
Solano County Water Agency



Financial Statements And Independent Auditor's Report For the Year Ended June 30, 2017



SOLANO COUNTY WATER AGENCY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Solano County Water Agency
Vacaville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major funds of the Solano County Water Agency (the "Agency") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 Solano County Water Agency, as of June 30, 2017, and the respective changes in financial position, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017, on our consideration of the Solano County Water 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Solano County Water Agency's internal control over financial reporting and compliance.

Mann, Wuntia, Nelson CPA's

Sacramento, California
November 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SOLANO COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

The following discussion and analysis of the section 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, 2017. This information is presented in conjunction with the audited financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Agency exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$49,360,718 (net position). Of this amount, \$18,322,201 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The Agency's total net position increased \$4,014,603.
- At the close of the fiscal year, the Agency's governmental funds reported combined fund balances of \$37,838,960, a decrease of \$3,438,744 in comparison with the prior year.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

The financial section of this report consists of four parts: Government-wide financial statements, fund financial statements, the notes to the financial statements, and required supplementary information.

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

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.

The required supplementary information presents the Agency's progress in funding its obligations to provide pension and health benefit to its employees as well as the Agency's budgetary comparison schedules.

SOLANO COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

NET POSITION

The Statement of Net Position presents the financial position of the Agency on a full accrual 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 Position for the fiscal years ending June 30, 2017 and June 30, 2016 follows:

TABLE A-1
STATEMENT OF NET POSITION

	<u>2017</u>	<u>2016</u>
ASSETS		
Current and other assets	\$ 39,621,509	\$ 43,166,561
Noncurrent receivables	373,138	457,629
Capital assets	<u>12,663,240</u>	<u>5,695,633</u>
Total Assets	<u>52,657,887</u>	<u>49,319,823</u>
Deferred Outflows of Resources	<u>553,278</u>	<u>319,088</u>
LIABILITIES		
Current liabilities	1,863,528	2,052,791
Other liabilities	<u>1,914,777</u>	<u>2,066,753</u>
Total Liabilities	<u>3,778,305</u>	<u>4,119,544</u>
Deferred Inflows of Resources	<u>72,142</u>	<u>173,252</u>
NET POSITION		
Net investment in capital assets	12,663,240	5,695,633
Restricted	18,375,277	19,372,547
Unrestricted	<u>18,322,201</u>	<u>20,277,935</u>
Total Net Position	<u>\$ 49,360,718</u>	<u>\$ 45,346,115</u>

This table summarizes the net position of the Agency and reflects the net position increase of \$4,014,603 to \$49,360,718 in fiscal year 2017 from \$45,346,115 in fiscal year 2016. Net investment in capital assets increased \$6,967,607, reflecting the net of assets additions and depreciation on capital assets. Approximately 26% of the Agency's net position 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. The restricted net position totals \$18,375,277 at June 30, 2017 representing funds that are obligated to be spent within State Water Project, Ulatis, and Green Valley. The decrease in restricted net position of \$997,270 mainly consists of the expenses exceeding revenues in two of the four funds. The unrestricted net position is a resource that can be used for transactions relating to the general operations of the Agency and decreased by \$1,955,734 primarily due to the expenditures exceeding the revenues in the Solano Project fund.

SOLANO COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

CHANGES IN NET POSITION

The Statement of Net Position is a snapshot that shows assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position at a specific point in time. The Statements of Activities provides information on the nature and source of these assets and liabilities represented on the Statement of Net Position. This statement shows that revenues exceeded expenses by \$4,014,603 for fiscal year 2017.

The following Table A-2 summarizes the Statement of Activities for the fiscal years ending June 30, 2017 and June 30, 2016:

TABLE A-2
STATEMENT OF ACTIVITIES

	<u>2017</u>	<u>2016</u>
REVENUES		
Program Revenues		
Charges for services	\$ 2,949,358	\$ 3,051,764
Operating grants and contributions	1,043,419	1,110,799
General Revenues		
Property taxes	22,454,976	20,592,430
Investment earnings	<u>205,753</u>	<u>121,622</u>
Total Revenue	<u>26,653,506</u>	<u>24,876,615</u>
EXPENSES		
Solano Project	8,791,655	10,873,927
State Water Project	13,059,922	11,740,362
Ulati Flood Control	749,195	569,902
Green Valley Flood Control	<u>38,131</u>	<u>51,106</u>
Total Expenses	<u>22,638,903</u>	<u>23,235,297</u>
Change in net position	<u>4,014,603</u>	<u>1,641,318</u>
Net position - beginning	45,346,115	43,704,797
Net position - ending	<u>\$ 49,360,718</u>	<u>\$ 45,346,115</u>

Ending net position totaled \$49,360,718 at June 30, 2017, or an increase in net position of \$4,014,603 or 9% from June 30, 2016. Total revenues increased by \$1,776,891 or 7% during the fiscal year 2017 compared to 2016, totaling \$26,653,506. Property tax revenue increased in fiscal year 2017 compared to 2016 by \$1,862,546 or 9%. Grant revenues decreased by \$67,380 or 6% from June 30, 2016. Total expenditures decreased by \$596,394 or 3% to \$22,638,903 in 2017. The Solano Project expenses decreased by \$2,082,272 from 2016 to 2017 primarily due to fewer rehab & betterment projects at the Putah South Canal headworks. However, State Water Project expenses increased by \$1,319,560 from 2016 to 2017 primarily due to the purchase of land (Petersen Ranch) and increased water purchase costs during 2017. The Ulati expenditures increased due to the purchase of a loader and bucket and supplemental weed control activities. The Green Valley expenditures decreased due to the deferral of selected maintenance activities, due to prolonged inclement weather.

SOLANO COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

CAPITAL ASSETS

The Agency's capital assets, net of accumulated depreciation, consist mainly of ground monitoring wells and improvements (such as the Cement Hill Bypass) 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 attributable to the following purchases: land known as Petersen Ranch, John Deere Tractor, Ford F-750 5 yard dump truck, Tree Spade, 2017 Ram Crew Truck, and data network & storage, water monitoring equipment, and field equipment.

