

RAINBOW

MUNICIPAL WATER DISTRICT
Committed to Excellence



Fallbrook, California
Annual Comprehensive Financial Report for the Fiscal Year Ending June 30, 2022



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ANNUAL COMPREHENSIVE FINANCIAL REPORT

Fiscal Year ending June 30, 2022

Current Board of Directors:

Division 1: Director Pam Moss

Division 2: Director Hayden Hamilton

Division 3: Director Miguel Gasca

Division 4: Director Bill Stewart

Division 5: Director Michael Mack

Prepared by District Finance and Administration Department:

General Manager – Tom Kennedy

Finance Manager – Tracy Largent, CPA

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RAINBOW MUNICIPAL WATER DISTRICT
 FALLBROOK, CALIFORNIA
 ANNUAL COMPREHENSIVE FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022
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FALLBROOK, CALIFORNIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
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December 6, 2022

To our Ratepayers, the Board of Directors, and Members of the Budget & Finance Committee of Rainbow Municipal Water District:

We are pleased to present the Rainbow Municipal Water District's (RMWD, District), Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022. This document, which contains a complete set of basic financial statements, is presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. State law requires that all special-purpose local governments publish these basic financial statements within six months of the close of the agency's fiscal year. This report is published to fulfil that requirement and to provide the Board of Directors (Board), the public, and other interested parties these basic financial statements.

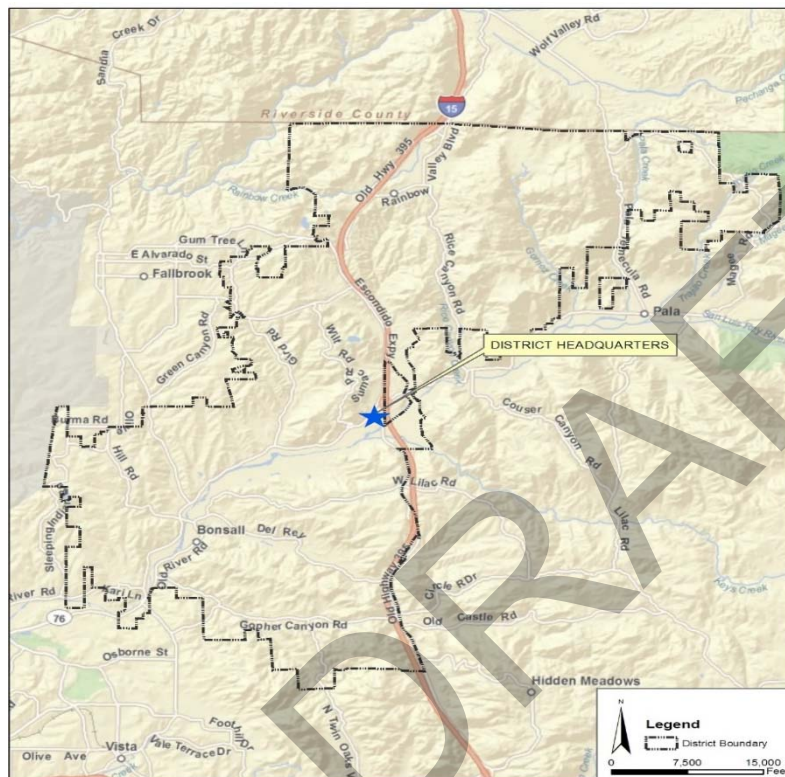
This report contains management's representations concerning the finances of the District. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that have been established for this purpose. These controls are designed to protect the District's assets from loss, theft, or misuse, and to ensure sufficiently reliable information for the preparation of the District's basic financial statements in conformity with GAAP. The District's internal controls have been designed to provide appropriate assurance that the basic financial statements will be free from material misstatements. There are inherent limitations in internal control; the costs associated with a control should not exceed the benefits to be derived. The objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements. As management, we assert that this financial report is complete and reliable in all material respects.

The districts basic financial statements have been audited by Lance, Soll & Lunghard, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for fiscal year ended June 30, 2022 are free of material misstatement. The independent audit involved examining on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor rendered an unmodified opinion that the District's basic financial statements for the fiscal year ended June 30, 2022, are fairly presented, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

A profile of the District is presented in the Introductory Section. In the Financial Section, Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides an overview and analysis of the basic financial statements. The letter of transmittal and introduction is designed to complement the MD&A and should be read in conjunction with it. This report includes all disclosures management believes necessary to enhance your understanding of the financial condition of the District.

DISTRICT PROFILE

The Rainbow Municipal Water District was organized on December 20, 1953, under the Municipal Water District Act of 1911 (commencing with section 71000 of the California Water Code). The Board of Directors is composed of five members who are elected by divisions of the District for four-year alternating terms, with the president being elected by the Board from among its members. Advisory Committees composed of residents from all divisions of the District assist the Board in water issues and financial planning. Operation, maintenance, and administration of the system is carried out by a staff of 58.5 full time employees under the direction of the General Manager, Thomas Kennedy.



The Rainbow Municipal Water District, comprising a total area of 82 square miles, is located in northeast San Diego County, approximately two hours driving time from Los Angeles and one hour from San Diego. It is approximately 40 miles northeast of downtown San Diego, California and 90 miles southeast of the City of Los Angeles. The District shares common boundaries with Riverside County, Camp Pendleton Marine Corps Base, the unincorporated community of Fallbrook and the City of Oceanside. The District boundaries encompass the unincorporated communities of Rainbow and Bonsall, as well as portions of Pala, Fallbrook and Vista.

The principal activity of the District is the development and operation of a water transmission and distribution system capable of delivering potable water throughout the District. The District's area of service is predominantly agricultural and includes approximately 5,300 homes and a total metered service of 8,825. In addition to water service, the District provides sewerage collection and disposal service to approximately 3,237 accounts.

SERVICE AREA AND LOCAL ECONOMY

San Diego County is the second-most populous county in the state and the fifth-most populous in the United States. The District is located in the north-east region of the county and is rural in character with agriculture being the top industry within the district boundaries. The District borders the U.S. Marine Corps Base Camp Pendleton, making the District's service area a suburb for Camp Pendleton's active military and civilian-service workers as well as commuters that work to the south in San Diego and to the North in Riverside and Orange Counties. The service area's population is estimated to be 23,536 based on the 2020 census. The District's population has grown recently with the addition of housing developments. The median household income in Bonsall was \$92,774 for 2020, which is higher than the state median of \$78,672 and higher than the national average of \$64,994. Demographics for the District's service area are difficult to quantify due to the various towns and unincorporated areas covered by the District. The San Diego Association of Governments (SANDAG) projects that the County's population will approach 4.4 million residents in 2050, up from 3.3 million in 2016. The District's 2050 housing density is expected to increase slightly as housing demands increase.

DISTRICT POWERS

The District has broad general powers to perform all necessary or proper acts, including but limited to the authority to acquire, plan, construct, maintain, improve, operate and repair necessary works for the transmission and distribution of water for irrigation and other purposes and for reclamation of such water; the right of eminent domain; authority to levy taxes or, in lieu thereof, to fix and collect charges for water, including standby charges made to holders of title to land to which water may be made available, whether or not the water is actually used; authority to establish rules and regulations for the sale and distribution of water including rules for providing that water shall not be furnished to persons against whom there are delinquent water charges; authority to contract with the United States, the State and the agencies of either; and the power to join with one or more public agencies, private corporations or other persons for the purpose of carrying out any of the powers of the District.

FINANCIAL POLICIES

The District maintains certain policies that govern aspects of the District's financial management.

The District's maintains the following policies:

- Debt Management Policy – Defines the District's debt management.
- Investment Policy – Establishes permitted investments in compliance with State Code.
- Fund Balance/Reserve Policies – Set target balances for reserves and working capital.
- Capitalization Policy – Establishes the parameters for defining an operating or capital expenditure.
- Purchasing Policy – Establishes rules and limits for approval of purchases to ensure efficient buying and control of District assets.

These policies can be found on the District's website as part of the District's Administrative Code.

WATER SUPPLY OPERATIONS

Since Rainbow Municipal Water District began water service in 1954, the District's source of supply has been water purchased from the San Diego County Water Authority (SDCWA). About 66% of the water is used for agricultural purposes; all water is of domestic quality.

SDCWA is a County Authority organized on June 9, 1944 under the County Authority Act, California Statutes 1943, Chapter 545, as amended. SDCWA's primary purpose is to supply water to areas in the County for distribution to the SDCWA's member agencies in order to meet their respective needs. SDCWA's service area encompasses 1,418.2 square miles, which represents about one-half of the land acreage of the County. There are currently 24 member agencies served by the SDCWA consisting of 6 cities, 17 special districts and the US Marine Corps base at Camp Pendleton. The SDCWA receives its water from the Metropolitan Water District of Southern California, of which the Authority is a member agency. Delivery of this water is made by San Diego County Water Authority through aqueducts, all of which traverse the District.

Historically, SDCWA depended almost exclusively on water supplies imported from the Colorado River and Northern California by the Metropolitan Water District of Southern California. That changed in 2003 with the start of the largest farm-to-urban water conservation and transfer agreement in the nation with the Imperial Irrigation District, which now accounts for about one-third of San Diego County's water supply. In late 2015, the Water Authority added a new water source to its portfolio with the completion of the nation's largest seawater desalination plant in Carlsbad. Today, the Water Authority and its member agencies have identified potable reuse of recycled water as the next major source of local water supply, while continuing to aggressively promote water conservation as a civic responsibility.

The Water Authority is governed by a 36-member Board of Directors representing the 24-member agencies. A member of the San Diego County Board of Supervisors also serves as a non-voting member to the Water Authority Board.

The Metropolitan Water District is a regional wholesaler that delivers water to 26 member public agencies 14 cities, 11 municipal water districts, one county water authority which in turn provides water to more than 19 million people in Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties. The Metropolitan Water District, to supplement its water supply from the Colorado River, has entered into a contract with the State of California for the delivery of water via the State Water Project. Metropolitan is governed by a 38-member board of directors who represent their respective member agencies ensuring each member agency is part of the governance of Metropolitan.

To supply the more than 300 cities and unincorporated areas in Southern California with reliable and safe water, Metropolitan owns and operates an extensive water system including: The Colorado River Aqueduct, 16 hydroelectric facilities, nine reservoirs, 819 miles of large-scale pipes and five water treatment plants. Four of these treatment plants are among the 10 largest plants in the world. In fact, Metropolitan is the largest distributor of treated drinking water in the United States. Metropolitan imports water from the Feather River in Northern California and the Colorado River to supplement local supplies. It also helps its member agencies develop water recycling, storage and other local resource programs to provide additional supplies and conservation programs to reduce regional demands.

Metropolitan currently delivers an average of 1.7 billion gallons of water per day to a 5,200-square-mile service area.

WATER SYSTEM DESCRIPTION

RMWD's existing water distribution system is comprised of 12 major pressure zones with storage facilities. Four of the major zones are supplied directly from SDCWA aqueduct connections and the remaining major zones are supplied through pressure reducing stations or booster pump stations. In addition to the major zones, there are 30 reduced pressure areas that are supplied from the major zones through pressure reducing stations. The existing distribution system has over 320 miles of pipelines ranging in size from 4-inches to 42-inches in diameter.

WATER SYSTEM OPERATIONS

Operation of the RMWD water distribution system is very complex due to the large number of pressure zones, supply locations, and large capacity storage facilities which require frequent cycling or turnover to maintain water quality. Furthermore, the water distribution system is flexible in that supply from the eight aqueduct connections can be routed to different parts of the distribution system by making changes to several key valve settings. Reservoir water levels are connected to the RMWD Supervisory Control and Data Acquisition (SCADA) system, such that the water operators are able to monitor the system throughout the day at the water operations center.

Tank water levels in several pumped zones are operated in a fill/drain mode with water levels set low to improve the turnover rate. In addition to normal supply operations, system operators have several documented procedures for alternative supplies to zones. In the event that pump stations fail or when aqueducts are shut down for service, tanks need to be removed from service. During planned shutdowns of the SDCWA Second Aqueduct (Connections 3, 6, 7, 8, 9, and 11), water from the North and Northside Reservoirs is supplied down to the Canonita Zone through bypass valves and pressure reducing stations. The remaining zones normally supplied from the Second Aqueduct are supplied from excess storage capacity in the Morro Reservoir via temporary diesel-powered pumps.

Four portable pumps are utilized to pump water from the Morro Zone to the South Zone. Supply to the South Zone can also be supplemented from the City of Oceanside's Weese Water Filtration Plant from a portable pump. The Northside Zone, North Zone, and all zones that are pumped from the North Zone are normally supplied from Connections 1 and 10 on the First Aqueduct and Connection 9 on the Second Aqueduct. During a shutdown of both aqueducts, these zones rely on water from in-zone tank storage, the North and Northside Reservoirs, and additional supply from FPUD's Red Mountain Reservoir, which is pumped into the North Reservoir. An emergency pump station at the Beck Reservoir site can also be utilized during a shutdown of both aqueducts to supply the Canonita Zone from the Pala Mesa Zone.

WASTEWATER FACILITIES

The District provides sewerage collection and disposal service to approximately 3,059 accounts, maintains 6 lift stations and 60 miles of sewer main. On February 13, 2002, Rainbow Municipal Water District entered into a contract with the City of Oceanside, California 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.

LONG RANGE PLANNING

At the April 26, 2016, Board Meeting the 2016 Water and Wastewater Master Plan Update was adopted by the Board of Directors. The purpose of the Master Plan Updates is to identify potential system deficiencies, confirm transmission main sizing and identify future capital improvement projects based on updated ultimate demand projections. The District's most recent water and wastewater master plans were prepared in 2006. There is the potential for a considerable amount of new development both within and outside the current District boundaries in the near future. The water and wastewater master plans serve as the basis for critical infrastructure decisions and capital fees. The master plans consider both existing, and ultimate, year 2030, conditions.

The District implemented a Strategic Plan in 2016 with specific Goals. It is a living document as the condition in the area of water supply and reclamation change over time. The Strategic Plan is reviewed by the Board annually along with various goals and objectives presented by staff. At intervals not to exceed five years, the Board will revisit the Mission Statement, Values, and Strategic Focus Areas to ensure that they remain aligned with the needs of the District at that time. A full update of the status of the goals and sub goals is published on the District website annually in the Budget document.

The district is in the process of implementing a strategic capital improvement plan to facilitate prioritization within the District's key focus areas: Water Pipeline Rehabilitation/Replacement, Wastewater System Upgrades/Expansion, Water System Storage, Water System Pump Stations, District Headquarter Facility, and Wholesale Water Efficiency Projects.

Wholesale Water Efficiency Projects are a major focus for the district as 100% of our water is imported through the SDCWA. Since the resolution of a lawsuit brought by North County member agencies against the San Diego County Water Authority, the two northernmost districts, Rainbow MWD and the Fallbrook Public Utilities District, have not had to pay the SDCWA transportation charge on water delivered through our direct connections to the MWD Aqueduct system. Currently, that fee is \$173 per acre foot, a substantial sum. Over the last few years, the Districts System Operators have been shifting as much of our demands to those connections as possible. Currently, about 75% of our water purchases come from these northerly MWD connections, with 100% expected by FY 2025. The transportation charge on the remaining 25% of the water amounts to about \$1 Million per year and that transportation cost is going up every year. It is in the best interest of the District's ratepayers to move as much demand as possible onto our northerly MWD connections in order to provide the same water at a lower cost. The challenge is moving water from these connections two on the east of I-15 and two on the west into the southerly service area. A key east/west connector from the Rice Canyon Tank down to the Citro development is currently in contract and will be constructed as part of that project. This pipeline will greatly increase the amount of water that can be delivered from our connection 10 east of Rice Canyon Road into the main service area in Bonsall.

The District is separately pursuing a full detachment from SDCWA and should it be successful we will rely solely on these northerly MWD connections. Savings from detachment are currently estimated at about \$7 Million per year.

AWARDS AND ACKNOWLEDGEMENTS


The District was awarded the District of Distinction Accreditation by the Special District Leadership Foundation (SDLF) for its sound governance and fiscal management practices and policies. To receive the award, a special district must undergo regular financial audits and have no major deficiencies. Board members and management staff must undergo extensive training in sound governance practices and management. Their operations must conform to all statutes and regulations under state law as reflected in a clear and robust set of policies and procedures. They must also have completed SDLF's District Transparency Certificate of Excellence which is awarded every other year and was presented to Rainbow MWD in 2015, 2017, 2019 and 2021. To receive the Transparency Certificate of Excellence, a special district must demonstrate the completion of essential governance transparency requirements, including conducting ethics training for all board members, properly conducting open and public meetings, and filing financial transactions and compensation reports to the State Controller in a timely manner.

The Government Finance Officers Association of the United States and Canada (GFOA) presented the award of Distinguished Budget Presentation to Rainbow Municipal Water District for the annual budget for the fiscal year beginning July 1, 2021. In order to receive this award a governmental unit must publish a budget document of the very highest quality that adheres to the program standards set by the GFOA. The award is valid for a period of one year only. We believe the FY 2023 budget continues to meet the program requirements and will be submitted to the GFOA to determine its eligibility for another award.

The Government Finance Officers Association of the United States and Canada (GFOA) presented the award of Distinguished Annual Comprehensive Financial Report Presentation to Rainbow Municipal Water District for the annual finances for the fiscal year beginning July 1, 2021. In order to receive this award a governmental unit must publish an Annual Comprehensive Financial Report of the very highest quality that adheres to the program standards set by the GFOA. The award is valid for a period of one year only. We believe the FY 2022 Annual Comprehensive Financial Report continues to meet the program requirements and will be submitted to the GFOA to determine its eligibility for another award.

We would like to thank the Board of Directors for providing the direction and support necessary for the preservation of the District's internal controls, financial sustainability, and high standard of financial management.


Tom Kennedy
General Manager


Tracy Largent, CPA
Finance Manager

RAINBOW MUNICIPAL WATER DISTRICT MISSION STATEMENT & CORE VALUES



“To provide our customers reliable, high quality water and water reclamation service in a fiscally sustainable manner.”

Background

RMWD’s adopted Strategic Plan’s strategic focus area of Workforce Development calls for the implementation of cost-effective employee recognition programs to acknowledge performance, encourage development and improve morale.

The Operations Manager, Human Resources Manager, and Administrative Analyst partnered to design a program that would not only increase pride in serving the District, but also use the design of the coins to reinforce the District’s newly articulated values and strategic focus areas. The program will give employees the ability to recognize one another for performance and behaviors in alignment with these goals.

Overview of the Excellence Coin Program

The program includes a series of six Excellence Coins, each designed to symbolize a particular District focus area. The first coin in the series “Commitment to Excellence” will be issued to all new employees, Board Members, and Citizen Committee members upon joining the District as a tangible welcome gift and reminder of our purpose. Each of the remaining coins will only be issued after nomination and selection by management or peer employee groups.



Innovation:

We realize that good ideas can come from many sources, and we continually encourage new and better ways of doing our work. Our goal is not innovation for innovation's sake, but for finding ways to improve service and lower costs.



Integrity:

We believe in openness, trust, ethics and transparency. We practice direct and honest communication in all of our day-to-day interactions.



Professionalism:

We have open and respectful communication and interactions, both internally and with our customers. Our employees will always exhibit professionalism in all of their day-to-day interactions.



Responsibility:

Individual and organizational responsibility and accountability for accomplishing the District's mission is a core value. We focus on doing our work in an efficient, reliable, and cost-



Teamwork:

Our focus is on supporting one another to collectively be our best. We encourage communication and collaboration. We focus on quality and have pride in the work we do in service to our customers.

