



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
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RAINBOW MUNICIPAL WATER DISTRICT
ANNUAL FINANCIAL
REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

RAINBOW MUNICIPAL WATER DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2015

**RAINBOW MUNICIPAL WATER DISTRICT
TABLE OF CONTENTS
JUNE 30, 2015**

	<u>Page Number</u>
INTRODUCTORY SECTION	
Table of Contents	i
FINANCIAL SECTION	1
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 - 9
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Net Position	11
Statement of Cash Flows	12 - 13
Notes to the Basic Financial Statements	14 - 31
REQUIRED SUPPLEMENTARY INFORMATION SECTION	32
Schedule of Proportionate Share of the Net Pension Liability	33
Schedule of Plan Contributions	34
SUPPLEMENTARY INFORMATION SECTION	35
Organization	36
Assessed Valuation	37
OTHER INDEPENDENT AUDITORS' REPORT SECTION	38
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39 - 40
FINDINGS AND RECOMMENDATIONS SECTION	41
Schedule of Audit Findings and Questioned Costs	42
Status of Prior Year Findings and Recommendations	43

RAINBOW MUNICIPAL WATER DISTRICT

FINANCIAL SECTION

JUNE 30, 2015



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rainbow Municipal Water District
Fallbrook, California

Report on the Financial Statements

We have audited the accompanying financial statements of Rainbow Municipal Water District, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Rainbow Municipal Water District'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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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; the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Auditing Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Municipal Water District, as of June 30, 2015, and the changes in financial position and cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

Page 2

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, and the schedules of proportionate share of the net position liability and plan contributions on pages 33 and 34, 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rainbow Municipal Water District's basic financial statements. The introductory and supplementary information sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2015, on our consideration of the Rainbow Municipal Water District'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Rainbow Municipal Water District's internal control over financial reporting and compliance.

Hosaka, Rotherham & Company

San Diego, California
November 2, 2015

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

As management of the Rainbow Municipal Water District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two main parts (1) Management's Discussion and Analysis and, (2) Basic Financial Statements.

Governmental Accounting Standards Board (GASB) issued Statement No. 34 (GASB Statement No. 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and subsequently amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. GASB No. 34 established financial reporting standards for state and local governments, including cities, villages and special purpose governments.

FINANCIAL HIGHLIGHTS

- The District's ending total net position was \$86,772,146.
- The change in net position for the fiscal year was a decrease of \$1,107,477.
- The District had operating expenses in excess of operating revenues in the amount of \$1,087,681 in the current year compared to of expenses in excess of operating revenues of \$963,514 in the previous year.
- This year the District had \$2,620,250 worth of net additions to capital assets compared to \$998,949 last year.
- The District's budget for this year showed excess revenue over expenditures (before transfers) of \$349,501 compared to the actual amount of expenditures in excess of revenues of \$1,401,669.
- Effective June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB Statement No. 68 requires that the District record the Net Pension Liability of its defined benefit pension plan as of the measurement date. The implementation of GASB No. 68 resulted in a prior period adjustment to the beginning net position of \$4,168,449, and a net pension liability at June 30, 2015 of \$3,482,335. Additional information is provided in the footnotes and Required Supplementary Information.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's audit report is comprised of four components: 1) financial statements and notes, 2) supplementary information, 3) reports on compliance and internal control, and 4) findings and recommendations.

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Basic financial statements. The basic financial statements include District financial statements and fund statements.

The District, as a whole, is reported in the District statements and uses accounting methods similar to those used by companies in the private sector.

The *Statement of Net Position*, a District statement, presents information on all of the District's assets, deferred outflow of resources, and liabilities, deferred inflow of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position*, a District statement, presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* provides information regarding the District's cash receipts and cash disbursements during the fiscal year.

The *Notes to the Basic Financial Statements* are included to provide more detailed data and explain some of the information in the statements.

The *Supplementary Information* gives an overview of the operations of the District and the governing body and outlines assessed property valuation.

Reports on Compliance and Internal Control encompass the independent auditor's reports showing compliance with *Government Auditing Standards* and provides additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *Findings and Questioned Costs* section notes material weaknesses in the system and recommendations.

DISTRICT'S FINANCIAL ANALYSIS

The District's net position decreased from the prior fiscal year by 5.7%. Revenue for this fiscal year decreased 6.3% over the prior year. The Transitional Special Agricultural Water Rate (TSAWR) has been extended by San Diego County Water Authority through December 31, 2020.

The District sold approximately 19,014 acre feet of water during 2014-2015 compared with 21,045 acre feet in the fiscal year prior. Approximately 77% of water sales was for agricultural customers.

Operating expenses decrease 2% from the prior year due to water decrease in sales volume. Operating expenses other than water increased 1% due to legal services and administration cost.

New development paid \$294,192 for water capacity fees.

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

DISTRICT'S FINANCIAL ANALYSIS (CONTINUED)

Statement of Net Position

To begin our analysis, a summary of the District's Condensed Statement of Net Position is presented in Table 1 for the current year and the prior year.

Net position may serve over time, as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$86,772,146 as of June 30, 2015.

Total assets decreased 5.7% from the prior fiscal year mostly due to the implementation of GASB Statement No. 68.