TABLE A-3
CAPITAL ASSETS

	<u>2017</u>	<u>2016</u>
Cement Hill Bypass land	\$ 7,063,469	\$ 148,898
Buildings	1,661,323	1,661,323
Cement Hill Bypass land improvements	2,535,494	2,535,494
Water monitoring equipment	2,164,101	2,134,634
Machinery and field equipment	2,130,175	1,705,315
Furniture, fixtures, and office equipment	<u>217,439</u>	<u>328,787</u>
Subtotal	15,772,001	8,514,451
Less accumulated depreciation	<u>(3,108,761)</u>	<u>(2,818,818)</u>
Total net capital assets	<u>\$ 12,663,240</u>	<u>\$ 5,695,633</u>

Additional information about the Agency's capital assets can be found in Note 6 in the Notes to the Basic Financial Statements.

SOLANO COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF AGENCY FUNDS

The following Table A-4 summarizes the changes in fund balances for the governmental funds:

TABLE A-4
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

	Solano Project	State Water Project	Ulati Flood Control	Green Valley Flood Control	Total
REVENUES					
Property taxes	\$ 8,638,933	\$ 12,467,260	\$ 1,228,717	\$ 120,066	\$ 22,454,976
Charges for services	465,520	2,383,655	-	-	2,849,175
Investment earnings	114,883	65,567	25,303	-	205,753
Grant revenues	500,910	140,560	-	-	641,470
Other income	<u>480,055</u>	<u>17,242</u>	<u>4,835</u>	<u>-</u>	<u>502,132</u>
Total Revenues	<u>10,200,301</u>	<u>15,074,284</u>	<u>1,258,855</u>	<u>120,066</u>	<u>26,653,506</u>
EXPENDITURES					
Water purchase	68,588	11,508,929	-	-	11,577,517
Operations and maintenance	3,228,379	52,507	543,399	29,544	3,853,829
Administration and general	3,142,932	898,442	130,689	10,041	4,182,104
Conservation and flood control	1,103,529	232,662	-	-	1,336,191
Engineering	1,242,102	476,109	-	-	1,718,211
Capital outlay	<u>3,682,245</u>	<u>3,468,986</u>	<u>273,167</u>	<u>-</u>	<u>7,424,398</u>
Total Expenditures	<u>12,467,775</u>	<u>16,637,635</u>	<u>947,255</u>	<u>39,585</u>	<u>30,092,250</u>
Net Change in Fund Balance	<u>(2,267,474)</u>	<u>(1,563,351)</u>	<u>311,600</u>	<u>80,481</u>	<u>(3,438,744)</u>
Fund balance, beginning	<u>21,731,157</u>	<u>14,213,248</u>	<u>5,263,008</u>	<u>70,291</u>	<u>41,277,704</u>
Fund balance, ending	<u>\$ 19,463,683</u>	<u>\$ 12,649,897</u>	<u>\$ 5,574,608</u>	<u>\$ 150,772</u>	<u>\$ 37,838,960</u>

Solano Project - As of June 30, 2017, the Solano Project reported an ending fund balance of \$19,463,683, a decrease of \$2,267,474 from 2016 ending fund balance primarily due to purchase of land (Petersen Ranch) and server/network updates.

State Water Project - As of June 30, 2017, the State Water Project reported ending fund balance of \$12,649,897, a decrease from 2016 of \$1,563,351. This decrease in fund balance is primarily due to land purchase (Petersen Ranch).

Ulati Flood Control Zone 1 - As of June 30, 2017, the Ulati Flood Control reported an ending fund balance of \$5,574,608, an increase of \$311,600 from 2016. Actual property tax revenues exceeded planned expenditures.

Green Valley Flood Control Zone 2 - As of June 30, 2017, the Green Valley Flood Control reported an ending fund balance of \$150,772, an increase of \$39,585 from 2016. Selected maintenance activities were deferred to FY 2016-17, due to prolonged inclement weather.

**SOLANO COUNTY WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

During 2003, the Agency developed a Capital Project Funding Plan that forecasts capital project needs over 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, portions of which are scheduled for revision in 2017, is 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 does not make payments to the United States Bureau of Reclamation for Solano Project water and, therefore, does not charge for Solano Project water supply for most of its contracting agencies.

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 information should be addressed to the General Manager, 810 Vaca Valley Parkway, Suite 203, Vacaville, CA 95688.

SOLANO COUNTY WATER AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and investments (Note 2)	\$ 37,688,791
Accounts receivable (Note 3)	1,833,635
Interest receivable	14,926
Prepaid expenses and other assets	84,157
Note receivable - noncurrent (Note 4)	373,138
Capital assets (Note 6)	
Nondepreciable capital assets	7,063,469
Depreciable capital assets, net of accumulated depreciation (Note 6)	<u>5,599,771</u>
Total capital assets	<u>12,663,240</u>
Total Assets	<u>52,657,887</u>
Deferred outflows of resources (Note 11)	<u>553,278</u>
<u>LIABILITIES</u>	
Accounts payable	1,151,758
Deposits	78,102
Unearned revenues	552,689
Compensated absences (Note 7)	
Due within one year	80,979
Due in more than one year	121,409
Other post employment benefits (Note 12)	
Due in more than one year	790,059
Net pension liability (Note 11)	
Due in more than one year	<u>1,003,309</u>
Total Liabilities	<u>3,778,305</u>
Deferred inflows of resources (Note 11)	<u>72,142</u>
<u>NET POSITION</u>	
Net investment in capital assets	12,663,240
Restricted	18,375,277
Unrestricted	<u>18,322,201</u>
Total Net Position	<u>\$ 49,360,718</u>