RAINBOW MUNICIPAL WATER DISTRICT OFFICIALS



Hayden Hamilton
President



Miguel Gasca - Vice President



Pam Moss - Director



Michael Mack - Director



Bill Stewart - Director



Tom Kennedy
General Manager



Tracy Largent
Finance Manager



Robert Gutierrez
Operations Manager



Ahmed Khattab
IT Manager



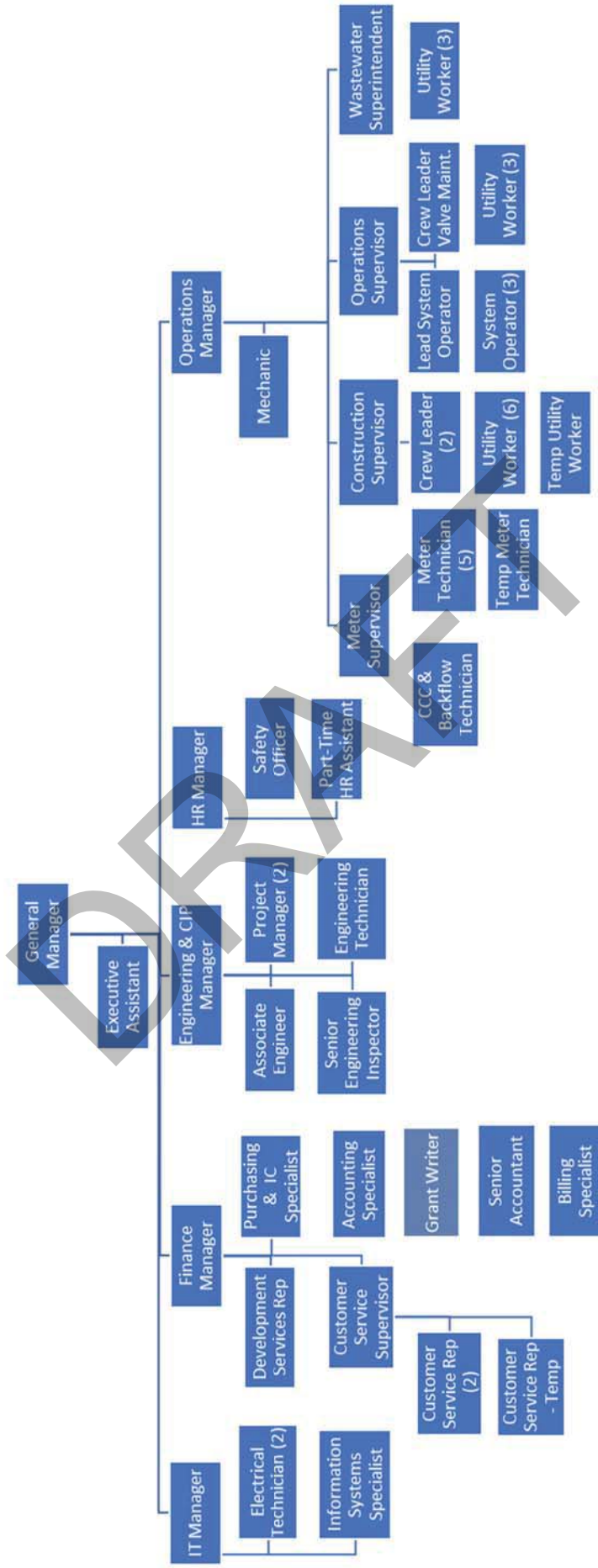
Karleen Harp
HR Manager



Chad Williams
Engineering & CIP Manager

RAINBOW MUNICIPAL WATER DISTRICT ORGANIZATIONAL CHART

58.5 FTE'S





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Rainbow Municipal Water District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morill

Executive Director/CEO



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rainbow Municipal Water District
Fallbrook, California

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of Rainbow Municipal Water District (the District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2022, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Standards for California Special Districts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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; and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*,



To the Board of Directors
Rainbow Municipal Water District
Fallbrook, California

and the State Controller's Minimum Audit Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the State Controller's Minimum Audit Standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Responsibilities

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule plan contributions, and the schedule of changes in the total other post-employment benefits (OPEB) liability as listed on the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.



To the Board of Directors
Rainbow Municipal Water District
Fallbrook, California

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2022 on our consideration of the 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 solely 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 the effectiveness of the District's 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 District's internal control over financial reporting and compliance.

Lance, Soll & Lughard, LLP

Brea, California
November 4, 2022

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**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2022**

As management of the Rainbow Municipal Water District (the District), we offer the 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, 2022. 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 three main parts (1) Management's Discussion and Analysis, (2) Basic Financial Statements, and (3) Required Supplemental Information.

The financial statements consist of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management Discussion and Analysis for State and Local Governments*.

FINANCIAL HIGHLIGHTS

The District's ending net position was \$101,510,684.

The change in net position for the fiscal year was an increase of \$5,434,380.

The District had a **loss** from operations in the amount of \$562,639 in the current year compared to a **gain** from operations of \$1,157,891 in the previous year. Nonoperating income, net of expenses, for the current year was \$758,669 compared to \$1,945,256 for the prior year.

This year the District had \$16,172,496 worth of net additions to capital assets compared to \$10,092,792 last year. This increase is largely due to the meter replacement project and Rainbow Heights pump station, as well as pipeline replacement and pressure regulating stations.

The District secured financing \$9.75M at 4.02% in FY 2022. The financing will be used to upgrade pump stations in order to save on the Transportation costs charged by the San Diego County Water Authority (SDCWA). Over the past five years, the District has been assessing a group of projects, referred to by staff as the Wholesale Water Efficiency Projects. These projects will eliminate the \$173 per acre foot transportation cost charged for water from the SDCWA. They will also eliminate the need for temporary pump rental and setup during both planned and emergency SDCWA shutdowns, improve redundancy during shutdowns, increase efficiency in moving water from the District's northern to southern zones and from the Morro area and eliminate noisy pumps and fuel tanks sitting beside the road or near residential areas.

The current debt and capital asset balances can be found in the notes to these financial statement.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's financial statements.

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2022**

OVERVIEW OF FINANCIAL STATEMENTS (continued)

Financial Statements. The financial statements of the District are reported using accounting methods similar to those used by companies in the private sector. These statements offer short-term and long-term financial information about its activities.

The *Statement of Net Position*, presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between them 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*, 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 year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where cash came from, what was cash used for, and what was the change in cash balance during the reporting period.

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

DISTRICT'S FINANCIAL ANALYSIS

Our analysis of the District begins on page 7 of the financial statements. One of the most important questions to ask about the District's finances is "Whether the District, as a whole, is better off or worse off as a result of the year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. Measuring the change in the District's net position - the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources - is one way to measure financial health. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non- financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

The District's net position from the prior fiscal year increased by \$5,434,380 or 5.7%. Operating revenue for this fiscal year increased \$538,157 or 1.2% compared to the prior year.

Operating expenses increased by \$2,258,687 or 5% from the prior year as a result of the increase

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2022**

DISTRICT'S FINANCIAL ANALYSIS (continued)

in inflation and fuel costs. Non-operating revenue decreased by \$436,219 due mainly to Investment returns decreasing. Non-operating expenses increased by \$750,368 due to Interest and Investment expense.

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 is the difference between assets acquired, owned, and operated by the District and amounts owed (liabilities). In accordance with Generally Accepted Accounting Principles (GAAP), capital assets acquired through purchase or construction by the District are recorded at historical cost. Capital assets contributed by developers are recorded at developers' bonded cost. Net Position represents the District's net worth including, but not limited to, capital contributions received to date and all investments in capital assets since inception.

Net position may serve over time, as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$101,510,684 as of June 30, 2022.

The fiscal year 2022 Net Pension Liability had a decrease of \$3,733,259 compared to fiscal year 2021. Net Pension Liability is reported at \$4,425,021 for fiscal year 2022 and it is based on the District's proportionate share of the net pension liability for the Miscellaneous Classic and PEPRA plans under the CalPERS retirement program. The District's Net Pension Liability was \$8,158,280 and \$7,527,597 for fiscal years 2021 and 2020, respectively. Actuarial reporting for pension liabilities are always one year behind, so this significant decrease in liability is due to the favorable market conditions in FY21.

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.

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2022**

DISTRICT'S FINANCIAL ANALYSIS (continued)

**Table 1
Condensed Statement of Net Position**

| Table 1 Condensed Statement of Net Position | | | | | | |
|--|----------------|--------------------|----------------|--------------------|---------------------|-----------------|
| Assets | FY 2022 | | FY 2021 | | \$ Change | % Change |
| Current Assets | \$ | 31,203,197 | \$ | 36,522,450 | \$ (5,319,253) | -14.6% |
| Capital Assets | | 117,137,221 | | 99,988,644 | 17,148,577 | 17.2% |
| Total Assets | | 148,340,418 | | 136,511,094 | 11,829,324 | 8.7% |
| Deferred Outflows of Resources | | 1,753,248 | | 1,399,815 | 353,433 | 25.2% |
| Liabilities | | | | | | |
| Current Liabilities | | 10,326,885 | | 9,817,228 | 509,657 | 5.2% |
| Noncurrent Liabilities | | 33,543,896 | | 31,447,152 | 2,096,744 | 6.7% |
| Total Liabilities | | 43,870,781 | | 41,264,380 | 2,606,401 | 6.3% |
| Deferred Inflows of Resources | | 4,712,201 | | 570,225 | 4,141,976 | 726.4% |
| Net Position | | | | | | |
| Net Investment in Capital Assets | | 87,086,283 | | 78,817,091 | 8,269,192 | 10.5% |
| Restricted for Capital Projects | | 629,599 | | 7,312,691 | (6,683,092) | -91.4% |
| Restricted for Debt Service | | 850,130 | | 822,428 | 27,702 | 3.4% |
| Unrestricted | | 12,944,672 | | 9,124,094 | 3,820,578 | 41.9% |
| Total Net Position | \$ | 101,510,684 | \$ | 96,076,304 | \$ 5,434,380 | 5.7% |

Statement of Revenues, Expenses and Changes in Net Position

The District's total operating revenues for the fiscal year ended June 30, 2022, excluding inter-fund transfers, increased by \$538,563 to \$46,585,720. This was primarily due to increased demand during a drier than usual winter and spring.

The District's total operating expenses increased by \$2,258,687 to \$47,148,359 as a result of the increase in inflation and fuel costs.

The loss from operations was \$562,639 compared to a \$1,157,891 gain in the prior year. Nonoperating income for the current year was \$758,669 compared to \$1,945,256 for the prior year.

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2022**

DISTRICT'S FINANCIAL ANALYSIS (continued)

The following table presents a summary of the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2022:

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

| | FY 2022 | FY 2021 | \$ Change | % Change |
|---------------------------------|----------------|---------------|--------------|----------|
| Operating Revenues | \$ 46,585,720 | \$ 46,047,563 | \$ 538,157 | 1.2% |
| Operating Expenses | (47,148,359) | (44,889,672) | (2,258,687) | 5.0% |
| Non-operating Revenues | 2,080,876 | 2,517,095 | (436,219) | -17.3% |
| Non-operating Expenses | (1,322,207) | (571,839) | (750,368) | 131.2% |
| Loss Before Capital Cont | 196,030 | 3,103,147 | (2,907,117) | -93.7% |
| Capital Contributions | 5,238,350 | 4,804,501 | 433,849 | 9.0% |
| Change in Net Position | 5,434,380 | 7,907,648 | (2,473,268) | -31.3% |
| Total Net Position (Beg) | 96,076,304 | 88,168,656 | 7,907,648 | 9.0% |
| Net Position (Beg) Restated | 96,076,304 | 88,168,656 | 7,907,648 | 9.0% |
| Total Net Position, End | \$ 101,510,684 | \$ 96,076,304 | \$ 5,434,380 | 5.7% |

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

**Table 3
Changes in Capital Assets**

| | FY 2022 | FY 2021 | \$ Change | % Change |
|--------------------------------|----------------|---------------|---------------|----------|
| Land | \$ 3,202,675 | \$ 1,977,490 | \$ 1,225,185 | 62.0% |
| Construction in Progress | 16,265,605 | 16,319,412 | (53,807) | -0.3% |
| Buildings & Improvements | 7,224,994 | 1,083,174 | 6,141,820 | 567.0% |
| Reservoirs, Pipelines, & Tanks | 155,424,608 | 154,424,398 | 1,000,210 | 0.6% |
| Meters | 6,230,061 | 1,352,996 | 4,877,065 | 360.5% |
| Equipment | 10,755,661 | 5,104,639 | 5,651,022 | 110.7% |
| Invest in Sewer Rights | 9,775,522 | 9,396,317 | 379,205 | 4.0% |
| Less: Accumulated Depreciation | (91,741,905) | (89,669,782) | (2,072,123) | 2.3% |
| Total Capital Assets | \$ 117,137,221 | \$ 99,988,643 | \$ 17,148,578 | 17.2% |

**RAINBOW MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2022**

DISTRICT'S FINANCIAL ANALYSIS (continued)

Debt

**Table 4
Changes in Debt**

| | | FY 2022 | | FY 2021 | | \$ Change | % Change |
|-------------------------------|-----------|-------------------|-----------|-------------------|-----------|------------------|-----------------|
| Loan Payable Morro | \$ | 7,134,610 | \$ | 7,607,547 | \$ | (472,937) | -6.2% |
| Loan Payable Beck | | 5,383,621 | | 5,740,488 | | (356,867) | -6.2% |
| Lease Purchase Agreement | | 3,494,833 | | 4,017,747 | | (522,914) | -13.0% |
| Installment Purchase Contract | | 3,311,792 | | 3,805,771 | | (493,979) | -13.0% |
| Western Alliance | | 9,750,000 | | - | | 9,750,000 | 100.0% |
| Total Debt | \$ | 29,074,856 | \$ | 21,171,553 | \$ | 7,903,303 | 37.3% |

For more information, please refer to the detail information on long-term debt activity and capital asset activity in the notes to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's Board of Directors and management considered many factors when setting the fiscal year 2022 budget, user fees, and charges. These indicators were taken into consideration when adopting the District's budget for year 2023.

CONTACTING THE DISTRICT

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

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RAINBOW MUNICIPAL WATER DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2022

Assets:

Current Assets:

| | |
|--|-------------------|
| Cash and cash equivalents | \$ 9,250,854 |
| Restricted cash and cash equivalents | 1,529,729 |
| Investments | 10,108,985 |
| Accounts receivable - water and sewer, net | 7,435,709 |
| Interest receivable | 26,999 |
| Taxes and assessments receivable | 13,892 |
| Other receivable | 53,961 |
| Inventories | 2,565,463 |
| Prepaid costs | 217,605 |
| Total Current Assets | <u>31,203,197</u> |

Noncurrent Assets:

Capital assets:

| | |
|---------------------------------|---------------------------|
| Land | 3,202,675 |
| Construction in progress | 16,265,605 |
| Buildings and improvements | 7,224,994 |
| Reservoir, pipelines, and tanks | 155,424,608 |
| Meters | 6,230,061 |
| Equipment | 10,755,661 |
| Investment in sewer rights | 9,775,522 |
| Less: accumulated depreciation | <u>(91,741,905)</u> |
| Total Noncurrent Assets | <u>117,137,221</u> |
| Total Assets | <u>148,340,418</u> |

Deferred Outflows of Resources:

| | |
|---|-------------------------|
| Deferred amounts from pension | <u>1,753,248</u> |
| Total Deferred Outflows of Resources | <u>1,753,248</u> |

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The notes to financial statements are an integral part of this statement.

RAINBOW MUNICIPAL WATER DISTRICT

STATEMENT OF NET POSITION
 JUNE 30, 2022

Liabilities:

Current Liabilities:

| | |
|---------------------------------------|-------------------|
| Accounts payable | 7,052,500 |
| Accrued expenses | 156,117 |
| Construction meter deposits | 51,101 |
| Developer deposits | 496,256 |
| Accrued interest | 95,266 |
| Unearned revenues | 189,940 |
| Compensated absences, current portion | 57,880 |
| Current portion of notes payable | 2,227,825 |
| Total Current Liabilities | 10,326,885 |

Noncurrent Liabilities:

| | |
|---------------------------------------|-------------------|
| OPEB liability | 606,811 |
| Accrued compensated absences | 520,923 |
| Net pension liability | 4,425,021 |
| Prepaid capacity fees | 1,144,110 |
| Notes payable, net of current portion | 26,847,031 |
| Total Noncurrent Liabilities | 33,543,896 |

Total Liabilities

43,870,781

Deferred Inflows of Resources:

| | |
|--|------------------|
| Deferred amounts on pension | 4,712,201 |
| Total Deferred Inflows of Resources | 4,712,201 |

Net Position:

| | |
|----------------------------------|-----------------------|
| Net investment in capital assets | 87,086,283 |
| Restricted for capital projects | 629,599 |
| Restricted for debt service | 850,130 |
| Unrestricted | 12,944,672 |
| Total Net Position | \$ 101,510,684 |

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The notes to financial statements are an integral part of this statement.

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RAINBOW MUNICIPAL WATER DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022**

| | |
|---|-------------------------------------|
| Operating Revenues: | |
| Water sales | \$ 42,755,152 |
| Wastewater revenue | 3,033,548 |
| Other operating revenue | 797,020 |
| Total Operating Revenues | <u>46,585,720</u> |
| Operating Expenses: | |
| Cost of purchased water | 26,032,842 |
| Board of directors | 39,167 |
| Pumping | 823,211 |
| Operations | 2,885,796 |
| Valve maintenance | 369,799 |
| Distribution | 2,712,092 |
| Meters | 1,407,560 |
| Garage | 597,385 |
| Administration | 1,926,423 |
| Human Resources | 302,789 |
| Risk management | 893,995 |
| Information technology | 1,267,456 |
| Finance | 926,496 |
| Customer Service | 624,732 |
| Wastewater | 2,653,350 |
| Engineering | 1,131,446 |
| Depreciation | 2,394,211 |
| Other operating expense | 159,609 |
| Total Operating Expenses | <u>47,148,359</u> |
| Operating Income (Loss) | <u>(562,639)</u> |
| Nonoperating Revenues (Expenses): | |
| Property tax revenue | 720,383 |
| Investment income | (666,174) |
| Other nonoperating revenue | 371,411 |
| Interest expense | (656,033) |
| Grant revenue | 989,082 |
| Total Nonoperating Revenues (Expenses) | <u>758,669</u> |
| Income before Capital Contributions | 196,030 |
| Capital contributions | <u>5,238,350</u> |
| Change in Net Position | 5,434,380 |
| Net Position, Beginning of Year | <u>96,076,304</u> |
| Net Position, End of Year | <u><u>\$ 101,510,684</u></u> |

The notes to financial statements are an integral part of this statement.

RAINBOW MUNICIPAL WATER DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

Cash Flows from Operating Activities:

| | |
|--|-------------------------|
| Cash received from customers | \$ 46,989,575 |
| Cash paid to suppliers for goods and services | (37,242,983) |
| Cash paid to employees for services | (8,111,267) |
| Net Cash Provided by Operating Activities | <u>1,635,325</u> |

Cash Flows from Non-Capital Financing Activities:

| | |
|--|-------------------------|
| Property taxes received | 709,738 |
| Grants received | 989,082 |
| Net Cash Provided by Non-Capital Financing Activities | <u>1,698,820</u> |

Cash Flows from Capital and Related Financing Activities:

| | |
|---|---------------------------|
| Proceeds from debt issuance | 9,750,000 |
| Acquisition and construction of capital assets | (13,328,356) |
| Principal paid on capital debt | (1,846,697) |
| Interest paid on capital debt | (560,767) |
| Other nonoperating | (1,197,857) |
| Net Cash (Used for) Capital and Related Financing Activities | <u>(7,183,677)</u> |

Cash Flows from Investing Activities:

| | |
|--|-------------------------|
| Sales of investments | 2,573,978 |
| Interest received on investments | (633,543) |
| Net Cash Provided by Investing Activities | <u>1,940,435</u> |
| Net (Decrease) in Cash and Cash Equivalents | (1,909,097) |

| | |
|---|-----------------------------|
| Cash and Cash Equivalents at Beginning of Year | 12,689,680 |
| Cash and Cash Equivalents at End of Year | <u>\$ 10,780,583</u> |

Reconciliation of Cash and Cash Equivalents to
Amounts Reported on the Statement of Net Position:

| | |
|--------------------------------------|-----------------------------|
| Cash and cash equivalents | \$ 9,250,854 |
| Restricted cash and cash equivalents | 1,529,729 |
| Cash and Cash Equivalents, June 30 | <u>\$ 10,780,583</u> |

The notes to financial statements are an integral part of this statement.

RAINBOW MUNICIPAL WATER DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:**

| | |
|--|---------------------|
| Operating income (loss) | \$ (562,639) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 2,394,211 |
| (Increase)/Decrease in accounts receivable - water and sewer, net | 602,746 |
| (Increase)/Decrease in other receivable | (45,943) |
| (Increase)/Decrease in inventories | (162,724) |
| (Increase)/Decrease in prepaid costs | 420,113 |
| Increase/(Decrease) in accounts payable | (563,323) |
| Increase/(Decrease) in accrued expenses | (224,610) |
| Increase/(Decrease) in unearned revenue | (131,996) |
| Increase/(Decrease) in deposits | (20,952) |
| Increase/(Decrease) in compensated absences | (19,391) |
| Increase/(Decrease) in OPEB obligation | (105,451) |
| Increase/(Decrease) in pension obligation | 55,284 |
| Total Adjustments | <u>2,197,964</u> |
| Net Cash Provided by Operating Activities | <u>\$ 1,635,325</u> |

Non-Cash Investing, Capital, and Financing Activities:

| | |
|--------------------------------|--------------|
| Capital contributions | \$ 5,238,350 |
| Unrealized loss on investments | (811,949) |

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The notes to financial statements are an integral part of this statement.

