

December 17, 2010

Members of the Board of Directors  
Solano County Water Agency  
Elmira, California

We have audited the financial statements of Solano County Water Agency (Agency) for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated May 28, 2010. Professional standards also require that we communicate to you the following information related to our audit.

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.

- As described in Note 1 to the financial statements, the Agency changed accounting policies related to postemployment benefits other than pensions (OPEB) by adopting Statement of Governmental Accounting Standards Board (GASB Statement) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* in the current year.
- As described in Note 1 to the financial statements, the Agency changed the presentation of fund financial data as they determined all funds should be presented as governmental activities rather than business-type activities.

We noted no transactions entered into by the Agency during the year for which there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimate affecting the financial statements was the estimate for accrued benefits and compensated absences.

Management's estimate for accrued benefits and compensated absences was based on hours earned through June 30, 2010 multiplied by the employees' pay rate at June 30, 2010. We evaluated the key factors and assumptions used to develop these estimates 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 summarized uncorrected misstatements of the financial statements. Management has determined that the effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatement detected as a result of audit procedures was corrected by management: Management had booked a \$1.4 million liability and asset associated with a condominium purchase made after fiscal year end. We proposed a journal entry to remove this transaction from the June 30, 2010 financial records.

#### *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 auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 17, 2010.

#### *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 Agency's financial statements or a determination of the type of auditors' 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 identified a significant deficiency in internal control during our audit. See the Schedule of Findings in the financial statement document for more information.

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.

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

Sincerely,

*Nystrom & Company LLP*

NYSTROM & COMPANY LLP  
Certified Public Accountants

Passed Adjusting Journal Entries  
Solano County Water Agency  
June 30, 2010

PAJE No.	Account Description	W/P Ref	Account Number	Asset	Liability	Equity	Revenue Expense
1	WATER SALES	BB-1	4100SC				35,202.00
1	FUND BALANCE AVAIL		3000SC			-35,202.00	

To record prior period adjustment for water sales revenue.

2	Prior Period Adjustment	F-6	3999-99			8,040.00	
2	General Fixed Assets		1500-99	-49,506.00			
2	General Fixed Assets - Accum Depr		1600-99	41,466.00			

To remove government-owned assets identified after completion of audit.

PAJE Totals By Classification	-8,040.00	0.00	-27,162.00	35,202.00
Classification Totals Before PAJE	41,315,080.00	-2,594,265.00	-39,018,201.00	297,386.00

SOLANO COUNTY WATER AGENCY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Solano County Water Agency  
Elmira, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Solano County Water Agency (Agency) as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Nystrom & Company LLP*

December 17, 2010



**SOLANO COUNTY WATER AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010**

The following discussion and analysis of the Solano County Water Agency's (Agency) financial performance provides an overview of the Agency's financial activities for the fiscal year ending June 30, 2010. This information is presented in conjunction with the audited financial statements.

**FINANCIAL HIGHLIGHTS**

Fiscal Year 2010 had no unexpected financial events that affected the Agency finances. Although the Agency continues with a revenue base that exceeds expenses, thereby increasing the Agency's reserves, the rate of this increase has significantly declined in fiscal year 2010 when compared to previous years due to lowered assessed property values resulting in decreased property tax revenues.

Agency management determined that activities of the Agency should be presented as four separate governmental funds in the basic financial statements. Previously, the Agency reported all activities under one enterprise fund. Also, during the current year it was determined that certain capital assets owned by other governments were previously capitalized by the Agency and were removed and that some grant revenues had been recorded twice. The effect of these events is a restatement of prior year financial statements for comparative purposes. Additional information regarding these prior period adjustment can be found in Note 14 to the financial statements.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The basic financial statements consist of three parts: Government-wide Financial Statements, Fund Financial Statements, and Notes to the Financial Statements.

The government-wide financial statements are prepared using the accrual basis of accounting. They present all the assets and liabilities of the Agency, with the difference reported as net assets. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The fund financial statements are prepared using the modified accrual basis of accounting. They present the assets and liabilities of the Agency that are expected to be generated by or used for near-term inflows or outflows, with the difference reported as fund balance. Changes in fund balance are reported if they will have an effect on the near-term cash flow of the Agency.

The notes provide additional information that is essential to the reader for a full understanding of the data provided in the government-wide and fund financial statements.

## SOLANO COUNTY WATER AGENCY

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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#### NET ASSETS

The *Statement of Net Assets* presents the financial position of the Agency on a full accrual historical cost basis and provides information about the nature and amount of resources and obligations at year end. It also provides the basis for computing rate of return, evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency.

The following Table A-1 summarizes the Statement of Net Assets for the fiscal years ending June 30, 2010 and June 30, 2009 (restated):

**Table A-1**  
**Statement of Net Assets**

	<b>FY 2010</b>	<b>FY 2009 (Restated)</b>
Current and other assets	\$ 36,874,212	\$ 38,043,092
Capital assets	<u>4,352,939</u>	<u>3,970,308</u>
<b>Total assets</b>	<u>41,227,151</u>	<u>42,013,400</u>
Current liabilities	1,726,466	2,947,015
Non-current liabilities	<u>212,624</u>	<u>48,184</u>
<b>Total liabilities</b>	<u>1,939,090</u>	<u>2,995,199</u>
Invested in capital assets	4,352,939	3,970,308
Restricted	<u>34,935,122</u>	<u>35,047,893</u>
<b>Total net assets</b>	<u>\$ 39,288,061</u>	<u>\$ 39,018,201</u>

The net assets increased \$0.3 million to \$39.3 million in fiscal year 2010 up from \$39.0 million (restated) in fiscal year 2009. Net assets invested in capital assets, increased about \$0.4 million reflecting capital assets completed in 2010. Unrestricted net assets decreased by \$0.1 million or 0.3% which is a result of decreased property tax revenue. Approximately 12% of the Agency's net assets reflects its investment in capital assets (e.g., land, building, machinery and equipment). The Agency uses these capital assets to provide services to the Agency; consequently, these assets are not available for future spending.

## SOLANO COUNTY WATER AGENCY

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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#### CHANGES IN NET ASSETS

The Statement of Net Assets is a snapshot that shows assets, liabilities and net assets at a specific point in time. The Statements of Activities provides information on the nature and source of these assets represented on the Statement of Net Assets. This statement shows that revenues exceeded expenses by \$269,860 for fiscal year 2010.

