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Certified Public Accountants
and Financial Advisors

Rainbow Municipal Water District

Financial Statements

June 30, 2016

INDEX TO FINANCIAL STATEMENTS

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Squar Milner LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rainbow Municipal Water District
Fallbrook, California

We have audited the accompanying financial statements of Rainbow Municipal Water District, as of and for the fiscal year ended June 30, 2016, and the related notes to the 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.

Auditor's Responsibility

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

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

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

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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, 2016, and the changes in financial position and cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Emphasis of a Matter

Prior Period Adjustment

As discussed in Note 12 to the financial statements, the Rainbow Municipal Water District made adjustments to its financial statements as of July 1, 2015 to reduce deferred revenue, which resulted in a net increase in net position of $6,892,850. 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 on pages 4 through 9, and the schedules of proportionate share of the net pension liability and plan contributions on pages 40 and 41, and other postemployment benefits schedule of funding progress on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Rainbow Municipal Water District. The other supplementary information sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Squar Milner LLP

SQUAR MILNER LLP

San Diego, California
April 24, 2017

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, 2016. 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 $93,254,051.

The change in net position for the fiscal year was a decrease of $696,532.

The District had a loss from operations in the amount of $2,866,378 in the current year compared to a loss from operations of $1,087,681 in the previous year.

This year the District had $3,521,028 worth of net additions to capital assets compared to $2,620,250 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.

The *Statement of Net Position*, a District statement, 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.

OVERVIEW OF FINANCIAL STATEMENTS (continued)

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

The District's financial information also includes required and other supplementary information to increase the understandability of the financial statements of the District.

DISTRICT'S FINANCIAL ANALYSIS

The District's net position increased from the prior fiscal year by 7.5%. Operating revenue for this fiscal year decreased 1.3% over the prior year. The Transitional Special Agricultural Water Rate (TSAWR) has been extended by San Diego County Water Authority through December 31, 2020.

Operating expenses decrease 3.9% from the prior year due to decrease in water sales volume. Non-operating expenses increased 65.3% due to additional legal services and administration costs.

Statement of Net Position

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

Net position may serve over time, as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by $93,254,051 as of June 30, 2016.

DISTRICT'S FINANCIAL ANALYSIS (continued)

Statement of Net Position

Total liabilities increased as a result of the increase to the District's pension and OPEB liability.

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

Table 1
Condensed Statement of Net Position

	2016	2015	$ Change	% of Change
ASSETS				
Current assets	$ 21,324,767	$ 23,122,422	$ (1,797,655)	-7.8%
Noncurrent assets	12,604,292	12,806,172	(201,880)	-1.6%
Capital assets, net	84,881,107	84,652,584	228,523	0.3%
TOTAL ASSETS	118,810,166	120,581,178	(1,771,012)	-1.5%
DEFERRED OUTFLOWS OF RESOURCES	1,083,129	625,634	457,495	73.1%
LIABILITIES				
Current liabilities	6,097,417	4,883,766	1,213,651	24.9%
Noncurrent liabilities	22,273,196	21,460,464	812,732	3.8%
TOTAL LIABILITIES	28,370,613	26,344,230	2,026,383	7.7%
DEFERRED INFLOW OF RESOURCES	384,399	8,090,436	(7,706,037)	-95.2%
NET POSITION				
Net investment in capital assets	84,881,107	84,652,584	228,523	0.3%
Restricted for future capacity	6,827,952	-	6,827,952	100.0%
Unrestricted	1,544,992	2,119,562	(574,570)	-27.1%
TOTAL NET POSITION	$ 93,254,051	$ 86,772,146	$ 6,481,905	7.5%

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, 2016, excluding inter-fund transfers, decreased by $3,290,033 to $34,789,746. This was due primarily to the decreased water sales to customers.

The District's total operating expenses decreased by $1,511,336 to $37,656,124 due to the decreased wholesale cost of water purchases as a result of the reduction in water sales.

The loss from operations was $2,866,378.

