Rainbow Municipal Water District

Annual Financial Report

For the Fiscal Year Ended
June 30, 2019

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WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rainbow Municipal Water District
Fallbrook, California

We have audited the accompanying financial statements of Rainbow Municipal Water District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rainbow Municipal Water District as of June 30, 2019, 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.

Emphasis of a Matter

As discussed in Note 11 to the basic financial statements, the District recorded a prior period adjustment resulting in a $1,329,829 increase of previously reported net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Proportionate Share of the Net Pension Liability - Defined Benefit Pension Plans, Schedule of Contributions - Defined Benefit Pension Plans, Schedule of Changes in the Net OPEB Liability and Related Ratios, and Schedule of Contributions - Net OPEB Liability, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Diehl Evans LLP

Carlsbad, California
November 27, 2019

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, 2019. 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 $83,572,163.

The change in net position for the fiscal year was a decrease of $637,644.

The District had a loss from operations in the amount of $5,286,522 in the current year compared to a loss from operations of $3,769,252 in the previous year. The current year included an additional write-off of $1M in bad debt expense as a result of in-depth accounts receivable analysis leading up to our billing software implementation. Fortunately, nonoperating income for the current year was $1,707,817 compared to $603,878 for the prior year.

This year the District had $1,609,595 worth of net additions to capital assets compared to $3,066,497 last year.

The District secured Capital Lease financing and Installment Purchase Contract financing for $5.52M and $5.25M at 3.09% and 3.18% respectfully. The capital lease financing will be used to replace all of the district meters with new, more accurate meters. This project is projected to have a net positive financial impact by either reducing our cost of unsold water due to water loss or increasing revenue from meters. The forecast is for an increase in revenue of over $1Million per year at a cost of approximately $650,000 per year. The Installment Purchase Contract financing will be used for the second part of the overall project. This part of the project was added to perform upgrades to our existing water services at the time of meter replacement.

OVERVIEW OF FINANCIAL STATEMENTS

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

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 and liabilities, with the difference between the two 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 9 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 and liabilities - 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 $692,185 or 0.8%. Operating revenue for this fiscal year decreased $5,102,641 or 12.3% compared to the prior year.

Operating expenses decreased by $3,585,341 or 7.9% from the prior year as a result of the decrease in water sales. Non-operating revenue increased by $1,304,614 due mainly to Investment income. Non-operating expenses increased by $200,680 due to Interest expense.

DISTRICT'S FINANCIAL ANALYSIS (continued)

Statement of Net Position

To begin our analysis, a summary of the District's Condensed Statement of Net Position is presented in Table I 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 $83,572,163 as of June 30, 2019.

Total liabilities increased as a result of the increase to the District's Capital Water Service Upgrade (WSUP) capital project financing. The District secured Capital Lease financing and Installment Purchase Contract financing for $5.52M and $5.25M at 3.09% and 3.18%, respectfully. The capital lease financing will be used to replace all of the district meters with new, more accurate meters. This project is projected to have a net positive financial impact by either reducing our cost of unsold water due to water loss or increasing revenue from meters. The forecast is for an increase in revenue of over $1Million per year at a cost of approximately $650,000 per year. The Installment Purchase Contract financing will be used for the second part of the overall project. This part of the project was added to perform upgrades to our existing water services at the time of meter replacement

The fiscal year 2019 Net Pension Liability had a decrease of $131,877 compared to fiscal year 2018. Net Pension Liability is reported at $6,899,648 for fiscal year 2019 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 $7,031,525 and $6,009,026 for fiscal years 2018 and 2017, respectively.

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.

