Rainbow Municipal Water District

Annual Financial Report

For the Fiscal Year Ended
June 30, 2017

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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

Report on the Financial Statements

We have audited the accompanying financial statements of Rainbow Municipal Water District (the District) as of and for the year ended June 30, 2017, 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Municipal Water District as of June 30, 2017, 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 $4,780,351 reduction 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 the Proportionate Share of the Net Pension Liability, Schedule of Contributions - Defined Benefit Pension Plans, and Schedule of Funding Progress - Other Post Employment Benefit Plans, 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 Management's Discussion and Analysis, Schedule of the Proportionate Share of the Net Pension Liability, Schedule of Contributions - Defined Benefit Pension Plans, and Schedule of Funding Progress - Other Post Employment Benefit Plan because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Carlsbad, California
March XX, 2018

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, 2017. 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 $83,286,070.

The change in net position for the fiscal year was a decrease of $9,967,981.

The District had a loss from operations in the amount of $3,976,747 in the current year compared to a loss from operations of $2,866,378 in the previous year.

This year the District had $6,357,321 worth of net additions to capital assets compared to $3,521,028 last year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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 did cash come 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 8 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.

DISTRICT'S FINANCIAL ANALYSIS (continued)

The District's net position from the prior fiscal year decreased by 10.7%. Operating revenue for this fiscal year increased 3.9% over the prior year.

Operating expenses increased by 6.5% from the prior year due to increase in water sales volume. Non-operating expenses increased by $1,624,450 due to abandonment of capital assets.

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 $83,286,070 as of June 30, 2017.

Total liabilities increased as a result of the increase to the District's pension and OPEB liability. The Net Pension Liability had an increase of $1.424 million compared to fiscal year 2016 and an increase of $2.52 million compared to fiscal year 2015. Net Pension Liability is reported at $6,009,026 million for Fiscal Year 2017 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 $4,584,303 and $3,482,335 for fiscal years 2016 and 2015, 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.

Table 1
Condensed Statement of Net Position

	2017	2016	$ Change	% Change
ASSETS				
Current assets	$ 33,878,794	$ 33,929,059	$ (50,265)	-0.1%
Noncurrent assets	81,717,253	84,881,107	(3,163,854)	-3.7%
TOTAL ASSETS	115,596,047	118,810,166	(3,214,119)	-2.7%
DEFERRED OUTFLOWS OF RESOURCES	2,350,628	1,083,129	1,267,499	117.0%
LIABILITIES				
Current liabilities	6,499,958	6,097,417	402,541	6.6%
Noncurrent liabilities	27,702,708	22,273,196	5,429,512	24.4%
TOTAL LIABILITIES	34,202,666	28,370,613	5,832,053	20.6%
DEFERRED INFLOWS OF RESOURCES	457,939	384,399	73,540	19.1%
NET POSITION				
Net investment in capital assets	65,217,530	84,881,107	(19,663,577)	-23.2%
Restricted for future capacity	894,491	6,827,952	(5,933,461)	-86.9%
Unrestricted	17,174,049	1,544,992	15,629,057	1011.6%
TOTAL NET POSITION	$ 83,286,070	$ 93,254,051	$(9,967,981)	-10.7%

DISTRICT'S FINANCIAL ANALYSIS (continued)

Statement of Revenues, Expenses and Changes in Net Position

The District's total operating revenues for the fiscal year ended June 30, 2017, excluding inter- fund transfers, increased by $1,351,561 to $36,141,307. This was due primarily to the increased water sales to customers.

The District's total operating expenses increased by $2,461,930 to $40,118,054 due to the increased wholesale cost of water purchases as a result of the increase in water sales.

The loss from operations was $3,976,747.

The following table presents a summary of the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2017:

Table 2

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

	2017	2016	$ Change	% Change
OPERATING REVENUES	$ 36,141,307	$ 34,789,746	1,351,561	3.9%
OPERATING EXPENSES	(40,118,054)	(37,656,124)	(2,461,930)	6.5%
NON-OPERATING REVENUES	925,204	2,031,857	(1,106,653)	-54.5%
NON-OPERATING EXPENSES	(2,292,389)	(667,939)	(1,624,450)	243.2%
INCOME BEFORE CAPITAL CONTRIBUTIONS	(5,343,932)	(1,502,460)	(3,841,472)	255.7%
CAPITAL CONTRIBUTIONS	156,302	1,091,515	(935,213)	-85.7%
CHANGES IN NET POSITION	(5,187,630)	(410,945)	(4,776,685)	1162.4%
NET POSITION, BEGINNING	93,254,051	86,772,146	6,481,905	7.5%
PRIOR PERIOD ADJUSTMENT	(4,780,351)	6,892,850	(11,673,201)	-169.4%
NET POSITION, BEG. RESTATED	88,473,700	93,664,996	(5,191,296)	-5.5%
TOTAL NET POSITION, ENDING	$ 83,286,070	$ 93,254,051	$ (9,967,981)	-10.7%

