



**MASSACHUSETTS WATER RESOURCES AUTHORITY IRREVOCABLE
OPEB TRUST**

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

MASSACHUSETTS WATER RESOURCES AUTHORITY IRREVOCABLE OPEB TRUST

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3
Statements of Fiduciary Net Position	4
Statements of Changes in Fiduciary Net Position	5
Notes to Financial Statements	6-8
Required Supplementary Information (Unaudited)	
Schedule of Funding Progress	9
Schedule of Employer Contributions	10



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Massachusetts Water Resources Authority Irrevocable OPEB Trust:

Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position of the Massachusetts Water Resources Authority Irrevocable OPEB Trust, as of June 30, 2016 and 2015 and the related statements of changes in fiduciary net position for the year then ended and for the period April 15, 2015 (date of inception) to June 30, 2015, and the related notes to the financial statements. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 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 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 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 fiduciary net position of the Massachusetts Water Resources Authority Irrevocable OPEB Trust as of June 30, 2016, and 2015 and the respective changes in fiduciary net position for the year then ended and for the period April 15, 2015 (date of inception) to June 30, 2015 in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis, the Schedule of Funding Progress and the Schedule of Employer 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 management's discussion and analysis, Schedule of Funding Progress and the Schedule of Employer Contributions in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

November 14, 2016

MASSACHUSETTS WATER RESOURCES AUTHORITY IRREVOCABLE OPEB TRUST

Management's Discussion and Analysis

June 30, 2016 and 2015

(Unaudited)

This section of the financial report presents our discussion and analysis of the Massachusetts Water Resources Authority (MWRA) Other Post-Employment Benefits (OPEB) Irrevocable Trust financial performance during the Fiscal Year ended June 30, 2016 and for the period April 15, 2015 (date of inception) to June 30, 2015. Please read it in conjunction with the Trust's financial statements, which immediately follow this section.

Other Post Employment Benefits (OPEB) Irrevocable Trust

In April 2015, the Authority established the MWRA Other Post-Employment Benefits (OPEB) Irrevocable Trust. The Trust was established for the sole purpose of providing for the advance funding of future costs of retired employee health insurance and other benefits provided to retirees. It is intended that the Trust shall constitute a "Qualified OPEB Trust" according to the standards set forth in GASB Statement No. 43, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The OPEB Trust Agreement establishes a five-member Board of Trustees, made up of Authority senior managers, to control and manage the trust.

An initial deposit of \$10.8 million was made to the trust upon establishment of the trust in April 2015.

Investments

The Board of Trustees has prepared an Investment Policy to manage the growing portfolio of trust assets. For the Fiscal Year ended June 30, 2016, investment income was \$85,696.

The Trust has implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement requires that certain assets, primarily investments, and liabilities be recorded at fair value.

Contacting the Trust's Financial Management

This report is designed to provide all interested parties with a general overview of the Trust's finances. If you have questions about this report or need additional information, contact the Massachusetts Water Resources Authority, Finance Division, 100 First Avenue, Boston, MA 02129.

MASSACHUSETTS WATER RESOURCES AUTHORITY IRREVOCABLE OPEB TRUST

Statements of Fiduciary Net Position

June 30, 2016 and 2015

(Dollars in 000s)

	Assets	2016	2015
Cash and cash equivalents (note 3)		\$ 10,674	10,812
Investments		5,449	—
Total assets		<u>16,123</u>	<u>10,812</u>
	Liabilities		
Accounts payable and accrued liabilities		—	—
Total liabilities		—	—
Net position held in trust for OPEB		<u>\$ 16,123</u>	<u>10,812</u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY IRREVOCABLE OPEB TRUST

Statements of Changes in Fiduciary Net Position

Years ended June 30, 2016 and 2015

(Dollars in 000s)

	<u>2016</u>	<u>2015</u>
Additions:		
Employer contributions	\$ 5,225	10,808
Investment income	86	4
Total additions	<u>5,311</u>	<u>10,812</u>
Deductions:		
Benefits paid	<u>—</u>	<u>—</u>
Total deductions	<u>—</u>	<u>—</u>
Change in net position held in trust for OPEB	5,311	10,812
Net position held in trust for OPEB, beginning of the period	<u>10,812</u>	<u>—</u>
Net position held in trust for OPEB, end of period	<u>\$ 16,123</u>	<u>10,812</u>

See accompanying notes to financial statements.