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RAINBOW MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Note 1: Summary of Significant Accounting Policies

a. Organization

The Rainbow Municipal Water District (the "District") was established in 1953 and is a Special District, organized under Section 71000 of the California Water Code. The District provides water and sanitation services to the unincorporated communities of Rainbow, Bonsall, and portions of Vista, Oceanside, and Fallbrook.

The District services and maintains approximately 315 miles of water main, 7 pump stations, 4 reservoirs, and 13 storage tanks to deliver water to its customers. It also provides sewer services to parts of the District and maintains 6 lift stations and 60 miles of sewer main located in northern San Diego County.

The District is governed by a Board of Directors made up of five members elected by the voters within the District.

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Position.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

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 (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

RAINBOW MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

The basic financial statements of the Rainbow Municipal Water District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

Net position of the District is classified into three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowings that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Restricted Net Position

This component of net position consists of net position with constrained use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

This component of net position consists of net position that does not meet the definition of "net investment in capital assets," or "restricted net position".

c. Deferred Outflows/Inflows of Resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred 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) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to pensions for changes in proportion. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2022.

RAINBOW MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

- Deferred outflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2022.
- Deferred outflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years.

In addition to liabilities, the Statement of Net 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 periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following that will qualify for reporting in this category:

- Deferred inflow related to pensions changes in actuarial assumptions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2022.
- Deferred inflow from pensions resulting from the differences between employer contributions and proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans.

d. Cash, Cash Equivalents, and Investments

Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents include petty cash, demand deposits with financial institutions, deposits in money market mutual funds (SEC registered), and deposits in external investment pools, and marketable securities that mature within 90 days of purchase. Such marketable securities and deposits in money market funds are carried at fair value. Investment pool deposits are carried at the District's proportionate share of the fair value of each pool's underlying portfolio.

State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code 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 cost 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.

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 1: Summary of Significant Accounting Policies (Continued)

Investment Valuation

Investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

e. Water Sales

Water sales revenue is recorded when water is delivered and service is rendered, including an estimated amount for unbilled service.

f. Allowance for Doubtful Accounts

The District recognizes bad debt expense relating to receivables when it is probable that the accounts will be uncollectible. Water and sewer accounts receivable at June 30, 2022, have been reduced by an allowance for doubtful accounts of \$275,646.

g. Inventories

Materials inventory is stated at the lower of current average cost or market. Water inventory is stated at its purchase cost using the first-in, first-out method.

h. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

i. Restricted Assets

Amounts shown as restricted assets have been restricted by debt agreements, by law or regulations, or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets.

j. Capital Assets and Depreciation

Capital assets are valued at cost when constructed or purchased. Donated assets, donated works of art and similar assets, and capital assets received in a service concession arrangement are valued at their acquisition value at the date of acquisition. The District capitalizes all assets with a historical cost of at least \$10,000 and a useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Depreciation on capital assets in service, excluding land, is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital projects are subject to depreciation or amortization when completed and placed in service. The ranges of estimated useful lives of capital assets are as follows:

| | |
|----------------------|-------------|
| Buildings | 10-50 years |
| Water Systems | 10-50 years |
| Improvement of Sites | 10-75 years |
| Equipment | 5-15 years |
| Capacity Rights | 17 years |

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 1: Summary of Significant Accounting Policies (Continued)

k. Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees. Changes in compensated absences for the year ended June 30, 2022, were as follows:

| <u>Balance</u> <u>July 1, 2021</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2022</u> | <u>Due Within</u> <u>One Year</u> |
|---------------------------------------|-------------------|-------------------|--|--------------------------------------|
| <u>\$ 598,194</u> | <u>\$ 699,108</u> | <u>\$ 718,499</u> | <u>\$ 578,803</u> | <u>\$ 57,880</u> |

l. Capital Contributions and Capacity Fee Liability

Capital contributions are recorded when the District receives cash contributions or accepts contributions of capital assets in kind or when governmental construction grants are earned. Capital contributions are reported as a separate line item on the Statement of Revenues, Expenses, and Changes in Net Position. Capacity fees are paid by new customers prior to connecting to the District's system. Such charges are periodically adjusted based upon changes in construction costs and other factors and are intended to compensate the District for a new customer's equitable share of current and future system capacity. Capacity fees are reflected as a liability and are recorded as Capital Contributions on the Statement of Revenues, Expenses, and Changes in Net Position when the customer connects to the District's system.

m. Property Taxes

The County of San Diego (the "County") bills and collects property taxes on behalf of the District. The County's tax calendar year is July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

n. 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 Plan's 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, 2022, the following timeframes are used:

Valuation Date (VD): June 30, 2020

Measurement Date (MD): June 30, 2021

Measurement Period (MP): July 1, 2020 to June 30, 2021

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 1: Summary of Significant Accounting Policies (Continued)

o. Other Post-Employment Benefits

For purposes of measuring the total other post-employment benefits (OPEB) liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the OPEB Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the District's OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

p. Interest Expense

The District incurs interest charges on long-term debt. Interest expense for the year ended June 30, 2022, was \$656,033 and was reflected as nonoperating on the Statement of Revenues, Expenses and Changes in Net Position. The District did not capitalize any interest during the year ended June 30, 2022.

q. 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.

r. Implementation of New Accounting Pronouncement

The District adopted GASB Statement No. 87, *Leases*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The District did not have leases meeting the qualifying criteria and no restatement to implement GASB 87 was necessary.

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 2: Cash, Cash Equivalents, and Investments

Cash and investments at June 30, 2022, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Current Assets:

| | |
|--------------------------------------|----------------------|
| Cash and Cash Equivalents | \$ 9,250,854 |
| Restricted Cash and Cash Equivalents | 1,529,729 |
| Investments | <u>10,108,985</u> |
| Total Cash and Investments | <u>\$ 20,889,568</u> |

Cash and Investments Consist of the Following:

| | |
|--------------------------------------|----------------------|
| Cash on Hand | \$ 500 |
| Deposits with Financial Institutions | 9,102,378 |
| Investments | <u>11,786,690</u> |
| Total Cash and Investments | <u>\$ 20,889,568</u> |

Investments Authorized by the California Government Code and the District's Investment Policy:

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|------------------------------------|-------------------------|--|---|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Government Sponsored Entities | 5 years | None | None |
| U.S. Government Agency Callable | 5 years | 75% | None |
| Banker's Acceptances | 180 days | 40% | 5% |
| Commercial Paper | 270 days | 15% | 5% |
| Negotiable Certificates of Deposit | 5 years | 30% | 5% |
| Time Certificates of Deposit | 5 years | 25% | 5% |
| Repurchase Agreements | 90 days | None | 5% |
| Medium-Term Notes | 5 years | 30% | 15% |
| Money Market Mutual Funds | N/A | 20% | None |
| Local Agency Investment Funds | N/A | 100% | \$30,000,000 |

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 2: Cash, Cash Equivalents, and Investments (Continued)

Investments Authorized by Debt Agreements:

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. Investments authorized for funds held by bond trustees include US Treasury Bills, Notes and Bonds, US Treasury Obligations, Resolution Funding Corp (REFCORP), Prefunded Municipal Bonds, US Government-Sponsored Agency Securities, Commercial Paper, Money Market Mutual Funds, Certificates of Deposits, Guaranteed Investment Contracts, Banker's Acceptance, Repurchase Agreements, and Local Agency Investment Funds. There are no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed, or the maximum maturity of an investment, except for the maturity of Banker's Acceptances, which are limited to one year and Repurchase Agreements, which are limited to 30 days.

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity at June 30, 2022.

| Investment | Type Total | Remaining Maturity (in Months) | | |
|-------------------------------------|----------------------|--------------------------------|-------------------|---------------------|
| | | 12 Months or Less | 13 to 24 Months | 25 to 60 Months |
| Local Agency Investment Fund (LAIF) | \$ 147,975 | \$ 147,975 | \$ - | \$ - |
| Money Market Mutual Funds | 1,617,651 | 1,617,651 | - | - |
| Negotiable Certificates of Deposit | 2,331,174 | 240,844 | 240,076 | 1,850,254 |
| Medium Term Notes | 2,656,760 | - | - | 2,656,760 |
| U.S. Sponsored Entities | 5,033,130 | 200,032 | 693,653 | 4,139,445 |
| Total | <u>\$ 11,786,690</u> | <u>\$ 2,206,502</u> | <u>\$ 933,729</u> | <u>\$ 8,646,459</u> |

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, the District's Investment Policy, or debt agreements, and the Moody's rating for each investment type at June 30, 2022.

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 2: Cash, Cash Equivalents, and Investments (Continued)

| Investment Type | Total | Minimum Legal Rating | Moody's Ratings as of June 30 | | | | |
|-------------------------------------|----------------------|-------------------------|-------------------------------|-------------|-------------------|---------------------|---------------------|
| | | | Exempt from Disclosure | Aaa | Aa1-Aa3 | A1 - A3 | Not Rated |
| Local Agency Investment Fund (LAIF) | \$ 147,975 | N/A | \$ - | \$ - | - | \$ - | \$ 147,975 |
| Money Market Mutual Funds | 1,617,651 | N/A | - | - | - | - | 1,617,651 |
| Negotiable Certificates of Deposit | 2,331,174 | N/A | - | - | - | - | 2,331,174 |
| Medium-Term Notes | 2,656,760 | A2 | - | - | 455,985 | 2,200,775 | - |
| U.S. Sponsored Entities | 5,033,130 | N/A | 5,033,130 | - | - | - | - |
| Total | \$ 11,786,690 | | \$ 5,033,130 | \$ - | \$ 455,985 | \$ 2,200,775 | \$ 4,096,800 |

Concentration of Credit Risk:

The investment policy of the District is in accordance with limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. There were no investments held on June 30, 2022 in any one issuer that represent 5% or more of total District investments, except for the Local Agency Investment Fund and mutual funds which are exempt from this stipulation.

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, 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 for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The 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 or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2022, \$8,852,378 of the District's deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.

Fair Value Measurements:

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices for similar assets in active markets, and Level 3 inputs are significant unobservable inputs. At June 30, 2022, all investments held by the District are valued using Level 2 inputs, with the exception of the Local Agency Investment Fund and money market mutual funds, which are measured at cost or net asset value and are considered uncategorized.

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 3: Capital Assets

Changes in capital assets for the year ended June 30, 2022, were as follows:

| | Balance June 30, 2021 | Additions | Deletions | Balance June 30, 2022 |
|--|--------------------------|----------------------|----------------------|--------------------------|
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 1,977,490 | \$ 1,225,185 | \$ - | \$ 3,202,675 |
| Construction in Progress | 16,319,412 | 16,451,171 | 16,504,978 | 16,265,605 |
| Total Capital Assets Not Being Depreciated | <u>18,296,902</u> | <u>17,676,356</u> | <u>16,504,978</u> | <u>19,468,280</u> |
| Capital Assets, Being Depreciated: | | | | |
| Buildings and Improvements | 1,083,174 | 6,141,820 | - | 7,224,994 |
| Reservoirs Pipelines, and Tanks | 154,424,398 | 1,000,210 | - | 155,424,608 |
| Meters | 1,352,996 | 4,877,065 | - | 6,230,061 |
| Equipment | 5,104,639 | 5,973,110 | 322,088 | 10,755,661 |
| Investment in Sewer Rights | 9,396,317 | 379,205 | - | 9,775,522 |
| Total Capital Assets, Being Depreciated | <u>171,361,524</u> | <u>18,371,410</u> | <u>322,088</u> | <u>189,410,846</u> |
| Accumulated Depreciation: | | | | |
| Buildings and Improvements | (954,523) | (33,176) | - | (987,699) |
| Reservoirs Pipelines, and Tanks | (82,610,883) | (1,902,450) | - | (84,513,333) |
| Meters | (637,859) | (79,789) | - | (717,648) |
| Equipment | (3,745,946) | (220,906) | (322,088) | (3,644,764) |
| Investment in Sewer Rights | (1,720,571) | (157,890) | - | (1,878,461) |
| Total Accumulated Depreciation | <u>(89,669,782)</u> | <u>(2,394,211)</u> | <u>(322,088)</u> | <u>(91,741,905)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>81,691,742</u> | <u>15,977,199</u> | <u>-</u> | <u>97,668,941</u> |
| Total Capital Assets, Net | <u>\$ 99,988,644</u> | <u>\$ 33,653,555</u> | <u>\$ 16,504,978</u> | <u>\$ 117,137,221</u> |

Depreciation expense for depreciable capital assets was \$2,394,211 for the year ended June 30, 2022.

Note 4: Long Term Debt

Changes in long-term debt for the year ended June 30, 2022 were as follows:

| | Balance June 30, 2021 | Additions | Deletions | Balance June 30, 2022 | Due Within One Year |
|---|--------------------------|---------------------|-----------------------|--------------------------|------------------------|
| Direct Borrowings: | | | | | |
| Loan Payable SRF Morro | \$ 7,607,547 | \$ - | \$ (472,937) | \$ 7,134,610 | \$ 482,888 |
| Loan Payable SRF Beck | 5,740,488 | - | (356,867) | 5,383,621 | 364,377 |
| Lease Purchase Agreement | 4,017,747 | - | (522,914) | 3,494,833 | 539,073 |
| Installment Purchase Contract | 3,805,771 | - | (493,979) | 3,311,792 | 509,686 |
| Installment Purchase Contract- Western Alliance Business | - | 9,750,000 | - | 9,750,000 | 331,801 |
| Total | <u>\$ 21,171,553</u> | <u>\$ 9,750,000</u> | <u>\$ (1,846,697)</u> | <u>\$ 29,074,856</u> | <u>\$ 2,227,825</u> |

RAINBOW MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Note 4: Long Term Debt (Continued)

a. SRF Morro Loan Payable

On October 31, 2012, the District entered into an agreement with the State of California Department of Public Health for a loan in the amount of \$10,246,413 pursuant to 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) to assist in financing construction of a project which will enable the District to meet safe drinking water standards. The rate of interest to be paid on the principal amount of the loan shall be 2.0933% annually. On June 30, 2022, the amount outstanding was \$7,134,610.

b. SRF Beck Loan Payable

On October 31, 2012, the District entered into an agreement with the State of California Department of Public Health for a loan in the amount of \$7,731,716 pursuant to 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) to assist in financing construction of a project which will enable the District to meet safe drinking water standards. The rate of interest to be paid on the principal amount of the loan shall be 2.0933% annually. At June 30, 2022, the amount outstanding was \$5,383,621.

c. Lease Purchase Agreement

On September 21, 2018, the District entered into a lease/purchase agreement with Zion Bank as lessor in the amount of \$5,523,284 to finance water meters. Payments of principal and interest are due annually on July 1. The rate of interest to be paid on the principal amount of the lease is 3.090%. At June 30, 2022, the amount outstanding was \$3,494,833.

d. Installment Purchase Contract

On October 1, 2018, the District entered into an Installment Purchase Contract with ZMFU II, Inc. in the amount of \$5,249,905 to finance the construction, acquisition, and improvements associated with a District-wide water meter replacement program. Principal payments are due annually on July 1 and interest payments are due semi-annually on July 1 and January 1. The rate of interest to be paid on the principal amount of the lease is 3.180%. At June 30, 2022, the amount outstanding was \$3,311,792.

e. Installment Purchase Agreement

On March 1, 2022 the District entered into an Installment Purchase Agreement with Western Alliance Business Trust in the amount of \$9,750,000 to finance the construction, acquisition, and improvements associated with a District-wide water pipeline upgrades. Principal payments are due annually on April 1 and interest payments are due semi-annually on April 1 and October 1. The rate of interest to be paid on the principal amount of the lease is 4.02%. At June 30, 2022, the amount outstanding was \$9,750,000

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 4: Long Term Debt (Continued)

Future debt service requirements for the above notes payable based on the initial loan rates is as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|---------------|---------------|---------------|
| 2023 | \$ 2,227,825 | \$ 1,181,142 | \$ 3,408,967 |
| 2024 | 2,286,413 | 1,130,191 | 3,416,604 |
| 2025 | 2,352,168 | 1,077,826 | 3,429,994 |
| 2026 | 2,419,918 | 1,024,007 | 3,443,925 |
| 2027 | 2,489,724 | 968,692 | 3,458,416 |
| 2028-2032 | 8,281,910 | 4,241,648 | 12,523,558 |
| 2033-2037 | 5,820,918 | 3,709,654 | 9,530,572 |
| 2038-2042 | 3,195,980 | 3,591,537 | 6,787,517 |
| | \$ 29,074,856 | \$ 16,924,697 | \$ 45,999,553 |

Note 5: Inventories

Inventories at June 30, 2022, consisted of the following:

| | |
|---------------------|--------------------|
| Water Inventory | \$ 153,107 |
| Materials Inventory | <u>2,412,356</u> |
| Total | <u>\$2,565,463</u> |

Note 6: Defined Benefit Pension Plans

a. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan's benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Annual Comprehensive Financial Report, which is available online at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 to 63 with statutorily reduced benefits. PEPRAs miscellaneous members become eligible for service retirement upon attainment of age 52 with at least 5 years of service. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. Safety members can receive a special death benefit if the member dies while actively employed and the death is job-related. Fire

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 6: Defined Benefit Pension Plans (Continued)

members may receive the alternate death benefit in lieu of the Basic Death Benefit or the 1957 Survivor Benefit if the member dies while actively employed and has at least 20 years of total CalPERS service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2022, are summarized as follows:

| | Classic Miscellaneous Plan | PEPRA Miscellaneous Plan |
|---|----------------------------|-----------------------------|
| Hire Date | Prior to January 1, 2013 | On or After January 1, 2013 |
| Benefit Formula | 2.5% at 55 | 2% at 62 |
| Benefit Vesting Schedule | 5 years of service | 5 years of service |
| Benefit Payments | monthly for life | monthly for life |
| Retirement Age | 50 - 63 | 52 - 67 |
| Monthly Benefits, as a % of Eligible Compensation | 2.0% - 2.5% | 1.0% - 2.5% |
| Required Employee Contribution Rates | 7.960% | 6.750% |
| Required Employer Contribution Rates: | 12.200% | 7.590% |

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are 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 CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements are identified by the pension plan terms.

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2022, Rainbow Municipal Water District reported a net pension liability for its proportionate share of the net pension liability of the risk pools in the amount of \$4,425,021.

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2021, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 6: Defined Benefit Pension Plans (Continued)

The Rainbow Municipal Water District's proportionate share of the net pension liability as of the measurement date ended June 30, 2020 and 2021 was as follows:

| | Classic & PEPRA Plans |
|------------------------------|--------------------------|
| Proportion - June 30, 2020 | 0.0750% |
| Proportion - June 30, 2021 | 0.0818% |
| Change - Increase (Decrease) | 9.0943% |

For the year ended June 30, 2022, the District recognized pension expense of \$617,590. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Pension Contributions Subsequent to Measurement Date | \$ 562,304 | \$ - |
| Differences Between Actual and Expected Experience | 496,219 | - |
| Change in Assumptions | - | - |
| Changes in Proportions | 694,725 | - |
| Difference between the Employer's Contributions and the Employer's Proportionate Share of Contributions | - | 849,392 |
| Net Differences Between Projected and Actual Earnings on Plan Investments | - | 3,862,809 |
| Total | <u>\$ 1,753,248</u> | <u>\$ 4,712,201</u> |

The \$562,304 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ending June 30 | Amount |
|---------------------|-----------------------|
| 2023 | \$ (780,701) |
| 2024 | (825,795) |
| 2025 | (847,280) |
| 2026 | (1,067,481) |
| | <u>\$ (3,521,257)</u> |

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 6: Defined Benefit Pension Plans (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2021 measurement period was determined by an actuarial valuation as of June 30, 2020, with update procedures used to roll forward the total pension liability to June 30, 2021. The total pension liability was based on the following assumptions:

| | <u>Classic & PEPRA Plans</u> |
|----------------------------------|--------------------------------------|
| Valuation Date | June 30, 2020 |
| Measurement Date | June 30, 2021 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.50% |
| Projected Salary Increase | (1) |
| Mortality Rate Table | (2) |
| Post Retirement Benefit Increase | (3) |

- (1) Varies by entry age and service.
- (2) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.
- (3) The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 6: Defined Benefit Pension Plans (Continued)

The expected real rates of return by asset class are as follows:

| Asset Class (a) | New Strategic Allocation | Real Return Years - 10 (b) | Real Return Years 11+ (c) |
|------------------|--------------------------|----------------------------|---------------------------|
| Global Equity | 50.00% | 4.80% | 5.98% |
| Fixed Income | 28.00% | 1.00% | 2.62% |
| Inflation Assets | 0.00% | 0.77% | 1.81% |
| Private Equity | 8.00% | 6.30% | 7.23% |
| Real Assets | 13.00% | 3.75% | 4.93% |
| Liquidity | 1.00% | 0.00% | -0.92% |
| Total | 100.00% | | |

(a) In the CalPERS financial report, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-Term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.00% used for this period.

