45. The retiree portion of the AAL consists of the current year OPEB and the present value of future OPEB payments. The active member portion of the AAL consists of the present value of expected future benefit payments attributable to prior service, excluding payment of active member benefits for the current year. The AAL does not include future benefit payments for future services.

Fiscal Year End Date: The Fiscal Year End Date is the last day of the fiscal year for which you are preparing financial statements. For example, if you're reporting on the year 7/1/2008 - 6/30/2009, the fiscal year end date would be 6/30/2009.

Valuation Date: For the purposes of the GASBhelp, the valuation date is the last day of the fiscal year for which an entity performing the valuation. For example, if you are performing a valuation for the fiscal year from 1/1/2008 to 12/31/2008, enter the valuation date of 12/31/2008.

Amortization Method: Under GASB 45, there are two acceptable accounting methods for amortizing the present value of future benefit costs over a period of time. The methods are: (1) Level Dollar, which amortizes the cost into equal dollar amounts to be paid over a given number of years, and (2) Level Percentage of Payroll, which calculates amortization payments as a constant percentage of projected payroll over a given number of years. Level Dollar amortization generally results in decreasing inflation-adjusted payments over time, whereas Level Percentage of Payroll amortization generally results in level inflation-adjusted payments over time.

SECTION 5 **CAVEATS AND LIMITATIONS**

This report is based on the data, methods, assumptions and plan provisions specified by the user of the website. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. If any data or other information is inaccurate or incomplete, the calculations may need to be revised.

Furthermore, the emerging costs will vary from those presented in this report to the extent that actual experience differs from that projected by the actuarial assumptions which are summarized in this report.

Actuarial computations under GASB 43 and GASB 45 are for purposes of fulfilling financial accounting requirements for public employers and trusts. The calculations in the enclosed exhibits have been made on a basis consistent with the Alternative Measurement Method under GASB 43 and GASB 45. Determinations for purposes other than meeting these financial accounting requirements may be significantly different from the results contained in these exhibits. Accordingly, additional determinations may be needed for other purposes.

This work product was prepared solely to provide assistance to the client or system in determining values to be reported under GASB 45 and GASB 43. It may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. The assumptions and results should be reviewed by the user's accountant. Any third party recipient of this work product who desires professional guidance should not rely upon this work product, but should engage qualified professionals for advice appropriate to its own specific needs.

The results contained in this report do not reflect potential changes in future health costs due to the passage of the Patient Protection and Affordable Care Act (P.L.111-148) signed on March. 23, 2010, as amended by the Health Care and Education Reconciliation Act (H.R.4872) signed on March 30, 2010. The impact on future health costs due to this legislation will depend on a number of factors, including future regulations that are not yet known. An analysis of the impact of health care reform on future plan costs was beyond the scope of this report.

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Please let us know if you have any questions concerning the GASBhelp tool or the information presented in this report. Thank you for using GASBhelp.

Sincerely,



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