



MATSON  
& ISOM

SOLANO COUNTY WATER AGENCY

**Vacaville, California**

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITORS' REPORTS

**June 30, 2012**

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*Solano County Water Agency*

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Solano County Water Agency (the Agency) as of June 30, 2012, and for the year then ended, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have issued our report dated February 22, 2012, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

**INDEPENDENT AUDITORS' REPORT**

Continued

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Matson and Isom*

February 22, 2012  
Redding, California

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Required Supplementary Information)**

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

*Solano County Water Agency*

June 30, 2012

The following discussion and analysis of the Solano County Water Agency's (Agency) financial performance provides an overview of the Agency's financial activities for the fiscal year ending June 30, 2012. This information is presented in conjunction with the audited financial statements.

**FINANCIAL HIGHLIGHTS**

Fiscal Year 2012 had no unexpected financial events that affected the Agency finances. The Agency continues with a revenue base that exceeds expenses, thereby increasing the Agency's reserves. The County's assessed property values have stabilized and the Agency's property tax revenues increased by 1% from 2011.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

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

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

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

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

June 30, 2012

*Solano County Water Agency*

**NET ASSETS**

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

The following Table A-1 summarizes the Statement of Net Assets for the fiscal years ending June 30, 2012 and June 30, 2011:

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

	<b>FY 2012</b>	<b>FY 2011</b>
Current and other assets	\$ 36,469,603	\$ 34,817,083
Noncurrent receivables	612,663	1,326,212
Capital assets	5,912,786	5,983,786
<b>Total assets</b>	<b>42,995,052</b>	<b>42,127,081</b>
Current liabilities	1,779,154	2,067,614
Noncurrent liabilities	584,503	442,164
<b>Total liabilities</b>	<b>2,363,657</b>	<b>2,509,778</b>
Invested in capital assets	5,912,786	5,983,786
Restricted	17,334,585	17,469,465
Unrestricted	17,384,024	16,164,052
<b>Total net assets</b>	<b>\$ 40,631,395</b>	<b>\$ 39,617,303</b>

The net assets increased \$1,014,092 to \$40.6 million in fiscal year 2012 up from \$39.6 million in fiscal year 2011. Net assets invested in capital assets, decreased \$71,000 reflecting depreciation on capital assets. Unrestricted net assets increased by \$1.2 million or 3%. Approximately 15% of the Agency's net assets reflect 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.

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

June 30, 2012

*Solano County Water Agency*

**CHANGES IN NET ASSETS**

The Statement of Net Assets is a snapshot that shows assets, liabilities, and net assets at a specific point in time. The Statements of Activities provides information on the nature and source of these assets represented on the Statement of Net Assets. This statement shows that revenues exceeded expenses by \$1,014,093 for fiscal year 2012.

The following Table A-2 summarizes the Statement of Activities for the fiscal years ending June 30, 2012 and June 30, 2011:

**Table A-2  
Statement of Activities**

	<b>FY 2012</b>	<b>FY 2011</b>
<b>Revenues</b>		
<b>Program Revenues</b>		
Charges for services	\$ 2,044,963	\$ 1,912,022
Operating grants and contributions	3,720,774	1,600,672
<b>General Revenues</b>		
Property taxes	15,594,620	15,433,198
Investment earnings	65,725	80,499
<b>Total Revenues</b>	<b>21,426,082</b>	<b>19,026,391</b>
<b>Expenses</b>		
Solano Project	8,967,155	8,604,471
State Water Project	10,910,216	9,554,256
Ulatis Flood Control	439,703	505,752
Green Valley Flood Control	94,916	32,670
<b>Total Expenses</b>	<b>20,411,990</b>	<b>18,697,149</b>
<b>Increase in Net Assets</b>	<b>1,014,092</b>	<b>329,242</b>
Net Assets, beginning of year	39,617,303	39,288,061
Net Assets, ending of year	\$ 40,631,395	\$ 39,617,303