The following Table A-2 summarizes The Statement of Activities for the fiscal years ending June 30, 2010 and June 30, 2009:

**Table A-2  
Statement of Activities**

	<u>FY 2010</u>	<u>FY 2009 (Restated)</u>
<b>Revenues</b>		
<b>Program Revenues</b>		
Charges for Services/Water sales refunds	\$ 2,337,338	\$ 808,681
Operating grants & contributions	719,716	413,326
<b>General Revenues</b>		
Property taxes	15,776,747	17,453,422
Investment earnings	143,375	647,309
Gain (Loss) on disposal of assets	(56,534)	(11,100)
<b>Total Revenues</b>	<u>18,920,642</u>	<u>19,311,638</u>
<b>Expenses</b>		
Solano Project	7,686,327	6,566,195
State Water Project	10,334,653	9,677,897
Ulati Flood Control	561,617	707,434
Green Valley Flood Control	68,185	28,284
<b>Total Expenses</b>	<u>18,650,782</u>	<u>16,979,810</u>
<b>Increase in Net Assets</b>	269,860	2,331,828
Net Assets, beginning of year	<u>39,018,201</u>	<u>36,686,373</u>
Net Assets, ending of year	<u>\$ 39,288,061</u>	<u>\$ 39,018,201</u>

## SOLANO COUNTY WATER AGENCY

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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Ending net assets totaled \$39.3 million at June 30, 2010 or an increase in net assets of \$0.3 million or 0.7% from June 30, 2009. Total revenues were lower by \$0.4 million or 2% during the fiscal year 2010 compared to 2009, totaling \$18.9 million. Property tax revenues decreased in fiscal year 2010 compared to 2009 by \$1.7 million or 10% due to lower assessed values. This decrease was offset by an increase in Charges for Services/Water Sales Refunds of \$1.5 million to \$2.3 million from \$0.8 million due to refunds in fiscal year 2009 to member agencies due to the pay off of Solano Project debt and overpayments of State Water Project costs. Grant revenues increased \$0.3 million or 74% from June 30, 2009 due to services performed on the California Rivers Parkway and Winters Area Project grants. Total Expenditures increased by \$1.7 million or 10% to \$18.7 million in 2010 from \$17 million in 2009 primarily due to the increase in consultant and contractors costs for the PDO compound and charges from the State for the North Bay Aqueduct Alternate Intake Project.

### CAPITAL ASSETS

The Agency's capital assets, net of accumulated depreciation, consist mainly of ground monitoring wells and improvements (such as the Cement Hill By-Pass) and other capital projects. The Agency continues to add new water monitoring equipment and field equipment as part of its water supply and flood control operations. The increase in capital assets is principally from installation of groundwater monitoring wells. Note that the purchase of the new SCWA office is not included in FY 2010 since the title transfer was not completed in FY 2011.

**Table A-3  
Capital Assets**

	<u>FY 2010</u>	<u>FY 2009</u>
Cement Hill Bypass land (not being depreciated)	\$ 148,898	\$ 148,898
Construction in progress/capital construction	-	1,225,739
Cement Hill Bypass land improvements	2,535,494	2,535,494
Water monitoring equipment	2,113,607	394,759
Machinery and field equipment	545,503	499,503
Furniture, fixtures, and office equipment	75,290	83,598
Subtotal	<u>5,418,792</u>	<u>4,887,991</u>
Less accumulated depreciation	<u>(1,065,853)</u>	<u>(917,683)</u>
	<u>\$ 4,352,939</u>	<u>\$ 3,970,308</u>

Additional information about the capital assets can be found in Note 4 to the financial statements.

**SOLANO COUNTY WATER AGENCY****MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

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**FINANCIAL ANALYSIS OF AGENCY FUNDS**

The following Table A-4 summarizes the Changes in Fund Balance for the Governmental Funds:

**Table A-4  
Changes In Fund Balance - Governmental Funds**

	<u>Solano Project</u>	<u>State Water Project</u>	<u>Ulati Flood Control</u>	<u>Green Valley Flood Control</u>
<b>Revenues:</b>				
Water Sales	\$ 199,326	\$ 1,804,112	\$ -	\$ -
Property taxes	5,785,280	8,518,640	843,682	61,899
Investment Earnings	78,966	54,100	10,080	229
Intergovernmental	719,716	-	-	-
Other Income	32,651	-	29,563	-
<b>Total Revenues</b>	<u>6,815,939</u>	<u>10,376,852</u>	<u>883,325</u>	<u>62,128</u>
<b>Expenditures:</b>				
Water purchases	183,061	7,291,647	-	-
Operations and maintenance	3,315,364	6,009	484,246	51,945
Administration and general	1,597,341	834,984	62,248	16,240
Conservation and flood control	1,027,021	222,982	-	-
Engineering	1,194,028	1,976,248	-	-
Capital Outlay	603,246	28,719	25,125	-
<b>Total Expenses</b>	<u>7,920,061</u>	<u>10,360,589</u>	<u>571,619</u>	<u>68,185</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(1,104,122)</b>	<b>16,263</b>	<b>311,706</b>	<b>(6,057)</b>
<b>Fund Balance, beginning of year, as restated</b>	<u><b>20,070,021</b></u>	<u><b>13,085,406</b></u>	<u><b>2,059,787</b></u>	<u><b>(85,517)</b></u>
<b>Fund Balance, end of year</b>	<u><u><b>\$ 18,965,899</b></u></u>	<u><u><b>\$ 13,101,669</b></u></u>	<u><u><b>\$ 2,371,493</b></u></u>	<u><u><b>\$ (91,574)</b></u></u>

## **SOLANO COUNTY WATER AGENCY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010**

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**Solano Project** – As of June 30, 2010 the Solano Project reported an ending fund balance of \$19 million, a decrease of \$1.1 million from 2009. This was due to an increase in expenditures for the new PDO compound, lower property taxes, and Proposition 1A borrowing.