DISTRICT'S FINANCIAL ANALYSIS (continued)

Table 1
Condensed Statement of Net Position

Assets		2019		2018		$ Change	% Change
Current Assets	$	48,460,270	$	35,910,134	$	12,550,136	34.9%
Noncurrent Assets		79,088,261		81,135,315		(2,047,054)	-2.5%
Total Assets		127,548,531		117,045,449		10,503,082	9.0%
Deferred Ouflows of Resources		2,121,387		2,605,346		(483,959)	-18.6%
Liabilities							
Current Liabilities		7,217,595		6,965,292		252,303	3.6%
Noncurrent Liabilities		38,445,392		29,370,060		9,075,332	30.9%
Total Liabilities		45,662,987		36,335,352		9,327,635	25.7%
Deferred Inflows of Resources		434,768		435,465		(697)	-0.2%
Net Position							
Net Investment in Capital Assets		63,739,648		65,399,076		(1,659,428)	-2.5%
Restricted for Future Capacity		3,321,531		894,491		2,427,040	271.3%
Unrestricted		16,510,984		17,916,240		(1,405,256)	-7.8%
Total Net Position	$	83,572,163	$	84,209,807	$	(637,644)	-0.8%

Statement of Revenues, Expenses and Changes in Net Position

The District's total operating revenues for the fiscal year ended June 30, 2019, excluding inter-fund transfers, decreased by $5,102,641 to $36,515,083. This was primarily due to reduced demand during a wetter than usual winter and spring.

The District's total operating expenses decreased by $3,585,341 to $41,801,635 as a result of the decrease in water sales.

The loss from operations was $5,286,522. The current year included an additional write-off of $1M in bad debt expense as a result of in-depth accounts receivable analysis leading up to our billing software implementation. Fortunately, nonoperating income for the current year was $1,707,817 compared to $603,878 for the prior year.

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, 2019:

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

	2019	2018	$ Change	% Change
Operating Revenues	$ 36,515,083	$ 41,617,724	$ (5,102,641)	-12.3%
Operating Expenses	(41,801,635)	(45,386,976)	3,585,341	-7.9%
Non-operating Revenues	2,278,672	974,058	1,304,614	133.9%
Non-operating Expenses	(570,855)	(370,175)	(200,680)	54.2%
Loss Before Capital Cont	(3,578,735)	(3,165,374)	(413,361)	13.1%
Capital Contributions	2,941,091	2,972,963	(31,872)	-1.1%
Change in Net Position	(637,644)	(192,411)	(445,233)	231.4%
Total Net Position (Beg)	82,879,978	83,286,070	(406,092)	-0.5%
Prior Period Adjustment	1,329,829	(213,681)	1,543,510	-722.3%
Net Position (Beg) Restated	84,209,807	83,072,389	1,137,418	1.4%
Total Net Position, End	$ 83,572,163	$ 82,879,978	$ 692,185	0.8%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 3
Changes in Capital Assets

	2019	2018	$ Change	% Change
Land	$ 1,977,490	$ 1,977,490	$ -	0.0%
Construction in Progress	3,894,165	3,187,889	706,276	22.2%
Buildings & Improvements	1,026,247	1,026,247	-	0.0%
Reservoirs, Pipelines, & Tanks	143,218,563	142,994,055	224,508	0.2%
Meters	1,300,613	1,074,936	225,677	21.0%
Equipment	4,579,015	4,335,822	243,193	5.6%
Invest in Sewer Rights	8,321,043	8,111,102	209,941	2.6%
Less: Accumulated Depreciation	(85,228,874)	(81,572,225)	(3,656,649)	4.5%
Total Capital Assets	$ 79,088,261	$ 81,135,315	$ (2,047,054)	-2.5%

DISTRICT'S FINANCIAL ANALYSIS (continued)

Debt

Table 4
Changes in Debt

	2019	2018	$ Change	% Change
Loan Payable Morro	$ 8,747,804	$ 8,968,676	$ (220,872)	-2.5%
Loan Payable Beck	6,600,809	6,767,563	(166,754)	-2.5%
Lease Purchase Agreement	5,523,284	-	5,523,284	100.0%
Installment Purchase Contract	5,249,905	-	5,249,905	100.0%
Total Debt	$ 26,121,802	$ 15,736,239	$ 10,385,563	66.0%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's Board of Directors and management considered many factors when setting the fiscal year 2019 budget, user fees, and charges. These indicators were taken into consideration when adopting the District's budget for year 2020.

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.