Ending net assets totaled \$40.6 million at June 30, 2012, or an increase in net assets of \$1,014,092 or 3% from June 30, 2011. Total revenues increased by \$2,399,691 or 13% during the fiscal year 2012 compared to 2011, totaling \$21.4 million. Property tax revenues increased in fiscal year 2012 compared to 2011 by \$161,422 or 1% due to increased assessed values. Charges for Services increased by \$132,941 due to increased State Water Project conveyance fees charged to cities. Grant revenues increased \$2,120,102 or 132% from June 30, 2011, due to services performed on Proposition 84 Alternate Intake Grant, California Rivers Parkway, CALFED Proposition 50, and Off Highway Motor Vehicle grants. Total Expenditures increased by \$1,714,841 or 9% to \$20.4 million in 2012. The Solano Project expenses increased by \$362,684. This change includes increased grant costs. FY 2011 for Solano Project included one-time capital costs associated with capital projects that increased FY 2011 expenses beyond normal. The expenses in State Water Project increased due to higher water purchase costs and costs for the NBA Alternate Intake Project.



**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

June 30, 2012

*Solano County Water Agency*

**CAPITAL ASSETS**

The Agency's capital assets, net of accumulated depreciation, consist mainly of ground monitoring wells and improvements (such as the Cement Hill By-Pass) and other capital projects. The Agency continues to add new water monitoring equipment and field equipment as part of its water supply and flood control operations. The increase in capital assets is principally field and shop equipment, computers, and furnishings.

**Table A-3  
Capital Assets**

	<b>FY 2012</b>	<b>FY 2011</b>
Cement Hill Bypass land (not being depreciated)	\$ 148,898	\$ 148,898
Buildings	1,656,654	1,656,654
Cement Hill Bypass land improvements	2,535,494	2,535,494
Water monitoring equipment	2,049,048	2,122,465
Machinery and field equipment	771,688	557,981
Furniture, fixtures, and office equipment	285,964	269,004
<b>Subtotal</b>	<b>7,447,746</b>	<b>7,290,496</b>
Less accumulated depreciation	1,534,960	1,306,710
	<b>\$ 5,912,786</b>	<b>\$ 5,983,786</b>

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

**FINANCIAL ANALYSIS OF AGENCY FUNDS**

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

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

	<b>Solano Project</b>	<b>State Water Project</b>	<b>Ulatis Flood Control</b>	<b>Green Valley Flood Control</b>	<b>Total</b>
<b>Revenues:</b>					
Property taxes	\$ 6,275,968	\$ 8,366,599	\$ 867,684	\$ 84,369	\$ 15,594,620
Charges for services	317,715	1,717,854	-	-	2,035,569
Investment earnings	32,225	27,512	5,954	34	65,725
Grant revenues	3,389,800	330,974	-	-	3,720,774
Other income	85,505	-	19,906	-	105,411
<b>Total Revenues</b>	<b>10,101,213</b>	<b>10,442,939</b>	<b>893,544</b>	<b>84,403</b>	<b>21,522,099</b>
<b>Expenditures:</b>					
Water purchase	186,265	8,811,787	-	-	8,998,052
Operations and maintenance	5,074,228	3,174	384,170	79,547	5,541,119
Administration and general	1,547,701	886,071	40,410	15,369	2,489,551
Conservation and flood control	813,180	155,027	-	-	968,207
Engineering	902,932	1,050,054	-	-	1,952,986
Capital outlay	236,854	-	-	-	236,854
<b>Total Expenses</b>	<b>8,761,160</b>	<b>10,906,113</b>	<b>424,580</b>	<b>94,916</b>	<b>20,186,769</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,340,053</b>	<b>(463,174)</b>	<b>468,964</b>	<b>(10,513)</b>	<b>1,335,330</b>
<b>Fund Balance, beginning of year</b>	<b>16,068,805</b>	<b>14,691,398</b>	<b>2,778,067</b>	<b>(62,234)</b>	<b>33,476,036</b>
<b>Fund Balance, end of year</b>	<b>\$ 17,408,858</b>	<b>\$ 14,228,224</b>	<b>\$ 3,247,031</b>	<b>\$ (72,747)</b>	<b>\$ 34,811,366</b>

**Solano Project** - As of June 30, 2012, the Solano Project reported an ending fund balance of \$17.4 million, a decrease of \$1.3 million from 2011 due to property tax revenues exceeding operating expenditures and capital projects during the year were funded with grant revenues.

**State Water Project** - As of June 30, 2012, the State Water Project reported ending fund balance of \$14.2 million, a decrease from 2011 of \$463,174. This decrease is due to increased costs for the NBA Alternate Intake Project and water purchase costs.