**State Water Project** - As of June 30, 2010 the State Water Project reported ending fund balance of \$13.1 million, an increase from 2009 of \$16,263. Although the State Water Project continues with a revenue base that exceeds expenses, thereby increasing the fund balance, the rate of this increase has significantly declined in fiscal year 2010 when compared to previous years due to lowered assessed property values resulting in decreased property tax revenues. This fund also had increased expenditures during the fiscal year ending June 30, 2010 due to the North Bay Aqueduct Alternate Intake project.

**Ulatis Flood Control Zone 1** - As of June 30, 2010 the Ulatis Flood Control reported an ending fund balance of \$2.3 million, an increase of \$311,706 from 2009. The property tax revenues continue to exceed expenses for this fund.

**Green Valley Flood Control Zone 2** - As of June 30, 2010 the Green Valley Flood Control reported ending fund balance of (\$91,574), a decrease of (\$6,057) from 2009 due to property tax revenue decreasing from 2009 due to lower assessed values.

### **ECONOMIC FACTORS AND RATES**

During 2003, the Agency developed a Capital Project Funding Plan that looks at capital project needs for a five year horizon. There are a few major projects that have uncertainties regarding if and when they will be funded and at what level. The Capital Project Funding Plan will be helpful in budgeting capital projects.

Water rates charged by the Agency to cities, districts and agencies are fixed by contract and do not change in relationship to the Agency's expenditures or revenues. Capital costs for the Solano Project has been paid off therefore, Solano County Water Agency will no longer remit annual water entitlement payments to the United States Bureau of Reclamation for Solano Project water, and therefore will not be charging for Solano Project water supply for most of its member units.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the finances for the Solano County Water Agency. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the General Manager, P.O. Box 349, Elmira CA 95625.

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SOLANO COUNTY WATER AGENCY  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$ 33,966,192
Receivables	2,888,258
Interest receivable	10,821
Other current assets	8,941
<b>Total current assets</b>	<b>36,874,212</b>

**Noncurrent assets:**

Non-depreciable capital assets	148,898
Depreciable capital assets, net	4,204,041
<b>Total noncurrent assets</b>	<b>4,352,939</b>
<b>Total assets</b>	<b>\$ 41,227,151</b>

**LIABILITIES**

**Current liabilities:**

Accounts payable	\$ 1,256,540
Accrued liabilities	9,460
Compensated absences, current	95,053
Deferred income	365,413
<b>Total current liabilities</b>	<b>1,726,466</b>

**Noncurrent liabilities:**

Other postemployment benefits obligation	163,657
Compensated absences, noncurrent	48,967
<b>Total noncurrent liabilities</b>	<b>212,624</b>
<b>Total liabilities</b>	<b>1,939,090</b>

**NET ASSETS**

Investment in capital assets, net of related debt	4,352,939
Unrestricted	34,935,122
<b>Total net assets</b>	<b>39,288,061</b>
<b>Total liabilities and net assets</b>	<b>\$ 41,227,151</b>

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



SOLANO COUNTY WATER AGENCY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<b>Governmental activities:</b>					
Solano Project	\$ 7,686,327	\$ 325,092	\$ 719,716	\$ -	\$ (6,641,519)
State Water Project	10,334,653	1,982,683	-	-	(8,351,970)
Ulati Flood Control	561,617	29,563	-	-	(532,054)
Green Valley Flood Control	68,185	-	-	-	(68,185)
<b>Total governmental activities</b>	18,650,782	2,337,338	719,716	-	(15,593,728)
<b>Total primary government</b>	<u>\$ 18,650,782</u>	<u>\$ 2,337,338</u>	<u>\$ 719,716</u>	<u>\$ -</u>	<u>(15,593,728)</u>
<b>General revenues and transfers:</b>					
General revenues:					
Property taxes					15,776,747
Investment earnings					143,375
Loss on disposal of capital assets					(56,534)
<b>Total general revenues and transfers</b>					15,863,588
<b>Change in net assets</b>					269,860
<b>Net assets, beginning of year, as restated</b>					39,018,201
<b>Net assets, end of year</b>					\$ 39,288,061

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

SOLANO COUNTY WATER AGENCY

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2010

	Solano Project	State Water Project	Ulati Flood Control	Green Valley Flood Control	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 18,444,722	\$ 12,954,634	\$ 2,457,433	\$ 109,403	\$ 33,966,192
Receivables	1,972,536	840,299	69,797	5,626	2,888,258
Interest receivable	5,595	4,498	728	-	10,821
Other assets	8,941	-	-	-	8,941
<b>Total assets</b>	<u>\$ 20,431,794</u>	<u>\$ 13,799,431</u>	<u>\$ 2,527,958</u>	<u>\$ 115,029</u>	<u>\$ 36,874,212</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 1,007,617	\$ 153,778	\$ 94,168	\$ 977	\$ 1,256,540
Accrued liabilities	9,460	-	-	-	9,460
Deferred income	648,818	543,984	62,297	5,626	1,260,725
Due to (from) other funds	(200,000)	-	-	200,000	-
<b>Total liabilities</b>	<u>1,465,895</u>	<u>697,762</u>	<u>156,465</u>	<u>206,603</u>	<u>2,526,725</u>
<b>FUND BALANCE</b>					
Unreserved	<u>18,965,899</u>	<u>13,101,669</u>	<u>2,371,493</u>	<u>(91,574)</u>	<u>34,347,487</u>
<b>Total fund balance</b>	<u>18,965,899</u>	<u>13,101,669</u>	<u>2,371,493</u>	<u>(91,574)</u>	<u>34,347,487</u>
<b>Total liabilities and fund balance</b>	<u>\$ 20,431,794</u>	<u>\$ 13,799,431</u>	<u>\$ 2,527,958</u>	<u>\$ 115,029</u>	<u>\$ 36,874,212</u>

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

SOLANO COUNTY WATER AGENCY  
RECONCILIATION OF FUND BALANCE TO NET ASSETS  
JUNE 30, 2010

Total fund balance included in the Balance Sheet - Governmental Funds		\$ 34,347,487
Assets recorded within the Statement of Net Assets not reported in the funds:		
Non-depreciable capital assets		148,898
Depreciable capital assets	\$ 5,269,894	
Accumulated depreciation	<u>(1,065,853)</u>	4,204,041
Liabilities recorded within the Statement of Net Assets not reported in the funds:		
Compensated absences		(144,020)
Other postemployment benefits obligation		(163,657)
Long term assets not available to pay for current period expenditures are deferred in the funds:		
Deferred income		<u>895,312</u>
Net assets reported within the Statement of Net Assets - Governmental Activities		<u><u>\$ 39,288,061</u></u>