DISTRICT'S FINANCIAL ANALYSIS (continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 3
Changes in Capital Assets

	2017	2016		$ Change	% Change
Land	$ 1,977,490	$ 1,977,490		-	0.0%
Construction in progress	3,150,012	7,309,505	*	(4,159,493)	-56.9%
Buildings and improvements	969,773	969,773		-	0.0%
Reservoir, pipelines, and tanks	141,120,689	137,275,860	*	3,844,829	2.8%
Meters	622,478	497,818		124,660	25.0%
Equipment	3,989,111	3,571,503		417,608	11.7%
Investment in sewer rights	7,811,490	7,613,442		198,048	2.6%
Less: accumulated depreciation	(77,923,790)	(74,478,314)	*	(3,445,476)	4.6%
Total capital assets, net	$ 81,717,253	$ 84,737,077		$ (3,019,824)	-3.6%

* Denotes restated balance

Debt

Table 4
Changes in Debt

	2017	2016	$ Change	% Change
Loan Payable SRF Morro	9,403,814	9,829,955	(426,141)	-4.3%
Loan Payable SRF Beck	7,095,909	7,417,466	(321,557)	-4.3%
Total debt	$ 16,499,723	$ 17,247,421	$ (747,698)	-4.3%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's Board of Directors and management considered many factors when setting the fiscal year 2017 budget, user fees, and charges. These indicators were taken into consideration when adopting the District's budget for year 2018.

CONTACTING THE DISTRICT

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

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STATEMENT OF NET POSITION
June 30, 2017

		2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$	11,564,324
Restricted cash and cash equivalents		894,491
Investments		12,729,467
Accounts receivable - water and sewer, net		6,384,192
Interest receivable		90,379
Taxes and assessments receivable		10,703
Other receivables		37,466
Inventories		1,860,104
Prepaid expenses		307,668
Total Current Assets		33,878,794
Noncurrent Assets:		
Capital assets:		
Land		1,977,490
Construction in progress		3,150,012
Buildings and improvements		969,773
Reservoir, pipelines, and tanks		141,120,689
Meters		622,478
Equipment		3,989,111
Investment in sewer rights		7,811,490
Less: accumulated depreciation		(77,923,790)
Total Noncurrent Assets		81,717,253
Total Assets		115,596,047
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from pension		2,350,628

(Continued)

See accompanying independent auditors' report and notes to basic financial statements.

STATEMENT OF NET POSITION (Continued)
June 30, 2017

		2017
LIABILITIES		
Current liabilities:		
Accounts payable	$	5,559,457
Accrued expenses		258,573
Construction meter deposits		86,759
Developer deposits		215,415
Current portion of notes payable		379,754
Total Current Liabilities		6,499,958
Noncurrent Liabilities:		
Net OPEB liability		369,558
Compensated absences		468,595
Net pension liability		6,009,026
Prepaid capacity fees		4,735,560
Notes payable, net of current portion		16,119,969
Total Noncurrent Liabilities		27,702,708
Total Liabilities		34,202,666
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts on pension		457,939
NET POSITION		
Net investment in capital assets		65,217,530
Restricted		894,491
Unrestricted		17,174,049
Total Net Position	$	83,286,070

See accompanying independent auditors' report and notes to basic financial statements.