The following table presents a summary of the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2016:

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

	2016	2015	$ Change	% of Change
OPERATING REVENUES				
Direct	$ 34,789,746	$ 36,714,562	$ (1,924,816)	-5.2%
Indirect	-	1,365,217	(1,365,217)	-100.0%
TOTAL OPERATING REVENUES	34,789,746	38,079,779	(3,290,033)	-8.6%
OPERATING EXPENSES	(37,656,124)	(39,167,460)	1,511,336	-3.9%
NON-OPERATING REVENUES	2,031,857	89,981	1,941,876	2158.1%
NON-OPERATING EXPENSES	(667,939)	(403,969)	(263,970)	65.3%
LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,502,460)	(1,401,669)	(100,791)	7.2%
CAPITAL CONTRIBUTIONS	1,091,515	294,192	797,323	271.0%
CHANGE IN NET POSITION	(410,945)	(1,107,477)	696,532	-62.9%
TOTAL NET POSITION, BEGINNING	86,772,146	92,048,072	(5,275,926)	-5.7%
PRIOR PERIOD ADJUSTMENT	6,892,850	(4,168,449)	11,061,299	-265.4%
TOTAL NET POSITION, ENDING	$ 93,254,051	$ 86,772,146	$ 6,481,905	7.5%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 3
Changes in Capital Assets

	2016	2015	$ Change	% of Change
Land	$ 1,977,490	$ 1,977,490	$ -	0.0%
Construction in progress	7,447,064	4,959,625	2,487,439	50.2%
Buildings and improvements	969,773	969,773	-	0.0%
Reservoir, pipelines, and tanks	137,231,271	137,049,736	181,535	0.1%
Meters	497,818	302,678	195,140	64.5%
Equipment	3,571,502	3,293,442	278,060	8.4%
Investment in sewer rights	7,613,443	7,416,124	197,319	2.7%
Less: accumulated depreciation	(74,427,254)	(71,316,284)	(3,110,970)	4.4%
Total capital assets, net	$ 84,881,107	$ 84,652,584	$ 228,523	0.3%

Debt

Table 4
Changes in Debt

	2016	2015	$ Change	% of Change
Loan Payable SRF Morro	$ 9,829,955	$ 10,246,413	$ (416,458)	-4.1%
Loan Payable SRF Beck	7,417,466	7,731,716	(314,250)	-4.1%
Total debt	$ 17,247,421	$ 17,978,129	$ (730,708)	-4.1%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District recorded a loss from operations of $2,866,378 which includes $3,110,970 of depreciation expense. Net income from all sources resulted in a loss of $1,107,477. For the fiscal year 2017, the District's water sales will be heavily impacted by the State Water Resources Control Board's mandatory conservation programs. Residential consumption has been cut by more than the 36% standard established by the State Water Resources Control Board (SWRCB).

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.

RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

ASSETS	
Current assets:	
Cash and cash equivalents	$ 13,519,564
Accounts receivable	6,342,190
Inventory	1,093,669
Prepaid expenses	369,344
Total current assets	21,324,767
Noncurrent assets:	
Restricted cash and cash equivalents:	
Insurance reserve	40,107
Construction and plant replacement funds	1,181,171
Repayment reserve funds for loans	894,490
Investments	5,776,340
Restricted investments	6,827,952
Capital assets:	
Land	1,977,490
Construction in progress	7,447,064
Buildings and improvements	969,773
Reservoir, pipelines, and tanks	137,231,272
Meters	497,818
Equipment	3,571,502
Investment in sewer rights	7,613,442
Less: accumulated depreciation	(74,427,254)
Total noncurrent assets	99,601,167
TOTAL ASSETS	120,925,934
DEFERRED OUTFLOWS OF RESOURCES	
Pension related costs	1,083,129

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

RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

LIABILITIES	
Current liabilities:	
Accounts payable	5,524,668
Accrued expenses	118,177
Construction meter deposits	54,970
Developer deposits	27,725
Current portion of notes payable	371,877
Total current liabilities	6,097,417
Noncurrent liabilities:	
OPEB Liability	365,171
Compensated absences	448,178
Pension liability	4,584,303
Notes payable, net of current portion	16,875,544
Total noncurrent liabilities	22,273,196
TOTAL LIABILITIES	28,370,613
DEFERRED INFLOWS OF RESOURCES	
Pension related costs	384,399
TOTAL DEFERRED INFLOWS OF RESOURCES	384,399
NET POSITION	
Net investment in capital assets	84,881,107
Restricted for future capacity	6,827,952
Unrestricted	1,544,992
TOTAL NET POSITION	$ 93,254,051