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

SOLANO COUNTY WATER AGENCY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	Solano Project	State Water Project	Ulatris Flood Control	Green Valley Flood Control	Total
<b>REVENUES:</b>					
Property taxes	\$ 5,785,280	\$ 8,518,640	\$ 843,682	\$ 61,899	\$ 15,209,501
Charges for services	199,326	1,804,112	-	-	2,003,438
Investment earnings	78,966	54,100	10,080	229	143,375
Intergovernmental revenues	719,716	-	-	-	719,716
Other income	32,651	-	29,563	-	62,214
<b>Total revenues</b>	<u>6,815,939</u>	<u>10,376,852</u>	<u>883,325</u>	<u>62,128</u>	<u>18,138,244</u>
<b>EXPENDITURES:</b>					
Current:					
Water purchases	183,061	7,291,647	-	-	7,474,708
Operations and maintenance	3,315,364	6,009	484,246	51,945	3,857,564
Administration and general	1,597,341	834,984	62,248	16,240	2,510,813
Conservation and flood control	1,027,021	222,982	-	-	1,250,003
Engineering	1,194,028	1,976,248	-	-	3,170,276
Capital outlay	603,246	28,719	25,125	-	657,090
<b>Total expenditures</b>	<u>7,920,061</u>	<u>10,360,589</u>	<u>571,619</u>	<u>68,185</u>	<u>18,920,454</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(1,104,122)	16,263	311,706	(6,057)	(782,210)
<b>FUND BALANCE, BEGINNING OF YEAR, as restated</b>	<u>20,070,021</u>	<u>13,085,406</u>	<u>2,059,787</u>	<u>(85,517)</u>	<u>35,129,697</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 18,965,899</u>	<u>\$ 13,101,669</u>	<u>\$ 2,371,493</u>	<u>\$ (91,574)</u>	<u>\$ 34,347,487</u>

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

SOLANO COUNTY WATER AGENCY  
RECONCILIATION OF CHANGES IN FUND BALANCE  
TO CHANGE IN NET ASSETS  
YEAR ENDED JUNE 30, 2010

Total net change in fund balance included in the  
Statement of Revenues, Expenditures and  
Changes in Fund Balance - Governmental Funds \$ (782,210)

Governmental funds report capital outlay as expenditures.  
However, in the Statement of Activities the cost of those  
assets is allocated over their estimated useful lives and  
reported as depreciation expense:

Capital outlay	657,090
Depreciation expense	(217,925)
Disposal of capital assets	(56,534)

Some revenues in the Statement of Activities do not provide  
current financial resources and, therefore, are not reported  
as revenues in the governmental funds:

Water sales	\$ 271,686	
Property taxes	<u>567,246</u>	838,932

Some expenses reported in the Statement of Activities do not  
require the use of current financial resources and, therefore,  
are not reported as expenditures in the governmental funds:

Compensated absences	(5,836)
Other postemployment benefits obligation	<u>(163,657)</u>

Net change in net assets reported within the  
Statement of Activities - Governmental Fund \$ 269,860

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

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Solano County Water Agency was created in 1951 by an act of the California Legislature as the "Solano County Flood Control and Water Conservation District." In 1988 the legislative act was changed to modify the governing board and the name was changed to Solano County Water Agency (Agency) in 1989. The governing board is made up of five members of the Solano County Board of Supervisors, the mayors from the seven cities in the county and three representatives from three agricultural irrigation districts. The Agency provides wholesale water services to cities, districts and state agencies and leads efforts to protect rights to existing sources of water and participates in efforts to secure new sources of water. The Agency is also responsible for the operations and maintenance of two flood control projects and is involved in countywide flood control planning. As required by accounting principles generally accepted in the United States of America, these financial statements present the Solano County Water Agency alone, as the Agency has no component units, related organizations or jointly governed organizations.

BASIC FINANCIAL STATEMENTS

The basic financial statements of the Agency have been prepared in conformity with the generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting principles are described below.

The financial statement presentation required by Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and 39 provides a comprehensive, entity-wide perspective of the Agency's overall financial position and results of operations while maintaining the presentation of the financial position and results of operations of the Agency's major funds.

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Agency. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. All activities of the Agency are Governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly not included among program revenues are reported instead as general revenues.

The accounts of the Agency are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The agency's funds, all of which are considered to be major governmental funds, are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers water sales, property taxes and other general revenues to be available if they are collected within 90 days after year end. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are recognized only when cash is received by the Agency because they are not measurable until that time. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Agency maintains the following funds, all of which are considered to be special revenue funds, and all of which are considered to be major funds:

Solano Project – This fund accounts for the Agency's water supply contract with the U.S. Bureau of Reclamation for the water supply provided by contract cities, districts and state agencies. Property tax revenues are used to pay for operations, maintenance, rehabilitation and betterment. Operations and maintenance is performed by contract with the Solano Irrigation District. Included in this fund are costs associated with a Watermaster to monitor water use in the Upper Putah Creek Watershed and development of a Habitat Conservation Plan. Other functions include the flood control program and water conservation program.

State Water Project – This fund accounts for the Agency's water supply contract with the California Department of Water Resources for the repayment of construction, operations and maintenance costs of the North Bay Aqueduct and the contracts with member agencies for the purchase of this water.

Ulati Flood Control – This fund accounts for the costs of operating and maintaining the Ulati Flood Control Facilities, which were built by the Federal Soil Conservation Service. The Agency contracts with the Solano County Resource Management Department for the maintenance of this Project.

(Continued on following page)



SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Green Valley Flood Control – This fund accounts for the costs of operating and maintaining the Green Valley Flood Control Facilities, which were built by the U.S. Army Corps of Engineers. The Agency contracts with the Solano County Resource Management Department for the maintenance of this Project.

Interfund activity has been eliminated from these statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as demand deposit account balances, pooled investments in the State of California Local Agency Investment Fund (LAIF), and money market funds with California Asset Management Program (CAMP).

