



**WASHINGTON SUBURBAN
SANITARY COMMISSION
RETIREE OTHER
POSTEMPLOYMENT
BENEFITS PLAN**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES WITH
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2017 AND 2016



**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS TRUST
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
WITH INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2017 AND 2016**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION & ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION (RSI) - UNAUDITED)	3
FINANCIAL STATEMENTS:	
STATEMENTS OF FIDUCIARY NET POSITION	8
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION	9
NOTES TO FINANCIAL STATEMENTS	10
REQUIRED SUPPLEMENTARY INFORMATION (RSI - UNAUDITED):	
SCHEDULE OF EMPLOYER CONTRIBUTIONS	20
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS	21
SCHEDULE OF INVESTMENT RETURNS	22

INDEPENDENT AUDITORS' REPORT

The Commissioners and Board of Trustees
Washington Suburban Sanitary Commission
Retiree Other Postemployment Benefits Plan

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Washington Suburban Sanitary Commission's Retiree Other Postemployment Benefits Plan (the Plan), as of and for the year ended December 31, 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle and Correction of an Error

During the fiscal year ended December 31, 2017, the Plan adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension* as discussed in Note B to the financial statement and restated balances included on the Statement of Changes in Fiduciary Position resulting from the correction of an accounting error that occurred in the prior period as discussed in Note I to the financial statements. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A), the schedule of changes in net OPEB liability and related ratios, the schedule of OPEB contributions, and the schedule of investment returns 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.

Other Information

The financial statements of the Plan as of and for the year ended December 31, 2016, were audited by other auditors whose report dated July 14, 2017, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
October 15, 2018

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016**

This Management’s Discussion and Analysis (“MD&A”) of the financial activities of the Washington Suburban Sanitary Commission (“WSSC”) Retiree Other Post-Employment Benefit Plan (the “Plan”) is an overview of its fiscal operations for the years ended December 31, 2017 and 2016. Readers are encouraged to consider the information presented in conjunction with the financial statements and the notes to the financial statements. Amounts contained in the discussion have been rounded to facilitate their readability.

Overview of Financial Statements

The financial statement and the required disclosures are in compliance with the accounting standards and reporting guidelines as set forth by the Governmental Accounting Standards Board (“GASB”), utilizing the accrual basis of accounting. The financial statements of the Plan are presented on a comparative basis with the previous fiscal year.

The Plan has two financial statements and the notes to the financial statements. The Statement of the Fiduciary Net Position is a snapshot of account balances at fiscal year-end. The Statement of Changes in Fiduciary Net Position reflects all the activities that occurred during the fiscal year, and the impact of those activities on the Plan’s net position.

The notes to the financial statements provide a detailed discussion of key policies and activities that occurred during the fiscal year. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Supplementary information is also disclosed which includes additional information on the Plan’s financial condition and trends, including information on employer contributions, actuarial assumptions, funding status and investments.

2017 Financial Highlights

- Net position restricted for other postemployment benefits, as reported in the Statements of Fiduciary Position, total \$118.6 million, an increase of \$24.2 million or 26% from prior year.
- Total additions, as reflected in the Statements of Changes in Fiduciary Net Position, increased by \$6.3 million due to increases in investment income.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016**

2016 Financial Highlights

- Net position restricted for other postemployment benefits, as reported in the Statements of Fiduciary Net Position, total \$94.3 million, an increase of \$18.4 million or 24% from prior year.
- Total additions, as reflected in the Statements of Changes in Fiduciary Net Position, increased by \$10.1 million due to increase in investment income.