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

RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2016

OPERATING REVENUES	
Water sales	$ 32,156,844
Waste water revenue	2,632,902
Total operating revenues	34,789,746
OPERATING EXPENSES	
Water purchases	22,381,393
Water pumping	631,056
Transmission and distribution	4,284,981
Meter services	1,044,631
Sewer services	1,566,845
Administrative and general	2,683,658
Engineering	999,844
Finance	612,800
Customer service	339,948
Depreciation	3,110,968
Total operating expenses	37,656,124
Loss from operations	(2,866,378)
NON-OPERATING REVENUES (EXPENSES)	
Property tax revenue	870,642
Investment income	721,408
Other income	439,807
Interest expense	(667,939)
Total non-operating revenues (expenses)	1,363,918
LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,502,460)
CAPITAL CONTRIBUTIONS	
Capacity fees	1,091,515
CHANGE IN NET POSITION	(410,945)
NET POSITION, BEGINNING	86,772,146
PRIOR PERIOD ADJUSTMENT	6,892,850
NET POSITION, ENDING	$ 93,254,051

RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 33,381,826
Payments to suppliers and vendors	(30,875,606)
Payments to employees	(2,548,990)
Net cash used in operating activities	(42,770)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Proceeds from property taxes and assessements	868,210
Net cash provided by non-capital financing activities	868,210
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(3,339,493)
Principal paid on non-currrent liabilities	(730,708)
Interest paid	(855,591)
Net cash used in capital and related financing activities	(4,925,792)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(8,753,462)
Proceeds from sale of investments	10,634,119
Interest received	283,914
Interest and dividends reinvested	38,786
Net cash provided by investing activities	2,203,357
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,896,995)
CASH AND CASH EQUIVALENTS, BEGINNING	17,532,327
CASH AND CASH EQUIVALENTS, ENDING	$ 15,635,332

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

RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
June 30, 2016

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$	(2,866,378)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:		
Depreciation		3,110,970
Unrealized gain on investments		437,494
(Increase) decrease in operating assets and deferred outflow of resources:		
Accounts receivable		(1,821,899)
Inventory		(89,629)
Prepaid expenses		(303,580)
Deferred outflows of resources - pension		(457,495)
Increase (decrease) in operating liabilities and deferred inflow of resources:		
Accounts payable		1,379,101
Accrued expenses		181,322
Construction meter deposits		38,545
Developer deposits		20,633
Compensated absences		1,935
OPEB liability		10,070
Pension liability		1,101,968
Deferred inflows of resources - pension		(785,827)
Net cash used in operating activities	$	(42,770)
RECONCILIATION TO BALANCE SHEET		
Cash and cash equivalents	$	13,519,564
Restricted cash and cash equivalents		2,115,768
Total cash and cash equivalents	$	15,635,332

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rainbow Municipal Water District (the District) accounts for its financial transactions in accordance with the policies and procedures of the Irrigation District Law, now Division 11, of the California State Water Code. The accounting policies of the District conform to accounting principles generally accepted in the United State of American (GAAP) as applicable to governments and to general practice within California Special Districts. The District accounts for its financial transactions in accordance with the policies and procedures of the State Controller's Office Division of Local Government Fiscal Affairs Minimum Audit Requirement and Reporting Guidelines for California Special Districts.

Reporting Entity

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

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

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

Basis of Accounting

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

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

Financial Reporting

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

The District's basic financial statements are also presented in conformance with the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide guidance to include two classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are required to be reported in a Statement of Net Position in a separate section following assets. Similarly, amounts reported as deferred inflows of resources are required to be reported in a Statement of Net Position in a separate section following liabilities. In addition, the totals of these two new classifications should be added to the total for assets and liabilities, respectively.

Governmental Accounting Standards Implementation in Current Year

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement was effective for the current fiscal year. Implementation of this GASB had no significant effect on the District's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Accounting Standards Implementation in Current Year

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement establishes the hierarchy of GAAP for all state and local governments. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. This statement became effective for the current fiscal year. Implementation of this GASB had no significant effect on the District's financial statements.