Noncurrent assets increased due to the increase in investments.

Total liabilities increased as a result of the addition of two new long-term notes and recognizing the District's pension liability.

The District's financial position is the product of several financial transactions including the net results of revenue and expense, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Table 1
Condensed Statement of Net Position**

	2015	2014	\$ Change	% of Change
ASSETS				
Current assets	\$ 23,122,422	\$ 23,270,265	\$ (147,843)	-0.6%
Noncurrent assets	12,806,172	9,900,879	2,905,293	29.3%
Capital assets, net	84,652,584	85,350,581	(697,997)	-0.8%
TOTAL ASSETS	120,581,178	118,521,725	2,059,453	1.7%
DEFERRED OUTFLOWS OF RESOURCES	625,634	-	625,634	100.0%
LIABILITIES				
Current liabilities	4,883,766	7,478,124	(2,594,358)	-34.7%
Noncurrent liabilities	21,460,464	13,015,044	8,445,420	64.9%
TOTAL LIABILITIES	26,344,230	20,493,168	5,851,062	28.6%
DEFERRED INFLOW OF RESOURCES	8,090,436	5,980,485	2,109,951	35.3%
NET POSITION				
Net investment in capital assets	84,652,584	85,350,581	(697,997)	-0.8%
Unrestricted	2,119,562	6,697,491	(4,577,929)	-68.4%
TOTAL NET POSITION	\$ 86,772,146	\$ 92,048,072	\$ (5,275,926)	-5.7%

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

DISTRICT'S FINANCIAL ANALYSIS (CONTINUED)

Statement of Revenues, Expenses and Changes in Net Position

- The District's total operating revenues for the fiscal year ended June 30, 2015, excluding inter-fund transfers, decreased by \$2,547,690 to \$38,079,779. This was due primarily to the decreased wholesale cost of water purchases and water sales to customers.
- The District's total operating expenses decreased by \$2,396,523 to \$39,167,460 due to the decreased wholesale cost of water purchases and decreased sales.
- The excess of operating expenses over operating revenues was \$1,087,681.

The following table presents a summary of the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2015:

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% of Change</u>
OPERATING REVENUES				
Direct	\$ 36,714,562	\$ 39,051,174	\$ (2,336,612)	-6.0%
Indirect	1,365,217	1,576,295	(211,078)	-13.4%
TOTAL OPERATING REVENUES	<u>38,079,779</u>	<u>40,627,469</u>	<u>(2,547,690)</u>	<u>-6.3%</u>
OPERATING EXPENSES	(39,167,460)	(41,563,983)	2,396,523	-5.8%
NON-OPERATING REVENUES	89,981	-	89,981	100.0%
NON-OPERATING EXPENSES	<u>(403,969)</u>	<u>(108,543)</u>	<u>(295,426)</u>	<u>272.2%</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,401,669)	(1,045,057)	(356,612)	34.1%
CAPITAL CONTRIBUTIONS	<u>294,192</u>	<u>-</u>	<u>294,192</u>	<u>100.0%</u>
CHANGE IN NET POSITION	(1,107,477)	(1,045,057)	(62,420)	6.0%
TOTAL NET POSITION, BEGINNING	92,048,072	93,093,129	(1,045,057)	-1.1%
PRIOR PERIOD ADJUSTMENT	<u>(4,168,449)</u>	<u>-</u>	<u>(4,168,449)</u>	<u>100.0%</u>
TOTAL NET POSITION, ENDING	<u>\$ 86,772,146</u>	<u>\$ 92,048,072</u>	<u>\$ (5,275,926)</u>	<u>-5.7%</u>

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

DISTRICT'S FINANCIAL ANALYSIS (CONTINUED)

General fund budgetary highlights

The General fund had the following excess of expenditures over appropriations (instances where actual amounts significantly exceeded budgeted amounts) in individual categories.

**Table 3
Excess Expenditures of Appropriations**

Governing Board	\$	2,936
Depreciation	\$	926,639
Interest expense	\$	246,566

The District's total operating expenses, other than purchased water, was approximately 1.0% less than the budget.

The District has reduced its annual operating budget each of the last four years. Several expense categories including wages and benefits have been reduced in efforts to meet the challenge of decreasing water sales. The District has been successful with staff reductions through the process of not replacing staff members when they leave or retire.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

**Table 4
Changes in Capital Assets**

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% of Change</u>
Land	\$ 1,977,490	\$ 1,977,490	\$ -	0.0%
Construction in progress	4,959,625	2,999,904	1,959,721	65.3%
Buildings and improvements	969,773	969,773	-	0.0%
Reservoir, pipelines, and tanks	137,049,736	136,751,210	298,526	0.2%
Meters	302,678	302,678	-	0.0%
Equipment	3,293,442	3,101,023	192,419	6.2%
Investment in sewer rights	7,416,124	7,246,540	169,584	2.3%
Less: accumulated depreciation	(71,316,284)	(67,998,036)	(3,318,248)	4.9%
Total capital assets, net	<u>\$ 84,652,584</u>	<u>\$ 85,350,582</u>	<u>\$ (697,998)</u>	-0.8%

Long-term debt

The District applied for and received two loans from the State of California, Department of Public Health under the California Safe Drinking Water State Revolving Fund, in the amounts of \$10,246,413 and \$7,731,716 for the Morro reservoir project and the Pala Mesa Tank project, respectively, for a term of twenty years with interest at 2.0933%, per annum. The proceeds were received in full during the year ended June 30, 2015, and are reflected in the statement of net position accordingly.