**Ulatis Flood Control Zone 1** - As of June 30, 2012, the Ulatis Flood Control reported an ending fund balance of \$3.2 million, an increase of \$468,964 from 2011. The property tax revenues continue to exceed expenses for this fund.

**Green Valley Flood Control Zone 2** - As of June 30, 2012, the Green Valley Flood Control reported an ending fund balance of (\$72,747), an increase of \$10,513 from 2011.

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

*Solano County Water Agency*

June 30, 2012

**ECONOMIC FACTORS AND RATES**

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

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the finances for the Solano County Water Agency. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the General Manager, 810 Vaca Valley Parkway, Suite 203, Vacaville, CA 95688.

**FINANCIAL SECTION**

**STATEMENT OF NET ASSETS***Solano County Water Agency*

June 30, 2012

**ASSETS****CURRENT ASSETS**

Cash and cash equivalents	\$ 30,565,754
Receivables	5,243,618
Interest receivable	37,022
Note receivable - current	146,303
Other current assets	476,906

**Total Current Assets** 36,469,603**NONCURRENT ASSETS**

Nondepreciable capital assets	148,898
Depreciable capital assets - net	5,763,888
Note receivable - noncurrent	612,663

**Total Noncurrent Assets** 6,525,449**Total Assets** \$ 42,995,052**LIABILITIES****CURRENT LIABILITIES**

Accounts payable	\$ 1,256,613
Accrued liabilities	3,578
Compensated absences - current	75,500
Deferred income	443,463

**Total Current Liabilities** 1,779,154**NONCURRENT LIABILITIES**

Other postemployment benefits obligation	479,820
Compensated absences - noncurrent	104,683

**Total Noncurrent Liabilities** 584,503**Total Liabilities** 2,363,657**NET ASSETS**

Invested in capital assets	5,912,786
Restricted	17,334,585
Unrestricted	17,384,024

**Total Net Assets** 40,631,395**Total Liabilities and Net Assets** \$ 42,995,052*The accompanying notes are an integral part of these financial statements.*

**STATEMENT OF ACTIVITIES**

*Solano County Water Agency*

Year Ended June 30, 2012	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
<b>PRIMARY GOVERNMENT</b>				
Governmental activities:				
Solano Project	\$ 8,967,155	\$ 362,663	\$ 3,389,800	\$ (5,214,692)
State Water Project	10,910,216	1,677,394	330,974	(8,901,848)
Ulatis Flood Control	439,703	4,906	-	(434,797)
Green Valley Flood Control	94,916	-	-	(94,916)
<b>Total Primary Government</b>	<b>\$ 20,411,990</b>	<b>\$ 2,044,963</b>	<b>\$ 3,720,774</b>	<b>(14,646,253)</b>
<b>GENERAL REVENUES</b>				
Property taxes				15,594,620
Investment earnings				65,725
<b>Total General Revenues</b>				<b>15,660,345</b>
<b>Change in Net Assets</b>				<b>1,014,092</b>
<b>Net Assets - Beginning of Year</b>				<b>39,617,303</b>
<b>Net Assets - End of Year</b>				<b>\$ 40,631,395</b>