RAINBOW MUNICIPAL WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the year ended June 30, 2017

	2017
OPERATING REVENUES	
Water sales	$ 33,091,641
Wastewater revenue	2,548,647
Other operating revenue	501,019
Total Operating Revenues	36,141,307
OPERATING EXPENSES	
Cost of purchased water sold	23,282,393
Water pumping	580,556
Transmission and distribution	4,876,960
Meter services	1,085,553
Sewer collection services	1,735,473
General and administrative	2,855,623
Engineering	1,279,194
Finance	545,976
Customer service	430,850
Depreciation	3,445,476
Total Operating Expenses	40,118,054
Operating Income (Loss)	(3,976,747)
NONOPERATING REVENUES (EXPENSES)	
Property tax revenue	595,250
Investment income	(1,889)
Other nonoperating revenue	331,842
Interest expense	(359,148)
Loss on abandonment of capital assets	(1,933,240)
Total Nonoperating Revenues (Expenses)	(1,367,185)
Income Before Capital Contributions	(5,343,932)
Capital Contributions	156,302
Changes in Net Position	(5,187,630)
Net Position, Beginning of Year, As Originally Stated	93,254,051
Prior Period Adjustment	(4,780,351)
Net Position, Beginning of Year, As Restated	88,473,700
Net Position, End of year	$ 83,286,070

See accompanying independent auditors' report and notes to basic financial statements.

RAINBOW MUNICIPAL WATER DISTRICT

STATEMENT OF CASH FLOWS
For the year ended June 30, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers for water sales and service	$ 35,934,308
Payments to vendors and suppliers for materials and services	(29,735,306)
Payments for employee wages, benefits and related costs	(7,043,097)
Net Cash Provided (Used) by Operating Activities	(844,095)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes	594,220
Net Cash Provided (Used) by Noncapital Financing Activities	594,220
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(2,358,892)
Proceeds from capital contributions	557,036
Other nonoperating revenue	331,842
Principal paid on notes payable	(747,698)
Interest paid on notes payable	(359,148)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,576,860)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(8,983,100)
Proceeds from sales and maturities of investments	8,473,214
Interest received	313,721
Net Cash Provided (Used) by Investing Activities	(196,165)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,022,900)
Cash and Cash Equivalents, Beginning of Year (As Restated)	15,481,715
Cash and Cash Equivalents, End of Year	$ 12,458,815

(Continued)

See accompanying independent auditors' report and notes to basic financial statements.

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STATEMENT OF CASH FLOWS (Continued)
For the year ended June 30, 2017

		2017
Reconciliation of operating income (loss) to net cash flows provided (used) by operating activities:		
Operating Income (Loss)	$	(3,976,747)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization		3,445,476
GASB 68 pension adjustments		230,765
Changes in operating assets and liabilities:		
(Increase) Decrease in operating assets:		
Accounts receivable		(198,042)
Other receivables		(8,957)
Inventory		(766,435)
Prepaid expenses		10,377
Increase (Decrease) in operating liabilities:		
Accounts payable		34,789
Accrued expenses		140,396
Net OPEB liability		4,387
Compensated absences		20,417
Construction meter deposits		31,789
Developer deposits		187,690
Net Cash Provided (Used) by Operating Activities	$	(844,095)
Reconciliation to Statement of Net Position		
Cash and cash equivalents	$	11,564,324
Restricted cash and cash equivalents		894,491
Total cash and cash equivalents	$	12,458,815

See accompanying independent auditors' report and notes to basic financial statements.

June 30, 2017

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.

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:

<u>Net Investment in Capital Assets</u>

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.

1. Summary of Significant Accounting Policies (Continued)

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

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. 74 - *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* effective for periods beginning after June 15, 2016 and did not impact the District.
- GASB Statement No. 77 - “*Tax Abatement Disclosure,”* effective for periods beginning after December 15, 2015 and did not impact the District.
- GASB Statement No. 78 - “*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,”* effective for periods beginning after December 15, 2015 and did not impact the District.
- GASB Statement No. 79 – “*Certain External Investment Pools and Pool Participants,”* was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.
- GASB Statement No. 80 - “*Blending Requirements for Certain Component Units,”* effective for periods beginning after June 15, 2016 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 75 - *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* effective for periods beginning after June 15, 2017.
- GASB 81 - *"Irrevocable Split-Interest Agreements,”* effective for periods beginning after December 15, 2016.
- GASB 82 - “*Pension Issues,”* effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.
- GASB 84-“*Omnibus 2017,”* effective for periods beginning after June 15, 2017.
- GASB 85-“*Certain Debt Extinguishment Issues,”* effective for periods beginning after June 15, 2017.
- GASB 87- “*Leases,”* effective for periods beginning after December 15, 2019.

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 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, 2016.
- 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, 2016.

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, 2016.
- 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.

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, 2017 have been reduced by an allowance for doubtful accounts of $168,684.