RECEIVABLES

Losses on uncollectible accounts receivable are recognized when such losses become known or indicated. No allowance for losses has been reflected at June 30, 2010, as management believes all accounts are fully collectible.

CAPITAL ASSETS

All capital assets are valued at historical cost. Provision is made for depreciation using the straight-line method over the estimated useful lives of the assets, which range from five to fifty years. It is the Agency's policy to capitalize all capital assets with an initial cost of more than \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the statement of activities.

Depreciation has been provided over estimated useful lives using the straight-line method over the following estimated useful lives:

Land improvements	50 years
Water monitoring equipment	5 to 10 years
Machinery and field equipment	5 to 10 years
Furniture, fixtures, and office equipment	5 to 10 years

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

COMPENSATED ABSENCES

The Agency's policy allows employees to accumulate earned but unused vacation and administrative leave which will be paid to employees upon separation of service from the Agency. The policy also allows employees to receive payment for one-half of their accumulated sick leave upon retirement. Vested or accumulated vacation and sick leave are accrued in the government-wide statements as the benefits accrue to employees. However, a liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

DEFERRED INCOME

Deferred income arises when a potential revenue does not meet both the "measure" and "available" criteria for recognition in the current period. Deferred income also arises when resources are received by the Agency before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Agency has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

NET ASSETS/FUND BALANCE

Net assets represent the difference between assets and liabilities. The Agency's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This represents the Agency's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.
- *Unrestricted net assets* – Unrestricted net assets represent resources derived from taxes, grants, and charges for services. These resources are used for transactions relating to the general operations of the Agency, and may be used at the discretion of the Board to meet current expenses for any purpose.

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

NET ASSETS/FUND BALANCE (Continued)

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Agency's policy is to first apply the expense toward restricted resources, and then towards unrestricted resources.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. There are no such reservations of fund balance at June 30, 2010. Designations of fund balance represent management plans that are subject to change.

PROPERTY TAXES

Property taxes are assessed and collected by Solano County. The County remits the property taxes to the Agency when the taxes are collected and the allocation has been determined. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1, are payable in two installments, and become delinquent if not paid by December 11 and April 11. The Agency has elected to receive the property taxes from the County under the Teeter program. Under this program the Agency receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

BUDGETARY PRINCIPLES

Under GASBS No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The Agency is not legally required to adopt budgets for its funds. Therefore, budget comparison information is not included in the Agency's financial statements.

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. Actual results could differ from those estimates.

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

CHANGES IN ACCOUNTING PRINCIPLES

Postemployment Benefits Other Than Pensions

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This Statement requires local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities in the entity-wide financial statements of net assets and activities. This Statement established standards for the measurement, recognition, and display of OPEB expenses and related liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local government employers.

This Statement provided for prospective implementation – that is that employers set the beginning OPEB obligation at zero as of the beginning of the initial year. The Agency has implemented the provision of the Statement for the fiscal year ended June 30, 2010.

Fund Reporting Structure

The Agency has voluntarily changed to governmental fund type reporting and the modified accrual basis of accounting because it enables the Agency to better communicate the results of its operations to stakeholders. Management of the Agency is concerned that reporting tax supported water purchases as fee based enterprise activity incorrectly implies to stakeholders that typical rate administration procedures occur.

Management of the Agency realizes that consistent application of accounting principles between reporting periods enhances the value of financial reporting and that changes in principles should be rare events that occur only when the facts and circumstances warrant a preferable principle and that these changes should not be used as a basis for altering financial presentations on a whim. The Agency has been reporting its activities as an enterprise fund since its separation from the County of Solano financial administration in 1989. Management of the Agency expects to be primarily tax supported indefinitely and does not anticipate a voluntary accounting principle change in the foreseeable future.

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

CHANGES IN ACCOUNTING PRINCIPLES (Continued)

The change in presentation is being applied beginning in the year ended June 30, 2010. There is no effect of this change on the government-wide financial statements other than the format of presentation. The beginning fund balance in each governmental fund has been restated from the amount reported as net assets in prior year. This restatement is illustrated at Note 14.

NOTE 2      CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2010 consist of the following:

Deposits with financial institutions	\$      567,772
Investments in Local Agency Investment Fund (LAIF)	7,432,254
Investments in California Asset Management Program (CAMP)	<u>25,966,166</u>
Total cash and cash investments	<u>\$ 33,966,192</u>

INVESTMENT POLICY

California statutes authorize agencies to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The Agency is authorized, by its Board of Directors, to invest its cash in the State of California's Local Agency Investment Fund (LAIF), California Asset Management Program (CAMP), the Solano County Investment Pool, or Federal Depository Insurance Corporation (FDIC) insured accounts in a bank or savings and loan association. The Agency's investment policy does not contain any specific provisions intended to limit the Agency's exposure to interest rate risk, credit risk, concentration of credit risk, or custodial credit risk.

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 its fair value is to changes in market interest rates. The weighted average maturity of the investments contained in the LAIF investment pool is approximately 235 days as of June 30, 2010. The weighted average maturity of the investments contained in the CAMP investment pool is approximately 57 days as of December 31, 2009.

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 2      CASH AND CASH EQUIVALENTS  
(Continued)

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. LAIF does not have a rating provided by a nationally recognized statistical rating organization. CAMP is rated as AAAm by Standard & Poor's.

CONCENTRATION OF CREDIT RISK

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Agency investments.

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 California Government Code requires that a financial institution secure deposits made by state or local governmental 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2010, the Agency had cash balances in excess of insurance of \$1,028,538. None of the Agency's deposits with institutions in excess of federal deposit insurance limits were held in uncollateralized accounts.

INVESTMENT IN LAIF

The Agency is a voluntary participant in the State Treasurer's Pooled Money Investment Account (PMIA), through the Local Agency Investment Fund (LAIF) that was created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the Agency's position in the pool is materially equivalent to the value of pool shares. LAIF is an unrated external investment pool.

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 2      CASH AND CASH EQUIVALENTS  
(Continued)

INVESTMENT IN LAIF (Continued)

In accordance with authorized investment laws, the State Treasurer's Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2010, 5.42% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. In addition, PMIA's weighted average maturities was .65 years at June 30, 2010. Copies of a report of LAIF's investments may be obtained from the State Treasurer's Office; Local Agency Investment Fund; P. O. Box 942809; Sacramento, CA 94209-0001.