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

**BALANCE SHEET – GOVERNMENTAL FUNDS**

*Solano County Water Agency*

June 30, 2012	<b>Solano Project</b>	<b>State Water Project</b>	<b>Ulatis Flood Control</b>	<b>Green Valley Flood Control</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 13,198,575	\$ 13,968,315	\$ 3,269,246	\$ 129,618	\$ 30,565,754
Receivables	4,717,325	458,370	62,297	5,626	5,243,618
Interest receivable	33,677	2,732	613	-	37,022
Note receivable	758,966	-	-	-	758,966
Other assets	45,656	431,250	-	-	476,906
<b>Total Assets</b>	<b>\$ 18,754,199</b>	<b>\$ 14,860,667</b>	<b>\$ 3,332,156</b>	<b>\$ 135,244</b>	<b>\$ 37,082,266</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 1,027,940	\$ 203,480	\$ 22,828	\$ 2,365	\$ 1,256,613
Accrued liabilities	3,578	-	-	-	3,578
Deferred income	513,823	428,963	62,297	5,626	1,010,709
Due to (from) other funds	(200,000)	-	-	200,000	-
<b>Total Liabilities</b>	<b>1,345,341</b>	<b>632,443</b>	<b>85,125</b>	<b>207,991</b>	<b>2,270,900</b>
<b>FUND BALANCES</b>					
Nonspendable:					
Note receivable	612,663	-	-	-	612,663
Committed	9,683,711	-	-	-	9,683,711
Restricted:					
State Water Project	-	14,228,224	-	-	14,228,224
Ulatis Flood Control	-	-	3,247,031	-	3,247,031
Unassigned	7,112,484	-	-	(72,747)	7,039,737
<b>Total Fund Balances</b>	<b>17,408,858</b>	<b>14,228,224</b>	<b>3,247,031</b>	<b>(72,747)</b>	<b>34,811,366</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 18,754,199</b>	<b>\$ 14,860,667</b>	<b>\$ 3,332,156</b>	<b>\$ 135,244</b>	<b>\$ 37,082,266</b>

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

**RECONCILIATION OF FUND BALANCES  
TO NET ASSETS**

*Solano County Water Agency*

June 30, 2012

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 34,811,366</b>
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Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Nondepreciable capital assets		148,898
Capital assets at historical cost	\$ 7,298,848	
Accumulated depreciation	(1,534,960)	5,763,888

Deferred recognition of earned but unavailable revenue: In governmental funds, revenue is recognized only to the extent that it is "available," meaning it will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenue that was recognized in the government-wide statements in prior years is:

567,246

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Compensated absences	(180,183)
Other postemployment benefits obligation	(479,820)

<b>Total Net Assets - Governmental Activities</b>	<b>\$ 40,631,395</b>
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*The accompanying notes are an integral part of these financial statements.*



**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS**

*Solano County Water Agency*

Year Ended June 30, 2012	<b>Solano Project</b>	<b>State Water Project</b>	<b>Ulatis Flood Control</b>	<b>Green Valley Flood Control</b>	<b>Total</b>
<b>REVENUES</b>					
Property taxes	\$ 6,275,968	\$ 8,366,599	\$ 867,684	\$ 84,369	\$ 15,594,620
Charges for services	317,715	1,717,854	-	-	2,035,569
Investment earnings	32,225	27,512	5,954	34	65,725
Intergovernmental revenues	3,389,800	330,974	-	-	3,720,774
Other income	85,505	-	19,906	-	105,411
<b>Total Revenues</b>	<b>10,101,213</b>	<b>10,442,939</b>	<b>893,544</b>	<b>84,403</b>	<b>21,522,099</b>
<b>EXPENDITURES</b>					
Current:					
Water purchases	186,265	8,811,787	-	-	8,998,052
Operations and maintenance	5,074,228	3,174	384,170	79,547	5,541,119
Administration and general	1,547,701	886,071	40,410	15,369	2,489,551
Conservation and flood control	813,180	155,027	-	-	968,207
Engineering	902,932	1,050,054	-	-	1,952,986
Capital outlay	236,854	-	-	-	236,854
<b>Total Expenditures</b>	<b>8,761,160</b>	<b>10,906,113</b>	<b>424,580</b>	<b>94,916</b>	<b>20,186,769</b>
<b>Net Change in Fund Balances</b>	<b>1,340,053</b>	<b>(463,174)</b>	<b>468,964</b>	<b>(10,513)</b>	<b>1,335,330</b>
<b>Fund Balances - Beginning of Year</b>	<b>16,068,805</b>	<b>14,691,398</b>	<b>2,778,067</b>	<b>(62,234)</b>	<b>33,476,036</b>
<b>Fund Balances - End of Year</b>	<b>\$ 17,408,858</b>	<b>\$ 14,228,224</b>	<b>\$ 3,247,031</b>	<b>\$ (72,747)</b>	<b>\$ 34,811,366</b>

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

**RECONCILIATION OF CHANGES  
IN FUND BALANCES TO  
CHANGE IN NET ASSETS**

*Solano County Water Agency*

June 30, 2012

<b>Total Net Change in Fund Balances – Governmental Funds</b>	<b>\$ 1,335,330</b>
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Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	\$ 236,854	
Depreciation expense	(297,734)	(60,880)

Deferred recognition of earned but unavailable revenue: In governmental funds, revenue is recognized only to the extent that it is "available," meaning it will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenue that was recognized in the government-wide statements in prior years is:

(96,018)

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets is reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between proceeds from disposal of capital assets and the resulting gain or loss is:

(10,120)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:

(17,059)

Other postemployment benefits obligation: In the governmental funds, expenses related to postemployment benefits are recognized when paid. In the statement of activities, postemployment benefits are accrued annually based on the annual required contribution.