(c) An expected inflation of 2.92% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability of the each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

| | Classic & PEPRA PLANS |
|-----------------------|--------------------------|
| 1% Decrease | 6.15% |
| Net Pension Liability | \$ 9,118,318 |
| Current Discount Rate | 7.15% |
| Net Pension Liability | \$ 4,425,021 |
| 1% Increase | 8.15% |
| Net Pension Liability | \$ 545,139 |

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 6: Defined Benefit Pension Plans (Continued)

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Note 7: Other Post-Employment Benefits

Plan Description – Benefits

The District administers its Other Post-Employment Benefits (OPEB), a single employer defined benefit plan, to provide 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 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.

Employees of the District hired before July 1, 2012, retiring after the later of age 50 with 10 consecutive years of District service are eligible to receive a monthly District contribution towards the purchase of health insurance if they have not opted out. 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Employees Covered

As of the June 30, 2021 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

| Measurement Date | June 30, 2022 |
|--|---------------|
| Total Eligible Active Employees | 18 |
| Inactive Employees Currently Receiving Benefit | 7 |
| Total | <u>25</u> |

Total OPEB Liability

The District’s total OPEB liability of \$606,811 was measured as of June 30, 2022 and was determined by an actuarial valuation as of July 1, 2021. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 7: Other Post-Employment Benefits (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability reported at June 30, 2022 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|--|--|
| Valuation Date | July 1, 2021 |
| Measurement Date | June 30, 2022 |
| Actuarial Cost Methods | Entry Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 3.54% |
| Inflation | 2.25% |
| Projected Salary Increase | 3.50% |
| Expected Long Term Investment Rate of Return | N/A |
| Healthcare Cost Trend Rates | Varies |
| Pre-Retirement Turnover | Derived from the July 1, 2015 Rainbow Municipal Water District Actuarial Valuation Report |
| Morality | Derived from the RP-2014 Study, with Blue Collar Adjustment, improved generationally using MP-2016 Improvement Rules |

The discount rate of 3.54 percent was based on The Bond Buyer 20-Bond GO Index and was updated to the current fiscal year end based on changes in market conditions as reflected in the Index.

Changes in the Total OPEB Liability

The changes in the total OPEB liability are as follows:

| | |
|--|---------------------------------|
| | <u>Total OPEB Liability</u> |
| Balance at July | \$ 712,262 |
| Changes in the | |
| Service cost | 3,701 |
| Interest on the total OPEB liability | 14,649 |
| Changes in assumptions | (55,645) |
| Benefit Payments, including refunds of employee contributions | <u>(68,156)</u> |
| Net Changes | <u>(105,451)</u> |
| Balance at June 30, 2021 | <u>\$ 606,811</u> |

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 7: Other Post-Employment Benefits (Continued)

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

The following presents the total OPEB liability of the District, calculated using the discount rate for the Plan, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.54 %) or 1-percentage point higher (4.54%) than the current rate:

| | 1% Decrease (2.54%) | Current Discount Rate (3.54%) | 1% Increase (4.54%) |
|----------------------|---------------------------|-------------------------------------|------------------------|
| Total OPEB Liability | <u>\$ 646,967</u> | <u>\$ 606,811</u> | <u>\$ 571,102</u> |

Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

| | 1 % Decrease (Varies) | Healthcare Cost Trend Rates (Varies) | 1% Increase (Varies) |
|----------------------|--------------------------|--|-------------------------|
| Total OPEB Liability | <u>\$ 606,811</u> | <u>\$ 606,811</u> | <u>\$ 606,811</u> |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

The District elected to use the Alternative Measurement Method for reporting GASB 74/75 for fiscal year 2022. According to the implementation guide for GASB 74/75, the changes in the total OPEB liability resulting from differences between expected and actual experience and changes in assumptions or other inputs should be recognized in OPEB expense in the periods in which the effects are first reported in the OPEB liability. Due to this, the District has recognized its deferrals arising from expected and actual experience, as well as changes of assumptions in OPEB expense. For the year ended June 30, 2022, the District recognized OPEB expense (income) of \$(37,295).

Note 8: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; and natural disasters. The District purchases commercial insurance for its exposure to risk other than those under the workers' compensation laws. Commercial insurance expense amounted to \$487,586 for the years ended June 30, 2022.

The District's workers' compensation risk exposure is handled by the District's participation in the Special District Risk Management Authority (SDRMA) established by the California Special Districts Association. SDRMA is a risk pooling joint powers authority formed under the California Government Code to provide workers' compensation coverage for SDRMA's member districts. SDRMA purchases excess insurance from commercial carriers to reduce its exposure to large losses. Workers' compensation expense amounted to \$264,961 for the year ended June 30, 2022.

RAINBOW MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Note 8: Risk Management (Continued)

There were no instances in the past three years where a settlement exceeded the District's coverage provided through SDRMA or through the District's commercial carriers.

General and Auto Liability, Public Officials' and Employees' Errors and Omissions and Employment Practices Liability: Total risk financing limits of \$10 Million combined with single limit at \$10 Million per occurrence, subject to the following deductibles:

- \$100,000 per occurrence for third party general liability property damage.
- \$1,000 per occurrence for third party auto liability property damage.
- 50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000, per occurrence.

Employee Dishonesty Coverage: \$1,000,000 million per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, Disappearance and Destruction coverage's effective July 1, 2021.

Property Loss: Replacement cost, for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1 Billion per occurrence, subject to a \$1,000 deductible per occurrence, effective July 1, 2021.

Public Officials Personal Liability: \$5,000,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, deductible of \$1,000 per claim, effective July 1, 2021.

Comprehensive and Collision: Comprehensive and Collision limits are the actual cash value or cost of repair with deductibles of \$250/\$500 or \$500/\$1,000, as elected, for comprehensive and collision.

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and \$5 Million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Certificate of Coverage, effective July 1, 2021.

Note 9: Deferred Compensation Plan

The District offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plans, administered by Aspire and Lincoln Financial Group, are 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 plan assets at June 30, 2022, in the amount of \$4,815,226, is not included in the District's financial statements.

RAINBOW MUNICIPAL WATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Note 10: Net Investment in Capital Assets

| | |
|--|-----------------------------|
| Total Capital assets net of depreciation | \$ 117,137,221 |
| Less: Capital-related borrowings | <u>(29,074,856)</u> |
| Net Investment in Capital Assets | <u>\$ 88,062,365</u> |

Note 11: Commitments and Contingencies

Tank Maintenance Commitments

On April 22, 2015, the District entered into a ten (10) year contract with Utility Service Co., Inc. to maintain twelve water tanks. The contract was updated on July 1, 2011 to maintain the tanks at an annual cost of \$615,585. The contract can be cancelled annually if intent to cancel is received with 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, September 10, 1989, and February 16, 2019. 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% of the total cost of expansion.

Construction Project Commitments

The following construction projects had remaining commitments outstanding at June 30, 2022:

| Project Name/Description | PO Amount | Expenditures as of June 30, 2022 | Remaining Commitments |
|--------------------------------------|------------|-------------------------------------|--------------------------|
| Live Oak Park Bridge | \$ 507,000 | \$ - | \$ 507,000 |
| LS-1 Replacement Phase 1 | 15,181,157 | 5,556,340 | 9,624,817 |
| Rice Canyon 18" WL | 5,502,373 | 2,551,703 | 2,950,670 |
| Rainbow Valley Blvd. CP Installation | 524,703 | 498,468 | 26,235 |

RAINBOW MUNICIPAL WATER DISTRICT

**MISCELLANEOUS RISK POOL
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS ¹**

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|--------------|--------------|--------------|--------------|
| Measurement Date | 6/30/2021 | 6/30/2020 | 6/30/2019 | 6/30/2018 |
| Proportion of the Net Pension Liability | 0.0818% | 0.0750% | 0.0735% | 0.0716% |
| Proportionate Share of the Net Pension Liability | \$ 4,425,021 | \$ 8,158,280 | \$ 7,527,597 | \$ 6,899,648 |
| Covered Payroll | \$ 5,036,802 | \$ 4,935,944 | \$ 5,212,648 | \$ 3,887,469 |
| Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll | 87.9% | 165.3% | 144.4% | 177.5% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 88.3% | 75.1% | 75.3% | 75.3% |

Notes to Schedule of Proportionate Share of the Net Pension Liability:

Benefit Changes:

None

Changes of Assumptions:

2022: None

2021: None

2020: None

2019: Demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

2018: The accounting discount rate reduced from 7.65 percent to 7.15 percent.

2017: None

2016: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

2015: None

¹ Fiscal year 2015 was the first year of implementation; therefore, only eight years are shown.

| 2018 | 2017 | 2016 | 2015 |
|------------------|------------------|------------------|------------------|
| <u>6/30/2017</u> | <u>6/30/2016</u> | <u>6/30/2015</u> | <u>6/30/2014</u> |
| 0.0709% | 0.0694% | 0.0668% | 0.0552% |
| \$ 7,031,525 | \$ 6,009,026 | \$ 4,584,303 | \$ 3,435,302 |
| \$ 4,118,123 | \$ 3,679,407 | \$ 3,829,237 | \$ 3,873,095 |
| 170.7% | 163.3% | 119.7% | 88.7% |
| 73.3% | 74.1% | 78.4% | 79.8% |

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RAINBOW MUNICIPAL WATER DISTRICT

MISCELLANEOUS RISK POOL
 SCHEDULE OF PLAN CONTRIBUTIONS
 AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS ¹

| | 2022 | 2021 | 2020 | 2019 |
|---|--------------|--------------|--------------|--------------|
| Actuarially Determined Contribution | \$ 562,304 | \$ 479,387 | \$ 512,037 | \$ 865,241 |
| Contribution in Relation to the Actuarially Determined Contribution | (562,304) | (479,387) | (512,037) | (865,241) |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 5,407,749 | \$ 5,036,802 | \$ 4,935,944 | \$ 5,212,648 |
| Contributions as a Percentage of Covered Payroll | 10.4% | 9.5% | 10.4% | 16.6% |

Notes to Schedule of Plan Contributions:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2021-22 were derived from the June 30, 2018 funding valuation report.

Actuarial Cost Method: Entry Age Normal

Amortization Method/Period: For details, see June 30, 2018 Funding Valuation Report

Inflation: 2.5%

Salary Increases: Varies by Entry Age and Service

Payroll Growth: 2.75%

Investment Rate of Return: 7.15% compounded annually (net of investment and administrative expenses)

Retirement Age: The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period of 1997 to 2015.

Mortality: The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period of 1997 to 2015. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

¹ Fiscal year 2015 was the first year of implementation; therefore, only eight years are shown.

| 2018 | 2017 | 2016 | 2015 |
|--------------|--------------|--------------|--------------|
| \$ 743,649 | \$ 656,639 | \$ 369,170 | \$ 570,649 |
| (743,649) | (656,639) | (369,170) | (570,649) |
| \$ - | \$ - | \$ - | \$ - |
| \$ 3,887,469 | \$ 4,118,123 | \$ 3,679,407 | \$ 3,829,237 |
| 19.1% | 15.9% | 10.0% | 14.9% |

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RAINBOW MUNICIPAL WATER DISTRICT

OTHER POST-EMPLOYMENT BENEFITS
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
 AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS ¹

| Measurement Date | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 6/30/2022 | 6/30/2021 | 6/30/2020 | 6/30/2019 | 6/30/2018 |
| Total OPEB Liability: | | | | | |
| Service cost | \$ 3,701 | \$ 6,294 | \$ 5,388 | \$ 5,027 | \$ 7,607 |
| Interest | 14,649 | 15,040 | 22,545 | 24,801 | 26,991 |
| Differences between expected and actual experience | - | 36,255 | - | (108,804) | - |
| Changes in assumptions | (55,645) | 2,478 | 58,081 | 68,033 | - |
| Benefit payments | (68,156) | (56,698) | (42,753) | (43,026) | (24,866) |
| Net Change in Total OPEB Liability | (105,451) | 3,369 | 43,261 | (53,969) | 9,732 |
| Total OPEB Liability - Beginning of Year | 712,262 | 708,893 | 665,632 | 719,601 | 709,869 |
| Total OPEB liability - End of Year | \$ 606,811 | \$ 712,262 | \$ 708,893 | \$ 665,632 | \$ 719,601 |
| Plan fiduciary net position as a percentage of the total OPEB liability ² | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Covered-employee payroll | \$ 2,318,249 | \$ 2,239,854 | \$ 5,395,091 | \$ 5,212,648 | \$ 4,346,367 |
| Net OPEB liability as a percentage of covered-employee payroll | 26.2% | 31.8% | 13.1% | 12.8% | 16.6% |

Notes to Schedule of Changes in the Total OPEB Liability and Related Ratios:

Changes in Assumptions:

2022: The discount rate was increased from 2.16% in fiscal year 2021 to 3.54% in fiscal year 2022 due to changes in market conditions.
 2021: The discount rate was decreased from 2.21% in fiscal year 2020 to 2.16% in fiscal year 2021 due to changes in market conditions.
 2020: The discount rate was decreased by 1.29% from 3.50% in fiscal year 2019 to 2.21% in fiscal year 2020 due to changes in market conditions.
 2019: The discount rate was decreased by 0.37% from 3.87% in fiscal year 2018 to 3.50% in fiscal year 2019 due to changes in market conditions.
 2018: None

¹ Fiscal year 2018 was the first year of implementation; therefore, only five years are shown.

² The Total OPEB Liability is an unfunded obligation. The District does not have a trust dedicated exclusively to the payment of OPEB benefits.

Statistical Section

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STATISTICAL SECTION

This section of the comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

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NET POSITION BY COMPONENT

Last Ten Fiscal Years

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| Net Investment in Capital Assets | \$ 87,646,849 | \$ 85,350,581 | \$ 84,652,584 | \$ 84,881,107 | \$ 65,217,530 | \$ 65,399,076 | \$ 63,739,648 | \$ 72,364,014 | \$ 78,817,091 | \$ 87,086,283 |
| Restricted for Capital Projects | - | - | - | 6,827,952 | 894,491 | 894,491 | 3,321,531 | 11,057,533 | 7,312,691 | 629,599 |
| Restricted for Debt Service | - | - | - | - | - | - | - | 1,129,683 | 822,428 | 850,130 |
| Unrestricted | 5,446,280 | 6,697,491 | 2,119,562 | 1,544,992 | 17,174,049 | 16,586,411 | 16,510,984 | 3,530,574 | 9,124,094 | 12,944,672 |
| Total Net Position | \$ 93,093,129 | \$ 92,048,072 | \$ 86,772,146 | \$ 93,254,051 | \$ 83,286,070 | \$ 82,879,978 | \$ 83,572,163 | \$ 88,081,804 | \$ 96,076,304 | \$ 101,510,684 |
| <i>Percent Change</i> | 0.19% | -1.12% | -5.73% | 7.47% | -10.69% | -0.49% | 0.84% | 5.40% | 14.96% | 15.25% |

Source: Rainbow Municipal Water District Audited Financial Statements

REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|--|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|--------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Operating Revenues: | | | | | | | | | | |
| Direct Operating Revenues: | | | | | | | | | | |
| Water Sales | \$ 34,505,228 | \$ 36,497,373 | \$ 34,037,432 | \$ 32,156,844 | \$ 33,091,641 | \$ 38,105,712 | \$ 32,810,988 | \$ 33,156,919 | \$ 41,779,797 | \$ 42,755,162 |
| Wastewater Revenue | 2,573,273 | 2,553,801 | 2,677,130 | 2,632,902 | 2,546,647 | 2,820,622 | 2,843,236 | 2,621,433 | 3,461,296 | 3,033,546 |
| Other Operating Revenue | - | - | - | - | 501,019 | 991,390 | 860,639 | 425,525 | 806,510 | 797,020 |
| Total Direct Operating Revenues | 37,078,501 | 39,051,174 | 36,714,562 | 34,789,746 | 36,141,307 | 41,617,724 | 36,515,083 | 36,203,877 | 46,047,563 | 46,585,720 |
| Indirect Operating Revenues: | | | | | | | | | | |
| Grant Revenue | 64,447 | 34,158 | - | - | - | - | - | - | - | 989,082 |
| Other | 673,910 | 710,843 | 514,415 | 439,807 | 331,842 | - | - | - | - | 989,082 |
| Total Indirect Operating Revenues | 738,357 | 745,001 | 514,415 | 439,807 | 331,842 | - | - | - | - | 989,082 |
| Total Operating Revenues | 37,816,858 | 39,796,175 | 37,228,977 | 35,229,553 | 36,473,149 | 41,617,724 | 36,515,083 | 36,203,877 | 46,047,563 | 47,574,802 |
| Operating Expenses: | | | | | | | | | | |
| Water Purchases | 24,346,557 | 26,649,303 | 24,532,468 | 22,381,393 | 23,282,393 | 27,040,873 | 22,449,449 | 21,917,914 | 25,916,888 | 26,032,842 |
| Water Pumping | 566,443 | 3,836,825 | 3,616,915 | 631,056 | 580,556 | 591,529 | 558,989 | 530,815 | 627,681 | 823,211 |
| Transmission and Distribution Operations ¹ | 3,902,699 | 1,113,721 | 1,037,420 | 4,284,981 | 4,876,960 | 4,777,964 | 4,421,571 | - | - | - |
| Valve Maintenance ¹ | - | - | - | - | - | - | - | 2,836,404 | 2,055,704 | 2,885,796 |
| Distribution ¹ | - | - | - | - | - | - | - | 522,935 | 447,295 | 368,789 |
| Meter Services | 984,327 | 768,966 | 804,140 | 1,044,631 | 1,085,553 | 1,003,899 | 868,927 | 2,191,712 | 2,576,855 | 2,712,092 |
| Sewer Services | 1,613,567 | 1,763,824 | 1,705,779 | 1,566,845 | 1,735,473 | 1,646,593 | 1,738,948 | 1,893,429 | 1,190,746 | 1,407,560 |
| Administrative and General Administration ² | 2,062,840 | 3,987,687 | 3,924,311 | 2,693,658 | 2,855,623 | 4,272,246 | 4,467,521 | 2,688,304 | 766,637 | 2,653,350 |
| Garage ² | - | - | - | - | - | - | - | 3,277,178 | 2,048,907 | 1,926,423 |
| Human Resources ² | - | - | - | - | - | - | - | 544,451 | 500,127 | 597,385 |
| Risk Management ² | - | - | - | - | - | - | - | 298,776 | 344,374 | 302,789 |
| Information Technology ³ | - | - | - | - | - | - | - | 455,288 | 960,809 | 893,995 |
| Board of Directors ² | - | - | - | - | - | - | - | - | 954,151 | 1,267,456 |
| Engineering | 906,026 | - | 24,364 | 989,844 | 1,279,194 | 1,254,293 | 1,551,506 | 1,005,437 | 16,843 | 39,167 |
| Finance | 580,941 | - | - | 612,800 | 545,976 | 601,322 | 568,091 | 632,456 | 807,352 | 926,496 |
| Customer Service | 448,088 | 148,438 | 816 | 339,948 | 430,850 | 1,519,984 | 1,519,984 | 701,148 | 701,148 | 624,732 |
| Depreciation | 3,062,584 | 3,295,219 | 3,318,247 | 3,110,968 | 3,445,476 | 3,648,435 | 3,656,649 | 2,188,068 | 2,327,663 | 2,394,211 |
| Other Operating Expense | - | - | - | - | - | - | - | 2,702,844 | 1,081,691 | 159,609 |
| Total Operating Expenses | 38,474,072 | 41,563,983 | 39,167,460 | 37,656,124 | 40,118,054 | 45,386,976 | 41,801,635 | 44,008,413 | 44,889,672 | 47,148,359 |
| Gain (Loss) from Operations | (657,214) | (1,767,808) | (1,938,483) | (2,426,571) | (3,644,905) | (3,769,252) | (5,286,552) | (7,804,536) | 1,157,891 | 426,443 |
| Non-operating Revenues: | | | | | | | | | | |
| Property Tax Revenue | 858,884 | 831,294 | 850,802 | 870,642 | 595,250 | 616,027 | 638,539 | 653,320 | 685,562 | 720,383 |
| Investment Income (Loss) | 40,687 | - | 89,981 | 721,408 | - | - | 1,134,118 | 841,596 | (35,395) | (666,174) |
| Other | - | - | - | - | - | 358,026 | 506,015 | 282,991 | 1,866,928 | 371,411 |
| Total Non-operating Revenues | 899,571 | 831,294 | 940,783 | 1,592,050 | 595,250 | 974,053 | 2,278,672 | 1,777,907 | 2,517,095 | 425,620 |
| Non-operating Expenses: | | | | | | | | | | |
| Interest | 67,774 | 108,543 | 403,969 | 667,939 | 361,037 | 370,175 | 570,855 | 616,775 | 571,839 | 656,033 |
| Total Non-operating Expenses | 67,774 | 108,543 | 403,969 | 667,939 | 361,037 | 370,175 | 570,855 | 616,775 | 571,839 | 656,033 |
| Miscellaneous: | | | | | | | | | | |
| Capital Contribution | - | - | 294,192 | 1,091,515 | 156,302 | 2,972,963 | 2,941,091 | 11,239,897 | 4,804,501 | 5,238,350 |
| Loss on Abandonment of Capital Assets | - | - | - | (1,933,240) | - | - | - | - | - | - |
| Total Miscellaneous | - | - | 294,192 | 1,091,515 | (1,776,938) | 2,972,963 | 2,941,091 | 11,239,897 | 4,804,501 | 5,238,350 |
| Change in Net Position | 174,583 | (1,045,057) | (1,107,477) | (410,945) | (5,187,630) | (192,411) | (637,644) | 4,596,493 | 7,907,648 | 5,434,380 |
| Net Position, Beginning | 92,918,546 | 93,093,129 | 92,048,072 | 86,772,146 | 93,254,051 | 83,286,070 | 82,879,978 | 83,572,163 | 88,168,656 | 96,076,304 |
| Prior Period Adjustment | - | - | (4,168,449) | 6,892,850 | (4,780,351) | (213,681) | 1,329,629 | - | - | - |
| Net Position, Beginning Restated | 92,918,546 | 93,093,129 | 87,879,623 | 93,664,996 | 88,473,700 | 83,072,389 | 84,209,607 | 83,572,163 | 88,168,656 | 96,076,304 |
| Net Position, Ending | 95,093,129 | 92,048,072 | 86,772,146 | 93,254,051 | 83,286,070 | 82,879,978 | 83,572,163 | 88,168,656 | 96,076,304 | 101,510,684 |
| <i>Percentage Change</i> | 0.19% | -1.12% | -5.73% | 7.47% | -10.69% | -0.46% | 0.54% | 5.50% | 14.96% | 15.13% |

Source: Rainbow Municipal Water District Audited Financial Statements

Footnotes:

¹Prior to FY 2020 Departments were included in Transmission and Distribution.