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.

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
Improvements 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, 2017, were as follows:

Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
$ 448,178	39,707	19,290	$ 468,595

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.

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, 2017, the following timeframes are used:

Valuation Date (VD) June 30, 2015
Measurement Date (MD) June 30, 2016
Measurement Period (MP) July 1, 2015 to June 30, 2016

P. Interest Expense

The District incurs interest charges on long-term debt. Interest expense for the year ended June 30, 2017 was $359,148 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, 2017.

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.

2. Cash, Cash Equivalents, and Investments

Cash and investments at June 30, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:	2017
Current Assets:	
Cash and cash equivalents	$ 11,564,324
Restricted cash and cash equivalents	894,491
Investments	12,729,467
Total cash and investments	$ 25,188,282

Cash and investments consist of the following:

Cash on hand	$ 1,200
Deposits with financial institutions	3,607,526
Investments	21,579,556
Total cash and investments	$ 25,188,282

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	100%	None
U.S. Government Sponsored Entities	5 years	100%	None
U.S. Government Agency Callable	5 years	75%	None
Banker's Acceptances	270 days	40%	None
Commercial Paper	270 days	15%	None
Negotiable Certificates of Deposit	5 years	30%	None
Time Certificates of Deposit	N/A	25%	None
Repurchase Agreements	90 days	100%	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	None
Local Government Investment Pool	N/A	20%	None
Local Agency Investment Fund	N/A	100%	$30,000,000

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.

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, 2017.

		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)	$ 7,519,805	$ 7,519,805	$ -	$ -	$ -
Money Market Mutual Funds	1,330,488	1,330,488	-	-	-
Negotiable Certifcates of Deposit	2,979,593	-	-	2,979,593	-
Medium-Term Notes	7,073,675	-	-	7,073,675	-
U.S. Sponsored Entities	2,675,995	-	-	2,675,995	-
Total	$ 21,579,556	$ 8,850,293	$ -	$ 12,729,263	$ -

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, 2017.

			Rating as of Year End				
Investment Type	Total	Minimum Legal Rating	Exempt from Disclosure	AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	$ 7,519,805	N/A	$ -	$ -	$ -	$ -	$ 7,519,805
Money Market Mutual Funds	1,330,488	N/A	-		-	-	1,330,488
Negotiable Certifcates of Deposit	2,979,593	N/A	-	2,007,096	-	-	972,497
Medium-Term Notes	7,073,675	A2	-	3,119,729	2,962,736	991,210	-
U.S. Sponsored Entities	2,675,995	N/A	-	2,675,995	-	-	-
Total	$ 21,579,556		$ -	$ 7,802,820	$ 2,962,736	$ 991,210	$ 9,822,790

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	2017
Farmer Mac MTN	U.S. Govt Sponsored Entities	$ 1,450,522

2. Cash, Cash Equivalents, and Investments (Continued)

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, 2017, $3,370,674 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 relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

2. Cash, Cash Equivalents, and Investments (Continued)

Fair Value Measurements (Continued):

The asset's or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment or liability within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment or liability.

The following is a description of the recurring valuation methods and assumptions used by the District to estimate the fair value of its investments. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. When quoted prices in active markets are not available, fair values are based on evaluated prices received by District management.

The District has no investments categorized in Level 3. When valuing Level 3 securities, the inputs or methodology are not necessarily an indication of the risks associated with investing in those securities. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy.

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	June 30, 2017
Investments by Fair Value Level				
U.S. Government Sponsored				
Entity Securities				
FNMA	$ -	$ 214,777	$ -	$ 214,777
FMM	-	1,450,522	-	1,450,522
FHLMC	-	1,010,696	-	1,010,696
Negotiable Certifcates of Deposit	-	2,979,593	-	2,979,593
Medium Term Notes	-	7,073,675	-	7,073,675
Total Investments by Fair Value Level	$ -	$ 12,729,263	$ -	12,729,263
Investments measured at Cost or Net Asset Value (NAV)				
Local Agency Investment Fund (LAIF)				7,519,805
Money Market Mutual Funds				1,330,488
Total Investments at Cost or Net Assets Value (NAV)				8,850,293
Total Investments				$ 21,579,556

3. Capital Assets

Changes in capital assets for the year ended June 30, 2017, were as follows:

	(As Restated) Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 1,977,490	$ -	$ -	$ 1,977,490
Construction in progress	7,309,505	1,772,176	(5,931,669)	3,150,012
Total capital assets, not being depreciated	9,286,995	1,772,176	(5,931,669)	5,127,502
Capital assets, being depreciated:				
Buildings and improvements	969,773	-	-	969,773
Reservoirs pipelines, and tanks	137,275,860	3,844,829	-	141,120,689
Meters	497,818	124,660	-	622,478
Equipment	3,571,503	417,608	-	3,989,111
Investment in sewer rights	7,613,442	198,048	-	7,811,490
Total capital assets, being depreciated	149,928,396	4,585,145	-	154,513,541
Accumulated depreciation:				
Buildings and improvements	(861,867)	(28,257)	-	(890,124)
Reservoirs pipelines, and tanks	(69,417,710)	(3,094,804)	-	(72,512,514)
Meters	(312,436)	(25,749)	-	(338,185)
Equipment	(2,919,835)	(169,746)	-	(3,089,581)
Investment in sewer rights	(966,466)	(126,920)	-	(1,093,386)
Total accumulated depreciation	(74,478,314)	(3,445,476)	-	(77,923,790)
Total capital assets, being depreciated, net	75,450,082	1,139,669	-	76,589,751
Total capital assets, net	$ 84,737,077	$ 2,911,845	$ (5,931,669)	$ 81,717,253

Depreciation expense for depreciable capital assets was $3,445,476 for the years ended June 30, 2017.

4. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2017 were as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Loan Payable SRF Morro	$ 9,829,955	$ -	$ (426,141)	$ 9,403,814	$ 216,436
Loan Payable SRF Beck	7,417,466	-	(321,557)	7,095,909	163,318
Total	$ 17,247,421	$ -	$ (747,698)	$ 16,499,723	$ 379,754

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, 2017, the amount outstanding was $9,403,814.

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
2018	$ 216,436	$ 98,425	$ 314,861
2019	439,693	190,030	629,723
2020	448,945	180,778	629,723
2021	458,392	171,331	629,723
2022	468,038.00	161,685	629,723
2023-2027	2,492,129	656,486	3,148,615
2028-2032	2,765,602	383,012	3,148,614
2033-2035	2,114,579	89,451	2,204,030
Total	$ 9,403,814	$ 1,931,198	$ 11,335,012

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, 2017, the amount outstanding was $7,095,909.

4. Long-Term Debt (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
2018	$ 163,318	$ 74,269	$ 237,587
2019	331,782	143,393	475,175
2020	338,764	136,411	475,175
2021	345,892	129,283	475,175
2022	353,171	122,004	475,175
2023-2027	1,880,505	495,370	2,375,875
2028-2032	2,086,862	289,013	2,375,875
2033-2035	1,595,615	67,498	1,663,113
Total	$ 7,095,909	$1,457,241	$ 8,553,150

5. Inventories

Inventories at June 30, 2017 consisted of the following:

	2017
Water inventory	$ 527,584
Materials inventory	1,332,520
	$ 1,860,104

6. Pension Plans

Summary of Significant Accounting Policies

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

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.

The Plan consists of a miscellaneous pool and a safety pool (referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively, including those of the Rainbow Municipal Water District. The Rainbow Municipal Water District's employer rate plans in the miscellaneous risk pool include the Miscellaneous plan (Miscellaneous) and the PEPRA Miscellaneous plan (PEPRA Misc.). The Rainbow Municipal Water District does not have any rate plans in the safety risk pool.

Benefits Provided

The Plan 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. Classic members and PEPRA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is the Basic Death Benefit. 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, 2017, are summarized as follows:

	Miscellaneous	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	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.944%	6.25%
Required employer contribution rates	10.069%	6.555%

6. Pension Plans (Continued)

A. General Information about the Pension Plan (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the CalPERS actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the employer rate plans are determined through the CalPERS' annual actuarial valuation process. Each employer rate plan's actuarially determined rate is based on the estimated amount necessary to pay the employer rate plan's allocated share of the cost of benefits earned by employees during the year, and any unfunded accrued liability. The Rainbow Municipal Water District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Rainbow Municipal Water District's contributions to the risk pools in the Plan for the year ended June 30, 2017, were as follows:

	PEPRA and Classic Miscellaneous Plan
Contributions - employers	$ 656,639

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

As of June 30, 2017, Rainbow Municipal Water District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

