

SOLANO COUNTY WATER AGENCY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Solano County Water Agency
Vacaville, 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, 2011, 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, 2011, 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 28, 2011, 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.

Matson and Isom

December 28, 2011

SOLANO COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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, 2011. This information is presented in conjunction with the audited financial statements.

FINANCIAL HIGHLIGHTS

Fiscal Year 2011 had no unexpected financial events that affected the Agency finances. The Agency continues with a revenue base that exceeds expenses, thereby increasing the Agency's reserves. Although the rate of this increase significantly declined in fiscal year 2010 when compared to previous years due to lowered assessed property values resulting in decreased property tax revenues the rate has stabilized in fiscal year 2011.

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, 2011

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, 2011 and June 30, 2010:

	<u>FY 2011</u>	<u>FY 2010</u>
Current and other assets	\$ 34,817,083	\$ 36,306,966
Noncurrent receivables	1,326,212	567,246
Capital assets	<u>5,983,786</u>	<u>4,352,939</u>
Total assets	<u>42,127,081</u>	<u>41,227,151</u>
Current liabilities	2,067,614	1,726,466
Non-current liabilities	<u>442,164</u>	<u>212,624</u>
Total liabilities	<u>2,509,778</u>	<u>1,939,090</u>
Invested in capital assets	5,983,786	4,352,939
Restricted	17,469,465	16,327,389
Unrestricted	<u>16,164,052</u>	<u>18,607,733</u>
Total net assets	<u>\$ 39,617,303</u>	<u>\$ 39,288,061</u>

The net assets increased \$329,242 to \$39.6 million in fiscal year 2011 up from \$39.3 million in fiscal year 2010. Net assets invested in capital assets, increased about \$1.7 million reflecting capital assets purchased in 2011. Unrestricted net assets decreased by \$1.3 million or 4% which is a result the purchase of capital assets and construction projects. Approximately 15% 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, 2011

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 \$329,242 for fiscal year 2011.

The following Table A-2 summarizes the Statement of Activities for the fiscal years ending June 30, 2011 and June 30, 2010:

Table A-2
Statement of Activities

	<u>FY 2011</u>	<u>FY 2010</u>
Revenues		
Program Revenues		
Charges for Services	\$ 1,912,022	\$ 2,337,338
Operating grants & contributions	1,600,672	719,716
General Revenues		
Property taxes	15,433,198	15,776,747
Investment earnings	80,499	143,375
Gain (Loss) on disposal of assets	-	(56,534)
Total Revenues	<u>19,026,391</u>	<u>18,920,642</u>
Expenses		
Solano Project	8,604,471	7,686,327
State Water Project	9,554,256	10,334,653
Ulati Flood Control	505,752	561,617
Green Valley Flood Control	32,670	68,185
Total Expenses	<u>18,697,149</u>	<u>18,650,782</u>
Increase in Net Assets	329,242	269,860
Net Assets, beginning of year	<u>39,288,061</u>	<u>39,018,201</u>
Net Assets, ending of year	<u>\$ 39,617,303</u>	<u>\$ 39,288,061</u>

SOLANO COUNTY WATER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Ending net assets totaled \$39.6 million at June 30, 2011 or an increase in net assets of \$329,242 or 0.8% from June 30, 2010. Total revenues increased by \$105,749 or .5% during the fiscal year 2011 compared to 2010, totaling \$19 million. Property tax revenues decreased in fiscal year 2011 compared to 2010 by \$343,549 or 2% due to lower assessed values. Charges for Services decreased by \$425,316 due to reduced State Water Project conveyance fees. Grant revenues increased \$880,956 or 122% from June 30, 2010 due to services performed on Proposition 84 Alternate Intake Grant, California Rivers Parkway and Off Highway Motor Vehicle grants. Total Expenditures increased by \$46,367 or .2% to \$18.7 million in 2010. The Solano Project expenses increased by \$1 million due to the construction of the PDO compound. The expenses decreased in State Water Project due to charges from the State for the North Bay Aqueduct Alternate Intake Project in fiscal year 2010.

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 the office condominium purchase and from installation of groundwater monitoring wells.