During fiscal 2016, the District adopted GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statement No. 67, No. 68, and No. 73* -This Statement addresses certain issues that had been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in the required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District updated covered employee payroll information in the required supplementary information as part of the implementation of this accounting standard.

Assets, Liabilities, and Equity

Cash, Cash Equivalents and Investments

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 3 inputs.

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, including restricted assets and the District's investment in the State of California Local Agency Investment Fund (LAIF).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Restricted Cash and Investments

Certain proceeds of the District's long-term debt are classified as restricted cash and investments on the statement of net position because their use is limited by applicable bond covenants. The "reserve" account is used to report resources set aside to make up potential future deficiencies in the bond's debt service. Certain unspent bond proceeds are also restricted to specific capital projects or administrative, operating and maintenance expenses by the related debt covenants.

Accounts Receivable

Accounts receivable arise from billings to customers for water usage and include an estimate for unbilled revenues earned from the dates the customers were last billed to the end of the year. An allowance for uncollectible accounts of $0 was recorded by the District as of June 30, 2016.

Inventories

Inventories are recorded on the average cost basis. Inventory consists primarily of water, meters, water line maintenance materials, and sewer line maintenance materials.

Capital Assets

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

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

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

Compensated Absences

Accumulated unpaid employee vacation benefits and sick leave are recognized as accrued payroll liabilities in the Statement of Net Position. As of June 30, 2016, the District had $448,178 of accrued vacation and sick leave.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferral of outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District reports deferred employer pension contributions and other deferred outflows related to the District's pension.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources which represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Certain changes in the District's net pension liability are required to be deferred over a closed amortized period.

Pensions

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

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

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

Property Taxes

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Property Taxes (continued)

The District receives property taxes under the Teeter Plan, whereby the County determines the amount due and pays the District ratably throughout the year with the County bearing the risk of delinquent property taxes and retaining any interest and penalties earned thereon.

Water and Wastewater Services Revenue

Water and wastewater revenue is based on usage and recognized at the time of use. Customers are billed on a monthly cyclical basis. Estimated unbilled water and wastewater revenue based on estimated usage through June 30 has been recognized at year-end.

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. COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and Contractual Provisions

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

Violation	Action Taken
None reported	Not applicable

3. CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as following:

Cash and cash equivalents	$	13,519,564
Restricted cash		2,115,768
Investments (noncurrent)		5,776,340
Restricted investments (noncurrent)		6,827,952
Total cash and investments	$	28,239,624

Cash and investments were classified according to GASB Statement No. 40 as follows as of June 30, 2016:

Cash on hand	$	1,200
Deposits with financial institutions		3,222,604
Total cash on hand and deposits		3,223,804
Local Agency Investment funds		9,607,242
Money market funds		688,518
Investments held by custodian		12,604,292
Total investments		22,900,052
Total District Treasury		26,123,856
Cash with fiscal agent		2,115,768
Total cash and investments	$	28,239,624

Deposits

The carrying amount of the District's cash deposit was $3,222,604 at June 30 2016. The balance before reconciling amounts was a positive amount of $3,201,763 at June 30, 2016. The District has waived collateral requirements for cash deposits, which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities pledged by the pledging financial institution in the District's name.

3. CASH AND INVESTMENTS (continued)

Deposits (continued)

The market value of the pledged securities must equal at least 110% of the District's cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total cash deposits.

The District follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Investments

Investments are reported at fair value. California statutes authorize special districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. 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 restricted) that address interest rate risk, credit risk, and concentration of credit risk. The table does not address investments of debt proceeds held by the 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. The District's permissible investments include the following instruments:

3. CASH AND INVESTMENTS (continued)

Investments

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Californai Local Agency Investment	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates and Time Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Meduim Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	None
Financial Futures and Option Contracts	1	1	1
Investment Pools, including LAIF	None	None	None

The District complied with the provisions of the California Government Code and its investment policy pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investments are stated at fair value using the aggregate method in all funds, resulting in the following investment income in all funds:

Unrealized gain on investments	$ 437,494
Interest and dividends	283,914
Total investment income	$ 721,408

3. CASH AND INVESTMENTS (continued)

Investments

The District's portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates rise, the portfolio value will decline. If interest rates fall, the portfolio value will rise. The portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. Generally, the District's practice is to buy and hold investments until maturity dates. Consequently, the District's investments are carried at fair value.

