Rainbow Municipal Water District

Annual Financial Report

For the Fiscal Year Ended
June 30, 2018

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INDEPENDENT AUDITORS' 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 year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rainbow Municipal Water District as of June 30, 2018, 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 Notes 1c, 7 and 11 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which required retrospective application resulting in a $340,311 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 - Defined Benefit Pension Plans, Schedule of Contributions - Defined Benefit Pension Plans, Schedule of Changes in the Net OPEB Liability and Related Ratios, and Schedule of Contributions - OPEB, 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 - Defined Benefit Pension Plans, Schedule of Contributions - Defined Benefit Pension Plans, Schedule of Changes in the Net OPEB Liability and Related Ratios, and Schedule of Contributions – OPEB because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Diehl Evans LLP

Carlsbad, California
December 17, 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, 2018. 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 $82,879,978.

The change in net position for the fiscal year was a decrease of $406,092.

The District had a loss from operations in the amount of $3,769,252 in the current year compared to a loss from operations of $3,976,747 in the previous year.

This year the District had $3,066,497 worth of net additions to capital assets compared to $425,652 last year.

In addition to the 457 plan, the District introduced a deferred compensation plan in accordance with Internal Revenue Code Section 401(a) in 2018. This plan is administered through National Benefits Services and is available to all employees hired after July 1, 2012. Non-exempt employees hired on or before June 30, 2012 have the option of participating in the plan by waiving the retirement medical reimbursement benefit.

This year the district implemented GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The changes for GASB 75 are designed to standardize the way OPEB expense is calculated and displayed in order to have consistency and comparability between reporting entities. Part of this implementation required a prior period adjustment to remove the prior OPEB liability of $369,558 from the Statement of Net Position and restate it at $709,869 using the new guidelines.

OVERVIEW OF FINANCIAL STATEMENTS

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

OVERVIEW OF FINANCIAL STATEMENTS (continued)

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

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

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

The *Statement of Cash Flows* provides information regarding the District's cash receipts and cash disbursements during the year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where cash came from, what was cash used for, and what was the change in cash balance during the reporting period.

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

DISTRICT'S FINANCIAL ANALYSIS

Our analysis of the District begins on page 9 of the financial statements. One of the most important questions to ask about the District's finances is "Whether the District, as a whole, is better off or worse off as a result of the year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. Measuring the change in the District's net position - the difference between assets and liabilities - is one way to measure financial health. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

The District's net position from the prior fiscal year decreased by 0.5%. Operating revenue for this fiscal year increased 15.2% over the prior year.

Operating expenses increased by 13.1% from the prior year due to increased wholesale cost of water purchases as a result of the increase in water sales. Non-operating expenses decreased by 85.1% or $1,949,975 due to previous year's abandonment of capital assets.

DISTRICT'S FINANCIAL ANALYSIS (continued)

Statement of Net Position

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

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

Net position may serve over time, as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by $82,879,978 as of June 30, 2018.

Total liabilities increased as a result of the increase to the District's pension and OPEB liability. The fiscal year 2018 Net Pension Liability had an increase of $1.02 million compared to fiscal year 2017 and an increase of $2.44 million compared to fiscal year 2016. Net Pension Liability is reported at $7,031,525 million for Fiscal Year 2018 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 $6,009,026 and $4,584,303 for fiscal years 2017 and 2016, respectively.

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

DISTRICT'S FINANCIAL ANALYSIS (continued)

Table 1
Condensed Statement of Net Position

	2018	2017	$ Change	% of Change
ASSETS				
Current assets	$ 35,910,134	$ 33,878,794	$ 2,031,340	6.0%
Noncurrent assets	81,135,315	81,717,253	(581,938)	-0.7%
TOTAL ASSETS	117,045,449	115,596,047	1,449,402	1.3%
DEFERRED OUTFLOWS OF RESOURCES	2,605,346	2,350,628	254,718	10.8%
LIABILITIES				
Current liabilities	6,965,292	6,499,958	465,334	7.2%
Noncurrent liabilities	29,370,060	27,702,708	1,667,352	6.0%
TOTAL LIABILITIES	36,335,352	34,202,666	2,132,686	6.2%
DEFERRED INFLOW OF RESOURCES	435,465	457,939	(22,474)	-4.9%
NET POSITION				
Net investment in capital assets	65,399,076	65,217,530	181,546	0.3%
Restricted for future capacity	894,491	894,491	-	0.0%
Unrestricted	16,586,411	17,174,049	(587,638)	-3.4%
TOTAL NET POSITION	$ 82,879,978	$ 83,286,070	$ (406,092)	-0.5%