Table A-3
Capital Assets

	FY 2011	FY 2010
Cement Hill Bypass land (not being depreciated)	\$ 148,898	\$ 148,898
Construction in progress/capital construction	-	-
Buildings	1,656,654	-
Cement Hill Bypass land improvements	2,535,494	2,535,494
Water monitoring equipment	2,122,465	2,113,607
Machinery and field equipment	557,981	545,503
Furniture, fixtures, and office equipment	269,004	75,290
Subtotal	7,290,496	5,418,792
Less accumulated depreciation	(1,306,710)	(917,683)
	<u>\$ 5,983,786</u>	<u>\$ 4,501,109</u>

Additional information about the capital assets can be found in Note 5 to the financial statements.

SOLANO COUNTY WATER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

FINANCIAL ANALYSIS OF AGENCY FUNDS

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

	Solano Project	State Water Project	Ulatris Flood Control	Green Valley Flood Control
Revenues:				
Property taxes	\$ 6,104,858	\$ 8,389,416	\$ 876,914	\$ 62,010
Charges for Services	292,282	1,776,821	-	-
Investment Earnings	40,762	33,020	6,717	-
Grant Revenues	661,271	939,401	-	-
Other Income	61,396	-	13,572	-
Total Revenues	7,160,569	11,138,658	897,203	62,010
Expenditures:				
Water purchases	254,964	8,056,040	-	-
Operations and maintenance	4,281,275	3,490	448,051	22,288
Administration and general	1,681,939	769,069	42,578	10,382
Conservation and flood control	1,096,455	116,860	-	-
Engineering	871,326	603,470	-	-
Capital Outlay	1,871,704	-	-	-
Total Expenses	10,057,663	9,548,929	490,629	32,670
Excess (deficiency) of revenues over (under) expenditures	(2,897,094)	1,589,729	406,574	29,340
Fund Balance, beginning of year	18,965,899	13,101,669	2,371,493	(91,574)
Fund Balance, end of year	\$ 16,068,805	\$ 14,691,398	\$ 2,778,067	\$ (62,234)

Solano Project – As of June 30, 2011 the Solano Project reported an ending fund balance of \$16 million, a decrease of \$2.9 million from 2010. This was due to an increase in expenditures for the new PDO compound and the office condominium purchase.

State Water Project - As of June 30, 2011 the State Water Project reported ending fund balance of \$14.6 million, an increase from 2010 of \$1.6 million. This increase is due to the receipt of Proposition 84 Alternate Intake grant revenues in fiscal year 2011 and decreased expenditures from the grant from fiscal year 2010. The revenues were not recognized in 2010 because the grant agreement was not completed until fiscal year 2011 due to the state budget crisis.

SOLANO COUNTY WATER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Ulatis Flood Control Zone 1- As of June 30, 2011 the Ulatis Flood Control reported an ending fund balance of \$2.7 million, an increase of \$406,574 from 2010. The property tax revenues continue to exceed expenses for this fund.

Green Valley Flood Control Zone 2 - As of June 30, 2011 the Green Valley Flood Control reported ending fund balance of (\$62,234), an increase of \$29,340 from 2010.

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, 810 Vaca Valley Parkway, Suite 203, Vacaville, CA 95688.

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SOLANO COUNTY WATER AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 32,685,258
Receivables, current	2,011,774
Interest receivable	41,983
Note receivable, current	68,959
Other current assets	9,109
Total current assets	34,817,083

Noncurrent assets:

Non-depreciable capital assets	148,898
Depreciable capital assets, net	5,834,888
Receivables, noncurrent	567,246
Note receivable, noncurrent	758,966
Total noncurrent assets	7,309,998

Total assets	\$ 42,127,081
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LIABILITIES

Current liabilities:

Accounts payable	\$ 1,354,770
Accrued liabilities	220,775
Compensated absences, current	63,618
Deferred income	428,451
Total current liabilities	2,067,614

Noncurrent liabilities:

Other postemployment benefits obligation	342,659
Compensated absences, noncurrent	99,505
Total noncurrent liabilities	442,164
Total liabilities	2,509,778

NET ASSETS

Investment in capital assets, net of related debt	5,983,786
Restricted	17,469,465
Unrestricted	16,164,052
Total net assets	39,617,303
Total liabilities and net assets	\$ 42,127,081