STATEMENT OF NET POSITION
June 30, 2019

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 14,559,801
Restricted cash and cash equivalents	14,094,720
Investments	13,514,207
Accounts receivable - water and sewer, net	4,756,918
Interest receivable	184,105
Taxes and assessments receivable	13,076
Other receivables	213,367
Inventories	1,039,373
Prepaid expenses	84,703
Total Current Assets	48,460,270
Noncurrent Assets:	
Capital assets:	
Land	1,977,490
Construction in progress	3,894,165
Buildings and improvements	1,026,246
Reservoir, pipelines, and tanks	143,218,563
Meters	1,300,613
Equipment	4,579,015
Investment in sewer rights	8,321,043
Less: accumulated depreciation	(85,228,874)
Total Noncurrent Assets	79,088,261
Total Assets	127,548,531
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts from pension	2,121,387
Total Deferred Outflows of Resources	2,121,387

(Continued)

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

STATEMENT OF NET POSITION (Continued)
June 30, 2019

LIABILITIES	
Current liabilities:	
Accounts payable	$ 4,695,441
Accrued expenses	250,290
Construction meter deposits	21,863
Developer deposits	5,654
Interest Payable	405,152
Compensated absences, current portion	43,842
Current portion of notes payable	1,795,353
Total Current Liabilities	7,217,595
Noncurrent Liabilities:	
Net OPEB liability	665,632
Compensated absences, net of current portion	394,576
Net pension liability	6,899,648
Prepaid capacity fees	6,159,087
Notes payable, net of current portion	24,326,449
Total Noncurrent Liabilities	38,445,392
Total Liabilities	45,662,987
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts on pension	434,768
Total Deferred Inflows of Resources	434,768
NET POSITION	
Net investment in capital assets	63,739,648
Restricted	3,321,531
Unrestricted	16,510,984
Total Net Position	$ 83,572,163

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the year ended June 30, 2019

OPERATING REVENUES	
Water sales	$ 32,810,988
Wastewater revenue	2,843,256
Other operating revenue	860,839
Total Operating Revenues	36,515,083
OPERATING EXPENSES	
Cost of purchased water sold	22,449,449
Water pumping	558,989
Transmission and distribution	4,421,571
Meter services	868,927
Sewer collection services	1,738,948
General and administrative	4,467,521
Engineering	1,551,506
Finance	568,091
Customer service	1,519,984
Depreciation	3,656,649
Total Operating Expenses	41,801,635
Operating Income (Loss)	(5,286,552)
NONOPERATING REVENUES (EXPENSES)	
Property tax revenue	638,539
Investment income	1,134,118
Other nonoperating revenue	506,015
Interest expense	(570,855)
Total Nonoperating Revenues (Expenses)	1,707,817
Income Before Capital Contributions	(3,578,735)
Capital Contributions	2,941,091
Change in Net Position	(637,644)
Net Position, Beginning of Year, As Originally Stated	82,879,978
Prior Period Adjustment	1,329,829
Net Position, Beginning of Year, As Restated	84,209,807
Net Position, End of year	$ 83,572,163

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

STATEMENT OF CASH FLOWS
For the year ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers for water sales and service	$ 39,399,638
Payments for the purchase of water	(24,169,393)
Payments to vendors and suppliers for materials and services	(6,683,204)
Payments for employee wages, benefits and related costs	(7,956,093)
Net Cash Provided (Used) by Operating Activities	590,948
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes	636,674
Net Cash Provided (Used) by Noncapital Financing Activities	636,674
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,609,595)
Proceeds from capital contributions	4,599,769
Other nonoperating revenue	506,015
Proceeds from issuance of notes payable	10,773,189
Principal paid on notes payable	(387,626)
Interest paid on notes payable	(165,703)
Net Cash Provided (Used) by Capital and Related Financing Activities	13,716,049
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(3,147,128)
Proceeds from sales and maturities of investments	3,455,475
Interest received	609,251
Net Cash Provided (Used) by Investing Activities	917,598
Net Increase (Decrease) in Cash and Cash Equivalents	15,861,269
Cash and Cash Equivalents, Beginning of Year	12,793,252
Cash and Cash Equivalents, End of Year	$ 28,654,521