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District's investments with LAIF at June 30, 2016, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

> *Structured Notes* - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/ or have embedded forwards or options.
>
> *Asset-Backed Securities* - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2016, the District had $9,607,242 invested in LAIF, which had invested 2.81% of the pool investments funds in Structured Notes and Asset-Backed Securities as compared to 2.08% in the previous year. The LAIF fair value factor of 1.000621222 was used to calculate the fair value of the investments in LAIF.

Risk Disclosures

Interest Risk: Interest rate risk is the market value fluctuation due to overall changes in the interest rates. 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 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 as necessary to provide the cash flow and liquidity needed for operations. The District's investment policy does not contain any provisions limiting interest rate risk that are more restrictive than what is specified in the California Government Code.

3. CASH AND INVESTMENTS (continued)

Risk Disclosures

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30,2016:

		Investment Maturities (in years)			
Investment Type	**FairValue**	**1 year or less**	**2 years**	**3 years**	**4 years**
U.S. Agency Securities	$ 3,758,731	$ -	$ -	$ -	$ 3,758,731
Long-Term Corp Securities	8,845,561	-	-	655,207	8,190,354
Local Agency Investment Funds	9,607,242	9,607,242	-	-	-
JP Morgan U.S. Government Money Market Fund	688,518	688,518	-	-	-
Total	$ 22,900,052	$ 10,295,760	$ -	$ 655,207	$ 11,949,085

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2016 the District's deposits and investments were rated as follows:

	Credit Quality Ratings	
	Moody's	**S&P**
U.S. Agency Securities	Aaaa	AA+
Long-Term Corp Securities	Aaaa	AA+
Local Agency Investment Funds	Unrated	Unrated
JP Morgan U.S. Governmnet Money Market Fund	Aaaa	AA+

Concentration of Credit Risk: The California Government Code limits the amount the District may invest in anyone issuer, with the exception of U.S. Treasury obligations, U.S. Agency securities and LAIF. The District has the following investments in anyone issuer (other than money market mutual funds and external investment pools) that represent 5% or more of total District investments.

3. CASH AND INVESTMENTS (continued)

Issuer	Investment Type	2016 Reported Amount	2016 % of Total Investments
Federal Agricultural Mortgage Corporation	U.S. agency securities	$ 1,486,859	6.5%
Federal Home Loan Mortgage Corporation	U.S. agency securities	$ 1,038,528	4.5%
Bank of New York Mellon Corporation	Long-Term Corp Securities	$ 1,037,050	4.5%
American Express Credit Corporation	Long-Term Corp Securities	$ 1,033,110	4.5%
Morgan Stanley	Long-Term Corp Securities	$ 1,024,610	4.5%

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depositary 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 Districts deposits are fully insured or collateralized. The custodial credit risk 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 for its investment or collateral securities that are in the possession of another party. Investments held at Morgan Stanley are insured up to $500,000 by the Federal Deposit Insurance Corporation (FDIC) but not for loss in market value.

Investment Valuation

Investments (except money market accounts that are included as part of restricted cash and investments) are measured at fair value on a recurring basis. *Recurring* fair value measurements, are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level l inputs are quoted prices in active markets for identical assets; Level 2 inputs are Significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements at June 30, 2016 are described on the following page:

		Fair Value Measurement Using		
Investment Type	Fair Value	Level 1	Level 2	Level 3
U.S. Agency Securities	$ 3,758,731	$ -	$ 3,758,731	$ -
Long-Term Corp Securities	8,845,561	-	8,845,561	-
Local Agency Investment Funds	9,607,242	-	9,607,242	-
JP Morgan U.S. Government Money Market Fund	688,518	-	688,518	-
Total	$ 22,900,052	$ -	$ 22,900,052	$ -

3. CASH AND INVESTMENTS (continued)

Investment Valuation (continued)

Federal Agency Securities categorized as Level 2 are valued based on matrix pricing which use observable market inputs such as yield curves and market indices that are derived principally from or corroborated by observable market data by correlation to other means.