Classic & PEPRA Plans	$ 6,009,026
Total Net Pension Liability	$ 6,009,026

The Rainbow Municipal Water District's net pension liability for each risk pool is measured as the proportionate share of each risk pool's net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer's proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

The Rainbow Municipal Water District's proportionate share of the net pension liability as of June 30, 2015, the valuation date, was calculated as follows:

6. Pension Plans (Continued)

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

In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to either the Miscellaneous or Safety risk pool. Estimates of the total pension liability and the fiduciary net position were first determined for the individual rate plans and each risk pool as of the valuation date, June 30, 2015. Each employer rate plan's fiduciary net position was subtracted from its total pension liability to obtain its net pension liability as of the valuation date. The Rainbow Municipal Water District's proportionate share percentage for each risk pool at the valuation date was calculated by dividing the Rainbow Municipal Water District's net pension liability for each of its employer rate plans within each risk pool by the net pension liability of the respective risk pool as of the valuation date.

The Rainbow Municipal Water District's proportionate share of the net pension liability as of June 30, 2016, the measurement date, was calculated as follows:

Each risk pool's total pension liability was computed at the measurement date, June 30, 2016, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for each risk pool at the measurement date was determined by CalPERS' Financial Office. The net pension liability for each risk pool at June 30, 2016, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.

The individual employer risk pool's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2016, was calculated by applying Rainbow Municipal Water District's proportionate share percentage as of the valuation date (described above) to the respective risk pool's total pension liability and fiduciary net position as of June 30, 2016, to obtain the total pension liability and fiduciary net position as of June 30, 2016. The fiduciary net position was then subtracted from total pension liability to obtain the net pension liability as of the measurement date.

The Rainbow Municipal Water District's proportionate share percentage of the net pension liability for each risk pool as of June 30, 2015, and June 30, 2016, was as follows:

	Classic & PEPRA Plans
Proportion - June 30, 2015	0.167099%
Proportion - June 30, 2016	0.172977%
Change - Increase (Decrease)	0.005878%

For the year ended June 30, 2017, the Rainbow Municipal Water District recognized pension expense of $887,404. At June 30, 2017, the Rainbow Municipal Water 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	$ 656,639	$ -
Differences between actual and expected experience	23,519	(4,551)
Change in assumptions	-	(222,503)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	594,761	(230,885)
Net differences between projected and actual earnings on plan investments	1,075,709	-
Total	$ 2,350,628	$ (457,939)

6. Pension Plans (Continued)

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

Amounts other than contributions subsequent to the measurement date 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
2018	$ 274,362
2019	254,346
2020	458,481
2021	248,861
2022	-
Thereafter	-

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Classic & PEPRA Plans
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

6. 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 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested employer rate plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2016 based on June 30, 2015 Valuations,* that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.65% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the year ended 2017-18. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short- term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan’s asset classes, expected compound (geometric) returns were calculated over the short-term (first 11 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long- term, the present value of benefits was calculated for the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

6. Pension Plans (Continued)

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

Discount Rate

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period
(b) An expected inflation of 3.0% used for this period

Sensitivity of the Rainbow Municipal Water District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Rainbow Municipal Water District's proportionate share of the net pension liability of the each risk pool as of the measurement date, calculated using the discount rate, as well as what the Rainbow Municipal Water 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	6.65%
Net Pension Liability	$ 9,185,759
Current Discount Rate	7.65%
Net Pension Liability	$ 6,009,026
1% Increase	8.65%
Net Pension Liability	$ 3,383,614

6. Pension Plans (Continued)

C. Payable to the Pension Plan

The District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

7. Other Post-Employment Benefits

Plan Description – Benefits:

The District offers Other Post-Employment Benefits (OPEB) including medical, prescription drugs, and dental benefits, in accordance with a resolution approved by the board of Directors. Medical insurance is provided through a choice of a Blue Cross HMO or 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.

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

Funding Policy:

The District is required to identify the Annual Required Contribution (ARC) of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The District will pay 100% of the cost of the post-employment benefit plan, which is based on a full funding method. The District funds the plan on a pay-as-you-go basis and maintains reserves (by recording a liability) for the difference between the annual pay-as-you-go amount and the actuarially determined ARC cost.

For the year ended June 30, 2017, the District‘s ARC cost was $39,568 and paid $35,181 in retiree benefits.