INVESTMENT IN CAMP

The Agency is a voluntary participant in the California Asset Management Program (CAMP) that was formed in 1989 as a joint powers authority and common law trust. The trust is only accountable to its public agency shareholders. CAMP is invested in such a way as to maintain a \$1 per share net asset value. Copies of their financial report may be obtained by contacting CAMP at 50 California Street, Suite 2300, San Francisco, CA 94111.

NOTE 3      RECEIVABLES

Receivables at June 30, 2010 consist of:

Water sales receivable	\$ 1,111,954
Grants receivable	1,209,058
Taxes receivable	<u>567,246</u>
Total	<u>\$ 2,888,258</u>

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 4 CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2010 is as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance June 30, 2010</u>
Non-depreciable capital assets:				
Land	\$ 148,898	\$ -	\$ -	\$ 148,898
Construction in progress	<u>1,225,739</u>	<u>-</u>	<u>(1,225,739)</u>	<u>-</u>
Non-depreciable capital assets	<u>1,374,637</u>	<u>-</u>	<u>(1,225,739)</u>	<u>148,898</u>
Depreciable capital assets:				
Land improvements	2,535,494	-	-	2,535,494
Water monitoring equipment	394,759	619,726	1,099,122	2,113,607
Machinery and field equipment	499,503	30,232	15,768	545,503
Furniture, fixtures and office equipment	<u>83,598</u>	<u>7,132</u>	<u>(15,440)</u>	<u>75,290</u>
	3,513,354	657,090	1,099,450	5,269,894
Less accumulated depreciation	<u>917,683</u>	<u>217,925</u>	<u>(69,755)</u>	<u>1,065,853</u>
Depreciable capital assets, net	<u>2,595,671</u>	<u>439,165</u>	<u>1,169,205</u>	<u>4,204,041</u>
Capital assets, net	<u>\$ 3,970,308</u>	<u>\$ 439,165</u>	<u>\$ (56,534)</u>	<u>\$ 4,352,939</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Solano Project	\$ 200,019
State Water Project	2,783
Ulati Flood Control Project	15,123
Green Valley Flood Control Project	<u>-</u>
Total governmental activities depreciation expense	<u>\$ 217,925</u>

NOTE 5 NONCURRENT LIABILITIES

The following is a summary of changes in noncurrent liabilities for the year ended June 30, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ <u>138,184</u>	\$ <u>90,530</u>	\$ <u>84,694</u>	\$ <u>144,020</u>	\$ <u>95,053</u>
Other postemployment benefits obligation	\$ <u>-</u>	\$ <u>163,657</u>	\$ <u>-</u>	\$ <u>163,657</u>	\$ <u>-</u>

(Continued on following page)



SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 6 INTERFUND BALANCES

Interfund balances consist of the following at June 30, 2010:

	<u>Receivable</u>	<u>Payable</u>
Solano Project	\$ -	\$ (200,000)
Green Valley Flood Control	<u>200,000</u>	<u>-</u>
	<u>\$ 200,000</u>	<u>\$ (200,000)</u>

NOTE 7 ADMINISTRATION AND GENERAL EXPENDITURES

The following is a summary of administration and general expenditures of the fund financial statements by natural classification at June 30, 2010:

Salaries and benefits	\$ 1,489,866
Professional services	241,686
Dues and memberships	167,914
Property tax administration fee	120,875
Public education	103,621
Governmental advocacy	74,733
Office equipment	64,232
Office rent	36,957
Endangered species contract	36,545
Insurance	35,338
Watermaster services	30,656
Telephone	29,268
Office expense	25,301
Board expense	21,752
Fuel	12,071
Talent decision monitoring	11,592
Miscellaneous	<u>8,406</u>
Total	<u>\$ 2,510,813</u>

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 8      EARMARKED NET ASSETS

Earmarkings of unrestricted net assets are imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Earmarkings may be modified, amended or removed by Board action. At June 30, 2010, earmarkings included:

Solano Project operating reserve	\$ 4,970,000
Solano Project rehabilitation and betterment reserve	2,710,000
Solano Project future replacement capital reserve	767,000
State Water Project operating reserve	5,707,000
State Water Project future capital reserve	5,669,000
Ulati Flood Control Project operating reserve	394,000
Ulati Flood Control Project capital reserve	1,796,000
Green Valley Flood Control Project operating reserve	52,000
Green Valley Flood Control Project capital reserve	5,000
Other flood control capital projects	1,500,000
Other capital projects and emergency reserves	<u>4,000,000</u>
Total	\$ <u>27,570,000</u>

NOTE 9      EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PLANS

Qualified employees are covered under a cost-sharing multiple-employer defined benefit pension plan maintained by the Public Employees' Retirement System.

A. Plan Descriptions and Provisions

The Agency contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. All permanent full and part time Agency employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times their monthly average salary over the twelve highest consecutive months of employment.

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 9      EMPLOYEE BENEFIT PLANS  
(Continued)

DEFINED BENEFIT PLANS (Continued)

A. Plan Descriptions and Provisions (Continued)

PERS requires plans with less than 100 active participants to participate in risk pools. The Agency participates in the Miscellaneous 2.0% at 55 risk pool. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95811.

B. Funding Policy

Active plan members are required to contribute 7% of their annual covered salary. The Agency makes the contributions required of the Agency employees on their behalf and for their account. Also, the Agency is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board Administration. The required employer contribution rate for the fiscal year ended June 30, 2010 was 11.361% of annual payroll. The contribution requirements of plan members and the Agency are established and may be amended by PERS.

C. Annual Pension Cost

For the year ending June 30, 2010, the Agency incurred an annual pension cost of \$114,103, which is a product of annual covered salaries and the annual required contribution rate.

THREE-YEAR TREND INFORMATION FOR PERS

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	\$ 102,121	100 %	\$ -
6/30/09	\$ 109,583	100 %	\$ -
6/30/10	\$ 114,103	100 %	\$ -

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 10 RISK MANAGEMENT

The Agency participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), a public entity risk pool of water agencies in California, for general, automobile, public official's errors and omissions, property, fidelity, workers' compensation liability, and employer's liability. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group-purchased commercial excess insurance is obtained. Loss contingency reserves established by the JPIA are funded by contributions from member agencies. The Agency pays an annual premium to the JPIA that includes its pro-rata share of excess insurance premiums, charges for pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the JPIA.

