

SOLANO COUNTY WATER AGENCY

Report to the Board of Directors

For the Year Ended June 30, 2009

SOLANO COUNTY WATER AGENCY
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For the Year Ended June 30, 2009

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WALNUT CREEK

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LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

The Board of Directors of the
Solano County Water Agency

We have audited the financial statements of the Solano County Water Agency (Agency) for the year ended June 30, 2009, and have issued our report thereon dated March 1, 2010. Professional standards require that we provide you with information related to our audit. That information is included in the Required Communications section of this report.

In planning and performing our audit of the financial statements of the Agency for the year ended June 30, 2009, we considered the Agency's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, and not to provide assurance on internal control over financial reporting.

During our audit for the year ended June 30, 2009, we followed up on the matter reported during the previous year's audit. That matter is included in the Status of Prior Year Recommendation section of this report. This report does not affect our report dated March 1, 2010, on the basic financial statements of the Agency.

This letter is intended solely for the information and use of the Agency's Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the Agency's management and staff for the courtesy and cooperation extended to us during the course of our engagement. We have discussed our comments and suggestions with management and would be pleased to discuss them further.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
March 1, 2010

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Report to the Board of Directors
Required Communications
For the Year Ended June 30, 2009

I. Our Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in the engagement letter dated January 7, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Agency. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

II. Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

We began our audit on October 5, 2009 and issued our report on March 4, 2010.

III. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2009. However, Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was effective for the Agency for the year ended June 30, 2009, but the Agency did not implement it. As a result, our report has been qualified for not properly reporting the financial effects of other postemployment benefits on the accrual basis of accounting. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimates of the expected lives of capital assets are based on experience and guidance from the Internal Revenue Service and impact the computation of the depreciation expense for the year. We evaluated the estimated useful lives of the capital assets for reasonableness and consistency. The resulting depreciation expense computations were reviewed for reasonableness in relation to the financial statements taken as a whole.

Management's estimate of the compensated absence accrual is based on outstanding vacation hours at current hourly rates. We evaluated the key factors and assumptions used to develop the compensated absence accrual in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatement of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 1, 2010.

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Required Communications (Continued)
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Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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Status of Prior Year Recommendation
For the Year Ended June 30, 2009

FUND REPORTING STRUCTURE

Currently, the Agency is reporting all of its activities as one enterprise fund, even those activities that are not supported by service charges such as flood control and water conservation.

We noticed that the Agency reports a portion of its "Solano Project" in its Special District Financial Transaction Report filed with the State Controller's Office as governmental funds. This portion is considered the Agency's General Fund, which can be used for any of the Agency's activities. It would seem that this is the preferred treatment. Therefore, to be consistent, this portion of the "Solano Project" should be reported as the general governmental fund in the Agency's basic financial statements. It is suggested that the enterprise activities of the "Solano Project" be reported as a separate enterprise fund in the Agency's basic financial statements.

We also noticed that the Agency reports its "Flood Control Zone 1 (Ulatis)" and "Flood Control Zone 2 (Green Valley)" projects in its Special District Financial Transaction Report filed with the State Controller's Office as governmental funds. As these activities do not appear to be supported by any service charges, it would seem that this is the preferable treatment. Therefore, to be consistent, these two projects should be reported as special revenue governmental funds in the Agency's basic financial statements.

These changes in the Agency's basic financial statements would also require the Agency to present government-wide financial statements in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Status: The Agency has not implemented this recommendation.

Management's response: Management agrees with the auditor's that the flood control, water conservation, Ulatis Flood Control and Green Valley Flood Control activities should be reported as government type fund activities in the basic financial statements. The activities of the Solano Project and State Water Project are primarily tax supported and management would prefer to report these activities as government type funds in the basic financial statements and not as enterprise funds as suggested by the auditors. Generally, the enterprise fund is used to account for operations where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be recovered primarily through user charges. At the Agency, the costs of the Solano Project and State Water Project are recovered primarily through taxes. Although GAAP allows for non-enterprise activities to be reported as an enterprise type fund, management of the Agency prefers to have the basic financial statements reflect the true nature of the Solano Project and the State Water Project and report its activities as a governmental fund type in the basic financial statements. The State Controller's Office requires all water sales activities to be reported in the Special District Financial Report as enterprise fund activity even if the cost of the activity is recovered through taxes. GAAP does not require the basic financial statements to be consistent with the state's Special District Financial Report. The Agency's management plans to implement the recommendation and will present government-wide financial statements in accordance with GASB 34 commencing with the 2009/2010 audit.

SOLANO COUNTY WATER AGENCY
Schedule of Uncorrected Misstatement
of the Financial Statements
As of and For the Year Ended June 30, 2009

<u>ACCOUNT</u>				<u>DEBITS / (CREDITS)</u>	
<u>NUMBER</u>	<u>DESCRIPTION</u>	<u>DEBIT</u>	<u>CREDIT</u>	<u>ASSETS</u>	<u>NET ASSETS REVENUE</u>
1030XX	Cash and investments - LAIF	31,486		31,486	
4405XX	Interest revenue		31,486		(31,486)

To adjust investment in LAIF to fair market value.