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District recorded a loss from operations of \$1,087,681 which includes \$3,318,247 of depreciation expense. Net income from all sources resulted in a loss of \$1,107,477. For the fiscal year 2016, the District's water sales will be heavily impacted by the State Water Resources Control Board's mandatory conservation programs. The District has a mandatory residential conservation target of 36%. Even though agricultural accounts are not subject to these mandatory restrictions, the TSAWR class of customers has a mandatory 15% reduction in allocation. In the first quarter of fiscal year 2016, TSAWR deliveries were tracking down more than 25%, leading to a significant reduction in water sales. Residential consumption has been cut by more than the 36% standard established by the State Water Resources Control Board (SWRCB).

The District is proposing changes to its water rate structure to become effective January 1, 2016. These changes increase the recovery of fixed costs from 24% of total expenses to 29%. This will help reduce the impact of decreasing volumetric sales since the percentage of fixed expenses is 46% of total expenses. The new rate structure will also include demand reduction rate categories that establish alterations in rates depending on the reduction of demand from the baseline. The baseline consumption was set at 18,000 acre feet per year for fiscal year 2016 and it is expected that due to the SWRCB regulations, and an expected wet winter, there is a good chance that these rate changes will be put into effect in fiscal year 2016. The water rate changes being contemplated for January 1, 2016 include a 5 year Proposition 218 notice that will allow the District to increase rates to manage increased wholesale water costs, energy costs, and inflation in operating costs.

The District is now in the planning stages for the development of two significant local water supply projects. The first is a water reclamation plant and a recycled water distribution system which will recover wastewater that is currently sent to the City of Oceanside and treat it for use in non-potable applications, primarily agricultural. Preliminary studies have shown that this project can be cost effective and additional planning level studies are underway during fiscal year 2016. The second project is a brackish groundwater treatment facility that will recover return flows from imported water from the Bonsall groundwater basin for use by District customers. There are significant legal hurdles to overcome before this project can be realized, but once those are completed there may be as much as 4,000 acre feet per year available at a cost that will be competitive with imported water.

CONTACTING THE DISTRICT

Questions regarding this report should be directed to Tom Kennedy, General Manager, or Margaret Thomas, Finance Manager, at (760) 728-1178, or by mail at 3707 Old Highway 395, Fallbrook, California 92028.

Rainbow Municipal Water District

**RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 15,228,322
Restricted cash and cash equivalents:	
Insurance reserve	40,104
Construction and plant replacement funds	1,181,758
Bond reserve funds	1,082,143
Accounts receivable	4,520,291
Inventory	1,004,040
Prepaid expenses	65,764
Total current assets	<u>23,122,422</u>
Noncurrent assets:	
Investments	12,806,172
Capital assets:	
Land	1,977,490
Construction in progress	4,959,625
Buildings and improvements	969,773
Reservoir, pipelines, and tanks	137,049,737
Meters	302,678
Equipment	3,293,442
Investment in sewer rights	7,416,123
Less: accumulated depreciation	<u>(71,316,284)</u>
Total noncurrent assets	<u>97,458,756</u>
TOTAL ASSETS	<u>120,581,178</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related costs	<u>625,634</u>
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LIABILITIES

Current liabilities:	
Accounts payable	4,145,567
Accrued expenses	738,199
Total current liabilities	<u>4,883,766</u>
Noncurrent liabilities:	
Pension liability	3,482,335
Note payable, net of current portion	17,978,129
Total noncurrent liabilities	<u>21,460,464</u>
TOTAL LIABILITIES	<u>26,344,230</u>

DEFERRED INFLOWS OF RESOURCES

Fees collected for future expenditures	6,920,210
Pension related costs	1,170,226
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>8,090,436</u>

NET POSITION

Net investment in capital assets	84,652,584
Unrestricted	2,119,562
TOTAL NET POSITION	<u><u>\$ 86,772,146</u></u>

The notes to the financial statements are an integral part of these statements.

**RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

OPERATING REVENUES	
Direct operating revenues:	
Water sales	\$ 34,037,432
Waste water revenue	2,677,130
Total direct operating revenues	<u>36,714,562</u>
Indirect operating revenues:	
Property tax revenue	850,802
Other	514,415
Total indirect operating revenues	<u>1,365,217</u>
Total operating revenues	<u>38,079,779</u>
OPERATING EXPENSES	
Water purchases	24,532,468
Water pumping	3,816,915
Transmission and distribution	1,037,420
Meter services	804,140
Sewer services	1,708,779
Administrative and general	3,924,311
Engineering	24,364
Customer service	816
Depreciation	3,318,247
Total operating expenses	<u>39,167,460</u>
Loss from operations	<u>(1,087,681)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	89,981
Interest expense	(403,969)
Total non-operating revenues (expenses)	<u>(313,988)</u>
LOSS BEFORE CONTRIBUTIONS	(1,401,669)
CAPITAL CONTRIBUTIONS	<u>294,192</u>
CHANGE IN NET POSITION	(1,107,477)
NET POSITION, BEGINNING	92,048,072
PRIOR PERIOD ADJUSTMENT	<u>(4,168,449)</u>
NET POSITION, ENDING	<u>\$ 86,772,146</u>

The notes to the financial statements are an integral part of these statements.

**RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 39,522,657
Receipts from county	845,429
Receipts from others	384,117
Payments to suppliers and vendors	(33,564,605)
Payments to employees	(3,852,786)
Net cash provided by operating activities	<u>3,334,812</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition and construction of capital assets	(2,620,250)
Net cash used in investing activities	<u>(2,620,250)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Increase in investments	(2,905,293)
Proceeds from loans	3,842,943
Interest received	(22,289)
Interest paid	(216,317)
Net cash provided by financing activities	<u>699,044</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,413,606
CASH AND CASH EQUIVALENTS, BEGINNING	<u>16,118,721</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 17,532,327</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	\$ (1,087,681)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:	
Depreciation	3,318,247
(Increase) decrease in operating assets:	
Water and sewer	1,620,878
Property taxes	(5,373)
Other receivables	(130,298)
Inventory	107,210
Prepaid expenses	(14,465)
Increase (decrease) in operating liabilities:	
Accounts payable	(1,732,448)
Accrued expenses	259,177
Deferred revenue	939,725
Pension liability	60,785
Other current liabilities	(945)
Net cash provided by operating activities	<u>\$ 3,334,812</u>

The notes to the financial statements are an integral part of these statements.

**RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

RECONCILIATION TO BALANCE SHEET

Cash and cash equivalents	\$ 15,228,322
Restricted: cash and cash equivalents	2,304,005
Net reconciliation to balance sheet	<u>\$ 17,532,327</u>

SUPPLEMENTAL DISCLOSURES

Schedule of non-cash investing and financing activities	
Contributions of water system assets by customers and developers	<u>\$ 294,192</u>
Cash payments for interest	<u>\$ 216,317</u>

The notes to the financial statements are an integral part of these statements.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

A. Summary of significant accounting policies

Rainbow Municipal Water District (District) accounts for its financial transactions in accordance with the policies and procedures of the Irrigation District Law, now Division 11 of the California State Water Code. The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criterion for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, *The Financial Reporting Entity*, subsequently amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB Statement No. 61), include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- it would be misleading or cause the financial statements to be incomplete to exclude another organization

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statement.

2. Basis of accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services) or similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow took place.

Operating revenues and expenses are generated and incurred through the water sales activities to the District's customers. Administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

3. Financial reporting

The District's basic financial statements are presented in conformance with the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), and subsequently amended by GASB Statement No. 61. This statement established revised financial reporting

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

A. Summary of significant accounting policies (continued)

3. Financial reporting (continued)

requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reporting.

GASB Statement No. 34, and subsequent GASB pronouncements, provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses, and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB Statement No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB Statement No. 34, and subsequent GASB pronouncements, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

4. Implementation of GASB Pronouncements

Effective June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB Statement No. 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB Statement No. 71). GASB Statement No. 68 requires that the District record the Net Pension Liability of its defined benefit pension plan as of the measurement date. The implementation of GASB Statement No. 68 resulted in a prior period adjustment to the beginning net position of \$4,168,449 and a net pension liability at June 30, 2015 of \$3,482,335. GASB Statement No. 71 relates to amounts that are deferred and amortized at the time GASB Statement No. 68 is first implemented. The implementation of GASB Statement No. 71 resulted in the deferred outflows of \$5,740 and deferred inflows of \$1,170,226 at June 30, 2015. Additional information is provided in the footnotes and Required Supplementary Information.

5. Assets, liabilities, and equity

a. Deposits and investments

For purposes of the statement of cash flows, cash and cash equivalents consist of short-term highly liquid investments with maturities of ninety days or less from the date of purchase. These include cash on hand, cash held in the restricted assets accounts, and the Local Agency Investment Fund.

The District's investment policy and state statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit with national and state-licensed or chartered banks or federal or state savings and loan associations, money market and mutual funds whose portfolios consist of one or more of the foregoing investments, and the Local Agency Investment Fund.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

A. Summary of significant accounting policies (continued)

5. Assets, liabilities, and equity (continued)

a. Deposits and investments (continued)

State statutes require all deposits be insured or collateralized. Depositories holding public funds on deposit are required to maintain collateral in the form of a pool of securities with the agent of the depository having a market value of at least 10 to 50 percent in excess of the total amount of all public funds on deposit.

b. Restricted assets

Restricted assets consist of monies specified for construction and replacement, and monies restricted for the payment of bond principal and interest.

c. Stores inventories and prepaid expenditures

Inventories are recorded using the purchase method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period.

d. Capital assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	10-50
Water systems	10-50
Improvements of sites	7-25
Equipment	5-10

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

A. Summary of significant accounting policies (continued)

5. Assets, liabilities, and equity (continued)

e. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position includes a separate section for deferral of outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District has one item that qualifies for reporting in this category.