Statement of Revenues, Expenses and Changes in Net Position

The District's total operating revenues for the fiscal year ended June 30, 2018, excluding inter-fund transfers, increased by $5,476,417 to $41,617,724. This was due primarily to the increased water sales to customers.

The District's total operating expenses increased by $5,268,922 to $45,386,976 due to the increased wholesale cost of water purchases as a result of the increase in water sales.

The loss from operations was $3,769,252.

The following table presents a summary of the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2018:

DISTRICT'S FINANCIAL ANALYSIS (continued)

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

	2018	2017	$ Change	% of Change
OPERATING REVENUES	$ 41,617,724	$ 36,141,307	$ 5,476,417	15.2%
OPERATING EXPENSES	(45,386,976)	(40,118,054)	(5,268,922)	13.1%
NON-OPERATING REVENUES	946,292	925,203	21,089	2.3%
NON-OPERATING EXPENSES	(342,414)	(2,292,389)	1,949,975	-85.1%
INCOME BEFORE CAPITAL CONTRIBUTIONS	(3,165,374)	(5,343,932)	2,178,558	-40.8%
CAPITAL CONTRIBUTIONS	2,972,963	156,302	2,816,661	1802.1%
CHANGES IN NET POSITION	(192,411)	(5,187,630)	4,995,219	-96.3%
NET POSITION, BEGINNING	83,286,070	93,254,051	(9,967,981)	-10.7%
PRIOR PERIOD ADJUSTMENT	(213,681)	(4,780,351)	4,566,670	-95.5%
NET POSITION, BEG. RESTATED	83,072,389	88,473,700	(5,401,311)	-6.1%
TOTAL NET POSITION, ENDING	$ 82,879,978	$ 83,286,070	$ (406,092)	-0.5%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 3
Changes in Capital Assets

	2018	2017	$ Change	% of Change
Land	$ 1,977,490	$ 1,977,490	$ -	0.0%
Construction in progress	3,187,889	3,150,012	37,877	1.2%
Buildings and improvements	1,026,247	969,773	56,474	5.8%
Reservoir, pipelines, and tanks	142,994,055	141,120,689	1,873,366	1.3%
Meters	1,074,936	622,478	452,458	72.7%
Equipment	4,335,822	3,989,111	346,711	8.7%
Investment in sewer rights	8,111,102	7,811,490	299,612	3.8%
Less: accumulated depreciation	(81,572,225)	(77,923,790)	(3,648,435)	4.7%
Total capital assets, net	$ 81,135,315	$ 81,717,253	$ (581,937)	-0.7%

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt

Table 4
Changes in Debt

	2018	2017	$ Change	% of Change
Loan Payable SRF Morro	$ 8,968,676	$ 9,403,814	$ (435,138)	-4.6%
Loan Payable SRF Beck	6,767,563	7,095,909	(328,346)	-4.6%
Total debt	$ 15,736,239	$ 16,499,723	$ (763,484)	-4.6%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's Board of Directors and management considered many factors when setting the fiscal year 2018 budget, user fees, and charges. These indicators were taken into consideration when adopting the District's budget for year 2019.

CONTACTING THE DISTRICT

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

STATEMENT OF NET POSITION
June 30, 2018

ASSETS		
Current Assets:		
Cash and cash equivalents	$	11,898,761
Restricted cash and cash equivalents		894,491
Investments		13,357,047
Accounts receivable - water and sewer, net		7,637,920
Interest receivable		124,745
Taxes and assessments receivable		11,211
Other receivables		216,920
Inventories		1,478,854
Prepaid expenses		290,185
Total Current Assets		35,910,134
Noncurrent Assets:		
Capital assets:		
Land		1,977,490
Construction in progress		3,187,889
Buildings and improvements		1,026,246
Reservoir, pipelines, and tanks		142,994,055
Meters		1,074,936
Equipment		4,335,822
Investment in sewer rights		8,111,102
Less: accumulated depreciation		(81,572,225)
Total Noncurrent Assets		81,135,315
Total Assets		117,045,449
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from pension		2,605,346