Financial Analysis

Table 1 – Condensed Statements of Fiduciary Net Position as of December 31, 2017, 2016 and 2015

	2017	2016	2015	2017- 2016		2016-2015		
				Variance	%	Variance	%	
ASSETS								
Investments:								
Cash and Cash Equivalents	\$ 90,032	\$ -	\$ -	\$ 90,032	N/A	\$ -	N/A	
Vanguard Wellington Fund - Admiral Shares	58,556,171	50,998,572	41,158,062	7,557,599	15%	9,840,510	24%	
Vanguard Total Stock Market Index Institutional Shares	10,973,182	-	-	10,973,182	N/A	-	N/A	
Lord Abbett Multi-Asset Global Opportunity Fund	48,936,319	43,319,664	34,797,508	5,616,655	13%	8,522,156	24%	
Total Assets	118,555,704	94,318,236	75,955,570	24,237,468	26%	18,362,666	24%	
LIABILITIES								
	10,000	-	-	10,000	N/A	-	N/A	
Net Position Held in Trust for Benefits	\$ 118,545,704	\$ 94,318,236	\$ 75,955,570	\$ 24,227,468	26%	\$ 18,362,666	24%	

Fiscal Year 2017

The Plan's investments increased by \$24.2 million or 26% as a result of cash contributions to the Trust of \$10.0 million and investment gains of \$14.2 million. The investment gain is due to the positive returns from Vanguard Wellington, Vanguard Total Stock and Lord Abbett Multi-Asset Global Opportunity Fund.

As of December 31, 2017, the Plan had \$118.5 million in net position held for other postemployment benefits compared to \$94.3 million as of December 31, 2016, an increase of 26%. There was a liability of \$10,000 at December 31, 2017 and there was no liabilities at December 31, 2016.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016**

Fiscal Year 2016

The Plan's investments increased by \$18.4 million or 24% as a result of cash contributions to the Plan of \$10.0 million and investment gains of \$8.4 million. The investment gain is due to the positive returns from Vanguard Wellington and Lord Abbett Multi-Asset Global Opportunity Fund.

As of December 31, 2016, the Plan had \$94.3 million in net position restricted for other postemployment benefits compared to \$76.0 million as of December 31, 2015, an increase of 24%. There were no liabilities at December 31, 2016 or 2015.

Table 2 – Condensed Statements of Changes in Fiduciary Net Position for the Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015	2017-2016		2016-2015		
				Variance	%	Variance	%	
ADDITIONS								
Net Investment Income	\$ 14,247,468	\$ 8,362,666	\$ (2,749,321)	\$ 5,884,802	70%	\$ 11,111,987	404%	
Contributions	25,754,612	25,315,408	26,329,688	439,204	2%	(1,014,280)	-4%	
Total Additions	<u>40,002,080</u>	<u>33,678,074</u>	<u>23,580,367</u>	<u>6,324,006</u>	<u>19%</u>	<u>10,097,707</u>	<u>43%</u>	
DEDUCTIONS								
OPEB Expenses	(15,774,612)	(15,315,408)	(16,329,688)	(459,204)	3%	1,014,280	-	
Increase in Net Position	<u>24,227,468</u>	<u>18,362,666</u>	<u>7,250,679</u>	<u>5,864,802</u>	<u>24%</u>	<u>11,111,987</u>	<u>43%</u>	
Net Position Held in Trust for Benefits, Beginning of Year	<u>94,318,236</u>	<u>75,955,570</u>	<u>68,704,891</u>	<u>18,362,666</u>	<u>19%</u>	<u>7,250,679</u>	<u>11%</u>	
Net Position Held in Trust for Benefits, End of Year	<u>\$ 118,545,704</u>	<u>\$ 94,318,236</u>	<u>\$ 75,955,570</u>	<u>\$ 24,227,468</u>	<u>20%</u>	<u>\$ 18,362,666</u>	<u>24%</u>	

Fiscal year 2017

Cash Contributions to the Plan remained at \$10 million, the same as in the prior year. Net investment income, which is comprised of dividend and interest and net appreciation in the fair value of investments, increased by \$5.9 million or 70%, from a net investment gain of \$8.4 million in fiscal year 2016 to net investment income of \$14.2 million in fiscal year 2017. The net investment income is due to the overall positive performance of the funds. Dividend and interest increased from \$4.1 million to \$5.5 million for fiscal years 2016 and 2017, respectively. Net appreciation in the fair value of investments increased from a net gain of \$4.3 million in 2016 to an appreciation in fair value of investments of \$8.7 million for 2017.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016**