²Prior to FY 2020 Departments were included in Administration and General.

³Prior to FY 2021 Departments were included in Administration and General.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|-------------------------------------|-------------------|-----------------------|-----------------------|---------------------|-----------------------|---------------------|--------------------|---------------------|---------------------|---------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Operating Revenues | \$ 37,816,858 | \$ 39,796,175 | \$ 37,228,977 | \$ 35,229,553 | \$ 36,473,149 | \$ 41,617,724 | \$ 36,515,083 | \$ 36,201,243 | \$ 46,047,563 | \$ 46,585,720 |
| Operating Expenses | 38,474,072 | 41,563,983 | 39,167,460 | 37,656,124 | 40,118,054 | 45,386,976 | 41,801,635 | 44,008,413 | 44,889,672 | 47,148,359 |
| Gain (Loss) from Operations | (657,214) | (1,767,808) | (1,938,483) | (2,426,571) | (3,644,905) | (3,769,252) | (5,286,552) | (7,807,170) | 1,157,891 | (562,639) |
| Non-operating Revenue Less Expenses | 831,797 | 722,751 | 536,814 | 924,111 | (1,699,027) | 603,878 | 1,707,817 | 1,076,914 | 1,945,256 | 758,669 |
| Income Before Capital Contributions | 174,583 | (1,045,057) | (1,401,669) | (1,502,460) | (5,343,932) | (3,165,374) | (3,578,735) | (6,730,256) | 3,103,147 | 196,030 |
| Capital Contributions | - | - | 294,192 | 1,091,515 | 156,302 | 2,972,963 | 2,941,091 | 11,239,897 | 4,804,501 | 5,238,350 |
| Prior Period Adjustment | - | - | (4,168,449) | 6,892,850 | (4,780,351) | (213,681) | 1,329,829 | - | - | - |
| Changes in Net Position | \$ 174,583 | \$ (1,045,057) | \$ (5,275,926) | \$ 6,481,905 | \$ (9,967,981) | \$ (406,092) | \$ 692,185 | \$ 4,509,641 | \$ 7,907,648 | \$ 5,434,380 |

Source: Rainbow Municipal Water District Audited Financial Statements

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Last Ten Fiscal Years

| | Operating Revenues | Operating Expenses | Gain (Loss) from Operations | Non-operating Revenue Less Expenses | Income Before Capital Contributions | | Capital Contributions | Prior Period Adjustment | Changes in Net Position |
|------|--------------------|--------------------|-----------------------------|-------------------------------------|-------------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| | | | | | Operating Expenses | Capital Contributions | | | |
| 2013 | \$ 37,816,858 | \$ 38,474,072 | \$ (657,214) | \$ 831,797 | \$ 174,583 | \$ - | - | - | \$ 174,583 |
| 2014 | 39,796,175 | 41,563,983 | (1,767,808) | 722,751 | (1,045,057) | - | - | - | (1,045,057) |
| 2015 | 37,228,977 | 39,167,460 | (1,938,483) | 536,814 | (1,401,669) | 294,192 | (4,168,449) | 6,892,850 | (5,275,926) |
| 2016 | 35,229,553 | 37,656,124 | (2,426,571) | 924,111 | (1,502,460) | 1,091,515 | 6,892,850 | 2,941,091 | 6,481,905 |
| 2017 | 36,473,149 | 40,118,054 | (3,644,905) | (1,699,027) | (5,343,932) | 156,302 | (4,780,351) | 1,329,829 | (9,967,981) |
| 2018 | 41,617,724 | 45,386,976 | (3,769,252) | 603,878 | (3,165,374) | 2,972,963 | (213,681) | - | (406,092) |
| 2019 | 36,515,083 | 41,801,635 | (5,286,552) | 1,707,817 | (3,578,735) | 2,941,091 | 1,329,829 | - | 692,185 |
| 2020 | 36,201,243 | 44,008,413 | (7,807,170) | 1,076,914 | (6,730,256) | 11,239,897 | - | - | 4,509,641 |
| 2021 | 46,047,563 | 44,889,672 | 1,157,891 | 1,945,256 | 3,103,147 | 4,804,501 | - | - | 7,907,648 |
| 2022 | 46,585,720 | 47,148,359 | (562,639) | 758,669 | 196,030 | 5,238,350 | - | - | 5,434,380 |

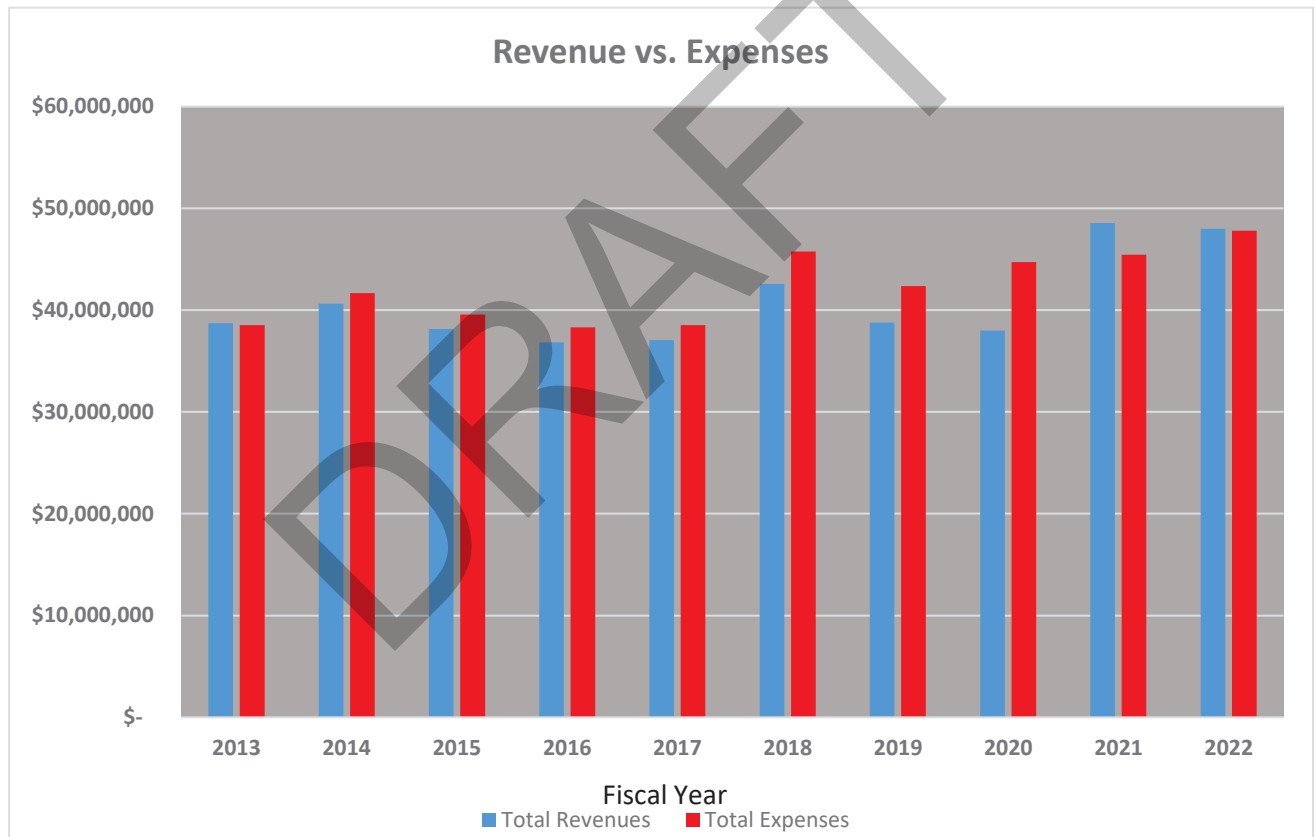
Source: Rainbow Municipal Water District Audited Financial Statements

SUMMARY OF REVENUES AND EXPENSES

Last Ten Fiscal Years

| Fiscal Year | Total Revenues | Total Expenses | Gain (Loss) |
|-------------|----------------|----------------|-------------|
| 2013 | \$ 38,716,429 | \$ 38,541,846 | \$ 174,583 |
| 2014 | 40,627,469 | 41,672,526 | (1,045,057) |
| 2015 | 38,169,760 | 39,571,429 | (1,401,669) |
| 2016 | 36,821,603 | 38,324,063 | (1,502,460) |
| 2017 | 37,068,399 | 38,545,851 | (1,477,452) |
| 2018 | 42,591,777 | 45,757,151 | (3,165,374) |
| 2019 | 38,793,755 | 42,372,490 | (3,578,735) |
| 2020 | 37,981,791 | 44,712,047 | (6,730,256) |
| 2021 | 48,564,658 | 45,461,511 | 3,103,147 |
| 2022 | 48,000,422 | 47,804,392 | 196,030 |

Source: Rainbow Municipal Water District Audited Financial Statements



REVENUES BY SOURCE
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Operating Revenues: | | | | | | | | | | |
| Water Sales | \$ 34,505,228 | \$ 36,497,373 | \$ 34,037,432 | \$ 32,156,844 | \$ 33,091,641 | \$ 38,105,712 | \$ 32,810,988 | \$ 33,156,919 | \$ 41,779,797 | \$ 42,755,152 |
| Wastewater Revenue | 2,573,273 | 2,553,801 | 2,677,130 | 2,632,902 | 2,548,647 | 2,520,622 | 2,843,256 | 2,621,433 | 3,461,256 | 3,033,548 |
| Other Operating Revenue | - | - | - | - | 501,019 | 991,390 | 860,839 | 422,891 | 806,510 | 797,020 |
| Grant Revenue | 64,447 | 34,158 | - | - | - | - | - | - | - | 989,082 |
| Other | 673,910 | 710,843 | 514,415 | 439,807 | 331,842 | - | - | - | - | - |
| Total Operating Revenues | 37,816,858 | 39,796,175 | 37,228,977 | 35,229,553 | 36,473,149 | 41,617,724 | 36,515,083 | 36,201,243 | 46,047,563 | 47,574,802 |
| Non-operating Revenues: | | | | | | | | | | |
| Property Tax Revenue | 858,884 | 831,294 | 850,802 | 870,642 | 595,250 | 616,027 | 638,539 | 653,320 | 685,562 | 720,383 |
| Investment Income | 40,687 | - | 89,981 | 721,408 | - | - | 1,134,118 | 841,596 | (35,395) | (666,174) |
| Other | - | - | - | - | - | 358,026 | 506,015 | 285,632 | 1,866,928 | 371,411 |
| Total Non-operating Revenues | 899,571 | 831,294 | 940,783 | 1,592,050 | 595,250 | 974,053 | 2,278,672 | 1,780,548 | 2,517,095 | 425,620 |
| Total Revenues | \$ 38,716,429 | \$ 40,627,469 | \$ 38,169,760 | \$ 36,821,603 | \$ 37,068,399 | \$ 42,591,777 | \$ 38,793,755 | \$ 37,981,791 | \$ 48,564,658 | \$ 48,000,422 |

Source: Rainbow Municipal Water District Audited Financial Statements

EXPENSES BY FUNCTION
Last Ten Fiscal Years

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Operating Expenses: | | | | | | | | | | |
| Water Purchases | \$ 24,346,557 | \$ 26,649,303 | \$ 24,532,468 | \$ 22,381,393 | \$ 23,282,393 | \$ 27,040,873 | \$ 22,448,449 | \$ 21,917,914 | \$ 25,916,888 | \$ 26,032,842 |
| Water Pumping | 586,443 | 3,836,825 | 3,816,915 | 631,056 | 580,556 | 591,529 | 558,989 | 530,815 | 627,681 | 823,211 |
| Transmission and Distribution | 3,902,699 | 1,113,721 | 1,037,420 | 4,284,981 | 4,876,960 | 4,777,964 | 4,421,571 | - | - | - |
| Operations ¹ | - | - | - | - | - | - | - | 2,836,404 | 2,065,704 | 2,885,796 |
| Valve Maintenance ¹ | - | - | - | - | - | - | - | 522,935 | 447,295 | 369,799 |
| Distribution ¹ | - | - | - | - | - | - | - | 2,191,712 | 2,516,855 | 2,712,092 |
| Meter Services | 984,327 | 768,966 | 804,140 | 1,044,631 | 1,085,553 | 1,003,899 | 866,927 | 1,893,429 | 1,190,746 | 1,407,560 |
| Sewer Services | 1,613,567 | 1,763,824 | 1,708,779 | 1,566,845 | 1,735,473 | 1,646,593 | 1,739,948 | 2,288,304 | 766,637 | 2,653,350 |
| Administrative and General | 2,062,840 | 3,897,687 | 3,924,311 | 2,683,658 | 2,855,623 | 4,272,246 | 4,467,521 | - | - | - |
| Administration ² | - | - | - | - | - | - | - | 3,277,178 | 2,048,907 | 1,926,423 |
| Garage ² | - | - | - | - | - | - | - | 544,451 | 500,127 | 597,385 |
| Human Resources ² | - | - | - | - | - | - | - | 298,776 | 344,374 | 302,789 |
| Risk Management ² | - | - | - | - | - | - | - | 455,288 | 960,809 | 893,995 |
| Information Technology ³ | - | - | - | - | - | - | - | - | 954,151 | 1,267,456 |
| Board of Directors ³ | - | - | - | - | - | - | - | - | - | 39,167 |
| Engineering | 906,026 | - | 24,364 | 999,844 | 1,279,194 | 1,254,293 | 1,551,506 | 1,005,437 | 1,624,801 | 1,131,446 |
| Finance | 580,941 | - | 612,800 | 612,800 | 545,976 | 601,322 | 568,091 | 632,456 | 807,352 | 926,496 |
| Customer Service | 448,088 | 148,438 | 816 | 339,948 | 430,850 | 549,822 | 1,519,984 | 718,066 | 701,148 | 624,732 |
| Depreciation | 3,062,584 | 3,295,219 | 3,318,247 | 3,110,968 | 3,445,476 | 3,648,435 | 3,656,649 | 2,189,068 | 2,327,663 | 2,394,211 |
| Other Operating Expenses | - | - | - | - | - | - | - | 2,702,844 | 1,081,691 | 159,609 |
| Total Operating Expenses | 38,474,072 | 41,563,983 | 39,167,460 | 37,656,124 | 40,118,054 | 45,386,976 | 41,801,635 | 44,008,413 | 44,899,672 | 47,148,339 |
| Non-operating Expenses: | | | | | | | | | | |
| Interest | 67,774 | 108,543 | 403,969 | 667,939 | 361,037 | 370,175 | 570,855 | 703,634 | 571,839 | 686,033 |
| Loss on Abandonment of Capital Assets | - | - | - | - | (1,933,240) | - | - | - | - | - |
| Total Non-operating Expenses | 67,774 | 108,543 | 403,969 | 667,939 | (1,572,203) | 370,175 | 570,855 | 703,634 | 571,839 | 686,033 |
| Total Expenses | \$ 38,541,846 | \$ 41,672,526 | \$ 39,571,429 | \$ 38,324,063 | \$ 38,545,851 | \$ 45,757,151 | \$ 42,372,490 | \$ 44,712,047 | \$ 45,461,511 | \$ 47,834,392 |

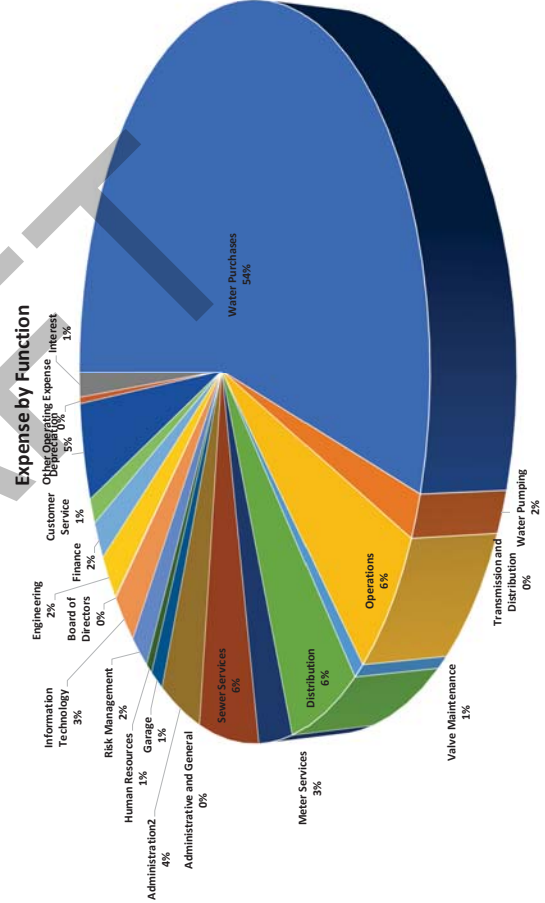
Source: Rainbow Municipal Water District Audited Financial Statements

Footnotes:

¹Prior to FY 2020 Departments were included in Transmission and Distribution.

²Prior to FY 2020 Departments were included in Administration and General.

³Prior to FY 2021 Departments were included in Administration and General.