SOLANO COUNTY WATER AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Program Revenues					Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
PRIMARY GOVERNMENT					
Governmental activities:					
Solano Project	\$ 8,791,655	\$ 560,868	\$ 902,859	\$ -	\$ (7,327,928)
State Water Project	13,059,922	2,383,655	140,560	-	(10,535,707)
Ulati Flood Control	749,195	4,835	-	-	(744,360)
Green Valley Flood Control	<u>38,131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38,131)</u>
Total primary government	<u>\$ 22,638,903</u>	<u>\$ 2,949,358</u>	<u>\$ 1,043,419</u>	<u>\$ -</u>	<u>\$ (18,646,126)</u>
General revenues:					
Property taxes					\$ 22,454,976
Investment earnings					<u>205,753</u>
Total general revenues					<u>22,660,729</u>
Change in net position					<u>4,014,603</u>
Net position - July 1, 2016					<u>45,346,115</u>
Net position - June 30, 2017					<u>\$ 49,360,718</u>

SOLANO COUNTY WATER AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Solano Project</u>	<u>State Water Project</u>	<u>Ulatis Flood Control</u>	<u>Green Valley Flood Control</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 18,726,843	\$ 12,890,968	\$ 5,709,480	\$ 361,500	\$ 37,688,791
Accounts receivable	1,515,837	317,798	-	-	1,833,635
Interest receivable	14,926	-	-	-	14,926
Notes receivable	373,138	-	-	-	373,138
Due from other funds	200,000	-	-	-	200,000
Other assets	<u>84,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,157</u>
Total Assets	<u>\$ 20,914,901</u>	<u>\$ 13,208,766</u>	<u>\$ 5,709,480</u>	<u>\$ 361,500</u>	<u>\$ 40,194,647</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 886,409	\$ 119,749	\$ 134,872	\$ 10,728	\$ 1,151,758
Deposits	78,102	-	-	-	78,102
Unearned revenue	113,569	439,120	-	-	552,689
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>
Total Liabilities	<u>1,078,080</u>	<u>558,869</u>	<u>134,872</u>	<u>210,728</u>	<u>1,982,549</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Deferred inflows of resources	<u>373,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>373,138</u>
<u>FUND BALANCES</u>					
Nonspendable	612,965	-	-	-	612,965
Restricted	-	12,649,897	5,574,608	150,772	18,375,277
Assigned	340,426	-	-	-	340,426
Unassigned	<u>18,510,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,510,292</u>
Total Fund Balances	<u>19,463,683</u>	<u>12,649,897</u>	<u>5,574,608</u>	<u>150,772</u>	<u>37,838,960</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 20,914,901</u>	<u>\$ 13,208,766</u>	<u>\$ 5,709,480</u>	<u>\$ 361,500</u>	<u>\$ 40,194,647</u>

SOLANO COUNTY WATER AGENCY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances of governmental funds	\$ 37,838,960
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds, net of accumulated depreciation of \$3,108,761.	12,663,240
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Certain notes, loans, and interest receivables are not available to pay for current period expenditures and therefore are offset by deferred inflows of resources in the governmental funds.	
Deferred inflows of resources	373,138

Other long-term assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Pension contributions made subsequent to the measurement date	174,564
Deferred outflows related to changes in the net pension liability	378,714

Long-term liabilities are not due in the current period and therefore are not reported in the governmental funds.	
Compensated absences	(202,388)
Net OPEB obligation	(790,059)
Net pension liability	(1,003,309)
Deferred inflows related to changes in the net pension liability	<u>(72,142)</u>

Net position of governmental activities	\$ <u><u>49,360,718</u></u>
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SOLANO COUNTY WATER AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Solano Project</u>	<u>State Water Project</u>	<u>Ulati Flood Control</u>	<u>Green Valley Flood Control</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>					
Property taxes	\$ 8,638,933	\$ 12,467,260	\$ 1,228,717	\$ 120,066	\$ 22,454,976
Charges for services	465,520	2,383,655	-	-	2,849,175
Investment earnings	114,883	65,567	25,303	-	205,753
Intergovernmental	500,910	140,560	-	-	641,470
Other revenues	<u>480,055</u>	<u>17,242</u>	<u>4,835</u>	<u>-</u>	<u>502,132</u>
Total Revenues	<u>10,200,301</u>	<u>15,074,284</u>	<u>1,258,855</u>	<u>120,066</u>	<u>26,653,506</u>
<u>EXPENDITURES</u>					
Current:					
Water purchases	68,588	11,508,929	-	-	11,577,517
Operations and maintenance	3,228,379	52,507	543,399	29,544	3,853,829
Administration and general	3,142,932	898,442	130,689	10,041	4,182,104
Conservation and flood control	1,103,529	232,662	-	-	1,336,191
Engineering	1,242,102	476,109	-	-	1,718,211
Capital outlay	<u>3,682,245</u>	<u>3,468,986</u>	<u>273,167</u>	<u>-</u>	<u>7,424,398</u>
Total Expenditures	<u>12,467,775</u>	<u>16,637,635</u>	<u>947,255</u>	<u>39,585</u>	<u>30,092,250</u>
Net Change in Fund Balances	(2,267,474)	(1,563,351)	311,600	80,481	(3,438,744)
Fund Balances - July 1, 2016	<u>21,731,157</u>	<u>14,213,248</u>	<u>5,263,008</u>	<u>70,291</u>	<u>41,277,704</u>
Fund Balances - June 30, 2017	<u>\$ 19,463,683</u>	<u>\$ 12,649,897</u>	<u>\$ 5,574,608</u>	<u>\$ 150,772</u>	<u>\$ 37,838,960</u>

SOLANO COUNTY WATER AGENCY
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

Reconciliation of the change in fund balances - total governmental funds to the change in net position of governmental activities:

Net change in fund balances - total governmental funds	\$ (3,438,744)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
Capital asset purchases	7,424,399
Depreciation expense	(394,719)
Government funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal.	(62,073)
Compensated absence expenditures reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in a governmental fund. This is the net change in compensated absences for the current period.	(32,320)
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 governmental funds.	
Other postemployment benefits	447,389
Amortization of pension costs and changes in the net pension liability	<u>70,671</u>
Change in net position of governmental activities	\$ <u><u>4,014,603</u></u>

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Solano County Water Agency (the 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 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 lead efforts to protect rights to existing sources of water and participates in efforts to secure new sources of 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 Agency alone as the Agency has no component units, related organizations, or jointly governed organizations.