Fiscal year 2016

Cash Contributions to the Plan remained at \$10 million, the same as in the prior year. Net investment income, which is comprised of dividend and interest and net appreciation in the fair value of investments, increased by \$11.1 million or 404%, from a net investment loss of \$2.7 million in fiscal year 2015 to net investment income of \$8.4 million in fiscal year 2016. The net investment income is due to the overall positive performance of the funds. Dividend and interest decreased from \$5.4 million to \$4.1 million for fiscal years 2015 and 2016, respectively. Net appreciation in the fair value of investments increased from a net loss of \$8.2 million in 2015 to an appreciation in fair value of investments of \$4.3 million for 2016.

Other Information

The Plan's actuarially determined target investment return is 7.0% net of expenses, lowered from the 7.5% chosen at Plan inception. Administrative expenses and benefit payments are currently handled on a "pay-as-you-go" basis by WSSC. Investment expenses are paid from the Plan. For presentation purposes, benefit payments are shown as an expense of the Plan, however these payments are made on behalf of the Plan by WSSC. Retiree contributions are also withheld from plan participants by WSSC and are utilized to pay plan premium, these amounts are also recorded on financial statements.

The fair value of the Plan's assets, and its investment gains and losses are also reviewed at least biannually by an actuary to determine viability of the Plan. The Plan was instituted in 2007 in order to comply with the requirements of Government Accounting Standards Board's (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and subsequently Statement No. 74 (GASB 74), *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*. Consistent with these standards, the WSSC initially chose a five-year phase-in period to make its full actuarially determined annual required contribution.

Subsequent to the initial phase-in, WSSC implemented an eight-year phase-in which extended the date by which WSSC intended to make the full annual required contribution to fiscal year 2014.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016**

Request for Information

This financial report is designed to provide the Executive Director with a general overview of the Plan's finances and to show accountability for the Plan's funds. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, WSSC Employees' Retirement Plan, Washington Suburban Sanitary Commission, 14501 Sweitzer Lane, Laurel MD 20707-5901.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
STATEMENTS OF FIDUCIARY NET POSITION
DECEMBER 31, 2017 AND 2016**

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 90,032	\$ -
Investments at fair value:		
Vanguard Wellington Fund - Admiral Shares	58,556,171	50,998,572
Vanguard Total Stock Market Index Institutional Shares	10,973,182	-
Lord Abbett Multi-Asset Global Opportunity Fund	48,936,319	43,319,664
Total Investments	118,465,672	94,318,236
Total Assets	118,555,704	94,318,236
LIABILITIES		
Accrued expenses	10,000	-
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	\$ 118,545,704	\$ 94,318,236

The accompanying notes are an integral part of these financial statements.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016 (As Restated)</u>
ADDITIONS		
Investment income:		
Dividends and interest	\$ 5,517,371	\$ 4,104,301
Net appreciation in the fair value of investments	<u>8,730,096</u>	<u>4,258,365</u>
Net Investment Income	<u>14,247,468</u>	<u>8,362,666</u>
Contributions:		
WSSC Contributions	10,000,000	10,000,000
WSSC On-behalf Contributions	11,586,194	11,348,096
Retiree Contributions	<u>4,168,418</u>	<u>3,967,312</u>
Total Contribution	<u>25,754,612</u>	<u>25,315,408</u>
Total Additions	<u>40,002,080</u>	<u>33,678,074</u>
DEDUCTIONS		
Retiree Benefit Payments	15,754,612	15,315,408
Administrative expenses	<u>20,000</u>	<u>-</u>
Total Deductions	<u>15,774,612</u>	<u>15,315,408</u>
INCREASE IN NET POSITION	24,227,468	18,362,666
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, BEGINNING OF YEAR	<u>94,318,236</u>	<u>75,955,570</u>
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, END OF YEAR	<u>\$ 118,545,704</u>	<u>\$ 94,318,236</u>