The Agency's maximum coverage under the JPIA are as follows:

	<u>Pool Coverage</u>	<u>Commercial Coverage</u>
General and auto liability	\$ 1,000,000	\$ 60,000,000
Public officials and omissions liability	1,000,000	60,000,000
Property	50,000	100,000,000
Fidelity	100,000	None
Workers' compensation liability	2,000,000	Statutory
Employer's liability	2,000,000	4,000,000

The Agency is responsible for property losses up to their deductible, which ranges from \$1,000 to \$25,000, depending on type of coverage.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any recent fiscal year. There has been no significant reduction in coverage over the last three years.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS PLAN

The Agency provides postemployment health care benefits for retired employees in accordance with their published employee handbook.

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 11    OTHER POSTEMPLOYMENT BENEFITS PLAN  
(Continued)

A.    Plan Description

The Solano County Water Agency Retirement Health Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Agency. The Agency provides certain medical insurance coverage to all employees who retire from the Agency and meet the age and service requirement for eligibility. The Agency pays 100% of the eligible retirees' medical plan premiums. As of June 30, 2010, membership of the Plan consists of one retiree currently receiving benefits and 11 eligible active plan members. The Plan does not issue a publicly available report.

B.    Funding Policy

The contribution requirements of plan members and the Agency are based on a pay-as-you-go basis. For the year ended June 30, 2010, the Agency paid \$5,343 on behalf of its retiree.

C.    Annual OPEB Costs and Net OPEB Obligation

The Agency's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years.

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

Annual required contribution (ARC)	\$ 169,000
Contributions made	<u>5,343</u>
Increase in net OPEB obligation	163,657
Net OPEB obligation, beginning of the year	<u>-</u>
Net OPEB obligation, end of year	\$ <u><u>163,657</u></u>

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 11    OTHER POSTEMPLOYMENT BENEFITS PLAN  
(Continued)

C.   Annual OPEB Costs and Net OPEB Obligation   (Continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal 2010 is as follows (since this is the first year of implementation, only the current year information is presented):

Annual OPEB cost	\$    169,000
Percentage of annual OPEB costs contributed	3.16%
Net OPEB obligation	\$    163,657

D.   Funded Status Information

The Agency's funding status information is illustrated as follows:

Actuarial valuation date	June 30, 2010
Actuarial accrued liability (AAL)	\$    955,000
Actuarial value of plan assets	\$           -
Unfunded AAL (UAAL)	\$    955,000
Funded ratio (actuarial value of plan assets as a percentage of AAL)	0.0%
Covered payroll	\$    983,657
UAAL as percentage of covered payroll	97.09%

As of June 30, 2010, the Agency has not set aside any amounts in an external trust fund.

E.   Actuarial Methods and Assumptions

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 11    OTHER POSTEMPLOYMENT BENEFITS PLAN  
(Continued)

E.    Actuarial Methods and Assumptions   (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 4.25% discount rate, a 3.0% price inflation, a 3.25% wage inflation, and an annual cost trend with no rate increase until 2012. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll over a 30-year period.

NOTE 12    PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the Agency was \$567,246.

The borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

(Continued on following page)

SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 13    COMMITMENTS AND CONTINGENCIES

The Agency periodically enters into commitments which are funded primarily through state grants. The grants are typically for various projects such as rehabilitation, betterment and maintenance. At June 30, 2010, the Agency had commitments on unfinished contracts in the amount of \$1,993,717.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Agency expects such amounts, if any, to be immaterial.

NOTE 14    PRIOR PERIOD ADJUSTMENTS AND CHANGE IN FUND REPORTING STRUCTURE

Prior Period Adjustments

During the current year, it was determined that certain assets owned by other governments were previously capitalized by the Agency, causing an overstatement of capital assets and net assets. The effect of this removal was a decrease in government-wide net asset of \$184,496 and a corresponding decrease in beginning non-depreciable capital assets, depreciable capital assets and accumulated depreciation of \$52,422, \$191,166, and \$59,092, respectively.

During the current year, it was determined that grant reimbursements received in a prior period were not offset against the receivable, but instead recorded as revenue again, causing an overstatement of revenue and net assets. The effect of this adjustment on the government-wide financial statements and the fund financial statements is a decrease to beginning net assets and grants receivable of \$76,991.

There was no material effect on operations from either of these adjustments for the current or prior year.

Change in Fund Reporting Structure

As described in Note 1, the Agency determined that each program of the Agency should be accounted for as a separate governmental fund. In current year, beginning fund balance has been restated from the amount reported as net assets in prior year due to the change in accounting method.

(Continued on following page)



SOLANO COUNTY WATER AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 14    PRIOR PERIOD ADJUSTMENTS AND CHANGE IN FUND REPORTING  
STRUCTURE  
(Continued)

The effect of the prior period adjustments and change in fund reporting structure are illustrated below:

**Government-wide**

Net assets at June 30, 2009, as previously reported	\$ 39,279,688
Overstatement of capital assets	(184,496)
Grant revenue overstatement	<u>(76,991)</u>
Net assets, beginning of year, as restated	\$ <u>39,018,201</u>

**Fund financial statements**

Net assets at June 30, 2009, as previously reported	\$ 39,279,688
Grant revenue overstatement	(76,991)
Fixed assets not reported in funds	(4,154,804)
Compensated absences not reported in funds	138,184
Revenues not available for current resources not reported in funds	<u>(56,380)</u>
Fund balance, beginning of year, as restated	\$ <u>35,129,697</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Solano County Water Agency  
Elmira, California

We have audited the financial statements of the governmental activities and each major fund of Solano County Water Agency (Agency), as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Solano County Water Agency's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described under finding 2010-1 in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solano County Water Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Solano County Water Agency, in a separate letter dated December 17, 2010.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal or state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Nystrom & Company LLP*

December 17, 2010

SOLANO COUNTY WATER AGENCY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2010

**A. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**2010-1 – Audit Adjustments**

**Condition:** During our audit of the current year, we noted several adjustments that were material to the financial statements that were required in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. These adjustments were not identified through the Agency's internal control.