(Continued)

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

STATEMENT OF CASH FLOWS (Continued)
For the year ended June 30, 2019

Reconciliation of operating income (loss) to net cash flows provided (used) by operating activities:

Operating Income (Loss)	$	(5,286,552)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization		3,656,649
GASB 68 pension and GASB 75 OPEB adjustments		297,416
Changes in operating assets and liabilities:		
(Increase) Decrease in operating assets:		
Accounts receivable		2,881,002
Other receivables		3,553
Inventory		439,481
Prepaid expenses		205,482
Increase (Decrease) in operating liabilities:		
Accounts payable		(1,584,214)
Accrued expenses		48,345
Compensated absences		(1,785)
Construction meter deposits		(68,429)
Net Cash Provided (Used) by Operating Activities	$	590,948

Reconciliation to Statement of Net Position

Cash and cash equivalents	$	14,559,801
Restricted cash and cash equivalents		14,094,720
Total cash and cash equivalents	$	28,654,521

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Rainbow Municipal Water District (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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. New Accounting Pronouncements:

Current Year Standards:

- GASB Statement No. 83 – *"Certain Asset Retirement Obligations,"* effective for periods beginning after June 15, 2018, and did not impact the District.
- GASB Statement No. 88 – *"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,"* effective for periods beginning after June 15, 2018, and did not impact the District.

Pending Accounting Standards:

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB 84 – *"Fiduciary Activities,"* effective for periods beginning after December 15, 2018.
- GASB 87- *"Leases,"* effective for periods beginning after December 15, 2019.
- GASB 89 – *"Accounting For Interest Cost Incurred before the End of a Construction Period,"* effective for periods beginning after December 15, 2019.
- GASB 90 – *"Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61,"* effective for periods beginning after December 15, 2018.
- GASB 91 – *"Conduit Debt Obligations,"* effective for periods beginning after December 15, 2020.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. 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 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.

- 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, 2018.

- 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, 2018.

- Deferred outflows from pensions resulting from the changes in assumptions. 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.

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 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, 2018.

- Deferred inflows from pensions resulting from the changes in assumptions and 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. 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.

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.

f. Water Sales

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

g. 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, 2019 have been reduced by an allowance for doubtful accounts of $134,138.

h. 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.

i. Prepaid Expenses

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

j. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. 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 estimated fair market value on the date accepted. The District capitalizes all assets with a historical cost of at least $5,000 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	7-25 years
Equipment	5-10 years
Capacity Rights	17 years

l. 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, 2019, were as follows:

Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
$ 440,203	$ 157,984	$ (159,769)	$ 438,418	$ 43,842

m. 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.

n. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. 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, 2019, the following timeframes are used:

Valuation Date (VD): June 30, 2017

Measurement Date (MD): June 30, 2018

Measurement Period (MP): July 1, 2017 to June 30, 2018

p. Other Postemployment Benefits

For purposes of measuring the net 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.

q. Interest Expense

The District incurs interest charges on long-term debt. Interest expense for the year ended June 30, 2019 was $570,855 and was reflected as nonoperating on the Statement of Revenues, Expenses and Changes in Net Positon. The District did not capitalize any interest during the year ended June 30, 2019.

r. 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.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and investments at June 30, 2019 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Current Assets:	
Cash and cash equivalents	$ 14,559,801
Restricted cash and cash equivalents	14,094,720
Investments	13,514,207
Total cash and investments	$ 42,168,728

Cash and investments consist of the following:

Cash on hand	$ 500
Deposits with financial institutions	20,214,008
Investments	21,954,220
Total cash and investments	$ 42,168,728

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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%	None
Commercial Paper	270 days	15%	None
Negotiable Certificates of Deposit	5 years	30%	None
Time Certificates of Deposit	5 years	25%	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	None
Local Agency Investment Fund	N/A	100%	$30,000,000

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, 2019.

