

SOLANO COUNTY WATER AGENCY
Financial Statements
For the Years Ended June 30, 2007 and 2006

SOLANO COUNTY WATER AGENCY
Financial Statements
June 30, 2007 and 2006

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November 12, 2007

The Board of Directors of
the Solano County Water Agency

Independent Auditors' Report

We have audited the accompanying basic financial statements of the Solano County Water Agency (Agency), as of and for the years ended June 30, 2007 and 2006, 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. The financial statements for the year ended June 30, 2006 were audited by other auditors whose report dated September 13, 2006, expressed an unqualified opinion on the financial statements.

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 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency as of June 30, 2007, and the change in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2007 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, 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.

The management's discussion and analysis and other required supplementary information identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Agency. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material aspects, in relation to the basic financial statements taken as a whole.

1 *Moreland & Associates, Inc.*

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2007. This information is presented in conjunction with the audited financial statements.

FINANCIAL HIGHLIGHTS

Fiscal Year 2007 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 from year to year.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis, the Basic Financial Statements, and optional Supplementary Information. The financial statements also include notes that explain information in more detail.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Agency report information about the Agency using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The required financial statements are the Statement of Net Assets at June 30, 2007 and 2006, the Statements of Revenues, Expenses and Changes in Fund Net Assets for the fiscal years ended June 30, 2007 and 2006, and the Statements of Cash Flows for the years ended June 30, 2007 and 2006.

The financial statements, except for the cash flow statements, are prepared using the accrual basis of accounting, which means that revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts or payments. The cash flow statements are an exception because those statements show the receipt and payment of cash for operating, non-capital, capital and related financing, and investing activities.

The *Statement of Net Assets* includes all of the Agency's assets and liabilities and provides information about the nature and amounts of investments in assets and obligations to Agency creditors as liabilities, if any. 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.

All of the current year's revenues and expenses are accounted for in the *Statements of Revenues, Expenses, and Changes in Fund Net Assets*. These statements measure the Agency's operations over the past two years and can be used to determine whether the Agency has successfully recovered all its costs through its rates, tax assessments and other income. The Agency's profitability and credit worthiness can also be determined from these statements.

The final required financial statements are the *Statements of Cash Flows*. The primary purpose of these statements is to provide information about the Agency's cash receipts and cash payments during the reporting period. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. They explain where cash came from and where cash was used, and the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE AGENCY

Has the financial condition of the Agency improved or deteriorated as a result of last year's operations? The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Fund Net Assets are used to attempt to answer this question. These two statements report the net assets and the changes in them. Net assets may be a useful indicator over time as to the Agency's financial position. Other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation could cause a change in the Agency's financial situation.

NET ASSETS

The net assets increased \$6.7 million to \$32.7 million in fiscal year 2007 up from \$26 million in fiscal year 2006. Net assets invested in capital assets, net of related debt, increased about \$1.8 million reflecting capital construction done in 2007. Unrestricted net assets increased \$6.7 million primarily due to continuation of favorable net operating income as a result of budgeted expenses being less than budgeted income and an increase in property tax revenue relative to a flat level of water purchase costs.

To begin our analysis, a summary of the Agency's Statement of Net Assets is presented in Table A-1.

Table A-1
Condensed Statement of Net Assets

	<u>FY 2007</u>	<u>FY 2006</u>
Current and Other Assets	\$ 29,843,415	\$ 25,278,494
Capital Assets	<u>4,806,930</u>	<u>3,051,001</u>
Total Assets	<u>\$ 34,650,345</u>	<u>\$ 28,329,495</u>
Current Liabilities	\$ 1,987,439	\$ 2,361,211
Total Liabilities	<u>\$ 1,987,439</u>	<u>\$ 2,361,211</u>
Invested in Capital Assets, Net of Related Debt	\$ 4,806,930	\$ 3,051,001
Net Assets	<u>27,855,976</u>	<u>22,917,823</u>
Total Net Assets	<u>\$ 32,662,906</u>	<u>\$ 25,968,824</u>

STATEMENTS OF REVENUES, EXPENSES AND 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 Revenues, Expenses and Changes in Fund Net Assets, provide information on the nature and source of these assets represented on the Statement of Net Assets. They also show that revenues exceeded expenses by \$6.7 million. Ending net assets totaled \$32.7 million or an increase in net assets of 25.78%. Total revenues were higher by \$2.7 million during the fiscal year, totaling \$22.3 million. Operating revenues decreased from the prior year by \$68,728 and non-operating revenues (mostly property taxes) increased by \$2.8 million.