(137,161)

<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 1,014,092</b>
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*The accompanying notes are an integral part of these financial statements.*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**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 leads efforts to protect rights to existing sources of water and participates in efforts to secure new sources of water. The Agency is also responsible for the operations and maintenance of two flood control projects and is involved in countywide flood control planning. As required by accounting principles generally accepted in the United States of America, these financial statements present the Agency alone as the Agency has no component units, related organizations or jointly governed organizations.

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

The financial statement presentation required by Governmental Accounting Standards Board (GASB) Statement Nos. 34, 37, 38, and 39 provides a comprehensive, entity-wide perspective of the Agency’s overall financial position and results of operations while maintaining the presentation of the financial position and results of operations of the Agency’s major funds.

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

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

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

**Measurement Focus and Basis of Accounting** The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The Agency has elected to follow Governmental Accounting Standards Board (GASB) pronouncements and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement No. 20.

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

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

**General Fund:**

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

**Special Revenue Funds:**

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

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

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

Generally, interfund activity has been eliminated from these statements.

June 30, 2012

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

**Receivables** Losses on uncollectible accounts receivable are recognized when such losses become known or indicated. No allowance for losses has been reflected at June 30, 2012, as management believes all accounts are fully collectible.

**Capital Assets** All capital assets are valued at historical cost. Provision is made for depreciation using the straight-line method over the estimated useful lives of the assets, which range from five to 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 has been provided over estimated useful lives using the straight-line method over the following estimated useful lives:

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

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

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

June 30, 2012

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

*Invested in Capital Assets:* This represents the Agency's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

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

*Unrestricted Net Assets:* Unrestricted net assets represent resources derived from taxes, grants, and charges for services. These resources are used for transactions relating to the general operations of the Agency, and may be used at the discretion of the Board to meet current expenses for any purpose.

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

As of the prior-year financial statements, the Agency adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balance is classified and displayed in five components:

*Nonspendable Fund Balance:* Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

*Restricted Fund Balance:* Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

*Committed Fund Balance:* Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors.

*Assigned Fund Balance:* Amounts that are designated by management for a specific purpose.

*Unassigned Fund Balance:* All amounts not included in other spendable classifications.

The details of the fund balances are included in the governmental funds balance sheets (page 13). As discussed in note 1, restricted funds are used first as appropriate.

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

**Budgetary Principles** Under 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 is not legally required to adopt budgets for its funds. Therefore, budget comparison information is not included in the Agency’s financial statements.

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

**2. CASH AND CASH EQUIVALENTS**

**Cash and Cash Equivalents**

The following is a summary of cash and cash equivalents at June 30, 2012:

Deposits (overdraft) with financial institutions	\$ 2,437,090
Investments in Local Agency Investment Fund (LAIF)	7,500,847
Investments in California Asset Management Program (CAMP)	20,627,817
<b>Total Cash and Investments</b>	<b>\$ 30,565,754</b>

**Investment Policy**

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. The weighted average maturity of the investments contained in the LAIF investment pool is approximately 351 days as of June 30, 2012. The weighted average maturity of the investments contained in the CAMP investment pool is approximately 52 days as of December 31, 2011. As of June 30, 2012, 3.47% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities.

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization. CAMP is rated as AAAM by Standard & Poor's.

**Concentration of Credit Risk**

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

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The *California Government Code* requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2012, the Agency had cash balances in excess of insurance of \$2,224,173. None of the Agency's deposits with institutions in excess of federal deposit insurance limits were held in uncollateralized accounts.

**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 powers authority and common law trust. The trust is only accountable to its public agency shareholders. CAMP is invested in such a way as to maintain a \$1 per share net asset value. Copies of their financial report may be obtained by contacting CAMP at 50 California Street, Suite 2300, San Francisco, CA 94111.