		Remaining Maturity (in Months)			
Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	$ 7,798,809	$ 7,798,809	$ -	$ -	$ -
Money Market Mutual Funds	641,204	641,204	-	-	-
Negotiable Certifcates of Deposit	3,673,619	230,718	742,183	2,700,718	-
Medium-Term Notes	3,971,551	-	500,125	3,471,426	-
U.S. Sponsored Entities	5,869,037	1,490,210	500,590	3,878,237	-
Total	$ 21,954,220	$ 10,160,941	$ 1,742,898	$ 10,050,381	$ -

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

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, 2019.

			Rating as of Year End				
Investment Type	Total	Minimum Legal Rating	Exempt from Disclosure	AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	$ 7,798,809	N/A	$ -	$ -	$ -	$ -	$ 7,798,809
Money Market Mutual Funds	641,204	N/A	-		-	-	641,204
Negotiable Certifcates of Deposit	3,673,619	N/A	-	-	-	-	3,673,619
Medium-Term Notes	3,971,551	A2	-	-	1,989,535	1,982,016	-
U.S. Sponsored Entities	5,869,037	N/A	-	5,869,037	-	-	-
Total	$ 21,954,220		$ -	$ 5,869,037	$ 1,989,535	$ 1,982,016	$ 12,113,632

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. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments is as follows:

Issuer	Investment Type	2019
Federal National Mortgage Association	U.S. Govt Sponsored Entities	$ 2,505,789
Federal Home Loan Banks	U.S. Govt Sponsored Entities	$ 2,005,410
Federal Home Loan Mortgage Corporation	U.S. Govt Sponsored Entities	$ 1,157,397

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, 2019, $3,132,614 of the District's deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

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.

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	June 30, 2019
Investments by Fair Value Level				
U.S. Government Sponsored				
Entity Securities				
FFCB	$ -	$ 200,442	$ -	$ 200,442
FHLB	-	2,005,410	-	2,005,410
FHLMC	-	1,157,397	-	1,157,397
FNMA		2,505,788		2,505,788
Negotiable Certifcates of Deposit	-	3,673,619	-	3,673,619
Medium Term Notes	-	3,971,551	-	3,971,551
Total Investments by Fair Value Level	$ -	$ 13,514,207	$ -	13,514,207
Investments measured at Cost or Net Asset Value (NAV)				
Local Agency Investment Fund (LAIF)				7,798,809
Money Market Mutual Funds				641,204
Total Investments at Cost or Net Assets Value (NAV)				8,440,013
Total Investments				$ 21,954,220

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2019, were as follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets, not being depreciated:				
Land	$ 1,977,490	$ -	$ -	$ 1,977,490
Construction in progress	3,187,889	925,500	(219,224)	3,894,165
Total capital assets, not being depreciated	5,165,379	925,500	(219,224)	5,871,655
Capital assets, being depreciated:				
Buildings and improvements	1,026,246	-	-	1,026,246
Reservoirs pipelines, and tanks	142,994,055	224,508	-	143,218,563
Meters	1,074,936	225,677	-	1,300,613
Equipment	4,335,822	243,193	-	4,579,015
Investment in sewer rights	8,111,102	209,941	-	8,321,043
Total capital assets, being depreciated	157,542,161	903,319	-	158,445,480
Accumulated depreciation:				
Buildings and improvements	(919,707)	(14,575)	-	(934,282)
Reservoirs pipelines, and tanks	(75,711,033)	(3,209,444)	-	(78,920,477)
Meters	(392,198)	(78,021)	-	(470,219)
Equipment	(3,291,904)	(190,623)	-	(3,482,527)
Investment in sewer rights	(1,257,383)	(163,986)	-	(1,421,369)
Total accumulated depreciation	(81,572,225)	(3,656,649)	-	(85,228,874)
Total capital assets, being depreciated, net	75,969,936	(2,753,330)	-	73,216,606
Total capital assets, net	$ 81,135,315	$(1,827,830)	$ (219,224)	$ 79,088,261

Depreciation expense for depreciable capital assets was $3,656,649 for the year ended June 30, 2019.