(Continued)

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

STATEMENT OF NET POSITION (Continued)
June 30, 2018

LIABILITIES		
Current liabilities:		
Accounts payable	$	6,279,655
Accrued expenses		201,945
Construction meter deposits		90,294
Developer deposits		5,652
Current portion of notes payable		387,746
Total Current Liabilities		6,965,292
Noncurrent Liabilities:		
Net OPEB liability		719,601
Compensated absences		440,203
Net pension liability		7,031,525
Prepaid capacity fees		5,830,238
Notes payable, net of current portion		15,348,493
Total Noncurrent Liabilities		29,370,060
Total Liabilities		36,335,352
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts on pension		435,465
NET POSITION		
Net investment in capital assets		65,399,076
Restricted		894,491
Unrestricted		16,586,411
Total Net Position	$	82,879,978

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the year ended June 30, 2018

OPERATING REVENUES	
Water sales	$ 38,105,712
Wastewater revenue	2,520,622
Other operating revenue	991,390
Total Operating Revenues	41,617,724
OPERATING EXPENSES	
Cost of purchased water sold	27,040,873
Water pumping	591,529
Transmission and distribution	4,777,964
Meter services	1,003,899
Sewer collection services	1,646,593
General and administrative	4,272,246
Engineering	1,254,293
Finance	601,322
Customer service	549,822
Depreciation	3,648,435
Total Operating Expenses	45,386,976
Operating Income (Loss)	(3,769,252)
NONOPERATING REVENUES (EXPENSES)	
Property tax revenue	616,027
Investment income	(27,761)
Other nonoperating revenue	358,026
Interest expense	(342,414)
Total Nonoperating Revenues (Expenses)	603,878
Income Before Capital Contributions	(3,165,374)
Capital Contributions	2,972,963
Changes in Net Position	(192,411)
Net Position, Beginning of Year, As Originally Stated	83,286,070
Prior Period Adjustment	(213,681)
Net Position, Beginning of Year, As Restated	83,072,389
Net Position, End of year	$ 82,879,978

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

STATEMENT OF CASH FLOWS
For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers for water sales and service	$ 40,184,542
Payments for the purchase of water	(26,420,040)
Payments to vendors and suppliers for materials and services	(5,891,512)
Payments for employee wages, benefits and related costs	(7,507,874)
Net Cash Provided (Used) by Operating Activities	365,116
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes	615,519
Net Cash Provided (Used) by Noncapital Financing Activities	615,519
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(3,066,497)
Proceeds from capital contributions	3,857,878
Other nonoperating revenue	358,026
Principal paid on notes payable	(763,484)
Interest paid on notes payable	(342,414)
Net Cash Provided (Used) by Capital and Related Financing Activities	43,509
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(7,023,529)
Proceeds from sales and maturities of investments	6,053,000
Interest received	280,822
Net Cash Provided (Used) by Investing Activities	(689,707)
Net Increase (Decrease) in Cash and Cash Equivalents	334,437
Cash and Cash Equivalents, Beginning of Year	12,458,815
Cash and Cash Equivalents, End of Year	$ 12,793,252

(Continued)

STATEMENT OF CASH FLOWS (Continued)
For the year ended June 30, 2018

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

Operating Income (Loss)	$	(3,769,252)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization		3,648,435
GASB 68 pension and GASB 75 OPEB adjustments		755,039
Changes in operating assets and liabilities:		
(Increase) Decrease in operating assets:		
Accounts receivable		(1,253,728)
Other receivables		(179,454)
Inventory		381,250
Prepaid expenses		144,113
Increase (Decrease) in operating liabilities:		
Accounts payable		720,198
Accrued expenses		(56,628)
Compensated absences		(28,392)
Construction meter deposits		3,535
Net Cash Provided (Used) by Operating Activities	$	365,116

Reconciliation to Statement of Net Position

Cash and cash equivalents	$	11,898,761
Restricted cash and cash equivalents		894,491
Total cash and cash equivalents	$	12,793,252