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

SOLANO COUNTY WATER AGENCY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
Solano Project	\$ 8,604,471	\$ 320,400	\$ 661,271	\$ -	\$ (7,622,800)
State Water Project	9,554,256	1,563,050	939,401	-	(7,051,805)
Ulati Flood Control	505,752	28,572	-	-	(477,180)
Green Valley Flood Control	32,670	-	-	-	(32,670)
Total governmental activities	<u>18,697,149</u>	<u>1,912,022</u>	<u>1,600,672</u>	<u>-</u>	<u>(15,184,455)</u>
Total primary government	<u>\$ 18,697,149</u>	<u>\$ 1,912,022</u>	<u>\$ 1,600,672</u>	<u>\$ -</u>	<u>(15,184,455)</u>
General revenues and transfers:					
General revenues:					
Property taxes					15,433,198
Investment earnings					<u>80,499</u>
Total general revenues and transfers					<u>15,513,697</u>
Change in net assets					329,242
Net assets, beginning of year					<u>39,288,061</u>
Net assets, end of year					<u>\$ 39,617,303</u>

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

SOLANO COUNTY WATER AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2011

	Solano Project	State Water Project	Ulati Flood Control	Green Valley Flood Control	Total
ASSETS					
Cash and cash equivalents	\$ 14,802,462	\$ 14,932,832	\$ 2,810,306	\$ 139,658	\$ 32,685,258
Receivables	2,137,433	286,000	149,961	5,626	2,579,020
Interest receivable	37,107	4,078	798	-	41,983
Note receivable	827,925	-	-	-	827,925
Other assets	9,109	-	-	-	9,109
Total assets	<u>\$ 17,814,036</u>	<u>\$ 15,222,910</u>	<u>\$ 2,961,065</u>	<u>\$ 145,284</u>	<u>\$ 36,143,295</u>
LIABILITIES					
Accounts payable	\$ 1,184,576	\$ 62,601	\$ 105,701	\$ 1,892	\$ 1,354,770
Accrued liabilities	220,775	-	-	-	220,775
Deferred income	539,880	468,911	77,297	5,626	1,091,714
Due to (from) other funds	(200,000)	-	-	200,000	-
Total liabilities	<u>1,745,231</u>	<u>531,512</u>	<u>182,998</u>	<u>207,518</u>	<u>2,667,259</u>
FUND BALANCE					
Nonspendable:					
Receivables, noncurrent	567,246	-	-	-	567,246
Note receivable	827,925	-	-	-	827,925
Restricted for:					
State Water Project	-	14,691,398	-	-	14,691,398
Ulati Flood Control	-	-	2,778,067	-	2,778,067
Unassigned	14,673,634	-	-	(62,234)	14,611,400
Total fund balance (deficit)	<u>16,068,805</u>	<u>14,691,398</u>	<u>2,778,067</u>	<u>(62,234)</u>	<u>33,476,036</u>
Total liabilities and fund balance	<u>\$ 17,814,036</u>	<u>\$ 15,222,910</u>	<u>\$ 2,961,065</u>	<u>\$ 145,284</u>	<u>\$ 36,143,295</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, 2011

Total fund balance included in the Balance Sheet - Governmental Funds		\$ 33,476,036
Assets recorded within the Statement of Net Assets not reported in the funds:		
Non-depreciable capital assets		148,898
Depreciable capital assets	\$ 7,141,598	
Accumulated depreciation	<u>(1,306,710)</u>	5,834,888
Liabilities recorded within the Statement of Net Assets not reported in the funds:		
Compensated absences		(163,123)
Other postemployment benefits obligation		(342,659)
Long term assets not available to pay for current period expenditures are deferred in the funds:		
Deferred income		<u>663,263</u>
Net assets reported within the Statement of Net Assets - Governmental Activities		<u><u>\$ 39,617,303</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, 2011