The pension plan related costs are made up of two components: net difference between projected and actual earnings on pension plan investments in the amount of \$5,740, which is amortized on a straight-line basis over five years; and the employer contributions paid during the year ended June 30, 2015 in the amount of \$619,894, which are deferred under GASB Statement No. 68.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualifies for reporting in this category.

The fees collected for future expenditures is cash for federal and state projects and programs recognized as revenue to the extent that qualified expenditures have been incurred. Deferred inflows of resources are recorded to the extent cash received on specific projects and programs exceed qualified expenditures. At June 30, 2015, the balance of fees collected for future expenditures is \$6,920,210, as detailed in footnote G.

The pension plan related costs is the adjustment due to differences in proportions in the amount of \$1,170,226, which is amortized over the straight-line basis over the average expected remaining service lives of all members that are provided with benefits.

f. Compensated absences

Accumulated unpaid employee vacation benefits and sick leave are recognized as accrued payroll liabilities in the Statement of Net Position. As of June 30, 2015, the District had \$451,472 of accrued vacation and sick leave.

g. Interfund activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

A. Summary of significant accounting policies (continued)

5. Assets, liabilities, and equity (continued)

h. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. As of June 30, 2015, the following timeframes are used:

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

i. Capital contributions

Capital contributions represent cash and capital asset additions to the District by property owners, granting agencies and real estate developers desiring services that require capital expenditures or capacity commitments.

6. Property taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

7. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8. Reclassifications

Certain reclassifications have been made to the prior year information to conform to the current year presentation.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

B. Compliance and accountability

1. Finance-related legal and contractual provisions

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit fund balance or fund net position of individual funds

The following are funds having deficit fund balances or fund net positions at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Cash and cash equivalents

The summary of cash and cash equivalents is as follows at June 30, 2015:

	<u>Credit Quality Rating</u>	<u>Fair Value</u>
Cash on hand	Not applicable	\$ 1,200
Deposits with financial institutions	Not applicable	7,958,315
Pooled funds	Not applicable	9,572,812
Total cash and cash equivalents		\$ 17,532,327

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The District maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The District has not experienced any losses in such accounts. At June 30, 2015 the District had \$7,532,030 in excess of FDIC insured limits.

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized costs of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The summary which presents the amount of the District's deposits which are fully insured or collateralized with securities held by the District or its agent in the District's name (Category One), those deposits which are collateralized with securities held by the pledging financial institution's trust department, or agent in the District's name (Category Two), and those deposits which are not collateralized or are collateralized with securities held by the pledging financial institution, or its trust department, or agent, but not in the District's name (Category Three).

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

C. Cash and cash equivalents (continued)

The category of deposits at June 30, 2015 is as follows:

	<u>Category One</u>	<u>Category Two</u>	<u>Category Three</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Deposits with financial institutions	\$ 7,947,333	\$ 103,753	\$ -	\$ 8,051,086	\$ 7,958,315

D. Investments

Investments as of June 30, 2015, consist of the following:

<u>Investment Type</u>	<u>Market Value</u>	<u>Cost</u>
Fixed income securities	\$ 12,806,172	\$ 12,982,322

The investments are classified as Level 1 in the fair value hierarchy because of the District's ability to obtain quoted prices and redeem its interest on a daily basis.

Investment activity in the General Fund for the year ended June 30, 2015, consisted of the following:

Unrealized loss on investments	\$ (176,151)
Interest and dividends	169,875
Total change in value	<u>\$ (6,276)</u>

Disclosures relating to 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. The District manages its exposure to interest rate risk by limiting investments to fixed income securities. The District held no investments with high sensitivity to interest rate fluctuations at June 30, 2015.

Disclosures relating to credit risk

Generally, 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. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's investment policy, and the actual rating as of June 30, 2015 for each investment type based on Standard and Poor's (S&P) index:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>
U.S. Agency Securities	\$ 8,951,669	N/A	\$ 8,951,669
Long-Term Corp Securities	3,854,503	BBB+	-
Total	<u>\$ 12,806,172</u>		<u>\$ 8,951,669</u>

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

D. Investments (continued)

Disclosures relating to credit risk (continued)

Investment Type	Rating as of Year End		
	AA+	A+	FDIC Insured
U.S. Agency Securities	\$ -	\$ -	\$ -
Long-Term Corp Securities	489,825	1,634,908	1,729,770
Total	<u>\$ 489,825</u>	<u>\$ 1,634,908</u>	<u>\$ 1,729,770</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code, in which investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) that represent 5% or more of total District investments. The District's concentration of credit risk at June 30, 2015, is represented by the following issuers:

Issuer	Investment Type	Reported Amount
Federal National Mortgage Association (FNMA)	U.S. agency securities	\$ 3,400,814
Federal Home Loan Mortgage Corp (FHLMC)	U.S. agency securities	\$ 5,302,455
HSBC USA, Inc.	Long-Term Corp Securities	\$ 648,343

Custodial credit risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institute, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investment* 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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure governmental agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

D. Investments (continued)

Custodial credit risk (continued)

As of June 30, 2015, the District's investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