NOTE 4 - LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2019 were as follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Loan Payable SRF Morro	$ 8,968,676	$ -	$ (220,872)	$ 8,747,804	$ 448,945
Loan Payable SRF Beck	6,767,563	-	(166,754)	6,600,809	338,764
Lease Purchase Agreement	-	5,523,284	-	5,523,284	506,260
Installment Purchase Contract	-	5,249,905	-	5,249,905	501,384
Total	$ 15,736,239	$ 10,773,189	$ (387,626)	$ 26,121,802	$ 1,795,353

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. At June 30, 2019, the amount outstanding was $8,747,804.

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

Year Ending June 30,	Principal	Interest	Total
2020	$ 448,945	$ 180,778	$ 629,723
2021	458,392	171,331	629,723
2022	468,038	161,685	629,723
2023	477,886	151,837	629,723
2024	487,942	141,781	629,723
2025-2029	2,598,114	550,501	3,148,615
2030-2034	2,883,217	265,397	3,148,614
2035	925,270	19,433	944,703
Total	$ 8,747,804	$ 1,642,743	$ 10,390,547

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, 2019, the amount outstanding was $6,600,809.

NOTE 4 - LONG-TERM DEBT (CONTINUED)

b. SRF Beck Loan Payable (Continued)

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

Year Ending June 30,	Principal	Interest	Total
2020	$ 338,764	$ 136,411	$ 475,175
2021	345,892	129,283	475,175
2022	353,171	122,004	475,175
2023	360,602	114,573	475,175
2024	368,190	106,985	475,175
2025-2029	1,960,479	415,396	2,375,875
2030-2034	2,175,612	200,263	2,375,875
2035	698,099	14,664	712,763
Total	$ 6,600,809	$ 1,239,579	$ 7,840,388

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 1st. The rate of interest to be paid on the principal amount of the lease is 3.090%. At June 30, 2019, the amount outstanding was $5,523,284.

Future debt service requirements on the lease payable above are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	$ 506,260	$ 132,743	$ 639,003
2021	492,037	155,026	647,063
2022	507,241	139,822	647,063
2023	522,914	124,148	647,062
2024	539,073	107,990	647,063
2025-2029	2,955,759	279,556	3,235,315
Total	$ 5,523,284	$ 939,285	$ 6,462,569

NOTE 4 - LONG-TERM DEBT (CONTINUED)

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 1st, and interest payments are due semi-annually on July 1st and January 1st. The rate of interest to be paid on the principal amount of the lease is 3.180%. At June 30, 2019, the amount outstanding was $5,249,905.

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

Year Ending June 30,	Principal	Interest	Total
2020	$ 501,384	$ 187,263	$ 688,647
2021	463,998	143,625	607,623
2022	478,753	128,636	607,389
2023	493,977	113,169	607,146
2024	509,686	97,211	606,897
2025-2029	2,802,107	228,344	3,030,451
Total	$ 5,249,905	$ 898,248	$ 6,148,153

NOTE 5 – INVENTORIES

Inventories at June 30, 2019 consisted of the following:

Water inventory	$ 149,051
Materials inventory	890,322
	$ 1,039,373

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 Comprehensive Annual Financial Report, which is available online at www.calpers.ca.gov.

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

a. General Information about the Pension Plan (Continued)

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. PEPRA 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 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, 2019, 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% to 2.5%
Required employee contribution rates	7.948%	6.250%
Required employer contribution rates:	10.609%	6.842%

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.

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

As of June 30, 2019, Rainbow Municipal Water District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

	Proportionate Share of the Net Pension Liability
Classic and PEPRA Miscellaneous Plan	$ 6,899,648

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, 2018, 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, 2018 rolled forward to June 30, 2019 using standard update procedures. The District' 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.