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:

Net Investment in Capital Assets

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

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. 75 – *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,"* effective for periods beginning after June 15, 2017. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pensions. Accounting changes adopted to conform to the implementation of this statement should be applied retroactively. The result of the implementation of this statement decreased net position at July 1, 2017 of the District by $340,311.
- GASB Statement No. 81 – "*Irrevocable Split-Interest Agreements,*" effective for periods beginning after December 15, 2016, and this did not impact the District.
- GASB Statement No. 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, and did not impact the District.
- GASB Statement No. 85 – *"Omnibus 2017,"* effective for periods beginning after June 15, 2017, and did not impact the District.
- GASB Statement No. 86 – *"Certain Debt Extinguishment Issues,"* effective for periods beginning after June 15, 2017, 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 83 – "Certain Asset Retirement Obligations" effective for periods beginning after June 15, 2018.
- GASB 84 – "Fiduciary Activities" effective for periods beginning after December 15, 2018.
- GASB 87- "*Leases,"* effective for periods beginning after December 15, 2019.
- GASB 88 – "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements" effective for periods after June 15, 2018.
- GASB 89 – "Accounting For Interest Cost Incurred before the End of a Construction Period" effective for periods beginning after December 15, 2019.
- GASB 90 – "Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61" effective for periods beginning after December 15, 2018.

1. Summary of Significant Accounting Policies (Continued)

d. Deferred Outflows/Inflows of Resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years.
- Deferred outflow related to pensions for changes in proportion. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2017.
- 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, 2017.
- Deferred outflows from pensions resulting from the changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following that will qualify for reporting in this category:

- Deferred inflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2017.
- 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, 2018 have been reduced by an allowance for doubtful accounts of $252,976.

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
Improvement of Sites	7-25 years
Equipment	5-10 years
Capacity Rights	17 years

l. Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees. Changes in compensated absences for the year ended June 30, 2018, were as follows:

Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
$ 468,595	$ 36,757	$ (65,149)	$ 440,203

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, 2018, the following timeframes are used:

Valuation Date (VD) June 30, 2016
Measurement Date (MD) June 30, 2017
Measurement Period (MP) July 1, 2016 to June 30, 2017

p. Other Postemployment Benefits

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

q. Interest Expense

The District incurs interest charges on long-term debt. Interest expense for the year ended June 30, 2018 was $342,414 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, 2018.

r. Use of Estimates

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

2. Cash, Cash Equivalents, and Investments

Cash and investments at June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Net Position:	2018
Current Assets:	
Cash and cash equivalents	$ 11,898,761
Restricted cash and cash equivalents	894,491
Investments	13,357,047
Total cash and investments	$ 26,150,299

Cash and investments consist of the following:

Cash on hand	$ 1,200
Deposits with financial institutions	4,299,026
Investments	21,850,073
Total cash and investments	$ 26,150,299

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, 2018.

		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)	$ 7,598,535	$ 7,598,535	$ -	$ -	$ -
Money Market Mutual Funds	894,491	894,491	-	-	-
Negotiable Certifcates of Deposit	2,876,379	-	-	2,876,379	-
Medium-Term Notes	4,755,471	-	-	4,755,471	-
U.S. Sponsored Entities	5,725,197	-	495,015	5,230,182	-
Total	$ 21,850,073	$ 8,493,026	$ 495,015	$ 12,862,032	$ -

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, 2018.

			Rating as of Year End				
Investment Type	Total	Minimum Legal Rating	Exempt from Disclosure	AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	$ 7,598,535	N/A	$ -	$ -	$ -	$ -	$ 7,598,535
Money Market Mutual Funds	894,491	N/A	-		-	-	894,491
Negotiable Certifcates of Deposit	2,876,379	N/A	-	967,185	-	-	1,909,194
Medium-Term Notes	4,755,471	A2	-	-	1,919,065	2,836,406	-
U.S. Sponsored Entities	5,725,197	N/A	-	5,725,197	-	-	-
Total	$ 21,850,073		$ -	$ 6,692,382	$ 1,919,065	$ 2,836,406	$ 10,402,220

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	2018
Federal National Mortgage Association	U.S. Govt Sponsored Entities	$ 2,417,812
Federal Home Loan Mortgage Corporation	U.S. Govt Sponsored Entities	$ 2,122,571