Investment Type	Reported Amount
U.S. Agency Securities	\$ 8,951,669
Long-Term Corp Securities	3,854,503
Total	\$ 12,806,172

Investment Accounting Policy

The District is required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earnings investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	90%	10%
U.S. Agency Securities	5 years	90%	10%
Medium Term Notes			
Short-Term Corp Securities	1-3 years	90%	5%
Long-Term Corp Securities	1-10 years	75%	5%
Cash and Cash Equivalents	1 year	100%	None

E. Accounts receivable

Accounts receivable as of June 30, 2015, consists of the following:

Water and sewer	\$ 4,194,943
Property tax	7,239
Interest receivables	33,846
Other receivables	284,263
Total accounts receivables	\$ 4,520,291

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

F. Capital assets

A schedule of changes in capital assets and accumulated depreciation for the fiscal year ended June 30, 2015, is shown as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 1,977,490	\$ -	\$ -	\$ 1,977,490
Construction in progress	2,999,905	2,403,785	(444,065)	4,959,625
Total capital assets, not being depreciated	4,977,395	2,403,785	(444,065)	6,937,115
Capital assets, being depreciated:				
Buildings and improvements	969,773	-	-	969,773
Reservoir, pipelines, and tanks	136,751,209	298,527	-	137,049,736
Meters	302,678	-	-	302,678
Equipment	3,101,023	192,419	-	3,293,442
Investment in sewer rights	7,246,540	169,584	-	7,416,124
Total capital assets, being depreciated	148,371,223	660,530	-	149,031,753
Less accumulated depreciation for:				
Buildings and improvements	(805,355)	(28,256)	-	(833,611)
Reservoir, pipelines, and tanks	(63,533,488)	(3,047,962)	-	(66,581,450)
Meters	(302,679)	-	-	(302,679)
Equipment	(2,622,641)	(125,733)	-	(2,748,374)
Investment in sewer rights	(733,874)	(116,296)	-	(850,170)
Total accumulated depreciation	(67,998,037)	(3,318,247)	-	(71,316,284)
Total capital assets, being depreciated, net	80,373,186	(2,657,717)	-	77,715,469
Government activities capital assets, net	\$ 85,350,581	\$ (253,932)	\$ (444,065)	\$ 84,652,584

G. Deferred Inflows of Resources

Deferred inflows of resources represents fees collected for expansion, replacement, and capacity fees that have not yet been expended. At June 30, 2015, deferred inflows of resources consisted of the following:

Fees collected for future expenditures:	
Sewer replacement	\$ 1,641,784
Sewer expansion	4,750,412
Capacity fees	500,654
Construction meter deposits	16,425
Sewer Connection Fees	3,843
Developer deposits	7,092
Total fees collected for future expenditures	6,920,210
Pension related costs	1,170,226
Total deferred inflows of resources	\$ 8,090,436

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

H. Long-term obligations

1. Long-term obligation activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2015, are as follows:

	Balance June 30, 2014	Additions	Retirements	Balance at June 30, 2015
Loan Payable SRF Morro	\$ 10,200,172	\$ 46,241	\$ -	\$ 10,246,413
Loan Payable SRF Beck	3,935,014	3,796,702	-	7,731,716
Total long-term debt	<u>\$ 14,135,186</u>	<u>\$ 3,842,943</u>	<u>\$ -</u>	<u>\$ 17,978,129</u>

2. Capitalization grant for drinking water fund loan

On October 31, 2012, two agreements were entered into between the State of California, Department of Public Health (State) and District, which constituted funding in the form of loans and grants in the amounts of \$10,246,413 and \$7,731,716 for the SRF Morro and SRF Beck projects, respectively, for a term of twenty years with interest at 2.0933%, per annum. Accrued interest at June 30, 2015 was \$106,950 and \$80,702 for the SRF Morro and SRF Beck projects, respectively.

The loans were made by the State to the District under the provision of the California Safe Drinking Water State Revolving Fund Law of 1997, Part 12, Chapter 4.5, of Division 104 of Health and Safety Code (commencing with Section 116270). The purpose of the funding is to assist in financing construction of projects which will enable the District to meet safe drinking water standards established pursuant to Part 12, Chapter 4 (commencing with Section 116270), of Division 104 of the Health and Safety Code and California Code of Regulations Title 22, or to address other health concerns, herein referred to as the "Projects" whose costs are approved by the State.

The District is solely responsible for the design, construction, operation, and maintenance of the Projects; and for all persons or entities engaged in such work, including but not limited to subcontractors, supplies, and providers of services.

Required payments of principal and interest on the loans at June 30, 2015, including current maturities are as follows:

Year Ending	Principal	Interest	Total
2016	\$ -	\$ 377,367	\$ 377,367
2017	732,792	372,002	1,104,794
2018	747,691	357,103	1,104,794
2019	763,423	341,371	1,104,794
2020	779,488	325,306	1,104,794
2021-2025	4,150,489	1,373,481	5,523,970
2026-2030	4,605,938	918,032	5,523,970
2031-2035	5,111,376	412,594	5,523,970
2036	1,086,932	17,089	1,104,021
	<u>\$ 17,978,129</u>	<u>\$ 4,494,345</u>	<u>\$ 22,472,474</u>

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

I. Operating leases

The District has entered into operating leases for office equipment with lease terms in excess of one year. These agreements contain no purchase options. The agreements are non-cancelable leases. Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payments
2016	\$ 18,311
2017	3,081
Total future minimum lease payments	\$ 21,392

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases. Rent expense for the fiscal year ended June 30, 2015, was \$35,419.