The accompanying notes are an integral part of these financial statements.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE A. DESCRIPTION OF THE PLAN

General Information

The provision of post-employment benefits are determined under a set of personnel policies (herein referred to, collectively, as the “Plan”). The Plan and its underlying trust, a single employer defined benefit plan, was established in 2007 to provide life insurance, healthcare and prescription drug benefits for Plan participants and beneficiaries of the Washington Suburban Sanitary Commission (“WSSC”) under conditions set forth in the Trust Agreement, including the payment of reasonable administrative expenses. WSSC employees are eligible to continue group insurance coverage after retirement provided that retiring employees have had coverage in effect for two years prior to retirement.

Benefits Provided

The Plan pays 70-80% of the full premium for medical and prescription drug coverage for eligible participants and qualified dependents. In addition, employees who retired in 1982 and after are eligible for life insurance benefits. The amount of retiree life insurance coverage begins at 85% of the employee’s salary as of the day immediately prior to retirement, and decreases over a four-year period, until coverage equals either 25% of that salary or \$5,000, whichever is greater.

Plan Membership

As of December 31, 2017 and 2016, there were 1,623 and 1,631 active employees and 1,600 and 1,585 retirees, respectively. WSSC has the right to amend the Trust Fund Agreement.

Member and Employer Contribution

WSSC contributes to the Plan as it deems appropriate. WSSC initially elected to phase-in payments to the Trust over a five-year period, such that 20% of the difference between the annual required contribution and total cash expenses (funded on a “Pay-as-you-go” basis) would be funded in fiscal year 2007 and 40% of this difference would be funded in fiscal year 2008. During the third year (2009) of the phase in, WSSC elected to phase-in this difference over an eight-year period which ended in fiscal year 2014. WSSC made cash contributions of \$10,000,000 for the years ending December 31, 2017 and 2016.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE A. DESCRIPTION OF THE PLAN (continued)

Member and Employer Contribution (continued)

The Plan recognizes revenues and expenditures for third-party payments made by WSSC related to benefits payments and administrative expenses. Accordingly, the Plan has included "on behalf" payments made by WSSC during the fiscal years 2017 and 2016 of \$15,754,612 and \$15,315,408, respectively.

Plan Termination

In the event of the Plan termination, Plan assets shall be allocated for the payment of benefits and administrative expenses in accordance with the Plan and Trust Agreement.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Basis of Accounting

The reporting entity consists of the Plan, which is a component unit of the Washington Suburban Sanitary Commission. The financial statements of the Plan are presented using the economic resources measurement focus and the accrual basis of accounting. Member contributions are recognized as revenue in the period in which the contributions are due. Employer contributions are recognized when due and a formal commitment has been made to provide the contributions. Benefits and refunds are recognized when due and payable. Investment income is recognized when earned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Plan considers all cash and highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Fair Value Measurements

The Plan categorize fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The valuation technique uses a three level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These classifications are summarized as follows:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Inputs: Unobservable inputs for an asset or liability.

In the event that inputs used to measure the fair value of an asset or liability fall into different levels in the fair value hierarchy, the overall level of the fair value hierarchy in its entirety is determined based on the lowest level input that is significant to the entire valuation. These levels are not necessarily an indication of risk but are based upon the pricing transparency of the investment.

Fair value of certain investments that do not have a readily determinable fair value is established using net asset value (or its equivalent) as a practical expedient. These investments are not categorized according to the fair value hierarchy.

Net appreciation in the fair value of investments reflected in the Statements of Changes in Fiduciary Net Position includes realized gains and losses on investments that were sold during the year and unrealized appreciation in the fair value of investments.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain prior year balances may have been reclassified to conform with the current year presentation. These reclassifications have no effect upon reported net position restricted for other postemployment benefits.