The Rainbow Municipal Water District's proportionate share of the net pension liability as of the measurement date ended June 30, 2017 and 2018 was as follows:

	Classic & PEPRA Plans
Proportion - June 30, 2017	0.178370%
Proportion - June 30, 2018	0.183080%
Change - Increase (Decrease)	0.004710%

For the year ended June 30, 2019, the District recognized pension expense of $1,216,627. At June 30, 2019, 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	$ 865,241	$ -
Differences between actual and expected experience	248,565	(82,423)
Change in assumptions	719,913	(181,006)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	238,487	(171,339)
Net differences between projected and actual earnings on plan investments	49,181	-
Total	$ 2,121,387	$ (434,768)

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

$865,241 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, 2020. 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
2020	$ 668,582
2021	383,724
2022	(173,749)
2023	(57,179)
2024	-
Thereafter	-

Actuarial Assumptions

The total pension liability for the June 30, 2018 measurement period was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The total pension liability was based on the following assumptions:

	Classic & PEPRA Plans
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
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 CalPERSdemographic data from 1997 to 2015) that can be found on the CalPERS website.

(3) Contract COLA up to 2.00% until Purchasing Power Protection Allowances Floor on Purchasing Power applies, 2.50% thereafter.

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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.

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

Asset Class (a)	New Strategic Allocation	Real Return Years 1 - 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 CAFR, 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

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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	$ 10,827,368
Current Discount Rate	7.15%
Net Pension Liability	$ 6,899,648
1% Increase	8.15%
Net Pension Liability	$ 3,657,381

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan:

At June 30, 2019, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

NOTE 7 - OTHER POSTEMPLOYMENT 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 75.

Employees Covered

As of the June 30, 2019 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

Measurement Date	June 30, 2019
Total eligible active employees	25
Inactive employees currently receiving benefit payments	6
Total	31

Net OPEB Liability

The District's net OPEB liability of $665,632 was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2018. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Assumptions and Other Inputs

The total OPEB liability as of the June 30, 2019 actuarial valuation 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, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.50%
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
Mortality	Derived from the RP-2014 Study, with Blue Collar Adjustment, improved generationally using MP-2016 Improvement Rates

The discount rate of 3.50% 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 Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2018	$ 719,601	$ -	$ 719,601
Changes in the Year:			
Service cost	5,027	-	5,027
Interest on the total OPEB liability	24,801	-	24,801
Differences between actual and expected experience	(108,804)	-	(108,804)
Changes in assumptions	68,033	-	68,033
Contribution - employer	-	43,026	(43,026)
Benefit payments, including refunds of employee contributions	(43,026)	(43,026)	-
Net Changes	(53,969)	-	(53,969)
Balance at June 30, 2019	$ 665,632	$ -	$ 665,632

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

The following presents the net 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 (2.50%) or 1-percentage point higher (4.50%) than the current rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Net OPEB Liability	$ 714,514	$ 665,632	$ 622,800

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

The following presents the net OPEB liability of the District, as well as what the District's net 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	$ 610,189	$ 665,632	$ 728,418

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 2019. 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, 2019, the District recognized OPEB income of $10,943.

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 $234,052 for the years ended June 30, 2019.

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 $119,736 for the year ended June 30, 2019.

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.

NOTE 8 - RISK MANAGEMENT (CONTINUED)

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, 2018.

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, 2018.

Boiler and Machinery: $100 Million per occurrence, subject to a $1,000 deductible per occurrence, effective July 1, 2018.

Public Officials Personal Liability: $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, deductible of $1000 per claim, effective July 1, 2018.

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, 2018.

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, 2019, in the amount of $4,141,601, is not included in the District's financial statements.

NOTE 10 - 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.

NOTE 11 - RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The District recorded a prior period adjustment in the amount of $1,329,829. This adjustment was result of the District understating capacity fee revenue in prior fiscal years, which resulted in a corresponding increase to Net Position.