The balance at June 30, consists of the following:

Annual Required Contribution (ARC)	$ 39,568
Interest on net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB cost (expense)	39,568
Contributions Made	(35,181)
Increase (Decrease) in net OPEB obligation	4,387
Net OPEB Obligation - beginning of year	365,171
Net OPEB Obligation - end of year	$ 369,558

7. Other Post-Employment Benefits (continued)

Funding Policy (Continued)

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2017 and the three preceding years were as follows:

Three-Year History of Net OPEB Obligations

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable/(Asset)
2017	$ 39,568	89%	$ 369,558
2016	$ 39,568	75%	$ 365,171
2015	$ 40,481	67%	$ 355,101

Funded Status and Funding Progress of the Plan

As of June 30, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $355,101 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $355,101.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

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 $193,093 for the years ended June 30, 2017.

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 $120,100 for the year ended June 30, 2017.

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.

<u>General and Auto Liability, Public Officials' and Employees' Errors and Omissions and Employment Practices Liability</u>: 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.

8. Risk Management (continued)

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, 2016.

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, 2016.

Boiler and Machinery: $100,000,000 per occurrence, subject to a $1,000 deductible per occurrence, effective July 1, 2016.

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 $500 per claim, effective July 1, 2016.

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 $5.0 Million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Certificate of Coverage, effective July 1, 2016.

9. Deferred Compensation Plan

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

All assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. The District does not meet the criteria for fiduciary fund reporting since it does not have either significant administrative involvement (e.g. custody) or perform the investment function. Therefore, the fair market value of the plan assets at June 30, 2017, in the amount of $3,477,694, is not included in the District's financial statements.

10. Commitments and Contingencies

Tank Maintenance Commitments

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

Capacity Rights for Sewage Treatment

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

11. Restatement of Prior Year Financial Statements

The District recorded a prior period adjustment in the amount of $4,780,351. This adjustment included recording $4,334,823 worth of capacity fee liabilities previously removed from the District's books, a $153,617 correction to the reporting of cash and cash equivalents balances, removing a previously capitalized study in the amount of $137,559, and adjusting various receivable, prepaid and other asset balances in the amount of $154,352.

Required Supplementary Information

1. Schedule of Proportionate Share of the Net Pension Liability – Defined Benefit Pension Plans

LAST TEN YEARS*

Miscellaneous Plan	Measurement Date June 30, 2014	Measurement Date June 30, 2015	Measurement Date June 30, 2016
Plan's Proportion of the PERF C Net Pension Liability/(Asset)	0.055208%	0.066788%	0.069444%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$3,435,302	$4,584,303	$6,009,026
Plan's Covered-Employee Payroll**	$3,873,095	$3,829,237	$3,679,407
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	88.70%	119.72%	163.32%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.26%	79.29%	74.53%

Notes to Schedule:

Changes of benefit terms – In 2017, there were no changes to the benefit terms.

Changes in assumptions – In 2017, there were no changes in assumptions.

* Fiscal Year 2015 was the first year of implementation, therefore only 3 years are shown.

** Valuation year payroll increased by assumed 3% increase.

2. Schedule of Contributions – Defined Benefit Pension Plans

June 30, 2017

LAST TEN YEARS*

Miscellaneous Plan	CalPERS Fiscal Year 2014-15	CalPERS Fiscal Year 2015-16	CalPERS Fiscal Year 2016-17
Actuarially Determined Contributions	$570,649	$369,170	$656,639
Actual Contributions During the Measurement Period	($570,649)	($369,170)	($656,639)
Contribution Deficiency (Excess)	$0	$0	$0
Covered-Employee Payroll	$3,829,237	$3,679,407	$4,118,123
Contributions as a% of Covered-Employee Payroll	14.90%	10.03%	15.95%

Notes to Schedule:			
Contribution Valuation Date:	June 30, 2012	June 30, 2013	June 30, 2014

* Fiscal Year 2015 was the first year of implementation, therefore only 3 years are shown.

3. Schedule of Funding Progress - Other Post-Employment Benefit Plans

For the Fiscal Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a) / c)
7/1/2009	-	$ 155,249	$ 155,249	-	N/A	N/A
7/1/2012	-	$ 282,047	$ 282,047	-	N/A	N/A
7/1/2015	-	$ 355,101	$ 355,101	-	N/A	N/A

The District is only required to perform actuarial valuations every three years. The July 1, 2015 is the most recent actuarial valuation to be performed.