B. Basis of Presentation

The Agency's basic financial statements are prepared in conformity with accounting principals generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These standards require that the financial statements described below be presented.

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. Eliminations have been made to minimize the double counting of internal activities. The Agency's net position is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position. The Agency first utilizes restricted resources to finance qualifying activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

The accounts of the Agency are organized on the basis of funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditure/expenses. A fund is 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.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funds of the Agency are described below:

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 are 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.

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.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported.

All governmental funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Agency defines available to be within 90 days of year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services. Certain indirect costs are included in program expenses reported for individual functions and activities.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the Agency may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position is available to finance program expenditures. The Agency's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

D. 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).

E. Accounts Receivable

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. No allowance for losses has been reflected at June 30, 2017 as management believes all receivables to be collectible. Major receivable balances for the governmental activities consist of grants. Long-term loans in governmental funds are treated as expenditures in the year advanced and as revenues in the year repayment is measurable and available. Loans receivable are recorded in the fund statements, but are also recorded as deferred inflows of resources to indicate they do not represent current financial resources.

F. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Provision is made for depreciation using the straight-line method over the estimated useful lives of the assets, which range from five to forty 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 is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The Agency has assigned the useful lives listed below to capital assets:

Buildings and improvements	40 years
Land improvements	25 - 30 years
Water monitoring equipment	5 - 10 years
Machinery and field equipment	5 - 15 years
Furniture, fixtures, and office equipment	5 - 10 years

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

G. Unearned Revenues

Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenue 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 unearned revenue is removed from the balance sheet and revenue is recognized.

H. 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 on-behalf 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.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position, or balance sheet, will sometimes report a section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period(s) and so will be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position, or balance sheet, will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

J. Property Taxes

Property taxes are assessed and collected by Solano County (the 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 10 or April 10. 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.

K. Prepaid Expenses and Inventory

Inventories are stated at cost (average cost per unit) for governmental funds. The cost is recorded as an expenditure/expense in the funds at the time individual inventory items are consumed, rather than purchased. Inventories of governmental funds are offset by nonspendable fund balance to indicate they do not constitute resources available for future appropriation.

Prepaid items are also recognized under the consumption method. Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Pensions

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

M. Equity Classifications

Government-wide Statements

Net position is the excess of all the Agency's assets over all its liabilities, regardless of fund. Net position is divided into three categories. These categories apply only to net position, which is determined at the government-wide level, and are described below:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - Unrestricted net position represents 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.

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- a. Nonspendable - Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted - Amounts that are restricted for specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- c. Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
- d. Assigned - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed.
- e. Unassigned - Amounts representing the residual classification for the general fund and residual negative fund balance of special revenue and capital project funds.

Further detail about the Agency's fund balance classification is described in Note 8.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Budgetary Principles

Under GASB Statement 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's budgets are adopted on a basis which materially conforms to accounting principles generally accepted in the United States of America.

O. Use of Estimates

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

P. Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2017 or later and may be applicable to the Agency. However, the Agency has not determined the effects, if any, on the financial statements.

Government Accounting Standards Board Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB, and replaces Statements No. 45 and 57. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. The Agency has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the Agency's fiscal year ending June 30, 2018.

Government Accounting Standards Board Statement No. 85

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Application of this statement is effective for the Agency's fiscal year ending June 30, 2018. The Agency has not determined what impact, if any, this pronouncement will have on the financial statements.

Government Accounting Standards Board Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of this statement is effective for the Agency's fiscal year ending June 30, 2021. The Agency has not determined what impact, if any, this pronouncement will have on the financial statements.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2017 consisted of the following:

	<u>Total</u>
Deposits with financial institutions	\$ <u>668,063</u>
Local Agency investment Fund (LAIF)	7,639,199
California Asset Management Program (CAMP)	24,349,126
Certificates of Deposit	5,182,503
Money Market Funds ¹	<u>(150,100)</u>
Total Investments	<u>37,020,728</u>
Total Cash and Investments	\$ <u>37,688,791</u>

¹ Money market funds consisted of a negative balance due to normal deposits in transit at year-end.

Investment Policy

California statutes authorize agencies to invest in 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.

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The weighted average maturity of the investments contained in the LAIF investment pool is approximately 194 days as of June 30, 2017. The weighted average maturity of the investments contained in the CAMP investment pool is approximately 49 days as of December 31, 2016. As of June 30, 2017, 2.89% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities.

Information about the sensitivity of the fair values of the Agency's investments to market rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity as of June 30, 2017:

	<u>Remaining Maturity</u>		
	12 months or less	1-5 years	Total
Local Agency Investment Funds	\$ 7,639,199	\$ -	\$ 7,639,199
California Asset Management Program	24,349,126	-	24,349,126
Certificates of Deposit	-	5,182,503	5,182,503
Money Market Funds	<u>(150,100)</u>	<u>-</u>	<u>(150,100)</u>
Total Investments	<u>\$ 31,838,225</u>	<u>\$ 5,182,503</u>	<u>\$ 37,020,728</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency had no investments that were highly sensitive to interest rate fluctuations at June 30, 2017.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF and CAMP do not have a rating provided by a nationally recognized statistical rating organization. The Agency's certificates of deposit and money market funds are not rated.

Concentration 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.

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.