**3. RECEIVABLES**

Receivables at June 30, 2012, consisted of:

Water sales receivable	\$ 841,593
Grants receivable	3,834,779
Taxes receivable	<u>567,246</u>
<b>Total</b>	<b><u>\$ 5,243,618</u></b>

**4. NOTE RECEIVABLE**

During the prior year, 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%.

June 30, 2012

**5. CAPITAL ASSETS**

Capital asset activity is as follows:

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
<b>NONDEPRECIATED CAPITAL ASSETS</b>				
Land	\$ 148,898	\$ -	\$ -	\$ 148,898
<b>DEPRECIATED CAPITAL ASSETS</b>				
Land improvements	2,535,494	-	-	2,535,494
Buildings	1,656,654	-	-	1,656,654
Water monitoring equipment	2,122,465	6,187	79,604	2,049,048
Machinery and field equipment	557,981	213,707	-	771,688
Furniture, fixtures, and office equipment	269,004	16,960	-	285,964
<b>Total Depreciated Capital Assets</b>	7,141,598	236,854	79,604	7,298,848
Less: Accumulated depreciation	1,306,710	297,734	69,484	1,534,960
<b>Depreciable Capital Assets - Net</b>	5,834,888	(60,880)	10,120	5,763,888
<b>Capital Assets - Net</b>	\$ 5,983,786	\$ (60,880)	\$ 10,120	\$ 5,912,786

Depreciation expense for the year ended June 30, 2012, was charged to functions as follows:

<b>GOVERNMENTAL ACTIVITIES</b>	
Solano Project	\$ 278,508
State Water Project	4,103
Ulatris Flood Control Project	15,123
<b>Total</b>	<b>\$ 297,734</b>

**6. NONCURRENT LIABILITIES**

The following is a summary of changes in noncurrent liabilities for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Amounts Due Within One Year
Compensated absences	\$ 163,123	\$ 99,346	\$ 82,286	\$ 180,183	\$ 75,500
Other postemployment benefits obligation	\$ 342,659	\$ 137,161	\$ -	\$ 479,820	\$ -

**7. INTERFUND BALANCES**

Interfund balances consisted of the following at June 30, 2012:

	<b>Receivable</b>	<b>Payable</b>
Solano Project	\$ 200,000	\$ -
Green Valley Flood Control	-	200,000
<b>Total</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>

**8. ADMINISTRATION AND GENERAL EXPENDITURES**

The following is a summary of administration and general expenditures of the fund financial statements by natural classification at June 30, 2012:

Salaries and benefits	\$ 1,590,003
Professional services	383,923
Dues and memberships	127,812
Public education	82,418
Property tax administration fee	124,803
Governmental advocacy	74,656
Office equipment	43,854
Office expense	58,611
Telephone	27,021
Insurance	30,296
Watermaster services	19,742
Office rent	(3,118)
Fuel	19,454
Board expense	18,498
Talent decision monitoring	11,411
Miscellaneous	(119,833)
<b>Total</b>	<b>\$ 2,489,551</b>

**9. EARMARKED NET ASSETS**

Earmarkings of net assets are imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Earmarkings may be modified, amended, or removed by Board action. At June 30, 2012, earmarkings included:

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

**10. EMPLOYEE BENEFIT PLANS**

*Defined Benefit Plans*

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

**California Public Employees Retirement System (PERS)**

*Plan Description and Provisions*

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

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

***Funding Policy***

Active plan members are required to contribute 7% of their annual covered salary. The Agency makes the contributions required of the Agency employees on their behalf and for their account. Also, the Agency is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board Administration. The required employer contribution rate for the fiscal year ended June 30, 2012, was 12.205% of annual payroll. The contribution requirements of plan members and the Agency are established and may be amended by PERS.

***Annual Pension Cost***

For the year ended June 30, 2012, the Agency incurred an annual pension cost of \$134,805, which is a product of annual covered salaries and the annual required contribution rate.