The District's fair value for its investment in the State of California Local Agency Investment Fund (LAIF) is based on the fair market value factors provided by LAIF that are calculated based on the total fair market value of the pool. LAIF includes investments categorized as Level l such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets and investments categorized as Level 2 such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices that are derived principally from or corroborated by observable market data by correlation to other means. The District categorized its investments in LAIF based on the lowest significant input used to determine the fair market value of the total pool.

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2016, consists of the following:

Water and sewer	$ 5,872,577
Property tax	9,671
Interest receivables	33,846
Other receivables	426,096
Total accounts receivables	$ 6,342,190

5. CAPITAL ASSETS

A schedule of changes in capital assets and accumulated depreciation for the fiscal year ended June 30, 2016, is shown as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	$ 1,977,490	$ -	$ -	$ 1,977,490
Construction in progress	4,959,625	2,668,974	(181,535)	7,447,064
Total capital assets, not being depreciated	6,937,115	2,668,974	(181,535)	9,424,554
Capital assets, being depreciated:				
Buildings and improvements	969,773	-	-	969,773
Reservoir, pipelines, and tanks	137,049,736	181,535	-	137,231,271
Meters	302,678	195,140	-	497,818
Equipment	3,293,442	278,060	-	3,571,502
Investment in sewer rights	7,416,124	197,319	-	7,613,443
Total capital assets, being depreciated	149,031,753	852,054	-	149,883,807
Less accumulated depreciation for:				
Buildings and improvements	(833,611)	(28,256)	-	(861,867)
Reservoir, pipelines, and tanks	(66,581,450)	(2,792,877)	-	(69,374,327)
Meters	(302,679)	(9,757)	-	(312,436)
Equipment	(2,748,374)	(163,784)	-	(2,912,158)
Investment in sewer rights	(850,170)	(116,296)	-	(966,466)
Total accumulated depreciation	(71,316,284)	(3,110,970)	-	(74,427,254)
Total capital assets, being depreciated, net	77,715,469	(2,258,916)	-	75,456,553
Government activities capital assets, net	$ 84,652,584	$ 410,058	$ (181,535)	$ 84,881,107

6. NONCURRENT LIABILITIES

Noncurrent Liabilities Activity

Noncurrent liabilities include debt and other long-term liabilities. Changes in noncurrent liabilities for the fiscal year ended June 30, 2016, are as follows:

	Balance June 30, 2015	Additions	Retirements	Balance at June 30, 2016	Amount Due Within One Year
Compensated absences	$ 446,243	$ 16,062	$ (14,127)	$ 448,178	$ -
Loan Payable SRF Morro	10,246,413	-	(416,458)	9,829,955	211,947
Loan Payable SRF Beck	7,731,716	-	(314,250)	7,417,466	159,930
Total long-term debt	$ 18,424,372	$ 16,062	$ (744,835)	$ 17,695,599	$ 371,877

Capitalization Grant for Drinking Water Fund Loan

On October 31, 2012, two agreements were entered into between the State of California, Department of Public Health (State) and District, which constituted funding in the form of loans and grants in the amounts of $10,246,413 and $7,731,716 for the SRF Morro and SRF Beck projects, respectively, for a term of twenty years with interest at 2.0933%, per annum. Accrued interest at June 30, 2016 was $106,950 and $80,702 for the SRF Morro and SRF Beck projects, respectively.

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

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

6. NONCURRENT LIABILITIES (continued)

Capitalization Grant for Drinking Water Fund Loan (continued)

Required payments of principal and interest on the loans at June 30, 2016, including current maturities are as follows:

Year Ending	Principal	Interest	Total
2017	$ 371,877	$ 180,519	$ 552,396
2018	755,472	357,103	1,112,575
2019	771,368	341,371	1,112,739
2020	787,600	325,306	1,112,906
2021-2025	4,193,679	1,373,481	5,567,160
2026-2030	4,653,872	918,032	5,571,904
2031-2035	5,164,564	412,594	5,577,158
2036	548,989	17,089	566,078
	$ 17,247,421	$ 3,925,495	$ 21,172,916

7. JOINT VENTURES (JOINT POWERS AGREEMENTS)

Special District Risk Management Authority

The District is a participating member of the Special District Risk Management Authority (SDRMA), which arranges for and provides self-insurance programs such as insurance premiums for general liability, employment practices, and property insurance. The District pays a premium commensurate with the level of coverage requested.