Investment Valuation (non-pooled investments)

The Agency categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Agency does not have any investments that are measured using Level 3 inputs. Fair value of the Agency's investments are as follows as of June 30, 2017:

- Certificates of Deposit: based on matrix pricing technique (Level 2 input)
- Money Market Funds: based on quoted market prices (Level 1 input)

Investment in Local Agency Investment Fund (LAIF)

The Agency is a voluntary participant in the State Treasurer's Pooled Money Investment Account (PMIA), through 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.

Investment in California Asset Management Program (CAMP)

The Agency is a voluntary participant in CAMP that was formed in 1989 as a joint power 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.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3: ACCOUNTS AND GRANTS RECEIVABLES

Receivables at June 30, 2017 consisted of:

Water sales receivable	\$ 434,504
Grants receivable	<u>1,399,131</u>
Total receivables	<u>\$ 1,833,635</u>

NOTE 4: NOTE RECEIVABLE

In fiscal year 2011, the Agency constructed a building on land owned by the federal government. The constructed building is owned by the United States Bureau of Reclamation and not the Agency. The Agency shares the use of such building with the Vacaville Fire Department District (the 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%. The balance of the note receivable has been offset in the fund financial statements by deferred inflows of resources as it is not deemed measurable and available within 60 days. The balance of the note at June 30, 2017 totaled \$373,138.

NOTE 5: INTERFUND TRANSACTIONS

Interfund balances consisted of the following at June 30, 2017:

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

During the course of operations, numerous transactions that constitute reimbursements to a fund for expenditures/expenses initially made from one fund that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6: CAPITAL ASSETS

Governmental activities:

	Balance at July 1, 2016	Additions	Retirements	Balance at June 30, 2017
Capital assets not being depreciated				
Land	\$ <u>148,898</u>	\$ <u>6,914,571</u>	\$ <u>-</u>	\$ <u>7,063,469</u>
Total capital assets not being depreciated	<u>148,898</u>	<u>6,914,571</u>	<u>-</u>	<u>7,063,469</u>
Capital assets being depreciated				
Land improvements	2,535,494	-	-	2,535,494
Buildings	1,661,323	-	-	1,661,323
Water monitoring equipment	2,134,634	29,467	-	2,164,101
Machinery and field equipment	1,705,315	424,860	-	2,130,175
Furniture, fixtures, and office equipment	<u>328,787</u>	<u>55,501</u>	<u>(166,849)</u>	<u>217,439</u>
Total capital assets being depreciated	<u>8,365,553</u>	<u>509,828</u>	<u>(166,849)</u>	<u>8,708,532</u>
Less accumulated depreciation	<u>(2,818,818)</u>	<u>(394,719)</u>	<u>104,776</u>	<u>(3,108,761)</u>
Total capital assets, net	\$ <u>5,695,633</u>	\$ <u>7,029,680</u>	\$ <u>(62,073)</u>	\$ <u>12,663,240</u>

Depreciation expense for the year ended June 30, 2017, was charged to functions as follows:

Governmental Activities:

Solano Project	\$ 288,981
State Water Project	11,998
Ulatris Flood Control Project	<u>93,740</u>
Total Depreciation Expense	<u>\$ 394,719</u>

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7: LONG-TERM LIABILITIES

The following is a summary of changes in the Agency's long-term liabilities for the fiscal year ended June 30, 2017:

	<u>Balance at June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>
Governmental activities:					
Compensated absences	\$ <u>170,068</u>	\$ <u>115,501</u>	\$ <u>(83,181)</u>	\$ <u>202,388</u>	\$ <u>80,979</u>

NOTE 8: FUND BALANCE

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

The Board of Directors, as the Agency's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal action. Committing fund balance is accomplished by approval of an action item by the Board of Directors. These committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use through the same type of formal action taken to establish the commitment.

Assigned fund balances are amounts that are constrained by the Agency's intent to be used for specific purposes, but are neither restricted or committed. The Agency has delegated the authority to assign fund balance to the General Manager.

The accounting policies of the Agency consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Agency considers committed amounts to be reduced first, followed by assigned amounts, and unassigned amounts.

As of June 30, 2017, fund balances were comprised of the following:

	<u>Solano Project</u>	<u>State Water Project</u>	<u>Ulatis Flood Control</u>	<u>Green Valley Flood Control</u>	<u>Total Governmental Funds</u>
Nonspendable					
Prepaid expenses	\$ 23,282	\$ -	\$ -	\$ -	\$ 23,282
Inventory	16,545	-	-	-	16,545
Notes receivable	373,138	-	-	-	373,138
Advances	200,000	-	-	-	200,000
Total Nonspendable	<u>612,965</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>612,965</u>
Restricted					
Grants	<u>-</u>	<u>12,649,897</u>	<u>5,574,608</u>	<u>150,772</u>	<u>18,375,277</u>
Assigned					
Capital Projects	<u>340,426</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>340,426</u>
Unassigned					
	<u>18,510,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,510,292</u>
Total Fund Balance	<u>\$ 19,463,683</u>	<u>\$ 12,649,897</u>	<u>\$ 5,574,608</u>	<u>\$ 150,772</u>	<u>\$ 37,838,960</u>

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9: EXCESS EXPENDITURES AND TRANSFERS OVER APPROPRIATIONS

The Ulatis Flood Control fund incurred expenditures in excess of appropriations in the amount of \$10,535 for the year ended June 30, 2017. The excess expenditures were covered by available fund balance in the fund.