Accounting Pronouncements Adopted

The Governmental Accounting Standards Board issued Statement No. 74 (GASB 74), “*Financial Reporting for Postemployment Benefit Plans other than Pension Plans*” in June 2015. GASB 74’s effective date is for a Plan’s fiscal year beginning after June 15, 2016. For the purposes of reporting under GASB 74, the Plan is assumed to be a cost-sharing, other than insured, defined benefit OPEB plan with a special funding situation where assets are accumulated in a trust that meets the criteria in paragraph 3 of GASB 74. The adoption of the pronouncement required the increased financial disclosures and supplementary information by the Plan.

NOTE C. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the Plan’s deposits may not be returned to it. The Plan does not have a policy for custodial credit risk for deposits and the cash and cash equivalents balance of \$90,032 at December 31, 2017 was uninsured and uncollateralized. There was no cash and cash equivalent balances at December 31, 2016.

NOTE D. INVESTMENTS

The Plan does not have a formal investment policy, the Trust’s investments, in general, are exposed to various risks as follows:

- Custodial Credit Risk is the risk that the Plan will not be able to recover the value of its investments if the counterparty fails. The Trust’s mutual fund investments are not subject to custodial credit risk for 2017 and 2016 in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3* as the investments are open-end mutual funds.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE D. INVESTMENTS (continued)

- Credit Risk is the risk that an issuer to an investment will not fulfill its obligations. As of December 31, 2017 and 2016, the Plan held no direct investments in debt securities.
- Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2017 and 2016, the Plan held no investments in debt securities and was not exposed to interest rate risk.
- Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment in a foreign financial institution. The Plan mitigates this risk by limiting its investments in funds with foreign exposure. The underlying assets of the Vanguard Wellington Fund Admiral are in domestic stocks and bonds; however, the Lord Abbett Multi-Asset Global Opportunity Fund underlying funds invest in foreign assets that may be exposed to exchange rate changes.
- Concentration risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The following investments represent over 5% of total investments with a single investor as of December 31:

	2017		2016	
	Investment	%	Investment	%
Vanguard Wellington Fund- Admiral Shares	58,556,171	49.43%	50,998,572	54.07%
Lord Abbett Multi- Asset Global Opportunity Fund	48,936,319	41.31%	43,319,664	45.93%
Vanguard Total Stock Market Index Inst.	10,973,182	9.26%	-	-

The Plan had the following fair value measurement as of December 31, 2017:

	Total 12/31/2017	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Fund:				
Vanguard Wellington Fund - Admiral Shares	\$ 58,556,171	\$ 58,556,171	\$ -	\$ -
Vanguard Total Stock Market Index Inst	48,936,319	48,936,319	-	-
Lord Abbett Multi-Asset Global Opportunity Fund	10,973,182	10,973,182	-	-
Total Investment	<u>\$ 118,465,672</u>	<u>\$ 118,465,672</u>	<u>\$ -</u>	<u>\$ -</u>

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE D. INVESTMENTS (continued)

The Plan had the following fair value measurement as of December 31, 2016:

	Total 12/31/2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Fund:				
Vanguard Wellington Fund - Admiral Shares	\$ 50,998,572	\$ 50,998,572	\$ -	\$ -
Lord Abbett Multi-Asset Global Opportunity Fund	43,319,664	43,319,664	-	-
Total Investment	<u>\$ 94,318,236</u>	<u>\$ 94,318,236</u>	<u>\$ -</u>	<u>\$ -</u>

Rate of Return

For the year ended December 31, 2017 and 2016, the annual money-weighted rate of return on investments, net of expense, was 14.5% and 10.4%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE E. TRUSTEES OF THE FUND

WSSC established a Board of Trustees for the Plan to be responsible for the investment management of the Trust's assets for the exclusive benefit of the Trust participants. A Trust Agreement governs the trustees. The agreement provides for Trustees to be appointed by WSSC and, per the terms of WSSC Adopted Resolution 2015-2076, and updated per the terms of WSSC Adapted Resolution 2017 – 2135, the Board has been re-appointed for a four-year term which commenced on July 1, 2015.