**Criteria:** All adjustments necessary for financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles should be identified and posted by the Agency.

**Effect:** Financial statements which are not in conformity with generally accepted accounting principles could have been prepared and distributed.

**Recommendation:** We recommend that management take steps to ensure that all adjustments necessary to prepare financial statements in conformity with generally accepted accounting principles be identified and posted prior to the start of the audit.

**Response:** The required adjustment was due to the fact that the condominium purchase agreement for the new office was established prior to year-end, but the title transfer and purchase was not finalized until the following fiscal year.

SOLANO COUNTY WATER AGENCY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2010

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**2009-1 – Capital Assets**

**Condition:** In the prior year, it was noted that the Agency's capital assets subsidiary ledger did not agree to the general ledger and that disposals were not recorded in the general ledger.

**Recommendation:** It was recommended that the Agency agree accumulated depreciation and depreciation expense to the general ledger at least annually and that the Agency post proper journal entries to the general ledger to record the disposal of capital assets.

**Status:** During our audit of the current year, we noted that the Agency has taken steps to ensure the accuracy of their general ledger in relation to their capital asset subsidiary ledger, and has implemented procedures whereby journal entries are used to properly record capital asset disposals.

**2009-2 – Revenues, Receivables, and Unearned Revenue**

**Statement of Condition:** In the prior year, it was noted that the Agency did not follow proper cut-off procedures for revenues, resulting in audit adjustments.

**Recommendation:** It was recommended the Agency establish procedures to ensure use of proper cut-off procedures.

**Status:** During our audit of the current year, we noted the Agency had implemented improved procedures relating to cut-off of revenues.

**2009-3 – Other Postemployment Benefits**

**Statement of Condition:** In the prior year, it was noted that the Agency had not implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

**Recommendation:** It was recommended the Agency implement GASB Statement No. 45.

**Status:** During our audit of the current year, we noted the Agency had implemented GASB Statement No. 45.

December 17, 2010

**INDEPENDENT AUDITORS' COMMUNICATION  
TO MANAGEMENT AND THE BOARD OF DIRECTORS**

Management and Board of Directors  
Solano County Water Agency  
Elmira, California

In planning and performing our audit of the basic financial statements of Solano County Water Agency (Agency) for the year ended June 30, 2010, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control. However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency.

This letter does not affect our report dated December 17, 2010, on the financial statements of Solano County Water Agency.

We will review the status of these comments during our next audit engagement. We have already discussed some of these comments and suggestions with various Agency personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

**2010-A – CUT-OFF PROCEDURES FOR REVENUES**

Finding

We noted that the Agency's software system automatically books a revenue and receivable when an invoice is created. The Agency's procedure is to remove any such revenue that relates to future periods and book a deferred income item instead.

The effect is a gross-up of receivables and deferred income for items that relate to a future period, and therefore should not be recorded at all.

#### Recommendation

We recommend the Agency revise their procedures to offset the receivable rather than create a deferred revenue for these items.

#### Management Response

During Fiscal Year 2009-2010 Agency management voluntarily changed from full accrual accounting where receivables/revenues are recorded regardless of the timing of the related cash flows to modified-accrual where receivables/revenues are not recorded unless they are collectible within 90 days. This was done to change from enterprise to governmental reporting that better reflects actual agency financial operations. The Agency's accounting procedures will be updated to follow the modified-accrual basis of accounting. When these procedures are implemented the receivables relating to future periods will not be recorded unless they are collectable within 90 days of the year end.

### **2010-B – SELF-BALANCING FUNDS**

#### Finding

Proper accounting procedures are that each fund maintain a self-balancing set of accounts. The individual funds of the Agency do not balance due to limitations in the reporting software that do not allow the use of multiple cash accounts for individual transactions. Because the Agency's cash accounts are internally pooled, the balance in each cash account must be broken out to the various funds.

#### Recommendation

We recommend the Agency implement a procedure whereby the use of one cash ledger for all funds is more straightforward. For instance, if one cash ledger is used, all other cash ledgers should be zero until the end of the month, quarter, or year when a journal entry should be posted to allocate the cash balances and interest to each fund in order to make the funds balance.

#### Management Response

Previously the Agency used four cash ledger accounts representing the four agency funds: Solano Project, State Water Project, Ulati and Green Valley for one bank checking account which created inefficiency in processing accounting transactions. The Agency will implement a process to prepare a journal entry at year end to divide the one cash ledger accounts among the individual funds cash ledger accounts based upon the determined cash balance of each individual fund at year end.

### **2010-C – BASIS OF ACCOUNTING**

#### Finding

We noted that, although the Agency changed the presentation of their funds to the modified-accrual basis of accounting under governmental fund accounting policies, the Agency continues to maintain their general ledger on the full-accrual basis of accounting.

#### Recommendation

We recommend the Agency consider updating their accounting procedures to follow the modified-accrual basis of accounting. The most significant change would be the way the Agency records fixed assets and long-term liabilities such as compensated absences.

Management Response

During Fiscal Year 2009-2010 Agency management voluntarily changed from full accrual accounting where fixed assets are capitalized and depreciated to modified-accrual accounting where fixed assets are expensed. The modified-accrual accounting method only measures current economic resources therefore long term liabilities and assets are not recorded. The Agency will implement procedures to follow the modified-accrual basis of accounting including the recording of fixed assets and long-term liabilities.

**2010-D –GRANTS RECEIVABLE REQUEST**

Finding

We noted the District has large outstanding receivables related to reimbursement grants because the Agency has not yet requested reimbursement.

Recommendation

We recommend the Agency implement procedures whereby reimbursement is requested in a timely manner.

Management Response

The State's recent budget crisis caused a major disruption to the State's ability to sell General Obligation bonds on the open market. In order to help the State conserve cash during the cash flow crisis, the State imposed a freeze on bond-funded reimbursements. The Agency will request grant reimbursements when the State bond monies become available again.

We would like to thank Agency management and staff for their assistance throughout the audit engagement. We appreciate the opportunity of serving as independent auditors for the Agency for the year ended June 30, 2010. If we can provide additional information or assistance in connection with implementing any of these recommendations, we will be pleased to do so.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Agency and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Nystrom & Company LLP*

NYSTROM & COMPANY LLP  
Certified Public Accountants