MASSACHUSETTS WATER RESOURCES AUTHORITY IRREVOCABLE OPEB TRUST

Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in 000s)

(1) Organization and Nature of Activities

The Massachusetts Water Resources Authority Irrevocable OPEB Trust (Trust) was established in April, 2015 as a single-employer other post-employment benefits (OPEB) plan, for the purpose of accumulating and investing assets to fund certain post-retirement medical and life insurance for retirees of the Massachusetts Water Resources Authority (MWRA). The Trust is not a component unit of another governmental entity.

The Trust's Board of Trustees has fiduciary responsibility for the investment of monies and administration of the Trust pursuant to the Trust Agreement. The Board of Trustees is currently composed of five members including the following MWRA employees: Executive Director, Director of Finance, Treasurer, Budget Director and Director of Human Resources. The Trustees term of service shall continue for as long as each is willing to perform the duties and obligations of the position.

The Group Insurance Commission (GIC), a quasi-independent state agency that administers agent multi-employer defined benefit OPEB plans, administers the Authority's OPEB benefits. The benefits, benefit levels, employee contributions and employer contributions are governed by the Authority and can be amended by the Authority. The Authority provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying basic financial statements of the Trust are presented in conformity with the U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

(b) Basis of Accounting

The financial statements of the Trust are presented as a fiduciary fund type. The economic resources measurement focus and the accrual basis of accounting are used in the preparation of the financial statements. 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 each employer's plan.

(c) Contributions

Contributions are reported when paid by the MWRA. Contributions include advance funding of the Trust that is made on behalf of the MWRA employees and retirees.

MASSACHUSETTS WATER RESOURCES AUTHORITY IRREVOCABLE OPEB TRUST

Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in 000s)

(d) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(3) Cash and Cash equivalents

The Trustees has adopted a formal cash and investment policy. All funds will be invested with the Commonwealth of Massachusetts Pension Reserves Investment Trust (PRIT) fund.

The Trust does comply with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* related to its deposits. The deposits are covered by \$250 of FDIC insurance.

(4) Investments

Investments are recorded at fair value. The Trust categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Trust has no securities classified in Level 3.

The Trust's investment in the PRIT fund is classified as Level 2.

(5) Funded Status and Funding Progress

The Trust complies with GASB Statement No. 43, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*.

(a) Actuarial Methods and Assumptions

Membership of the Trust consisted of 1,088 active participants and 529 retirees as of the most actuarial valuation as of January 1, 2014. The Trust was unfunded as of the valuation date and the unfunded actuarial accrued liability (UAAL) was \$166,493. The UAAL as a percentage of covered payroll of \$89,754 was 173.5%. The actuarial assumptions used in the latest valuation are as follows:

Valuation Date	January 1, 2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open 30 year level percentage of payroll
Asset valuation method	No assets at valuation date

MASSACHUSETTS WATER RESOURCES AUTHORITY IRREVOCABLE OPEB TRUST

Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in 000s)

Discount rate	6.5%
Health Care trend rates	Managed Care – initial 9% down to 5% over eight years Indemnity – initial 10% down to 5% over eight years
Mortality	RP2000 projected to 2014 and Generational projections – Scale BB

(b) Funded Status

The MWRA made one contribution of \$10,800 to the Trust upon its establishment. The timing and amount of future contributions are at the sole discretion of the Board of Directors of the MWRA.

The Trust net assets at fair value, the actuarial accrued liability, the unfunded actuarial accrued liability for benefits, the funded ratio, the annual payroll amounts for active employees covered by the Trust and the ratio of the unfunded actuarial liability to covered payroll for 2016 were as follows:

Actuarial Valuation Date	Trust Net Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll for Active Employees	UAAL as a percent of covered Payroll
1/1/2014	\$ 10,812	166,493	155,681	6.5%	89,754	173.5%

The required schedule of funding progress appears immediately after the notes to the basic financial statements and, as more years become available, will present multi-year information about whether the Trust net assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

MASSACHUSETTS WATER RESOURCES AUTHORITY IRREVOCABLE OPEB TRUST

Required Supplementary Information - Schedule of Funding Progress

June 30, 2016 and 2015

(Unaudited)

(Dollars in 000s)

<u>Actuarial Valuation date</u>		<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/2014	\$	10,812	166,493	155,681	6.5%	89,754	173.5%

See accompanying independent auditors' report

MASSACHUSETTS WATER RESOURCES AUTHORITY IRREVOCABLE OPEB TRUST

Required Supplementary Information - Schedule of Employer Contributions

June 30, 2016 and 2015

(Unaudited)

(Dollars in 000s)

Period Ended		Annual Required Contribution	Percentage Contributed
June 30, 2016	\$	14,996	34.8%
June 30, 2015		14,564	74.2%

See accompanying independent auditors' report