COMPUTATION OF LEGAL DEBT MARGIN

Last Ten Fiscal Years

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total Assessed Value | 3,614,670,550 | 3,817,371,326 | 4,003,578,488 | 4,185,857,090 | 4,387,417,362 | 4,660,295,704 | 4,994,381,001 | 5,283,549,089 | 5,575,351,912 | 6,112,121,641 |
| Conversion Percentage | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| Adjusted Assessed Valuation | 903,667,638 | 954,342,832 | 1,000,894,622 | 1,046,464,273 | 1,096,854,341 | 1,165,073,926 | 1,248,595,250 | 1,320,887,272 | 1,393,837,978 | 1,528,030,410 |
| Debt Limit Percentage | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% |
| Legal Debt Limit | 135,550,146 | 143,151,425 | 150,134,193 | 156,969,641 | 164,528,151 | 174,761,089 | 187,289,288 | 198,133,091 | 209,075,697 | 229,204,562 |
| Outstanding Debt | - | 14,135,186 | 17,978,129 | 17,615,446 | 16,875,544 | 16,119,968 | 15,348,493 | 14,160,736 | 21,171,553 | 29,074,856 |
| Less: Amount Reserved for Debt Service | - | - | - | - | - | - | - | 1,129,683 | 822,428 | 850,130 |
| Net Applicable to Limit | - | 14,135,186 | 17,978,129 | 17,615,446 | 16,875,544 | 16,119,968 | 15,348,493 | 13,031,053 | 20,349,125 | 28,224,726 |
| Legal Debt Margin | \$ 135,550,146 | \$ 129,016,238 | \$ 132,156,064 | \$ 139,354,194 | \$ 147,652,607 | \$ 158,641,121 | \$ 171,940,795 | \$ 185,102,038 | \$ 188,726,572 | \$ 200,979,836 |

Total Debt applicable to the limit as a percentage of debt limit

| | | | | | | | | | | |
|--|----|-----|-----|-----|-----|----|----|----|-----|-----|
| | 0% | 10% | 12% | 11% | 10% | 9% | 8% | 7% | 10% | 12% |
|--|----|-----|-----|-----|-----|----|----|----|-----|-----|

Note: The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above, reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective, to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

| | | |
|--|------------|------------|
| | 5,523,284 | 4,524,987 |
| | 5,249,905 | 4,284,523 |
| | 8,747,684 | 8,070,737 |
| | 6,600,809 | 6,089,999 |
| | 15,348,493 | 14,160,736 |

Total Assessed Value

Last Ten Fiscal Years

| | Assessed Value | Percent Increase/ Decrease | Tax Collected |
|------|----------------|-------------------------------|---------------|
| 2013 | 3,614,670,550 | 1.62% | 537,832 |
| 2014 | 3,817,371,326 | 5.61% | 545,556 |
| 2015 | 4,003,578,488 | 4.88% | 555,940 |
| 2016 | 4,185,857,090 | 4.55% | 526,292 |
| 2017 | 4,387,417,362 | 4.82% | 595,250 |
| 2018 | 4,660,295,704 | 6.22% | 616,027 |
| 2019 | 4,994,381,001 | 7.17% | 641,868 |
| 2020 | 5,283,549,089 | 5.79% | 661,209 |
| 2021 | 5,575,351,912 | 5.52% | 685,566 |
| 2022 | 6,112,121,641 | 9.63% | 720,383 |

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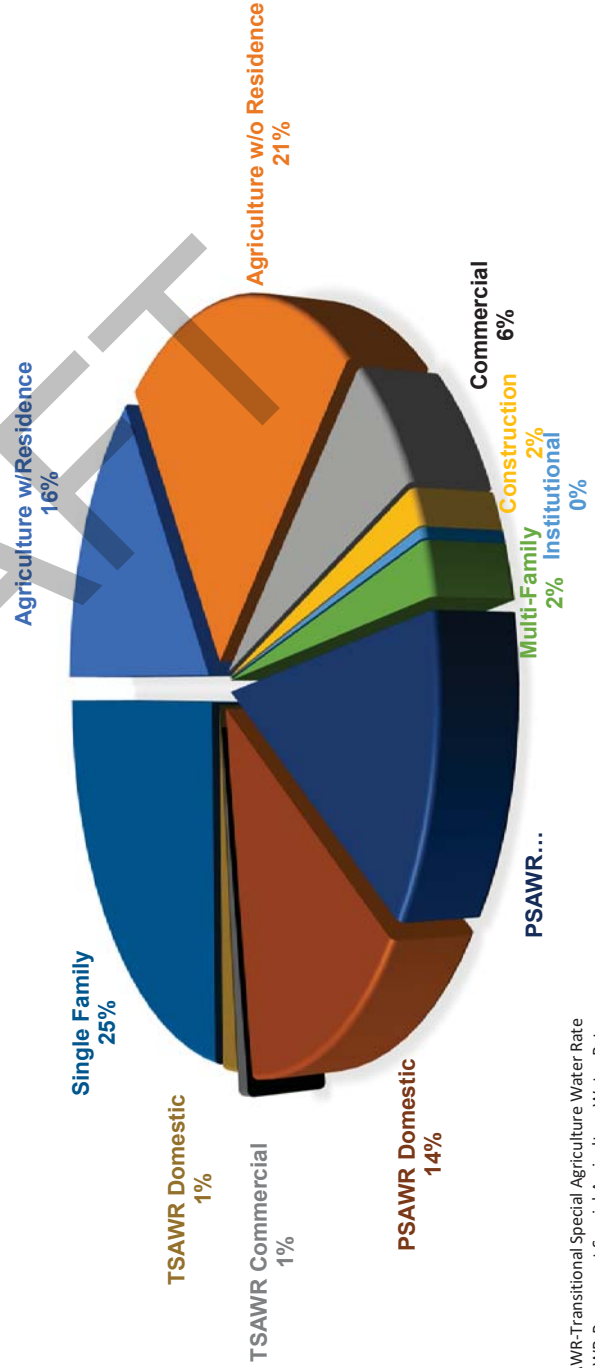
CONSUMPTION BY CUSTOMER CLASS

Last Ten Fiscal Years
Acre Feet

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Agriculture w/Residence | n/a | n/a | n/a | 624 | 624 | 769 | 636 | 637 | 791 | 2,305 |
| Agriculture w/o Residence | 2,636 | 2,708 | 2,295 | 2,804 | 2,717 | 2,886 | 2,233 | 2,343 | 2,446 | 3,186 |
| Commercial | 1,879 | 1,970 | 2,003 | 571 | 629 | 845 | 791 | 745 | 867 | 889 |
| Construction | 12 | 45 | 64 | 104 | 94 | 158 | 118 | 37 | 249 | 230 |
| Institutional | n/a | n/a | n/a | 65 | 62 | 52 | 63 | 43 | 64 | 65 |
| Multi-Family | 320 | 367 | 332 | 254 | 267 | 284 | 288 | 280 | 333 | 321 |
| PSAWR Commercial | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 359 | 1,795 |
| PSAWR Domestic | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 457 | 2,006 |
| TSAWR Commercial | 4,642 | 4,784 | 4,189 | 3,239 | 3,268 | 3,731 | 2,726 | 2,486 | 2,736 | 125 |
| TSAWR Domestic | 6,335 | 6,508 | 5,823 | 4,743 | 4,530 | 5,292 | 3,681 | 3,410 | 3,704 | 198 |
| Single Family | 4,509 | 4,846 | 4,224 | 3,154 | 3,428 | 3,900 | 3,236 | 3,266 | 3,958 | 3,770 |
| Total Consumption | 20,333 | 21,227 | 18,929 | 15,558 | 15,620 | 17,917 | 13,771 | 13,247 | 15,964 | 14,890 |

TSAWR- Transitional Special Agriculture Water Rate

CONSUMPTION BY CUSTOMER CLASS



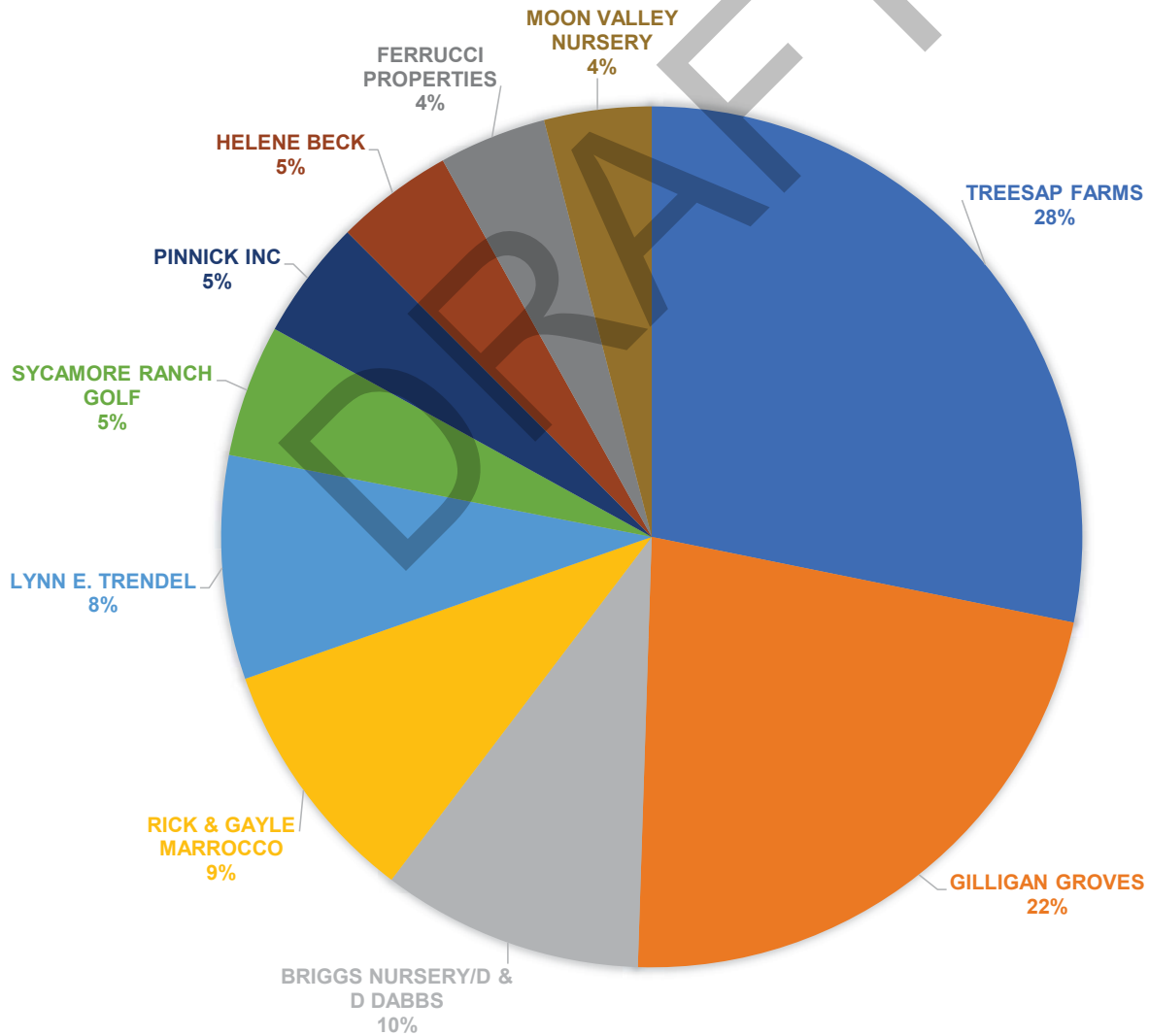
TSAWR-Transitional Special Agriculture Water Rate
PSAWR-Permanent Special Agriculture Water Rate

TOP TEN WATER CONSUMERS

Fiscal Year 2022

| CUSTOMER | ANNUAL USAGE | PERCENTAGE |
|---|------------------|----------------|
| TREESAP FARMS | 237,689 | 3.42% |
| GILLIGAN GROVES | 188,230 | 2.71% |
| BRIGGS NURSERY/D & D DABBS | 82,747 | 1.19% |
| RICK & GAYLE MARROCCO | 78,613 | 1.13% |
| LYNN E. TRENDEL | 70,826 | 1.02% |
| SYCAMORE RANCH GOLF | 41,901 | 0.60% |
| PINNICK INC | 37,840 | 0.54% |
| HELENE BECK | 37,328 | 0.54% |
| FERRUCCI PROPERTIES | 34,026 | 0.49% |
| MOON VALLEY NURSERY | 33,951 | 0.49% |
| TOTAL COMBINED WATER CONSUMPTION | 843,151 | 12.13% |
| ALL OTHER WATER CONSUMPTION | 6,110,350 | 87.87% |
| TOTAL WATER CONSUMPTION | 6,953,501 | 100.00% |

TOP TEN WATER CUSTOMERS AND THEIR RELATIVE CONSUMPTION FISCAL YEAR 2022



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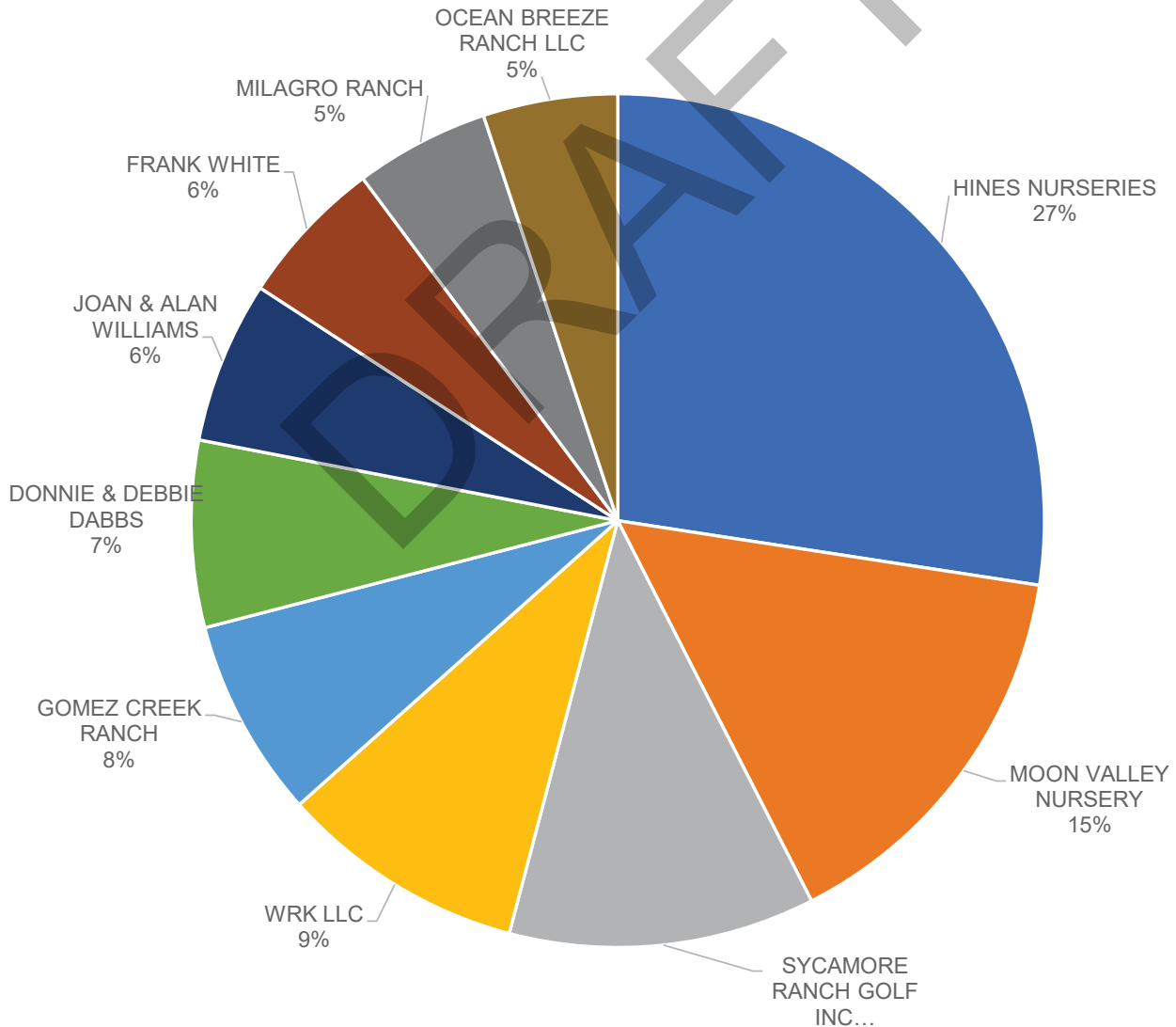
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TOP TEN WATER CONSUMERS

Fiscal Year 2013

| CUSTOMER | ANNUAL USAGE | PERCENTAGE |
|---|------------------|----------------|
| HINES NURSERIES | 137,930 | 2.18% |
| MOON VALLEY NURSERY | 75,827 | 1.20% |
| SYCAMORE RANCH GOLF INC | 58,351 | 0.92% |
| WRK LLC | 46,887 | 0.74% |
| GOMEZ CREEK RANCH | 37,962 | 0.60% |
| DONNIE & DEBBIE DABBS | 35,563 | 0.56% |
| JOAN & ALAN WILLIAMS | 30,921 | 0.49% |
| FRANK WHITE | 28,297 | 0.45% |
| MILAGRO RANCH | 25,644 | 0.41% |
| OCEAN BREEZE RANCH LLC | 25,637 | 0.41% |
| TOTAL COMBINED WATER CONSUMPTION | 503,019 | 7.96% |
| ALL OTHER WATER CONSUMPTION | 5,813,109 | 92.04% |
| TOTAL WATER CONSUMPTION | 6,316,128 | 100.00% |

TOP TEN WATER CUSTOMERS AND THEIR RELATIVE CONSUMPTION FISCAL YEAR 2013



Rate Summaries

Water Variable Rates²

| | Single Family Residential | | | Multi Family | Commercial | Institutional | Construction |
|------|---------------------------|--------|--------|--------------|------------|---------------|--------------|
| | Tier 1 | Tier 2 | Tier 3 | | | | |
| 2013 | 2.95 | 3.00 | 3.00 | 2.95/3.00 | 2.95 | n/a | 3.00 |
| 2014 | 3.00 | 3.15 | 3.15 | 3.00/3.15 | 3.00/3.15 | n/a | 3.15 |
| 2015 | 3.00 | 3.15 | 3.15 | 3.00/3.15 | 3.15 | n/a | 3.15 |
| 2016 | 3.31 | 3.48 | 3.81 | 3.40 | 3.51 | 3.58 | 3.51 |
| 2017 | 3.42 | 3.60 | 3.94 | 3.52 | 3.63 | 3.70 | 4.44 |
| 2018 | 3.64 | 3.86 | 4.27 | 3.76 | 3.89 | 3.98 | 4.87 |
| 2019 | 3.73 | 3.99 | 4.48 | 3.87 | 4.03 | 4.14 | 5.20 |
| 2020 | 3.73 | 3.99 | 4.48 | 3.87 | 4.03 | 4.14 | 5.20 |
| 2021 | 3.89 | 4.15 | 4.64 | 4.03 | 4.19 | 4.19 | 5.36 |
| 2022 | 5.00 | | | 5.00 | 5.00 | 5.00 | 5.00 |

| | Agriculture w/Residence | | | Agriculture w/o Residence | SAWR ¹ Domestic | | | SAWR ¹ Commercial |
|------|-------------------------|--------|--------|---------------------------|----------------------------|--------|--------|------------------------------|
| | Tier 1 | Tier 2 | Tier 3 | | Tier 1 | Tier 2 | Tier 3 | |
| 2013 | 2.95 | 3.00 | 2.72 | 2.43 | n/a | n/a | n/a | n/a |
| 2014 | 3.00 | 3.15 | 2.83 | n/a | n/a | n/a | n/a | n/a |
| 2015 | 3.00 | 3.15 | 3.15 | n/a | 3.00 | 3.15 | 2.83 | 2.83 |
| 2016 | 3.31 | 3.48 | 3.24 | 3.24 | 3.31 | 3.48 | 2.77 | 2.77 |
| 2017 | 3.42 | 3.60 | 3.35 | 3.35 | 3.42 | 3.60 | 2.87 | 2.87 |
| 2018 | 3.64 | 3.86 | 3.56 | 3.56 | 3.7 | 3.92 | 3.04 | 3.04 |
| 2019 | 3.73 | 3.99 | 3.63 | 3.63 | 3.94 | 4.21 | 3.15 | 3.15 |
| 2020 | 3.73 | 3.99 | 3.63 | 3.63 | 3.94 | 4.21 | 3.15 | 3.15 |
| 2021 | 3.89 | 4.15 | 3.79 | 3.79 | 4.14 | 4.41 | 3.35 | 3.35 |
| 2022 | 4.13 | | | 4.13 | 3.65 | | | 3.65 |