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, 2018, $3,913,623 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, 2018
Investments by Fair Value Level				
U.S. Government Sponsored				
Entity Securities				
FNMA	$ -	$ 2,417,812	$ -	$ 2,417,812
FHLB	-	991,430	-	991,430
FHLMC	-	2,122,571	-	2,122,571
FFCB		193,384		193,384
Negotiable Certifcates of Deposit	-	2,876,379	-	2,876,379
Medium Term Notes	-	4,755,471	-	4,755,471
Total Investments by Fair Value Level	$ -	$ 13,357,047	$ -	13,357,047
Investments measured at Cost or Net Asset Value (NAV)				
Local Agency Investment Fund (LAIF)				7,598,535
Money Market Mutual Funds				894,491
Total Investments at Cost or Net Assets Value (NAV)				8,493,026
Total Investments				$ 21,850,073

3. Capital Assets

Changes in capital assets for the year ended June 30, 2018, were as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	$ 1,977,490	$ -	$ -	$ 1,977,490
Construction in progress	3,150,012	1,904,727	(1,866,850)	3,187,889
Total capital assets, not being depreciated	5,127,502	1,904,727	(1,866,850)	5,165,379
Capital assets, being depreciated:				
Buildings and improvements	969,773	56,473	-	1,026,246
Reservoirs pipelines, and tanks	141,120,689	1,873,366	-	142,994,055
Meters	622,478	452,458	-	1,074,936
Equipment	3,989,111	346,711	-	4,335,822
Investment in sewer rights	7,811,490	299,612	-	8,111,102
Total capital assets, being depreciated	154,513,541	3,028,620	-	157,542,161
Accumulated depreciation:				
Buildings and improvements	(890,124)	(29,583)	-	(919,707)
Reservoirs pipelines, and tanks	(72,512,514)	(3,198,519)	-	(75,711,033)
Meters	(338,185)	(54,013)	-	(392,198)
Equipment	(3,089,581)	(202,323)	-	(3,291,904)
Investment in sewer rights	(1,093,386)	(163,997)	-	(1,257,383)
Total accumulated depreciation	(77,923,790)	(3,648,435)	-	(81,572,225)
Total capital assets, being depreciated, net	76,589,751	(619,815)	-	75,969,936
Total capital assets, net	$ 81,717,253	$ 1,284,912	$ (1,866,850)	$ 81,135,315

Depreciation expense for depreciable capital assets was $3,648,435 for the year ended June 30, 2018.

4. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2018 were as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Loan Payable SRF Morro	$ 9,403,814	$ -	$ (435,138)	$ 8,968,676	$ 220,991
Loan Payable SRF Beck	7,095,909	-	(328,346)	6,767,563	166,755
Total	$ 16,499,723	$ -	$ (763,484)	$ 15,736,239	$ 387,746

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, 2018, the amount outstanding was $8,968,676.

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
2019	$ 220,991	$ 93,871	$ 314,862
2020	448,945	180,778	629,723
2021	458,392	171,331	629,723
2022	468,038	161,685	629,723
2023	477,886	151,837	629,723
2024-2028	2,544,570	604,045	3,148,615
2029-2033	2,823,797	324,817	3,148,614
2034-2035	1,526,057	48,250	1,574,307
Total	$ 8,968,676	$ 1,736,614	$ 10,705,290

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, 2018, the amount outstanding was $6,767,563.

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
2019	$ 166,755	$ 70,833	$ 237,588
2020	338,764	136,411	475,175
2021	345,892	129,283	475,175
2022	353,171	122,004	475,175
2023	360,602	114,573	475,175
2024-2028	1,920,076	455,799	2,375,875
2029-2033	2,130,775	245,100	2,375,875
2034-2035	1,151,528	36,408	1,187,936
Total	$ 6,767,563	$ 1,310,411	$ 8,077,974

5. Inventories

Inventories at June 30, 2018 consisted of the following:

	2018
Water inventory	$ 426,372
Materials inventory	1,052,482
	$ 1,478,854

6. Defined Benefit Pension Plans

A. General Information about the Pension Plan

Plan Description

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. For employees hired into a plan with the 1.5% at 65 formula, eligibility for service retirement is age 55 with at least 5 years of services. PEPRA miscellaneous members become eligible for service retirement upon attainment of age 52 with at least 5 years of service. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. Safety members can receive a special death benefit if the member dies while actively employed and the death is job-related. Fire members may receive the alternate death benefit in lieu of the Basic Death Benefit or the 1957 Survivor Benefit if the member dies while actively employed and has at least 20 years of total CalPERS service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, 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. Defined Benefit 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 are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

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

As of June 30, 2018, Rainbow Municipal Water District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

	2018
Classic & PEPRA Plans	$ 7,031,525
Total Net Pension Liability	$ 7,031,525

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District' proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The Rainbow Municipal Water District's proportionate share of the net pension liability as of the measurement date ended June 30, 2016 and 2017 was as follows:

	Classic & PEPRA Plans
Proportion - June 30, 2016	0.172980%
Proportion - June 30, 2017	0.178370%
Change - Increase (Decrease)	0.005390%

6. Defined Benefit Pension Plans (Continued)

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

For the year ended June 30, 2018, the District recognized pension expense of $1,498,224. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 743,649	$ -
Differences between actual and expected experience	10,454	(129,244)
Change in assumptions	1,119,864	(98,890)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	422,574	(207,331)
Net differences between projected and actual earnings on plan investments	308,805	-
Total	$ 2,605,346	$ (435,465)

$743,649 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2019	$ 483,339
2020	687,474
2021	402,618
2022	(147,199)
2023	-
Thereafter	-

Actuarial Assumptions

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

6. Defined Benefit Pension Plans (Continued)

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

	Classic & PEPRA Plans
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	(1)
Mortality Rate Table	(1)
Post Retirement Benefit Increase	(3)

(1) Varies by entry age and service

(2) The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS wesbite.

(3) Contract COLA up to 2.75% until Purchasing Power Protection Allowances Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

Change of Assumptions

In fiscal year 2017-2018, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan and reflects the long-term expected rate of return for the each Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

6. Defined Benefit Pension Plans (Continued)

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

Discount Rate (Continued)

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

In determining the long term expected rate of return, CalPERS took into account both short term and long term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short term and long term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
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

6. Defined Benefit Pension Plans (Continued)

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

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

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

		Classic & PEPRA Plans
1% Decrease		6.15%
Net Pension Liability	$	10,722,916
Current Discount Rate		7.15%
Net Pension Liability	$	7,031,525
1% Increase		8.15%
Net Pension Liability	$	3,974,248

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan:

At June 30, 2018, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

7. Other Postemployment 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 10 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 10 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.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

7. Other Post-Employment Benefits (Continued)

Employees Covered

As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

Measurement Date	June 30, 2018
Active Employees Fully Eligible	10
Active Employees Not Yet Eligible	38
Retired Plan Members	6
Total	54

Total OPEB Liability

The District's OPEB liability of $719,601 was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2018.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	3.87%
Inflation	2.50%
Projected Salary Increase	3.50%
Expected long term investment rate of return	N/A
Healthcare Cost Trend Rates	7.70% PPO over first 5 years, grading uniformly over 10-year period to 5.00% overall rate
Pre-retirement Turnover	Derived from the July 1, 2015 Rainbow Municipal Water District Actuarial Valuation Report
Mortality	Derived from the RP-2014 Study, with Blue Collar Adjustment, improved generationally using MP-2016 Improvement Rates

The discount rate of 3.87% was based on The Bond Buyer 20-Bond GO Index and was updated to the current fiscal year end based on changes in market conditions as reflected in the Index.

7. Other Post-Employment Benefits (Continued)

Changes in total OPEB Liability

The change in total OPEB liability are as follows:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at July 1, 2017	$ 709,869	$ -	$ 709,869
Changes in the Year:			
Service cost	7,607		7,607
Interest on the total OPEB liability	26,991		26,991
Contribution - employer		24,866	(24,866)
Benefit payments	(24,866)	(24,866)	-
Net Changes	9,732	-	9,732
Balance at June 30, 2018	$ 719,601	$ -	$ 719,601

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

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

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Net OPEB Liability (Asset)	$ 777,827	$ 719,601	$ 668,503

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (6.7% decreasing to 4%) or 1-percentage point higher (8.7% decreasing to 6%) than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(6.7% over first five years decreasing over 10 year period to 4%)	(7.7% over first five years decreasing over 10 year period to 5%)	(8.7% over first five years decreasing over 10 year period to 6%)
Total OPEB Liability	$ 654,354	$ 719,601	$ 793,694

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

For the year ended June 30, 2018, the District recognized OPEB expense of $34,598. At June 30, 2018, the District had no reported deferred outflows of resources and deferred inflows of resources related to OPEB

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 $211,465 for the years ended June 30, 2018.