NOTE 10: 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, 2017:

Salaries and benefits	\$ 3,104,173
Professional services	421,325
Dues and memberships	174,353
Public education	71,909
Property tax administration fee	121,296
Governmental advocacy	104,019
Office equipment	78,486
Office expense	74,144
Telephone	22,228
Insurance	56,560
Watermaster services	13,400
Fuel	21,341
Board expense	24,404
Talent decision monitoring	13,012
Miscellaneous	45,458
Overhead reallocation	<u>(164,004)</u>
Total	\$ <u><u>4,182,104</u></u>

NOTE 11: DEFINED BENEFIT PENSION PLAN

General Information about the Plan

All qualified permanent full and part-time Agency employees working at least 1,000 hours per year are eligible to participate in the Agency's cost-sharing multiple-employer defined benefit pension plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The Agency sponsors two rate plans (both miscellaneous). Benefit provisions under the Plan are established by State statute and Agency resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Active members belonging to the Classic Plan are required to contribute 7% of their annual covered salary. Active members belonging to the PEPRA plan are required to contribute 6.25% of their annual covered salary. The Agency makes the contributions required of the Classic employees on their behalf and for their account.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

The rate plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

Hire Date	Miscellaneous Plan	
	Classic Prior to January 1, 2013	PEPRA On or After January 1, 2013
Benefit Formula	2.0% @ 55	2.0% @ 62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	50 - 55	52 - 67
Monthly Benefits, as a % of Eligible Compensation	2.0% to 2.5%	1.0% to 2.5%
Required Employee Contribution Rates	7.000%	6.250%
Required Employer Contribution Rates*	13.046%	6.250%

*Employer contribution rates include the employer normal cost rate and the unfunded accrued liability contribution.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Agency's required contributions to the Plan for the year ended June 30, 2017 were \$174,564.

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

As of June 30, 2017, the Agency reported a net pension liability of \$1,003,309 for its proportionate share of the net pension liability of the Plan.

The Agency's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability of the Plan as of June 30, 2015 and 2016 was as follows:

Proportion - June 30, 2015	0.01076%
Proportion - June 30, 2016	0.01160%
Change - Increase (Decrease)	0.00084%

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

For the year ended June 30, 2017, the Agency recognized pension expense of \$192,182 which included employer paid member contributions for the Classic Plan. At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 174,564	\$ -
Difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contribution	44,263	-
Changes in assumptions	-	52,424
Differences between expected and actual experience	5,541	1,270
Adjustment due to differences in proportions	56,061	18,448
Net differences between projected and actual earnings on plan investments	<u>272,849</u>	<u>-</u>
Total	<u>\$ 553,278</u>	<u>\$ 72,142</u>

\$174,564 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30,	
2017	\$ 61,211
2018	\$ 52,507
2019	\$ 122,183
2020	\$ 70,671

Actuarial Assumptions

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

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% net of pension plan investment expenses, includes inflation
Mortality (1)	Derived using CalPERS membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 201 Experience Study Report.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Changes in Assumptions

There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows of resources for changes in assumptions presented in the deferred outflows/inflows table above represents the portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2015.

Asset Class	Current Target Allocation	Real Return Years 1-10 (1)	Real Return Years 11+ (2)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(0.55%)	(1.05%)

(1) An expected inflation of 2.5% used for this period.

(2) An expected inflation of 3.0% used for this period.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Net Pension Liability (Asset)	\$ 1,667,963	\$ 1,003,309	\$ 454,005

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net positions is available in the separately issued CalPERS financial reports.

NOTE 12: OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Description of the Plan

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 up to \$12,500 per year. As of June 30, 2016, the date of the most recent actuarial valuation, membership of the Plan consisted of 2 retirees currently receiving benefits and 16 eligible active plan members. The Plan does not issue a publicly available report.

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, 2017, the Agency paid \$22,389 on behalf of its retirees. In addition, during the year, the Agency's Board approved to participate in CalPERS' California Employer's Retiree Benefit Trust (CERBT). Contributions made to the CERBT trust for the year ended June 30, 2017 totaled \$730,000.

Annual OPEB Cost 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.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12: OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The Agency's unfunded actuarial accrued liability as of June 30, 2016, the date of the most recent actuarial valuation was as follows:

Annual required contribution (ARC)	
Normal cost	\$ 249,000
30-year amortization of funded liability	<u>109,000</u>
Total annual required contribution	<u>358,000</u>
Interest on net OPEB obligation	49,000
Adjustment to net OPEB obligation	<u>(93,000)</u>
Total annual OPEB cost	<u>314,000</u>
Employer contributions paid for retirees	(22,389)
Employer contributions to OPEB trust	(730,000)
Implicit rate subsidy	<u>(9,000)</u>
Net decrease in net OPEB obligation	<u>(447,389)</u>
Net OPEB obligation, June 30, 2016	<u>1,237,448</u>
Net OPEB obligation, June 30, 2017	<u>\$ 790,059</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2017 and two preceding years are as follows:

<u>Year Ended</u>	<u>Annual OPEB cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB</u>
June 30, 2015	\$ 182,000	\$ 6,023	3.31 %	\$ 965,990
June 30, 2016	\$ 295,000	\$ 16,542	5.61 %	\$ 1,237,448
June 30, 2017	\$ 314,000	\$ 752,389	239.61 %	\$ 790,059

Funded Status and Funding Progress

The funded status of the plan based on an actuary study using age-adjusted premiums as of June 30, 2016, was as follows:

Actuarial accrued liability (AAL)	
Active employees	\$ 1,359,000
Retired employees	<u>470,000</u>
Total	<u>1,829,000</u>
Actuarial value of plan assets	<u>733,207</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,095,793</u>
Funded ratio (actuarial value of plan assets / AAL)	40.09 %
Covered payroll (active plan members)	1,504,000
UAAL as a percentage of covered payroll	72.86 %

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12: OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to the past expectations and new estimates about the future are formulated. Although the valuation results are based on the values which the Agency's actuarial consultant believes are reasonable assumption, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status could result in actual costs being less or greater than estimated.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members, and include the types of plan benefits provided at the time of the valuation and the historical pattern of sharing benefit costs between 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 assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal. The actuarial assumptions include a 4.0% percent discount rate, 3.0% price inflation, 3.25% wage inflation, and an annual cost trend with no rate increase until 2019 (3% increase annually thereafter). The unfunded actuarial accrued liability is being amortized as a level percent of payroll over a 30-year fixed period, with 24 years remaining as of the most recent actuarial report. The valuation is a closed group valuation, that is, no future hires are assumed.