J. Joint ventures (joint powers agreements)

The District participates in the following jointly governed organization under a joint power agreement (JPA):

1. Special District Risk Management Authority (SDRMA)

The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA was established as an agency under the provisions of the California Government Code, Title I, Division 7, Chapter 5, Article 1, Section 6500, et seq. The purpose of the JPA is to provide self-insurance programs such as insurance premiums for general liability, employment practices, and property insurance.

2. North County Joint Powers Authority (NCJPA)

The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA was established as an agency under the provisions of the California Government Code, Title I, Division 7, Chapter 5, Article 1, Section 6500, et seq. The purpose of the JPA is to provide for the administration of the Member Agencies by managing the combined resources of the Member Agencies, including staffing and physical plant/infrastructure, to obtain cost-effective means of providing service to the ratepayers.

K. Employee retirement plan

1. Plan description, benefits provided and employees covered

The District contributes to the Miscellaneous Plan under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2013 actuarial valuation report.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

K. Employee retirement plan (continued)

1. Plan description, benefits provided and employees covered (continued)

This report is a publically available valuation report that can be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 and www.calpers.ca.gov under Forms and Publications.

2. Contribution description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the active employee contribution rate is 7.942% of annual pay, and the average employer's contribution rate is 14.660% of annual payroll. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

3. Actuarial methods and assumptions used to determine total pension liability

For the measurement period ending June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. Both the June 30, 2013 total pension liability and the June 30, 2014 total pension liability were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; Includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

K. Employee retirement plan (continued)

4. Discount rate

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB Statement No. 68 section.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018.

Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statements No. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed the District's methodology.

The long-term expected rate of return on pension 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 pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

K. Employee retirement plan (continued)

5. Discount rate

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

6. Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.50%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

	<u>Discount Rate -1.00% 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>Discount Rate +1.00% 8.50%</u>
Plan's Net Pension Liability	<u>\$ 6,204,445</u>	<u>\$ 3,482,335</u>	<u>\$ 1,223,243</u>

7. Pension plan fiduciary net position

The plan fiduciary net position disclosed in the District's GASB Statement No. 68 accounting valuation report may differ from the plan assets reported in the District's funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in your funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

At June 30, 2015, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

K. Employee retirement plan (continued)

7. Pension plan fiduciary net position (continued)

The District contributions to CalPERS for the fiscal years ending June 30, 2015, 2014 and 2013, were \$571,078, \$572,326, and \$541,966, respectively, and equal 100% of the required contributions for each year.

L. Deferred compensation plan

The District offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan, administered by Lincoln Financial Group, is available to all regular employees, permits deferment of a portion of current salary to future years. Benefits from the plans are not available to employees until termination, retirement, disability, death, or unforeseeable emergencies.

All assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. The District does not meet the criteria for fiduciary fund reporting since it does not have either significant administrative involvement (e.g. custody) or perform the investment function. Therefore, the fair market value of the plans assets at June 30, 2015, in the amount of \$2,634,489, is not included in the District's financial statements.

M. Other post-employment benefits

The District provides Other Post-Employment Benefits (OPEB) including medical, prescription drugs, and dental benefits, in accordance with a resolution approved by the board of Directors. Medical insurance is provided through a choice of a Blue Cross HMO or a Blue Cross Classic PPO, both offered through the Association of California Water Agencies Joint Powers Insurance Authority. Dental insurance is provided through Assurant Employee Benefits.

1. Plan description

Exempt employees of the District retiring after the later of age 50 and 5 consecutive years of District service are eligible to receive a monthly District contribution towards the purchase of health insurance. Non-exempt employees of the District are eligible after the later of age 50 and 20 consecutive years of District service.

The District makes the following contributions:

<u>Total Monthly Payments</u>	<u>Exempt Employees</u>	<u>Non-Exempt Employees</u>
\$ 2,252	5	-

The District contribution ends after ten (10) years of benefit payments have been made, even if retiree or spouse are still under age 65 at the time.

2. Funding policy

The District does not establish a trust account for this plan. The District funds the plan on a pay-as-you-go basis.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

M. Other post-employment benefits (continued)

3. Annual OPEB cost

The District's OPEB cost is presented as follows:

	As of June 30, 2012
Present value of future benefits	
Active employees	\$ 414,343
Retired employees	71,986
Total present value of future benefits	\$ 486,329
Accrued liability	
Active employees	\$ 210,061
Retired employees	71,986
Total accrued liability	282,047
Total unfunded accrued liability	\$ 282,047
Annual required contributions	
Service cost at year ended	\$ 22,134
Thirty (30) year amortization of unfunded accrued liability	18,347
Total annual required contributions	\$ 40,481

The District provided 2012-2013 annual OPEB Cost analysis which is the most recent available information.