	Solano Project	State Water Project	Ulatris Flood Control	Green Valley Flood Control	Total
REVENUES:					
Property taxes	\$ 6,104,858	\$ 8,389,416	\$ 876,914	\$ 62,010	\$ 15,433,198
Charges for services	292,282	1,776,821	-	-	2,069,103
Investment earnings	40,762	33,020	6,717	-	80,499
Intergovernmental revenues	661,271	939,401	-	-	1,600,672
Other income	61,396	-	13,572	-	74,968
Total revenues	<u>7,160,569</u>	<u>11,138,658</u>	<u>897,203</u>	<u>62,010</u>	<u>19,258,440</u>
EXPENDITURES:					
Current:					
Water purchases	254,964	8,056,040	-	-	8,311,004
Operations and maintenance	4,281,275	3,490	448,051	22,288	4,755,104
Administration and general	1,681,939	769,069	42,578	10,382	2,503,968
Conservation and flood control	1,096,455	116,860	-	-	1,213,315
Engineering	871,326	603,470	-	-	1,474,796
Capital outlay	1,871,704	-	-	-	1,871,704
Total expenditures	<u>10,057,663</u>	<u>9,548,929</u>	<u>490,629</u>	<u>32,670</u>	<u>20,129,891</u>
Excess (deficiency) of revenues over (under) expenditures	(2,897,094)	1,589,729	406,574	29,340	(871,451)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>18,965,899</u>	<u>13,101,669</u>	<u>2,371,493</u>	<u>(91,574)</u>	<u>34,347,487</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 16,068,805</u>	<u>\$ 14,691,398</u>	<u>\$ 2,778,067</u>	<u>\$ (62,234)</u>	<u>\$ 33,476,036</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, 2011

Total net change in fund balance included in the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	\$ (871,451)
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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	1,871,704
Depreciation expense	(240,857)

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	(232,049)
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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	(19,103)
Other postemployment benefits obligation	<u>(179,002)</u>

Net change in net assets reported within the Statement of Activities - Governmental Fund	<u><u>\$ 329,242</u></u>
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The accompanying notes are an integral
part of these financial statements.

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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.

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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. The District has elected to follow Governmental Accounting Standards Board (GASB) pronouncements, and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement No. 20.

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 major funds:

General Fund:

- *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.

Special Revenue Funds:

- *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.

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Special Revenue Funds: (Continued)

- *Ulatis Flood Control* – This fund accounts for the costs of operating and maintaining the Ulatis 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.
- *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.

Generally, 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, 2011, 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.

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

CAPITAL ASSETS (Continued)

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

Buildings	50 years
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

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.

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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.
- *Restricted net assets-expendable* – Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.
- *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.

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.

As of these financial statements, the Agency has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

- *Nonspendable* – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* – Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

NET ASSETS/FUND BALANCE (Continued)

- *Committed* – Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors.
- *Assigned* – Amounts that are designated by management for a specific purpose.
- *Unassigned* – All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheets (page 11). As discussed in Note 1, restricted funds are used first as appropriate.

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, 2011

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011 consist of the following:

Deposits (overdraft) with financial institutions	\$ (27,592)
Investments in Local Agency Investment Fund (LAIF)	7,470,582
Investments in California Asset Management Program (CAMP)	<u>25,242,268</u>
Total cash and cash investments	\$ <u>32,685,258</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 280 days as of June 30, 2011. The weighted average maturity of the investments contained in the CAMP investment pool is approximately 52 days as of December 31, 2010. As of June 30, 2011, 5.01% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities.

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.

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 CASH AND CASH EQUIVALENTS
(Continued)

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, 2011, the Agency had cash balances in excess of insurance of \$2,915,038. 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.

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. 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.

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 CASH AND CASH EQUIVALENTS
(Continued)

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, 2011 consist of:

Water sales receivable	\$ 944,144
Grants receivable	1,067,630
Taxes receivable	<u>567,246</u>
Total	<u>\$ 2,579,020</u>

NOTE 4 NOTE RECEIVABLE

During the current year, the Agency constructed a building on land owned by the federal government and the constructed building is owned by the United States Bureau of Reclamation not the Agency. The Agency shares the use of such building with the Vacaville Fire Department District (District). The Agency paid all of the construction costs up front however the District is repaying the Agency for their portion of the costs through a note receivable. The note is being repaid over a 10 year period with interest at 4%.

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Transfers/ Deletions	Balance June 30, 2011
Non-depreciable capital assets:				
Land	\$ 148,898	\$ -	\$ -	\$ 148,898
Non-depreciable capital assets	<u>148,898</u>	<u>-</u>	<u>-</u>	<u>148,898</u>
Depreciable capital assets:				
Land improvements	2,535,494	-	-	2,535,494
Buildings	-	1,656,654	-	1,656,654
Water monitoring equipment	2,113,607	8,858	-	2,122,465
Machinery and field equipment	545,503	12,478	-	557,981
Furniture, fixtures and office equipment	<u>75,290</u>	<u>193,714</u>	<u>-</u>	<u>269,004</u>
	5,269,894	1,871,704	-	7,141,598
Less accumulated depreciation	<u>1,065,853</u>	<u>240,857</u>	<u>-</u>	<u>1,306,710</u>
Depreciable capital assets, net	<u>4,204,041</u>	<u>1,630,847</u>	<u>-</u>	<u>5,834,888</u>
Capital assets, net	<u>\$ 4,352,939</u>	<u>\$ 1,630,847</u>	<u>\$ -</u>	<u>\$ 5,983,786</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Solano Project	\$ 220,407
State Water Project	5,327
Ulati Flood Control Project	<u>15,123</u>
Total governmental activities depreciation expense	<u>\$ 240,857</u>