The administration of the Plan has been delegated to the Executive Director of the WSSC Employees' Retirement Plan, who is appointed by the WSSC.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE F. NET OPEB LIABILITY

The components of the net OPEB liability of the Plan as of December 31, 2017, were as follows:

	<u>2017</u>	<u>2016</u>
Total OPEB Liability	\$ 240,305,157	\$ 228,143,752
Plan Fiduciary Net Position	118,545,704	94,318,236
Net OPEB Liability	<u>121,759,453</u>	<u>133,825,516</u>
 Plan Fiduciary Net Position as a percentage of Total OPEB Liability	 49.3%	 41.3%

Actuarial Assumptions.

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	July 1, 2017
Actuarial method	Entry Age Normal
Inflation	3.5%
Asset valuations methodology	Assets are based on market value.
Investment rate of return	7.00%
Healthcare cost trend rates	5.75% for 2017, 5.50% for 2018, 5.25% for 2019, 4.75% for 2020, 4.50% thereafter, Post-Medicare 4.50% for all years
Mortality	RP-2000 Health Annuitant mortality tables (males and females), GAM83 tables with 10-year set forward were used for the valuation of disabled members.

The actuarial assumption used in the July 1, 2017 valuation were based on the results of an actuarial experience analysis in 2016:

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE F. NET OPEB LIABILITY (continued)

Actuarial Assumptions (continued)

This is then modified through a Monte-Carlo simulation process, by which a (downward) risk is applied to the base line expected return.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2017, and the final investment return assumption, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	48.3%	5.70%
Non-US Equity	18.7%	5.95%
US Fixed Income- Investment	20.6%	2.25%
US Fixed Income-High Yield	8.3%	3.78%
Emergency Markets Currency	4.1%	3.80%
Total Weighted Average Real Return	<u>100.0%</u>	4.80%
Plus Inflation		<u>2.50%</u>
Total Return without Adjustement		7.30%
Risk Adjustment		<u>-0.30%</u>
Total Expected Return		<u>7.00%</u>

Discount rate

The discount rate used to measure the total OPEB liability was 7.00%. The Plan's funding expectations/policy is to contribute approximately \$10,000,000 per year to the OPEB trust, in addition to paying benefits for retirees. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the expected trust return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the Commission, calculated using the discount rate of 7.00%, as well as what the Commission's net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate:

**WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POSTEMPLOYMENT BENEFITS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE F. NET OPEB LIABILITY (continued)

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Total OPEB Liability	\$ 268,418,094	\$ 240,305,157	\$ 216,939,788
Plan Fiduciary Net Position	118,545,704	118,545,704	118,545,704
Net OPEB Liability	<u>\$ 149,872,390</u>	<u>\$ 121,759,453</u>	<u>\$ 98,394,084</u>
Ratio of Plan Net Position to Total OPEB Liability	44.2%	49.3%	54.6%

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Commission, calculated using the trend assumptions below, as well as what WSSC's net OPEB liability would be if it were calculated using rates that are 1.00% lower or 1.00% higher than the current rate:

	1% Decrease 3.50%	Current Trend 4.50%	1% Increase 5.50%
Total OPEB Liability	\$ 216,000,181	\$ 240,305,157	\$ 269,736,623
Plan Fiduciary Net Position	118,545,704	118,545,704	118,545,704
Net OPEB Liability	<u>\$ 97,454,477</u>	<u>\$ 121,759,453</u>	<u>\$ 151,190,919</u>
Ratio of Plan Net Position to Total OPEB Liability	54.9%	49.3%	43.9%

NOTE G. INTERNAL REVENUE STATUS

The Plan operates as a Section 115 Grantor Trust under the Internal Revenue Code.