4. Funded status of the plan

Actuarial accrued liability and unfunded actuarial accrued liability are \$282,047 at June 30, 2012. There are no plan assets because the District funds on a pay-as-you-go basis.

5. Actuarial assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. In order to perform the valuation, the actuary must make certain assumptions regarding such items as rate of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare inflation and interest rates.

**RAINBOW MUNICIPAL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

N. Commitments and contingencies

Tank maintenance commitments

On December 10, 2003, the District entered into a ten (10) year contract with Utility Service Co., Inc. to maintain twelve water tanks at an annual cost of \$615,585. The contract can be cancelled annually if intent to cancel is received within ninety (90) days prior to the anniversary date. Any outstanding balance for completed work would be due and payable within thirty (30) days of cancellation.

Capacity rights for sewage treatment

On February 13, 2002, Rainbow Municipal Water District (the District) entered into a contract with the City of Oceanside, California (the City) to provide for the construction, operation, maintenance, and replacement of a wastewater system to service the needs of both the City and the District. The City owns the wastewater conveyance, treatment, and disposal facilities and the District has the contractual right to discharge wastewater into the City's System. The City and the District have previously entered into agreements on January 2, 1973, and September 10, 1989. This agreement reflects the planned expansion and rehabilitation of facilities built from those previous agreements. Under the agreement, the District's share of cost for planned expansion and rehabilitation of the facilities would be 10%.

O. Prior period adjustment

An adjustment to the District's net position at June 30, 2015 in the amount of \$4,168,449 was due to the implementation of GASB Statement No. 68.

P. Subsequent event

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through November 2, 2015, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

**RAINBOW MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2015**

**RAINBOW MUNICIPAL WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS
JUNE 30, 2015**

	<u>June 30, 2015</u>
Proportion of the net pension liability	5.59600%
Proportionate share of the net pension liability	\$ 3,482,335
Covered - employee payroll	\$ 3,873,094
Proportionate Share of the net pension liability as percentage of covered-employee payroll	89.91%
Plan's fiduciary net position	\$ 17,036,689
Plan fiduciary net position as a percentage of the total pension liability	83.03%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Change in Assumptions: None

- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**RAINBOW MUNICIPAL WATER DISTRICT
SCHEDULE OF PLAN CONTRIBUTIONS
LAST 10 YEARS
JUNE 30, 2015**

	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 589,674
Contributions in relation to the actuarially determined contributions	(589,674)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 3,873,094
Contributions as a percentage of covered employee payroll	15.22%

Notes to Schedule:

Valuation date: June 30, 2014

- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**RAINBOW MUNICIPAL WATER DISTRICT
SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2015**

**RAINBOW MUNICIPAL WATER DISTRICT
ORGANIZATION
JUNE 30, 2015**

The Board of Directors for the fiscal year ended June 30, 2015, was comprised of the following members:

<u>Name</u>	<u>Office</u>	<u>Term</u>	<u>Term expires</u>
Dennis Sanford	President	4 years	January 2017
Robert Lucy	Vice President	4 years	December 2018
Helene Brazier	Secretary	4 years	January 2017
Jack Griffiths	Director	4 years	January 2017
Tory Walker	Director	4 years	December 2018

<u>Administration</u>	
<u>Name</u>	<u>Position</u>
Tom Kennedy	General Manager
Margaret Thomas	Finance Manager

**RAINBOW MUNICIPAL WATER DISTRICT
ASSESSED VALUATION
JUNE 30, 2015**

The assessed valuation of the Rainbow Municipal Water District at June 30, 2015, is as follows:

Assessed valuation	
Secured property	\$ 3,795,928,967
Unsecured property	<u>21,442,359</u>
Total assessed valuation	<u>\$ 3,817,371,326</u>

**RAINBOW MUNICIPAL WATER DISTRICT
OTHER INDEPENDENT AUDITORS' REPORT SECTION
JUNE 30, 2015**



Hosaka, Rotherham & Company
Certified Public Accountants

hrccpa.com

James A. Rotherham, CPA
CEO & Managing Partner

Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Rainbow Municipal Water District
Fallbrook, California

We have audited, 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, the financial statements of Rainbow Municipal Water District, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rainbow Municipal Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rainbow Municipal Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Rainbow Municipal Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rainbow Municipal Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hosaka, Rotherham & Company

San Diego, California
November 2, 2015

**RAINBOW MUNICIPAL WATER DISTRICT
FINDINGS AND RECOMMENDATIONS SECTION
JUNE 30, 2015**

**RAINBOW MUNICIPAL WATER DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

A. Summary of auditors' results

1. Financial statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

 One or more material weaknesses identified? Yes X No

 One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal awards

Internal control over major programs:

 One or more material weaknesses identified? Yes N/A No

 One or more significant deficiencies identified that are not considered to be material weaknesses? Yes N/A None Reported

Type of auditors' report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? Yes N/A No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

The District did not have over \$500,000 in Federal Expenditures.

Dollar threshold used to distinguish between type A and type B programs: N/A

Auditee qualified as low-risk auditee? Yes N/A No

B. Financial statement findings

None

C. Federal award findings and questioned costs

None

**RAINBOW MUNICIPAL WATER DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2015**

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None	N/A	N/A