NOTE 13: 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 officials' errors and omissions, property, fidelity, workers' compensation liability, and employers' liability. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group-purchases 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 is as follows:

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

Settles 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.

SOLANO COUNTY WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14: CONTINGENCIES AND COMMITMENTS

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, 2017, 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.

The Agency has been named a real party in interest in two actions filed in 2010 against the California Department of Water Resources. The actions allege violation of the California Environmental Quality Act. No estimates of liability or conclusions have been or can be reached relative to the impact of this action; however, there can be no assurance that this matter will not adversely affect the Agency's financial position.

The Agency has been named a real party in interest in action filed against Ana Matosantos, California Department of Finance, and in an action filed against Michael Cohen. The actions challenge various aspects of the wind-down of redevelopment agency affairs under AB 1484. The Agency may be exposed to a portion of the liability for attorneys' fees in the event the Petitioners prevail in the action. No estimates of liability or conclusions have been or can be reached relative to the impact of this actions; however, there can be no assurance that this matter will not adversely affect the Agency's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

SOLANO COUNTY WATER AGENCY
SOLANO PROJECT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>2016-2017 Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES</u>				
Property taxes	\$ 8,657,500	\$ 8,657,500	\$ 8,638,933	\$ (18,567)
Charges for services	406,000	406,000	465,520	59,520
Investment earnings	43,655	58,581	114,883	56,302
Intergovernmental	1,760,213	1,760,213	500,910	(1,259,303)
Other revenues	<u>894,396</u>	<u>879,470</u>	<u>480,055</u>	<u>(399,415)</u>
Total Revenues	<u>11,761,764</u>	<u>11,761,764</u>	<u>10,200,301</u>	<u>(1,561,463)</u>
<u>EXPENDITURES</u>				
Current:				
Water purchases	157,500	157,500	68,588	88,912
Operations and maintenance	6,455,118	6,455,118	3,228,379	3,226,739
Administration and general	4,200,945	4,200,945	3,142,932	1,058,013
Conservation and flood control	2,035,750	2,035,750	1,103,529	932,221
Engineering	4,970,037	4,970,037	1,242,102	3,727,935
Capital outlay	<u>4,210,550</u>	<u>4,210,550</u>	<u>3,682,245</u>	<u>528,305</u>
Total Expenditures	<u>22,029,900</u>	<u>22,029,900</u>	<u>12,467,775</u>	<u>9,562,125</u>
Net Change in Fund Balance	\$ <u>(10,268,136)</u>	\$ <u>(10,268,136)</u>	(2,267,474)	\$ <u>8,000,662</u>
Fund Balance - July 1, 2016			<u>21,731,157</u>	
Fund Balance - June 30, 2017			\$ <u>19,463,683</u>	

SOLANO COUNTY WATER AGENCY
STATE WATER PROJECT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>2016-2017 Budgeted Amounts</u>			Variance with Final Budget Positive Negative
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES</u>				
Property taxes	\$ 11,814,500	\$ 11,814,500	\$ 12,467,260	\$ 652,760
Charges for services	2,422,101	2,422,101	2,383,655	(38,446)
Investment earnings	17,400	17,400	65,567	48,167
Intergovernmental	140,525	140,525	140,560	35
Other revenues	<u>-</u>	<u>-</u>	<u>17,242</u>	<u>-</u>
Total Revenues	<u>14,394,526</u>	<u>14,394,526</u>	<u>15,074,284</u>	<u>662,516</u>
<u>EXPENDITURES</u>				
Current:				
Water purchases	11,591,025	11,591,025	11,508,929	82,096
Operations and maintenance	18,500	18,500	52,507	(34,007)
Administration and general	645,914	645,914	898,442	(252,528)
Conservation and flood control	480,250	480,250	232,662	247,588
Engineering	1,162,770	1,162,770	476,109	686,661
Capital outlay	<u>3,525,000</u>	<u>3,525,000</u>	<u>3,468,986</u>	<u>56,014</u>
Total Expenditures	<u>17,423,459</u>	<u>17,423,459</u>	<u>16,637,635</u>	<u>785,824</u>
Net Change in Fund Balance	\$ <u>(3,028,933)</u>	\$ <u>(3,028,933)</u>	(1,563,351)	\$ <u>1,448,340</u>
Fund Balance - July 1, 2016			<u>14,213,248</u>	
Fund Balance - June 30, 2017			\$ <u>12,649,897</u>	

SOLANO COUNTY WATER AGENCY
ULATIS FLOOD CONTROL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>2016-2017 Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES</u>				
Property taxes	\$ 1,194,567	\$ 1,194,567	\$ 1,228,717	\$ 34,150
Investment earnings	6,400	6,400	25,303	18,903
Other revenues	<u>5,000</u>	<u>5,000</u>	<u>4,835</u>	<u>(165)</u>
Total Revenues	<u>1,205,967</u>	<u>1,205,967</u>	<u>1,258,855</u>	<u>52,888</u>
<u>EXPENDITURES</u>				
Current:				
Operations and maintenance	584,000	584,000	543,399	40,601
Administration and general	52,720	52,720	130,689	(77,969)
Capital outlay	<u>300,000</u>	<u>300,000</u>	<u>273,167</u>	<u>26,833</u>
Total Expenditures	<u>936,720</u>	<u>936,720</u>	<u>947,255</u>	<u>(10,535)</u>
Net Change in Fund Balance	\$ <u><u>269,247</u></u>	\$ <u><u>269,247</u></u>	311,600	\$ <u><u>42,353</u></u>
Fund Balance - July 1, 2016			<u>5,263,008</u>	
Fund Balance - June 30, 2017			\$ <u><u>5,574,608</u></u>	