¹SAWR-Special Agriculture Water Rate

²1 unit of water = 748 gallons

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Rate Summaries

Water Fixed Rates

Single Family, Multi-Family, Commercial, & Institutional

| Capacity Class-Meter Size | A-5/8" | B-3/4" | C-1" | D-1 1/2" | E-2" | F-3" | G-4" | H-6" |
|---------------------------|--------|--------|--------|----------|--------|--------|----------|----------|
| 2013 | 62.23 | 70.93 | 100.44 | 161.33 | 269.85 | 454.39 | 774.89 | 1,548.24 |
| 2014 | 58.83 | 65.93 | 94.87 | 162.34 | 282.54 | 487.01 | 842.16 | 1,699.84 |
| 2015 | 58.83 | 65.93 | 94.87 | 162.34 | 282.99 | 487.01 | 842.16 | 1,699.84 |
| 2016 | 58.84 | 58.84 | 95.57 | 187.39 | 297.57 | 646.47 | 1,160.65 | 2,391.02 |
| 2017 | 61.14 | 61.14 | 99.35 | 194.85 | 309.45 | 672.36 | 1,207.19 | 2,486.94 |
| 2018 | 61.46 | 61.46 | 99.37 | 194.12 | 307.82 | 667.85 | 1,198.46 | 2,468.09 |
| 2019 | 65.56 | 65.56 | 105.59 | 205.62 | 325.67 | 705.81 | 1,266.04 | 2,606.55 |
| 2020 | 65.56 | 65.56 | 105.59 | 205.62 | 325.67 | 705.81 | 1,266.04 | 2,606.55 |
| 2021 | 67.09 | 67.09 | 108.14 | 210.72 | 333.83 | 723.66 | 1,298.17 | 2,672.85 |
| 2022 | 68.61 | 68.61 | 114.35 | 228.70 | 365.92 | 800.45 | 1,440.81 | 2,973.10 |

Agriculture

| Capacity Class-Meter Size | A-5/8" | B-3/4" | C-1" | D-1 1/2" | E-2" | F-3" | G-4" | H-6" |
|---------------------------|--------|--------|--------|----------|--------|----------|----------|----------|
| 2013 | 49.71 | 58.41 | 80.41 | 123.78 | 204.76 | 341.74 | 574.61 | 1,097.61 |
| 2014 | 44.52 | 51.62 | 71.97 | 119.40 | 208.12 | 358.20 | 613.16 | 1,184.59 |
| 2015 | 44.52 | 51.62 | 71.97 | 119.40 | 208.12 | 358.20 | 613.16 | 1,184.59 |
| 2016 | 78.28 | 78.28 | 127.96 | 252.19 | 401.24 | 873.25 | 1,568.86 | 3,233.34 |
| 2017 | 81.06 | 81.06 | 132.53 | 261.23 | 415.66 | 904.69 | 1,625.39 | 3,349.88 |
| 2018 | 85.37 | 85.37 | 139.18 | 273.77 | 435.27 | 946.65 | 1,700.30 | 3,503.62 |
| 2019 | 94.25 | 94.25 | 153.36 | 301.20 | 478.61 | 1,040.37 | 1,868.25 | 3,849.18 |
| 2020 | 94.25 | 94.25 | 153.36 | 301.20 | 478.61 | 1,040.37 | 1,868.25 | 3,849.18 |
| 2021 | 95.78 | 95.78 | 155.91 | 306.30 | 486.77 | 1,058.22 | 1,900.38 | 3,915.48 |
| 2022 | 115.96 | 115.96 | 193.27 | 386.53 | 618.45 | 1,352.87 | 2,435.16 | 5,024.93 |

SAWR¹

| Capacity Class-Meter Size | A-5/8" | B-3/4" | C-1" | D-1 1/2" | E-2" | F-3" | G-4" | H-6" |
|---------------------------|--------|--------|--------|----------|--------|----------|----------|----------|
| 2013 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 2014 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 2015 | 58.83 | 65.93 | 94.87 | 162.34 | 215.94 | 304.14 | 445.94 | 694.04 |
| 2016 | 60.31 | 60.31 | 98.01 | 192.28 | 305.39 | 663.57 | 1,191.44 | 2,454.53 |
| 2017 | 61.37 | 61.37 | 99.71 | 195.59 | 310.64 | 674.94 | 1,211.84 | 2,496.52 |
| 2018 | 68.01 | 68.01 | 110.25 | 215.89 | 342.67 | 744.10 | 1,335.70 | 2,751.27 |
| 2019 | 77.36 | 77.36 | 125.21 | 244.89 | 388.52 | 843.30 | 1,513.53 | 3,117.21 |
| 2020 | 77.36 | 77.36 | 125.21 | 244.89 | 388.52 | 843.30 | 1,513.53 | 3,117.21 |
| 2021 | 78.41 | 78.41 | 126.96 | 248.40 | 394.13 | 855.57 | 1,535.61 | 3,162.78 |
| 2022 | 98.96 | 98.96 | 164.93 | 329.87 | 527.79 | 1,154.53 | 2,078.16 | 4,288.27 |

¹SAWR-Special Agriculture Water Rate

Sewer Rates per Dwelling Unit

| | Single Family | Multi Family | Sewer Only | Commercial |
|------|---------------|--------------|-------------|------------|
| 2013 | 25.76-68.54 | 25.76-68.54 | 25.76-68.54 | 68.54 |
| 2014 | 28.70-75.50 | 28.70-75.50 | 28.70-75.50 | 75.50 |
| 2015 | 28.7-75.50 | 28.7-75.50 | 28.7-75.50 | 75.50 |
| 2016 | 28.7-75.50 | 28.7-75.50 | 28.7-75.50 | 75.50 |
| 2017 | 28.7-75.50 | 28.7-75.50 | 28.7-75.50 | 75.50 |
| 2018 | 55.07 | 40.51 | 54.40 | 40.51 |
| 2019 | 55.07 | 40.51 | 54.40 | 40.51 |
| 2020 | 55.07 | 40.51 | 54.40 | 40.51 |
| 2021 | 55.07 | 40.51 | 54.40 | 40.51 |
| 2022 | 55.07 | 40.51 | 54.40 | 40.51 |

HISTORICAL WATER DEMAND AND RECENT TRENDS

| Calendar Year | Deliveries (AF) |
|---------------|-----------------|
| 1985 | 28,886 |
| 1986 | 29,298 |
| 1987 | 27,382 |
| 1988 | 32,028 |
| 1989 | 34,828 |
| 1990 | 34,920 |
| 1991 | 24,567 |
| 1992 | 26,460 |
| 1993 | 22,997 |
| 1994 | 22,832 |
| 1995 | 20,872 |
| 1996 | 23,223 |
| 1997 | 24,906 |
| 1998 | 19,924 |
| 1999 | 28,721 |
| 2000 | 29,203 |
| 2001 | 26,803 |
| 2002 | 32,125 |
| 2003 | 30,472 |
| 2004 | 30,336 |
| 2005 | 28,911 |
| 2006 | 29,929 |
| 2007 | 31,865 |
| 2008 | 24,128 |
| 2009 | 26,894 |
| 2010 | 18,322 |
| 2011 | 19,276 |
| 2012 | 21,918 |
| 2013 | 21,526 |
| 2014 | 22,625 |
| 2015 | 17,868 |
| 2016 | 18,151 |
| 2017 | 18,123 |
| 2018 | 17,910 |
| 2019 | 13,720 |
| 2020 | 15,373 |
| 2021 | 15,838 |

For 25 years following its founding in 1954, total SDCWA water deliveries to the District service area steadily increased, as agricultural acreage and population increased. By 1984, demands had climbed to almost 34,000-acre feet per year (AFY). Demands then dropped sharply during the drought restrictions of 1991-93, as mandatory cutbacks led to the stumping of avocado groves and other water use reductions, but by 2002 had rebounded to almost pre- 1991 conditions.

Beginning in 2008, demands again declined sharply, this time in response to economic recession, water price increases, a new round of drought restrictions, and increased adoption of water conservation measures. These factors have combined to produce a fundamental downward shift in per capita water use, with per account use declining by **35 percent** from 2006 to 2013. Per capita use reached a minimum during the period from 2010 to 2012, but this was in response to economic recession, cooler than normal summer weather, and other impermanent conditions. The region has been experiencing a mega drought which has resulted in increased sales for 2020-2021, followed by implementation of voluntary water restrictions due to a level 1 water shortage.

Considering factors of economic equilibrium, average weather conditions, and normal water supply conditions (without water use restrictions in place), the Master Plan has judged calendar year 2018 to be representative of normal water use conditions in the current era and has defined calendar year 2018 water use as an appropriate baseline condition for use in demand forecasting.



Top 10 Employers

| Employers | # of Employees |
|----------------------------------|----------------|
| Bonsall Unified School District | 123 |
| Rainbow Municipal Water District | 57 |
| Vallecitor School District | 30 |
| Pala Mesa Resort | 20 |
| Z Café | 15 |
| Daniel's Market | 10 |
| Armstrong Growers | less than 10 |
| West Coast Tomato Growers | less than 10 |
| Rainbow Oaks Restaurant | less than 10 |
| Pala Mesa Market | less than 10 |
| Village Pizza | less than 10 |
| Tekila Cocina | less than 10 |
| Fresco Grill | less than 10 |
| Jack in the Box | less than 10 |
| Subway | less than 10 |
| McDonalds | less than 10 |
| Cortez Mexican | less than 10 |
| Quality Inn | less than 10 |
| Nessy Burget | less than 10 |
| Fallbrook Rib Shack | less than 10 |
| Randy Carlson DMD | less than 10 |
| North County Fire | less than 10 |

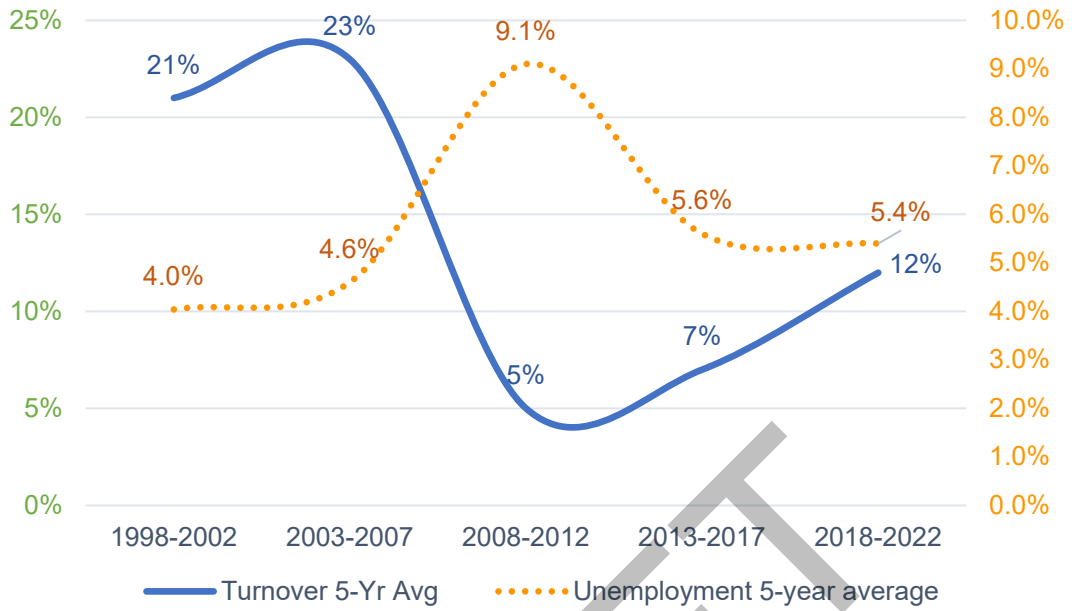
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FULL-TIME EQUIVALENT EMPLOYEES BY DEPARTMENT

Last Ten Fiscal Years

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|-------------|-------------|-------------|
| Administration | 3 | 3 | 3 | 3 | 3 | 4 | 3 | 2 | 2 | 2 |
| Information Technology | - | - | - | - | - | - | 2 | 4 | 4 | 4 |
| Human Resources | 3 | 3 | 2 | 3 | 2 | 2 | 2.5 | 2.5 | 2.5 | 2.5 |
| Engineering | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 6.5 | 5 | 6 | 6 |
| Finance | 4 | 4 | 4 | 4 | 4 | 4 | 3 | 5 | 6 | 7 |
| Customer Service | 3 | 3 | 3 | 3 | 3 | 3 | 5 | 5 | 4 | 4 |
| Valve Maintenance | 5 | 5 | 3 | 5 | 5 | 5 | 5 | 3 | 2 | 2 |
| Operations | 10.5 | 10.5 | 9.5 | 10.5 | 10.5 | 10.5 | 9 | 9 | 9 | 7 |
| Wastewater | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Construction & Maintenance | 9 | 9 | 8 | 9 | 9 | 9 | 9 | 10 | 10 | 14 |
| Meters | 4 | 4 | 4 | 4 | 4 | 4 | 9 | 8 | 8 | 5 |
| Total | 51 | 51 | 46 | 51 | 50 | 51 | 57.5 | 57.5 | 57.5 | 57.5 |
| Less Temporary Employees | - | - | - | - | - | - | 3 | 3 | 3 | - |
| Total Permanent Employees | 51 | 51 | 46 | 51 | 50 | 51 | 54.5 | 54.5 | 54.5 | 57.5 |

Historical Turnover (5-year rates, all reasons)



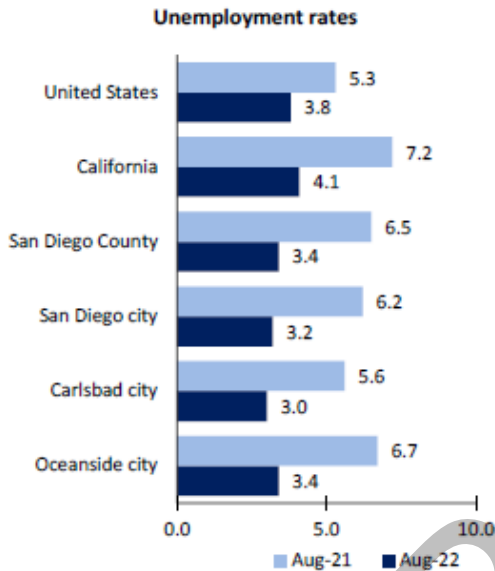
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San Diego Area Economic Summary

Updated October 03, 2022

This summary presents a sampling of economic information for the area; supplemental data are provided for regions and the nation. Subjects include unemployment, employment, wages, prices, spending, and benefits. All data are not seasonally adjusted and some may be subject to revision. Area definitions may differ by subject. For more area summaries and geographic definitions, see www.bls.gov/regions/economic-summaries.htm.

Unemployment rates for the nation and selected areas



Source: U.S. BLS, Local Area Unemployment Statistics.

Average weekly wages for all industries by county

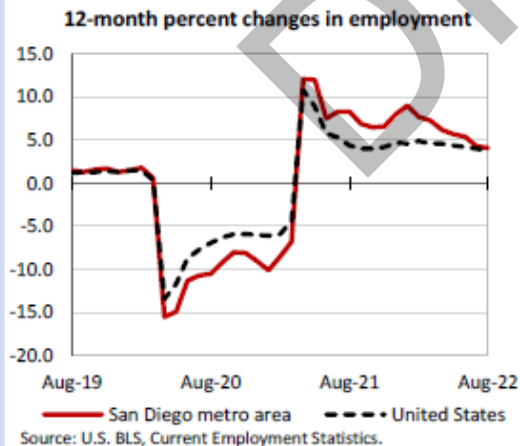
San Diego metro area, first quarter 2022

(U.S. = \$1,374; Area = \$1,484)



Source: U.S. BLS, Quarterly Census of Employment and Wages.

Over-the-year changes in employment on nonfarm payrolls and employment by major industry sector



Source: U.S. BLS, Current Employment Statistics.

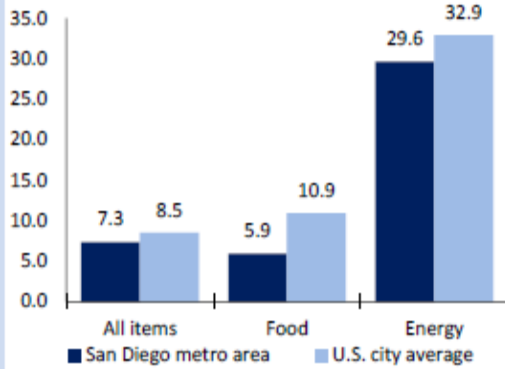
| San Diego metro area employment (number in thousands) | Aug. 2022 | Change from Aug. 2021 to Aug. 2022 | |
|---|-----------|------------------------------------|---------|
| | | Number | Percent |
| Total nonfarm | 1,515.9 | 59.6 | 4.1 |
| Mining and logging | 0.3 | 0.0 | 0.0 |
| Construction | 88.7 | 4.1 | 4.8 |
| Manufacturing | 113.7 | -1.3 | -1.1 |
| Trade, transportation, and utilities | 220.6 | 4.4 | 2.0 |
| Information | 22.9 | 0.3 | 1.3 |
| Financial activities | 74.5 | -2.2 | -2.9 |
| Professional and business services | 279.8 | 14.3 | 5.4 |
| Education and health services | 218.5 | 3.1 | 1.4 |
| Leisure and hospitality | 205.1 | 25.3 | 14.1 |
| Other services | 54.8 | 5.3 | 10.7 |
| Government | 237.0 | 6.3 | 2.7 |

Source: U.S. BLS, Current Employment Statistics.



Over-the-year change in the prices paid by urban consumers for selected categories

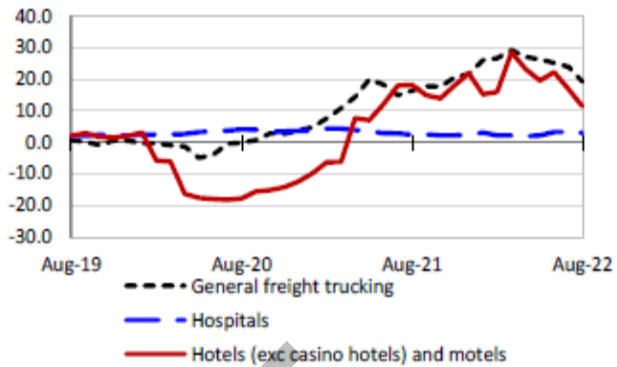
12-month percent change in CPI-U, July 2022



Source: U.S. BLS, Consumer Price Index.

Over-the-year changes in the selling prices received by producers for selected industries nationwide

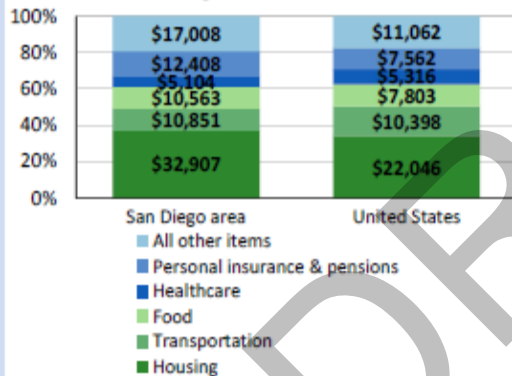
12-month percent changes in PPI



Source: U.S. BLS, Producer Price Index.

Average annual spending and percent distribution for selected categories

Average annual expenditures, United States and San Diego area, 2020-21



Source: U.S. BLS, Consumer Expenditure Survey.

Average hourly wages for selected occupations

| Occupation | San Diego metro area | United States |
|--------------------------------------|----------------------|---------------|
| All occupations | \$32.31 | \$28.01 |
| Human resources managers | 69.20 | 65.67 |
| Registered nurses | 54.40 | 39.78 |
| Accountants and auditors | 42.08 | 40.37 |
| Electricians | 32.98 | 30.44 |
| Construction laborers | 24.77 | 21.22 |
| Hotel, motel, and resort desk clerks | 16.49 | 13.48 |

Source: U.S. BLS, Occupational Employment and Wage Statistics, May 2021.

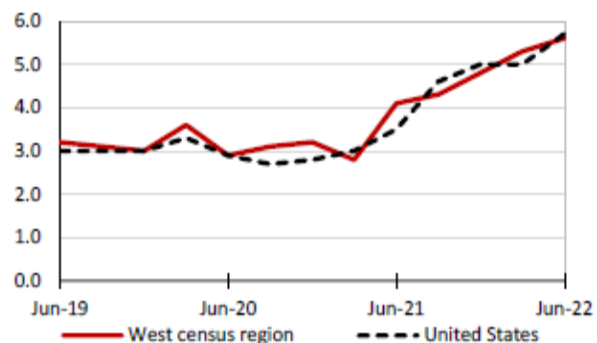
Employer costs per hour worked for wages and selected employee benefits by geographic division

| Private industry, June 2022 | West census region | United States |
|-----------------------------|--------------------|---------------|
| Total compensation | \$42.64 | \$38.91 |
| Wages and salaries | 30.10 | 27.44 |
| Total benefits | 12.54 | 11.47 |
| Paid leave | 3.21 | 2.87 |
| Vacation | 1.63 | 1.47 |
| Supplemental pay | 1.35 | 1.37 |
| Insurance | 3.20 | 2.96 |
| Retirement and savings | 1.45 | 1.33 |
| Legally required benefits | 3.33 | 2.93 |

Source: U.S. BLS, Employer Costs for Employee Compensation.