NOTE H. RISKS AND UNCERTAINTIES

The Plan may invest in various investment securities that are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the Statements of Fund Net Position.

NOTE I. RESTATEMENT OF STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

The Plan has restated its December 31, 2016, Statement of Changes in Fiduciary Net Position to correct an error in accounting for contributions and on behalf payments made to and for the Plan . The effect of this change had no effect on the beginning net position.

REQUIRED SUPPLEMENTARY INFORMATION

WASHINGTON SUBURBAN SANITARY COMMISSION
 RETIREE OTHER POST EMPLOYMENT BENEFITS TRUST
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 (Unaudited)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially Determined Employer Contribution	\$ 14,960,787	\$ 14,960,787	\$ 16,766,000	\$ 16,752,000	\$ 20,128,000	\$ 20,180,734	\$ 21,298,235	\$ 21,175,619	\$ 22,745,474	\$ 22,466,763
Contributions in Relation to the Actuarially Determined Contribution	21,586,194	21,348,096	22,379,000	20,437,000	19,060,000	17,539,809	14,735,000	14,675,000	13,829,000	12,963,000
Contribution Deficiency (Excess)	\$ (6,625,407)	\$ (6,387,309)	\$ (5,613,000)	\$ (3,685,000)	\$ 1,068,000	\$ 2,640,925	\$ 6,563,235	\$ 6,500,619	\$ 8,916,474	\$ 9,503,763
Covered Employee Payroll	124,331,306	122,144,339	119,006,893	111,648,014	109,165,841	101,390,459	99,513,383	97,055,169	89,245,204	84,760,168
Contributions as a Percentage of Covered Employee Payroll	17.4%	17.5%	18.8%	18.3%	17.5%	17.3%	14.8%	15.1%	15.5%	15.3%

WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POST EMPLOYMENT BENEFITS TRUST
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
(Unaudited)

	<u>2017</u>	<u>2016</u>
Total OPEB Liability		
Service Cost	\$ 2,715,880	\$ 2,852,227
Interest	16,104,693	15,302,770
Difference between expected and actual experience	4,927,026	-
Benefit payments	<u>(11,586,194)</u>	<u>(11,348,096)</u>
Net Change in Total OPEB Liability	12,161,405	6,806,901
Total OPEB Liability - Beginning of Year	<u>228,143,752</u>	<u>221,336,851</u>
Total OPEB Liability - End of Year	<u>\$ 240,305,157</u>	<u>\$ 228,143,752</u>
Plan Fiduciary Net Position		
Contributions - employer, including benefits paid	\$ 21,586,194	\$ 21,348,096
Contributions - member	4,168,418	3,967,312
Net investment income	14,247,468	8,362,666
Benefit payments, including refunds	(15,754,612)	(15,315,408)
Administrative Expenses	<u>(20,000)</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	24,227,468	18,362,666
Plan Fiduciary Net Position - Beginning of Year	<u>94,318,236</u>	<u>75,955,570</u>
Plan Fiduciary Net Position - End of Year	<u>\$ 118,545,704</u>	<u>\$ 94,318,236</u>
Net OPEB Liability - Beginning of Year	<u>\$ 133,825,516</u>	<u>\$ 145,381,281</u>
Net OPEB Liability - End of Year	<u>\$ 121,759,453</u>	<u>\$ 133,825,516</u>
Plan Fiduciary Net Position as a percentage of Total OPEB Liability	49.3%	41.3%
Covered Employee Payroll	124,331,306	122,144,339
Net OPEB Liability as a percentage of Covered Employee Payroll	97.93%	109.56%

WASHINGTON SUBURBAN SANITARY COMMISSION
RETIREE OTHER POST EMPLOYMENT BENEFITS TRUST
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS
(Unaudited)

	<u>2017</u>	<u>2016</u>
Annual money-weighted rate of return, net of investment expense	14.5%	10.4%

*The Plan adopted GASB 74 during fiscal year 2017; therefore, only two years of information is presented in the above schedule.