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 NONCURRENT LIABILITIES

The following is a summary of changes in noncurrent liabilities for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ <u>144,020</u>	\$ <u>89,562</u>	\$ <u>70,459</u>	\$ <u>163,123</u>	\$ <u>63,618</u>
Other postemployment benefits obligation	\$ <u>163,657</u>	\$ <u>179,002</u>	\$ <u>-</u>	\$ <u>342,659</u>	\$ <u>-</u>

NOTE 7 INTERFUND BALANCES

Interfund balances consist of the following at June 30, 2011:

	<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 8 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, 2011:

Salaries and benefits	\$ 1,488,158
Professional services	249,174
Dues and memberships	151,858
Public education	143,706
Property tax administration fee	114,350
Governmental advocacy	74,655
Office equipment	70,318
Office expense	55,075
Telephone	53,438
Insurance	41,949
Watermaster services	28,980
Office rent	28,245
Fuel	18,807
Board expense	17,232
Talent decision monitoring	12,061
Endangered species contract	6,714
Miscellaneous	<u>(50,752)</u>
Total	\$ <u>2,503,968</u>

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 EARMARKED NET ASSETS

Earmarkings of 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, 2011, earmarkings included:

Solano Project operating reserve	\$ 4,100,000
Solano Project rehabilitation and betterment reserve	3,585,000
Solano Project future replacement capital reserve	1,998,711
State Water Project operating reserve	7,400,000
State Water Project future capital reserve	4,948,606
Ulati Flood Control Project operating reserve	350,000
Ulati Flood Control Project capital reserve	2,671,674
Green Valley Flood Control Project operating reserve	51,835
Other flood control capital projects	500,000
Other capital projects and emergency reserves	<u>3,000,000</u>
Total	<u>\$ 28,605,826</u>

NOTE 10 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, 2011

NOTE 10 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, 2011 was 11.147% 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, 2011, the Agency incurred an annual pension cost of \$115,565, 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>
6/30/09	\$ 109,583	100 %	\$ -
6/30/10	\$ 114,103	100 %	\$ -
6/30/11	\$ 115,565	100 %	\$ -

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 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 12 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, 2011

NOTE 12 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, 2011, 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, 2011, the Agency paid \$6,707 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
Interest on net OPEB obligation	6,955
Adjustment to ARC	9,754
Contributions made	<u>(6,707)</u>
Increase in net OPEB obligation	179,002
Net OPEB obligation, beginning of the year	<u>163,657</u>
Net OPEB obligation, end of year	\$ <u><u>342,659</u></u>

(Continued on following page)

SOLANO COUNTY WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12 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 2011 is as follows:

	June 30	
	2011	2010
Annual OPEB cost	\$ 179,002	\$ 169,000
Percentage of annual OPEB costs contributed	3.75%	3.16%
Net OPEB obligation	\$ 342,659	\$ 163,657

D. Funded Status Information

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

Actuarial valuation date	June 30, 2011
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	\$ 1,036,735
UAAL as percentage of covered payroll	92.12%

As of June 30, 2011, 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, 2011

NOTE 12 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, 2011 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 13 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, 2011

NOTE 14 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, 2011, the Agency had no commitments on unfinished contracts.

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.

**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
Vacaville, 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, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 28, 2011. 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 2011-1 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 28, 2011.

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.

Matson and Isom

December 28, 2011

SOLANO COUNTY WATER AGENCY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

A. FINDINGS – FINANCIAL STATEMENTS AUDIT

2011-1 – 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: Management will take steps to ensure that all adjustments are posted prior to the start of the audit.

SOLANO COUNTY WATER AGENCY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT

2010-1 – Audit Adjustments

Condition: In the prior year, it was 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.

Recommendation: It was recommended 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.

Status: See 2011-1