Contributions to SDRMA were approximately $313,194 for the year ended June 30, 2016. Condensed financial information available for the SDRMA as of June 30, 2016 are as follows. The complete financial statements can be obtained by contacting SDRMA at 1112 I Street, Suite 300, Sacramento, CA 95814-2865.

Total revenues	$ 64,475,979
Total expenses	61,022,721
Net decrease in net position	3,453,258
Beginning net position	48,690,126
Ending net position	$ 52,143,384

8. EMPLOYEE RETIREMENT 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 District. The District's employer rate plans in the miscellaneous risk pool include the

Miscellaneous plan (Miscellaneous) and the PEPRA Miscellaneous plan (PEPRA Miscellaneous).

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 one of the following: the Basic Death Benefit or the Optional Settlement 2W 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, 2016, are summarized as follows:

8. EMPLOYEE RETIREMENT PLAN (continued)

Employer Rate Plans in the Miscellaneous Risk Pool

Employer rate plan	Miscellaneous	PEPRA Miscellaneous
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 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 of % of eligible compensation	2.0%to 2.5%	1.0% to 2.0%
Required employee contribution rates	7.892%	6.205%
Required employer contribution rates	9.671%	

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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The District's contributions to the risk pools in the Plan for the year ended June 30, 2016, was $369,170 for the Miscellaneous Risk Pool.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability for the Miscellaneous Risk Pool of $4,584,303. The District did not have a liability for PEPRA.

The 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.

8. EMPLOYEE RETIREMENT PLAN (continued)

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

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 District's proportionate share of the net pension liability as of June 30, 2014, the valuation date, was calculated as follows:

> In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to the Miscellaneous 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, 2014. 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 District's proportionate share percentage for each risk pool at the valuation date was calculated by dividing the 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 District's proportionate share of the net pension liability as of June 30, 2015, the measurement date, was calculated as follows:

> Each risk pool's total pension liability was computed at the measurement date, June 30, 2015, 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, 2015, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.
>
> The individual employer rate plan's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2015, was calculated by applying the District's proportionate share percentages as of the valuation date (described above) to the respective risk pool's total pension liability and fiduciary net position as of June 30, 2015, to obtain each employer rate plan's total pension liability and fiduciary net position as of June 30, 2015. Each employer rate plan's fiduciary net position was then subtracted from its total pension liability to obtain the net pension liability as of the measurement date.

8. EMPLOYEE RETIREMENT PLAN (continued)

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

The District's proportionate share percentage of the net pension liability for each risk pool as of June 30, 2014, and June 30, 2015, was as follows:

	Miscellaneous Risk Pool
Proportion at valuation date – June 30, 2014	0.167500%
Proportion at measurement date – June 30, 2015	0.167099%
Change – increase (decrease)	(0.000401)%

For the year ended June 30, 2016, the District recognized pension expense of $1,080,270. At June 30, 2016, 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
Differences between Expected and Actual Experience	$ 36,584	$ -
Changes of Assumptions	–	346,116
Net Difference between Projected and Actual Earnings on Pension Plan Investments	9,491	-
Adjustment due to Differences in Proportions	667,884	-
Differences between Actual and Required Contributions	-	38,283
District contributions subsequent to the measurement date	369,170	-
Total	$ 1,083,129	$ 384,399

The $369,170 reported as deferred outflows of resources related to the pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

8. EMPLOYEE RETIREMENT PLAN (continued)

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

Measurement Date June 30:	Deferred Outflows/(Inflows) of Resources
2017	$ 42,032
2018	42,880
2019	22,864
2020	221,783
Total	$ 329,560

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase (1)	Varies By Age & Length of Service
Investment Rate of Return (2)	7.65%
Mortality Rate Table (3)	Derived Using CalPERS' Membership Data

(1)Depending on age, service and type of employment
(2)Net of Pension Plan Investment and Administrative Expenses; includes Inflation
(3)The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

8. EMPLOYEE RETIREMENT PLAN (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, 2015 based on June 30, 2016 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 10 years) and the long-term (11-60 years) using a building-block approach.

8. EMPLOYEE RETIREMENT PLAN (continued)

Discount Rate (continued)

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.