<b>Three-Year Trend Information for PERS</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2010	\$ 114,103	100%	\$ -
June 30, 2011	\$ 115,565	100%	\$ -
June 30, 2012	\$ 134,805	100%	\$ -

**11. RISK MANAGEMENT**

The Agency participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), a public entity risk pool of water agencies in California, for general, automobile, public 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-purchased commercial excess insurance is obtained. Loss contingency reserves established by the JPIA are funded by contributions from member agencies. The Agency pays an annual premium to the JPIA that includes its pro-rata share of excess insurance premiums, charges for pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the JPIA.

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

	<b>Pool Coverage</b>	<b>Commercial Coverage</b>
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.

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

**12. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)**

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

*Plan Description*

The Solano County Water Agency Retirement Health Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Agency. The Agency provides certain medical insurance coverage to all employees who retire from the Agency and meet the age and service requirement for eligibility. The Agency pays 100% of the eligible retirees’ medical plan premiums. As of June 30, 2012, membership of the Plan consists of one retiree currently receiving benefits and 13 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, 2012, the Agency paid \$7,635 on behalf of its retiree.

*Annual OPEB Costs and Net OPEB Obligation*

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

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

Annual required contributions (ARC)	\$ 169,000
Interest on net OPEB obligation	14,563
Adjustment to ARC	(38,767)
Contributions made	<u>(7,635)</u>
<b>Increase in Net OPEB Obligation</b>	<b>137,161</b>
<b>Net OPEB Obligation - Beginning of Year</b>	<b><u>342,659</u></b>
<b>Net OPEB Obligation - End of Year</b>	<b><u>\$ 479,820</u></b>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal 2012 and two preceding years are as follows:

	<b>Annual OPEB Cost</b>	<b>Percentage Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2010	\$ 169,000	3.16%	\$ 163,657
June 30, 2011	\$ 179,002	3.75%	\$ 342,659
June 30, 2012	\$ 137,161	4.52%	\$ 479,820

**Funding Status Information**

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

Annual valuation date	June 30, 2011
Actuarial accrued liability (AAL)	\$ 955,000
Actuarial value of plan assets	-
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>\$ 955,000</b>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active members)	\$ 1,104,504
<b>UAAL as a Percentage of Covered Payroll</b>	<b>86.46%</b>

As of June 30, 2012, the Agency has not set aside any amounts in an external trust fund.

**Actuarial Methods and Assumptions**

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

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

In the June 30, 2011, actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 4.25% discount rate, a 3.0% price inflation, a 3.25% wage inflation, and an annual cost trend with no rate increase until 2012. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll over a 30-year period.

**13. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA**

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

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

**14. COMMITMENTS AND CONTINGENCIES**

The Agency periodically enters into commitments which are funded primarily through state grants. The grants are typically for various projects such as rehabilitation, betterment, and maintenance. At June 30, 2012, 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 alleging violation of the California Quality Act, reverse validation action and constitutional violations. 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.

**15. DEFICIT FUND BALANCE**

At June 30, 2012, the Green Valley Flood Control fund reported deficit fund balance of \$72,747.



**OTHER REPORT SECTION**



MATSON  
& ISOM

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

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

We have audited the basic financial statements of Solano County Water Agency (the Agency) as of and for the year ended June 30, 2012, and have issued our report thereon dated February 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as item 12-1 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

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

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

Continued

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

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

*Matson and Isom*

February 22, 2012  
Redding, California

## **FINDINGS SECTION**

## **SCHEDULE OF FINDINGS**

June 30, 2012

*Solano County Water Agency*

### **FINDINGS FINANCIAL STATEMENT AUDIT**

#### **AUDIT ADJUSTMENTS**

(12-1)

#### **Significant Deficiency**

##### **Condition**

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

##### **Criteria**

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

##### **Effect**

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

##### ***Recommendation***

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

##### ***Response***

The NBA Alternate Intake Project was prefunded for FY 12/13 but was expensed in the current year. Management will review the terms of the invoices to record expenses for this project in the appropriate year. Revenues for the Integrated Regional Water Management grant were erroneously calculated. Management has implemented processes to properly record these grant revenues.

**SUMMARY SCHEDULE OF PRIOR AUDIT  
FINDINGS**

*Solano County Water Agency*

June 30, 2012

**AUDIT ADJUSTMENTS**

(11-1)

**Significant Deficiency**

**Condition**

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

**Criteria**

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

**Effect**

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

***Recommendation***

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

***Current Status***

See 12-1.