Over-the-year changes in wages and salaries

12-month percent changes in ECI



Source: U.S. BLS, Employment Cost Index.

Western Information Office • BLSinfoSF@bls.gov • <https://www.bls.gov/regions/west> • 415-625-2270



CLIMATE AND TOPOGRAPHY

The Fallbrook, Bonsall and Rainbow region has an average year-round temperature of 61 degrees. Due to the prevailing ocean breezes, the humidity is relatively low and constant. The average daytime high in Fallbrook is 76 degrees, although in the summer, temperatures sometimes exceed 100 degrees. Most of the area is frost-free; during the coldest periods, the average nighttime temperature is about 42 degrees. Due to its proximity to the ocean, days often start with early morning fog; afternoons can be breezy.

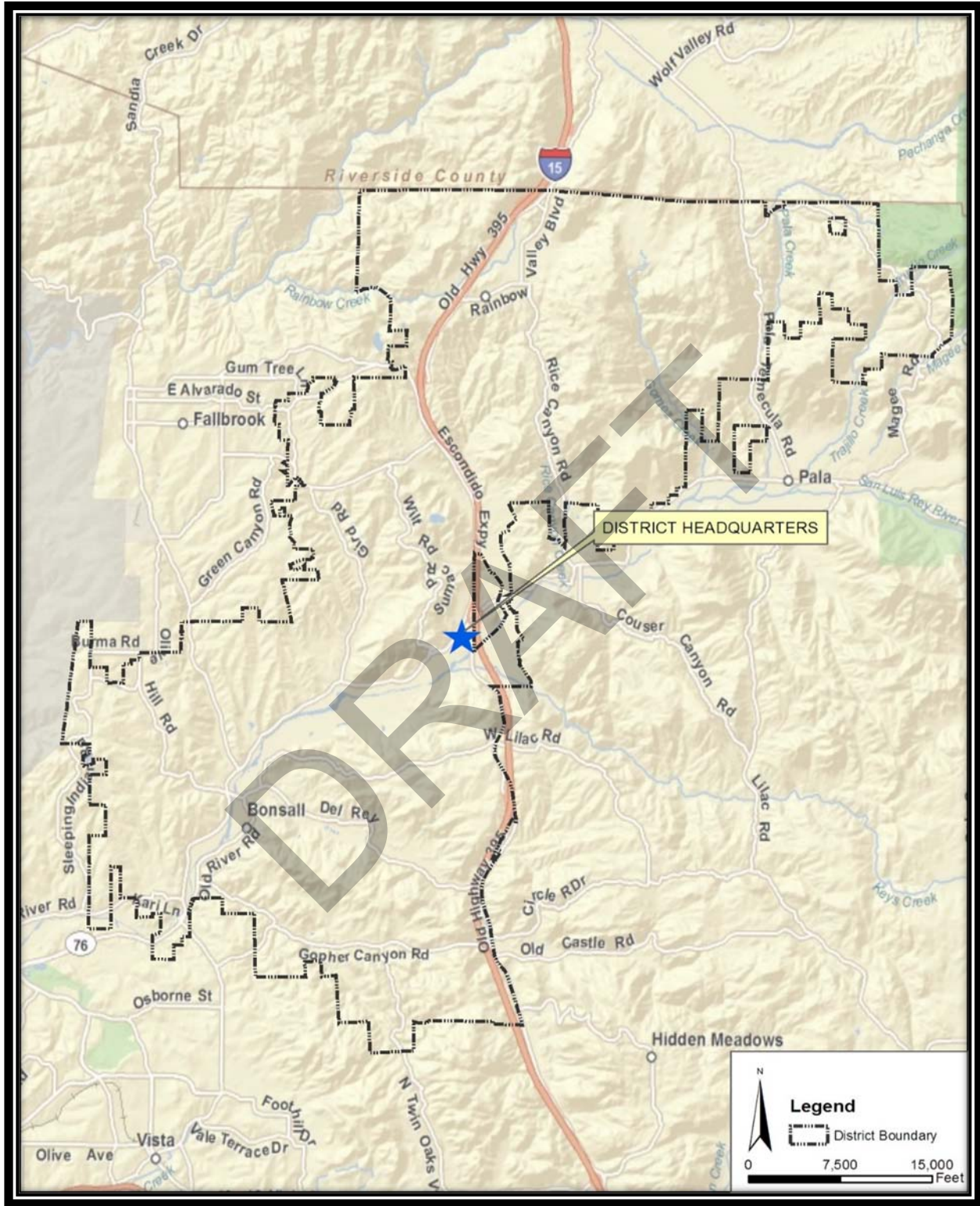
Annual rainfall is roughly 10 inches (25 cm) and comes mostly between November and April. Rainfall is higher in the surrounding hills, up to 20 inches (51 cm). The area is ideal for avocados, strawberries, tomatoes and many other sub-tropical fruits, vegetables, and flowers.

The topography of the District ranges from relatively level valley lands to steeply sloping ridges with long, narrow canyons. Elevations vary from 120 feet in the San Luis Rey River basin to mountains over 2,200 feet high. This configuration of land enables dense, cool air to slide off the valley sides, creating a continuous mild turbulence on the valley floor, which results in a low incidence of frost essential to the growth of avocados and citrus, the major crops grown in the District.

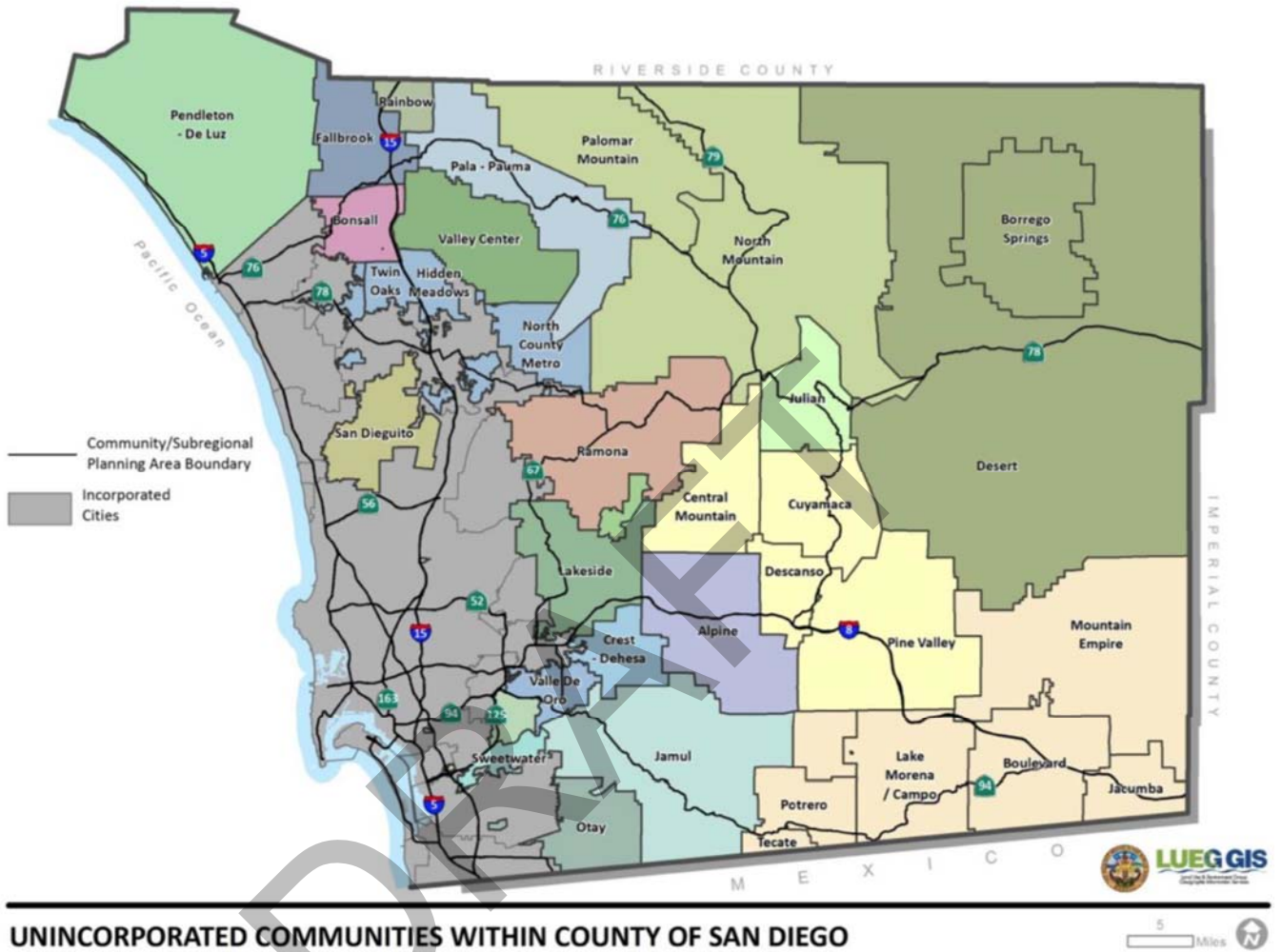
THE DISTRICT OFFICE



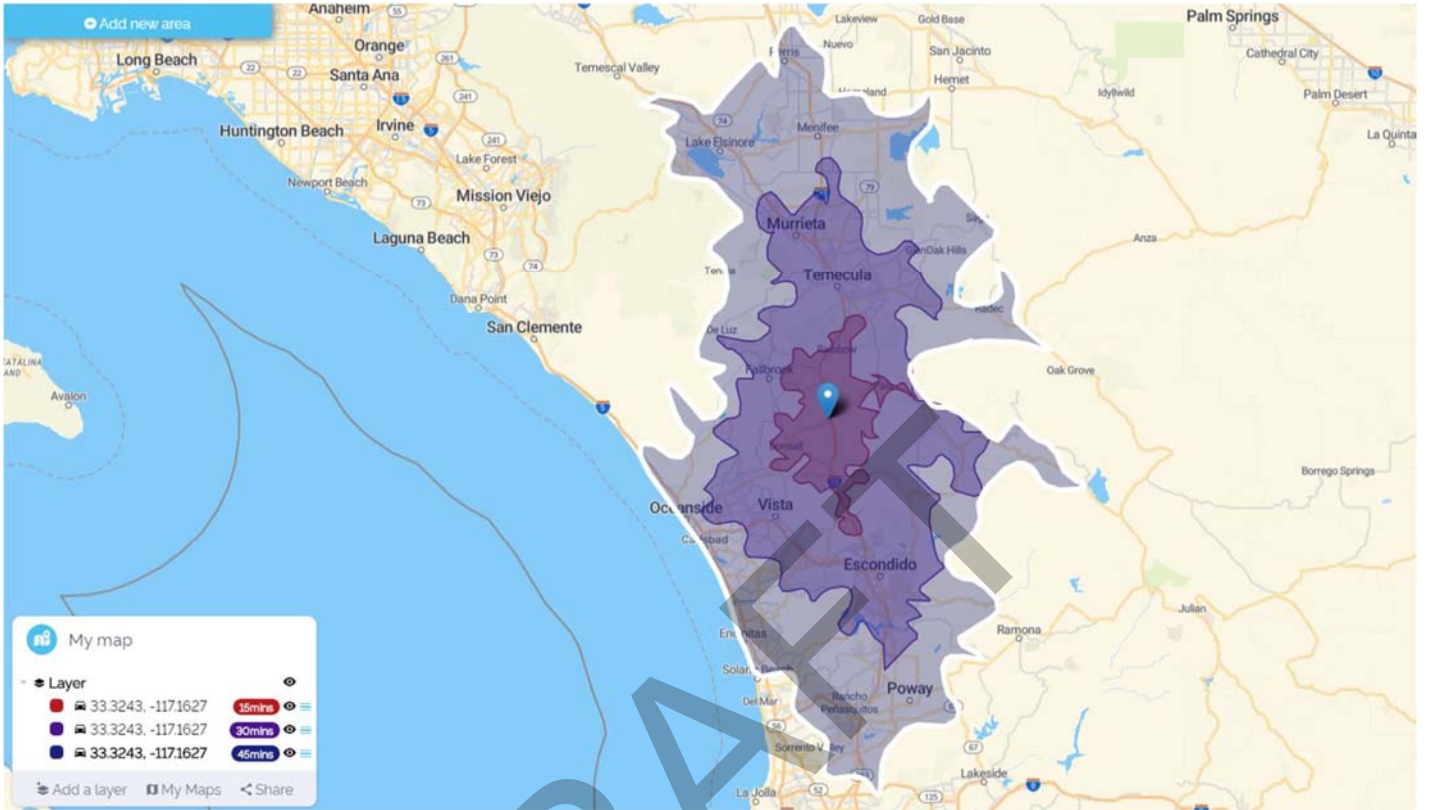
MAP OF DISTRICT SERVICE AREA



MAP OF DISTRICT LOCATION

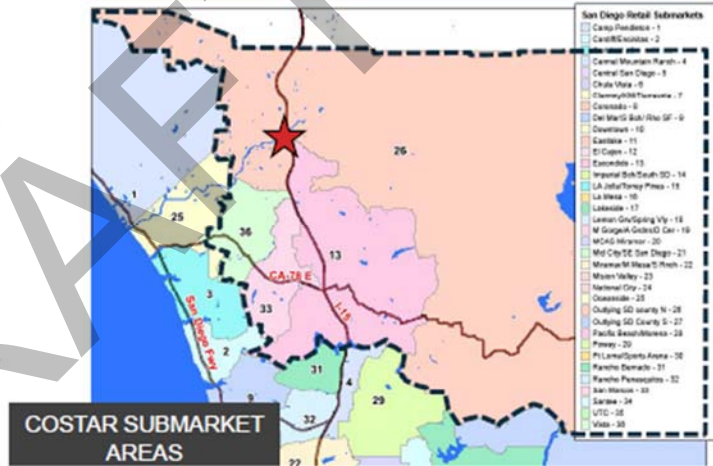


MAP OF DISTRICT COMMUTE TIMES



SANDAG AND COSTAR SUBMARKETS

- The Rainbow property is in the SANDAG North County East Major Statistical Area (MSA 5). To estimate future demand for the land uses being evaluated for the Rainbow property we are utilizing SANDAG's SR13 forecasts for population and housing unit growth and SANDAG's upcoming SR14 preliminary forecasts for job growth.
- For information on supply and demand trends for retail, office, industrial and multi-family uses, we are utilizing data from the commercial data provider CoStar. The CoStar submarkets that most closely match with the SANDAG North County East MSA include four areas (which we are collectively referring to as the "Inland North" market):
 - 26 – Outlying SD County North
 - 13 – Escondido
 - 33 – San Marcos
 - 36 – Vista
- The SANDAG and CoStar areas do not 100% align. The primary difference between the CoStar Inland North submarket and the SANDAG North County East MSA is that the CoStar area includes the community of Ramona, while SANDAG does not. The population of Ramona is only about 20K and represents only about 4% of the 460K population in the SANDAG North County East MSA (480K if Ramona is added). We have concluded that the aggregate CoStar Inland North and SANDAG North County East MSA areas are similar enough for our analytical purposes.
- CoStar submarket boundaries can vary for different land uses, particularly for Multi-Family. CoStar submarket maps are provided for each use at the beginning of each section of the report for that particular use.



SANDAG PROJECTIONS – COUNTY POPULATION

- Population growth from 2020 to 2035 in the county is projected at about 27.9K per year.
- Occupied housing unit growth from 2020 to 2035 is projected at about 9.9K per year (SF 1.8K per year, MF 8.1K per year).

POPULATION AND HOUSING

| | 2012 | 2020 | 2035 | 2050 | 2012 to 2050 Change* | |
|-------------------------------|-----------|-----------|-----------|-----------|----------------------|---------|
| | | | | | Numeric | Percent |
| Total Population | 3,143,429 | 3,435,713 | 3,853,698 | 4,068,759 | 925,330 | 29% |
| Household Population | 3,039,937 | 3,325,715 | 3,738,048 | 3,949,115 | 909,178 | 30% |
| Group Quarters Population | 103,492 | 109,998 | 115,650 | 119,644 | 16,152 | 16% |
| Civilian | 61,597 | 68,103 | 73,755 | 77,749 | 16,152 | 26% |
| Military | 41,895 | 41,895 | 41,895 | 41,895 | 0 | 0% |
| Total Housing Units | 1,165,818 | 1,249,684 | 1,394,783 | 1,491,935 | 326,117 | 28% |
| Single Family | 703,101 | 731,693 | 758,622 | 763,226 | 60,125 | 9% |
| Multiple Family | 420,147 | 477,258 | 597,762 | 692,709 | 272,562 | 65% |
| Mobile Homes | 42,570 | 40,733 | 38,399 | 36,000 | -6,570 | -15% |
| Occupied Housing Units | 1,103,034 | 1,178,091 | 1,326,445 | 1,407,869 | 304,835 | 28% |
| Single Family | 672,496 | 697,416 | 730,471 | 730,020 | 57,524 | 9% |
| Multiple Family | 391,534 | 443,213 | 560,793 | 645,548 | 254,014 | 65% |
| Mobile Homes | 39,004 | 37,462 | 35,181 | 32,301 | -6,703 | -17% |
| Vacancy Rate | 5.4% | 5.7% | 4.9% | 5.6% | 0.2 | 4% |
| Single Family | 4.4% | 4.7% | 3.7% | 4.4% | 0.0 | 0% |
| Multiple Family | 6.8% | 7.1% | 6.2% | 6.8% | 0.0 | 0% |
| Mobile Homes | 8.4% | 8.0% | 8.4% | 10.3% | 1.9 | 23% |
| Persons per Household | 2.76 | 2.82 | 2.82 | 2.81 | 0.1 | 2% |

Source: SANDAG SR13 Regional Growth Forecast, released in 2013. The forecast is in the process of being updated with new estimates to be available by the end of 2020 (SR14). According to SANDAG, the new forecast numbers for population and housing units are not expected to be substantially different than forecast in SR13.

SANDAG PROJECTIONS – NORTH COUNTY EAST/MSA5 POPULATION

- Population growth from 2020 to 2035 in MSA 5 is projected at about 4.0K per year.
- Occupied housing unit growth from 2020 to 2035 is projected at about 1.3K per year (SF 664 per year, MF 634 per year).
- MSA 5 currently represents 14% of the countywide population and 13% of the countywide supply of housing units.

POPULATION AND HOUSING

| | 2012 | 2020 | 2035 | 2050 | 2012 to 2050 Change* | |
|-------------------------------|---------|---------|---------|---------|----------------------|---------|
| | | | | | Numeric | Percent |
| Total Population | 438,503 | 487,700 | 547,881 | 573,295 | 134,792 | 31% |
| Household Population | 432,566 | 482,109 | 541,229 | 565,889 | 133,323 | 31% |
| Group Quarters Population | 5,937 | 5,591 | 6,652 | 7,406 | 1,469 | 25% |
| Civilian | 5,937 | 5,591 | 6,652 | 7,406 | 1,469 | 25% |
| Military | 0 | 0 | 0 | 0 | 0 | 0% |
| Total Housing Units | 148,823 | 163,094 | 181,744 | 191,439 | 42,616 | 29% |
| Single Family | 96,104 | 103,348 | 112,619 | 115,143 | 19,039 | 20% |
| Multiple Family | 40,869 | 48,064 | 57,514 | 64,837 | 23,968 | 59% |
| Mobile Homes | 11,850 | 11,682 | 11,611 | 11,459 | -391 | -3% |
| Occupied Housing Units | 142,516 | 155,935 | 175,276 | 183,758 | 41,242 | 29% |
| Single Family | 93,001 | 99,720 | 109,680 | 111,556 | 18,555 | 20% |
| Multiple Family | 38,687 | 45,507 | 55,018 | 61,990 | 23,303 | 60% |
| Mobile Homes | 10,828 | 10,708 | 10,578 | 10,212 | -616 | -6% |
| Vacancy Rate | 4.2% | 4.4% | 3.6% | 4.0% | -0.2 | -5% |
| Single Family | 3.2% | 3.5% | 2.6% | 3.1% | -0.1 | -3% |
| Multiple Family | 5.3% | 5.3% | 4.3% | 4.4% | -0.9 | -17% |
| Mobile Homes | 8.6% | 8.3% | 8.9% | 10.9% | 2.3 | 27% |
| Persons per Household | 3.04 | 3.09 | 3.09 | 3.08 | 0.0 | 1% |

Source: SANDAG SR13 Regional Growth Forecast, released in 2013. The forecast is in the process of being updated with new estimates to be available by the end of 2020 (SR14). According to SANDAG, the new forecast numbers for population and housing units are not expected to be substantially different than forecast in SR13.