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 $126,630 for the year ended June 30, 2018.

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

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

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

Employee Dishonesty Coverage: $1,000,000 million per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, Disappearance and Destruction coverage's effective July 1, 2017.

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, 2017.

Boiler and Machinery: $100 Million per occurrence, subject to a $1,000 deductible per occurrence, effective July 1, 2017.

Public Officials Personal Liability: $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, deductible of $1000 per claim, effective July 1, 2017.

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

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and $5 Million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Certificate of Coverage, effective July 1, 2017.

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, 2018, in the amount of $3,709,826, is not included in the District's financial statements.

10. Commitments and Contingencies

Tank Maintenance Commitments

On April 22, 2015, the District entered into a ten (10) year contract with Utility Service Co., Inc. to maintain twelve water tanks. The contract was updated on July 1, 2011 to maintain the tanks at an annual cost of $615,585. The contract can be cancelled annually if intent to cancel is received with ninety (90) days prior to the anniversary date. Any outstanding balance for completed work would be due and payable within thirty (30) days of cancellation.

Capacity Rights for Sewage Treatment

On February 13, 2002, Rainbow Municipal Water District (the District) entered into a contract with the City of Oceanside, California (the City) to provide for the construction, operation, maintenance, and replacement of a wastewater system to service the needs of both the City and the District. The City owns the wastewater conveyance, treatment, and disposal facilities and the District has the contractual right to discharge wastewater into the City's System. The City and the District have previously entered into agreements on January 2, 1973, 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 $213,681. This adjustment included a reduction of workers compensation insurance expense in the prior year in the amount of $126,630 and a corresponding increase to fiscal year ended 6/30/2017 net position, and a $340,311 decrease of fiscal year ended 6/30/2017 net position in the Net OPEB Liability relating to the District's implementation of GASB 75.

Required Supplementary Information

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

LAST TEN YEARS*

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

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
From fiscal year June 30, 2015 to June 30, 2016:
GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.
From fiscal year June 30, 2017 to June 30, 2018:
The discount rate was reduced from 7.65% to 7.15%.

2. Schedule of Contributions – Defined Benefit Pension Plans

LAST TEN YEARS*

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

Notes to Schedule:

Valuation Date	6/30/2015	6/30/2014	6/30/2013	6/30/2012

Methods and Assumptions Used to Determine Contribution Rates:

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

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

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

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

3. Schedule of Changes in the Net OPEB Liability and Related Ratios

LAST TEN YEARS*

Fiscal year end	6/30/2018
Measurement date	6/30/2018
Total Pension Liability:	
Service cost	$ 7,607
Interest on total OPEB liability	26,991
Benefit payments, including refunds of	(24,866)
Net Change in Total OPEB Liability	9,732
Total OPEB Liability - Beginning of Year	709,869
Total OPEB Liability - End of Year (a)	719,601
Plan Fiduciary Net Position:	
Contributions - employer	24,866
Benefit payments	(24,866)
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - Beginning of Year	-
Plan Fiduciary Net Position - End of Year (b)	-
Net OPEB Liability - Ending (a)-(b)	$ 719,601
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered payroll	$ 4,346,367
Net OPEB liability as percentage of covered payroll covered - employee payroll	16.56%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in assumptions.

* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

4. Schedule of Contributions - OPEB

LAST TEN YEARS*

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

Notes to Schedule:

There is no ADC or employer contribution in relation to the ADC, as there is no Trust that exists for funding the OPEB liabilities. However, the District did make contributions from other District resources in the current year in the amount of $24,866.

* Fiscal year 2018 was the first year of implementation; therefore, one year shown.