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	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.5	5.13
Infrastructure and Forestland	3.0	4.5	5.09
Liquidity	2.0	(0.55)	(1.05)

(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 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 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 (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

8. EMPLOYEE RETIREMENT PLAN (continued)

	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Miscellaneous Risk Pool's net pension liability	$ 7,599,445	$ 4,584,303	$ 2,094,952

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, 2016, in the amount of $2,749,863, is not included in the District's financial statements.

10. OTHER POST-EMPLOYMENT BENEFITS

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

Plan Description

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

10. OTHER POST-EMPLOYMENT BENEFITS (continued)

Funding Policy

The District policy is to fund the Plan on a pay as you go basis, which covers only current cost of health insurance premiums for employees and retirees.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 30 years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution service costs	$ 19,032
Amortization adjsutment	20,536
Annual OPEB cost (expense)	39,568
Estimated Pay-As-You-Go Annual Employer Contribution	(29,498)
Increase (decrease) in net OPEB obligation	10,070
Net OPEB obligation, beginning of year	355,101
Net OPEB obligation, end of year	$ 365,171

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending June 30, 2016 and the two preceding years were as follows:

Year Ended	Annual Required Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	$ 40,481	67%	$ 315,421
6/30/2015	$ 40,481	67%	$ 355,101
6/30/2016	$ 39,568	75%	$ 365,171

10. OTHER POST-EMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress

As of June 30, 2016, the actuarial accrued liability for benefits was $365,171, all of which was unfunded.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information indicating whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Assumptions

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

11. 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.

11. COMMITMENTS AND CONTINGENCIES (continued)

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%.

12. PRIOR PERIOD ADJUSTMENT

The District recorded a prior period adjustment to reduce its deferred revenue associated with capacity fees of $6,892,850. The effect on the statement of activities for the year ended June 30, 2015 was not determinable.

REQUIRED SUPPLEMENTARY INFORMATION

RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS
June 30, 2016

	June 30, 2016	June 30, 2015
Proportion of the net pension liability	0.16710%	0.05596%
Proportionate share of the net pension liability	$ 4,584,303	$ 3,482,335
Covered - employee payroll	$ 3,829,237	$ 3,873,094
Proportionate Share of the net pension liability as percentage of covered-employee payroll	119.72%	89.91%
Plan's fiduciary net position	$ 17,139,640	$ 17,036,689
Plan fiduciary net position as a percentage of the total pension liability	79.29%	83.03%

Notes to Schedule:

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

Change in Assumptions: None

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

RAINBOW MUNICIPAL WATER DISTRICT
STATEMENT OF PLAN CONTRIBUTIONS
LAST 10 YEARS
June 30, 2016

	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	$ 570,649	$ 589,674
Contributions in relation to the actuarially determined contributions	(570,649)	(589,674)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 3,829,237	$ 3,873,094
Contributions as a percentage of covered employee payroll	14.90%	15.22%

Notes to Schedule:

Valuation date:	June 30, 2015	June 30, 2014

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

RAINBOW MUNICIPAL WATER DISTRICT
OTHER POSTEMPLOYMENT BENEFITS PLAN SCHEDULE OF FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Simplified Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2009	$ -	$ 155,249	$ 155,249	0%	N/A	N/A
July 1, 2012	$ -	$ 282,047	$ 282,047	0%	N/A	N/A
July 1, 2015	$ -	$ 355,101	$ 355,101	0%	N/A	N/A

OTHER SUPPLEMENTARY INFORMATION

RAINBOW MUNICIPAL WATER DISTRICT
ORGANIZATION
June 30, 2016

Name	Office	Term	Term expires
Helene Brazier	Director	4 years	December 2020
Michael Mack	Director	4 years	December 2020
Bill Stewart	Director	4 years	December 2020
Hayden Hamilton	Director	2 years	December 2018

Administration

Name	Position
Tom Kennedy	General Manager
Vanessa Martinez	Finance Manager

RAINBOW MUNICIPAL WATER DISTRICT
ASSESSED VALUATION
June 30, 2016

Assessed valuation	
Secured property	$ 3,981,763,141
Unsecured property	21,815,347
Total assessed valuation	$ 4,003,578,488