REQUIRED SUPPLEMENTARY INFORMATION

1. SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – DEFINED BENEFIT PENSION PLANS

*LAST TEN FISCAL YEARS**

	2019	2018	2017	2016	2015
Miscellaneous & PEPRA Plan					
Plan's Proportion of the Net Pension Liability	0.071600%	0.070900%	0.069440%	0.066790%	0.055960%
Plan's Proportionate Share of the Net Pension Liability	$ 6,899,648	$ 7,031,525	$ 6,009,026	$ 4,584,303	$ 3,435,302
Plan's Covered Payroll	$ 3,887,469	$ 4,118,123	$ 3,679,407	$ 3,829,237	$ 3,873,095
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	177.48%	170.75%	163.32%	119.72%	88.70%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.26%	73.31%	74.53%	79.29%	83.26%
Plan's Proportionate Share of Aggregate Employer Contributions	$ 843,193	$ 749,380	$ 654,919	$ 509,468	$ 460,700

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
From fiscal year June 30, 2015 to June 30, 2016:
GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.
From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.
From fiscal year June 30, 2017 to June 30, 2018:
The discount rate was reduced from 7.65% to 7.15%.
From fiscal year June 30, 2018 to June 30, 2019:
There were no changes in assumptions.

*-Fiscal year 2015 was the 1st year of implementation; therefore, only five years are shown.

2. SCHEDULE OF CONTRIBUTIONS – DEFINED BENEFIT PENSION PLANS

*LAST TEN FISCAL YEARS**

	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 865,241	$ 743,649	$ 656,639	$ 369,170	$ 570,649
Contributions in relation to the actuarially determined contributions	865,241	743,649	656,639	369,170	570,649
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 5,212,648	$ 3,887,469	$ 4,118,123	$ 3,679,407	$ 3,829,237
Contributions as a percentage of covered payroll	16.60%	19.13%	15.95%	10.03%	14.90%

Notes to Schedule:

	2019	2018	2017	2016	2015
Valuation Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2015

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market value***
Inflation	2.75%
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**
Retirement age	50 years (2.5%@55), 52 years (2%@62)
Mortality	Mortaliy assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study

*- Fiscal year 2015 was the 1st year of implementation; therefore, only five years are shown.

**- The valuation for June 30, 2012, 2013, and 2014 (applicable to fiscal years ended June 30, 2015, 2016, and 2017 respectively) included the same actuarrial assumptions.

***- The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using 15 Year Smoothed Market method. The market value asset valuation method was utlitized for the June 30, 2013, 2014, and 2015 valuations (applicable to fiscal years ended June 30, 2016, 2017, and 2018 respectively)

3. *SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS*

*LAST TEN FISCAL YEARS**

Fiscal year end	6/30/2019	6/30/2018
Measurement date	6/30/2019	6/30/2018
Total Pension Liability:		
Service cost	$ 5,027	$ 7,607
Interest on total OPEB liability	24,801	26,991
Changes of assumptions	68,033	-
Difference between expected and actual experience	(108,804)	-
Benefit payments	(43,026)	(24,866)
Net Change in Total OPEB Liability	(53,969)	9,732
Total OPEB Liability - Beginning of Year	719,601	709,869
Total OPEB Liability - End of Year (a)	665,632	719,601
Plan Fiduciary Net Position:		
Contributions - employer	43,026	24,866
Benefit payments	(43,026)	(24,866)
Net Change in Plan Fiduciary Net Position	-	-
Plan Fiduciary Net Position - Beginning of Year	-	-
Plan Fiduciary Net Position - End of Year (b)	-	-
Net OPEB Liability - Ending (a)-(b)	$ 665,632	$ 719,601
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%
Covered payroll	$ 5,212,648	$ 4,346,367
Net OPEB liability as percentage of covered payroll covered - employee payroll	12.77%	16.56%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

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.

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

4. SCHEDULE OF CONTRIBUTIONS – NET OPEB LIABILITY

*LAST TEN FISCAL YEARS**

	6/30/2019	6/30/2018
Actuarially determined contribution (1)	N/A	N/A
Contributions in relation to the actuarially determined contributions	-	-
Contribution deficiency (excess) (1)	N/A	N/A
Covered payroll	$ 5,212,648	$ 4,346,367
Contributions as a percentage of covered payroll	0.00%	0.00%

Notes to Schedule:

* Fiscal year 2018 was the first year of implementation; therefore, two years are shown.