SOLANO COUNTY WATER AGENCY
GREEN VALLEY FLOOD CONTROL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>2016-2017 Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
<u>REVENUES</u>				
Property taxes	\$ <u>124,634</u>	\$ <u>124,634</u>	\$ <u>120,066</u>	\$ <u>(4,568)</u>
Total Revenues	<u>124,634</u>	<u>124,634</u>	<u>120,066</u>	<u>(4,568)</u>
<u>EXPENDITURES</u>				
Current:				
Operations and maintenance	113,500	113,500	29,544	83,956
Administration and general	<u>6,600</u>	<u>6,600</u>	<u>10,041</u>	<u>(3,441)</u>
Total Expenditures	<u>120,100</u>	<u>120,100</u>	<u>39,585</u>	<u>80,515</u>
Net Change in Fund Balance	\$ <u>4,534</u>	\$ <u>4,534</u>	80,481	\$ <u>75,947</u>
Fund Balance - July 1, 2016			<u>70,291</u>	
Fund Balance - June 30, 2017			\$ <u>150,772</u>	

**SOLANO COUNTY WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2017
LAST 10 YEARS*

	Measurement Period		
	2016	2015	2014
Proportion of the net pension liability	0.01160 %	0.01076 %	0.01200 %
Proportionate share of the net pension liability	\$ 1,003,309	\$ 738,680	\$ 751,756
Covered - employee payroll	\$ 1,297,221	\$ 1,274,487	\$ 1,165,322
Proportionate share of the net pension liability as a percentage of covered - employee payroll	77.34 %	57.96 %	64.51 %
Plan fiduciary net position as a percentage of the total pension liability	74.06 %	78.40 %	79.82 %

Notes to Schedule:

Changes in assumptions. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

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

**SOLANO COUNTY WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2017
LAST 10 YEARS*

	Fiscal Year-End		
	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 174,564	\$ 155,648	\$ 169,520
Contributions in relation to the actuarially determined contributions	<u>174,564</u>	<u>155,648</u>	<u>169,520</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	1,430,395	1,297,221	1,274,487
Contributions as a percentage of covered - employee payroll	12.20 %	12.00 %	13.30 %

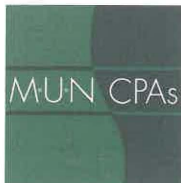
* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

**SOLANO COUNTY WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS (OPEB)
AS OF JUNE 30, 2017

<u>Actuarial Valuation Date</u>	<u>Normal Accrued Liability</u>	<u>Market Value of Assets</u>	<u>Liability (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL (Excess Assets) as a % of Covered Payroll</u>
2010	\$ 982,000	\$ -	\$ 982,000	- %	\$ 1,144,000	86 %
2013	\$ 982,000	\$ -	\$ 982,000	- %	\$ 1,181,000	83 %
2016	\$ 1,829,000	\$ 733,207	\$ 1,095,793	40 %	\$ 1,504,000	73 %

OTHER REPORTS



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INDEPENDENT AUDITOR'S 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

To the Board of Directors of
the Solano County Water Agency
Vacaville, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the Solano County Water Agency (the "Agency"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Solano County Water Agency's basic financial statements and have issued our report thereon dated November 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Solano County Water Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Solano County Water Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Solano County Water Agency's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency: 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solano County Water Agency's financial statements are free from 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*.

The Agency's Response to Finding

Solano County Water Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Solano County Water Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moann, Vinnata, Nelson CPAs.

Sacramento, California
November 20, 2017

SOLANO COUNTY WATER AGENCY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

Finding 2017-001: Grant Billing and Reconciliation (Repeat Finding - Significant Deficiency)

Criteria

Certain deficiencies in internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

Upon reviewing the Agency's grants and accounts receivable, we noted the Agency had approximately \$514,000 in aged grant receivables that had not yet been billed to the granting agency for reimbursement. The aging of some of the grant reimbursements date back to fiscal year 2015. The Agency has the risk of losing the funding if certain billing deadlines are not met.

Cause

Based on the prior year significant deficiency reported, the Agency is still catching up on billing out their grant receivables.

Recommendation

We recommend the Agency re-visit their grant procedures to include quarterly reconciliations, at a minimum. These reconciliations should entail review of allowable expenditures, recording of corresponding accounts receivable and revenue, and processing of quarterly reports and reimbursement requests. These reconciliations should be reviewed by the Administrative Service Manager or Grants Administrator. Receivables currently recorded should be billed out as soon as possible, and collections should be monitored.

Management's Response

During 2016-17, management implemented processes to include quarterly reconciliations of revenues/receivables and reimbursement requests. Processes were also implemented to review outstanding receivables and to follow up with collections. The Agency continues to maintain and improve these processes.

SOLANO COUNTY WATER AGENCY
STATUS OF PRIOR YEAR FINDINGS AND RESPONSES
JUNE 30, 2017

Finding 2016-001: Grant Billing and Reconciliation (Significant Deficiency)

Condition

Upon reviewing the Agency's grants and accounts receivable, we noted the Agency had approximately \$443,000 in aged grant receivables that had not yet been billed to the granting agency for reimbursement. The aging of some of the grant reimbursements date back to fiscal year 2015. The Agency has the risk of losing the funding if certain billing deadlines are not met.

Recommendation

We recommend the Agency re-visit their grant procedures to include quarterly reconciliations, at a minimum. These reconciliations should entail review of allowable expenditures, recording of corresponding accounts receivable and revenue, and processing of quarterly reports and reimbursement requests. These reconciliations should be reviewed by the Administrative Service Manager or Grants Administrator. Receivables currently recorded should be billed out as soon as possible, and collections should be monitored.

Status

Not implemented. See 2017-001.

Finding 2016-002: Journal Entries

Condition

Eleven out of nineteen journal entries we selected for testing did not have evidence of review and approval by the Administrative Services Director.

Recommendation

With the new organization of the Administrative Services Department, we recommend the Agency revisit their policies related to journal entries, year-end close, and review of financial reports. We recommend that all journal entries be reviewed and signed as approved prior to posting.

Status

Implemented.