A summary of the Statements of Revenues, Expenses and Changes in Fund Net Assets, is presented in Table A-2.

Table A-2
Condensed Statement of Revenues, Expenses and Change in Net Assets

	<u>FY 2007</u>	<u>FY 2006</u>
Operating Revenues	\$ 2,968,741	\$ 3,037,469
Non Operating Revenues	<u>19,364,285</u>	<u>16,608,160</u>
Total Revenues	<u>\$ 22,333,026</u>	<u>\$ 19,645,629</u>
Depreciation Expenses	\$ 213,793	\$ 173,614
Other Operating Expenses	<u>15,424,611</u>	<u>15,534,426</u>
Total Expenses	<u>\$ 15,638,404</u>	<u>\$ 15,708,040</u>
Change in Net Assets	\$ 6,694,622	\$ 3,937,589
Beginning Net Assets	<u>25,968,284</u>	<u>22,030,695</u>
Ending Net Assets	<u>\$ 32,662,906</u>	<u>\$ 25,968,284</u>

Operating revenues consist entirely of water sales as follows:

Table A-3
Operating Revenues

	FY 2007	FY 2006
Water Sales	\$2,968,741	\$3,037,469

Significant components of operating expenses are as follows:

Table A-4
Operating Expenses (Excluding Depreciation)

	<u>FY 2007</u>	<u>FY 2006</u>
Operating Expenses		
Water Purchases	\$ 8,123,673	\$ 8,175,857
Operations and Maintenance	3,441,269	4,243,632
Administration and General	1,794,929	1,574,675
Conservation and Flood Control	551,648	277,229
Engineering	<u>1,513,092</u>	<u>1,263,033</u>
Total Operating Expenses	<u>\$ 15,424,611</u>	<u>\$ 15,534,426</u>

Other operating expenses, excluding depreciation, decreased by \$109,815 from \$15,534,426 in fiscal year 2006 to \$15,424,611 in fiscal year 2007. The decrease in operations and maintenance is due to the decreased grant activity of the Lower Putah Creek Coordinating Committee and reduced Solano Project non-capital Rehabilitation and Betterment Projects. The increase in Administration and General Expense is due to the addition of two new employees and more consultants hired for the Agency's additional projects. The Conservation and Flood Control increase is due to new flood forecasting program and more conservation activity. Engineering costs increase due to a higher level of studies performed.

Operating revenues compared to operating expenses, excluding depreciation, are compared as follows:

Table A-5
Operating Revenues vs. Operating Expenses (Excluding Depreciation)

	<u>FY 2007</u>	<u>FY 2006</u>
Operating Revenues	\$ 2,968,741	\$ 3,037,469
Operating Expenses	<u>(15,424,611)</u>	<u>(15,534,426)</u>
Total Operating Loss	<u>\$ (12,455,870)</u>	<u>\$ (12,496,957)</u>

Significant items of Non Operating revenues are as follows:

Table A-6
Non Operating Revenues

	<u>FY 2007</u>	<u>FY 2006</u>
Tax Assessments	\$ 16,411,911	\$ 13,853,792
Interest Revenue	988,824	678,391
Grant Revenue	1,281,129	1,461,036
Other Income	<u>682,421</u>	<u>614,941</u>
Total Operating Revenues	<u>\$ 19,364,285</u>	<u>\$ 16,608,160</u>

Tax assessments were higher by \$2,558,119 due to increasing assessed valuation of real property. Interest revenue increased by \$310,433 as a result of an increase in the balances maintained in the Local Agency Investment Fund, as well as an increase in interest rates.

CAPITAL ASSETS

The Agency's capital assets, net of accumulated depreciation, consist mainly of Putah South Canal replacements and improvements (such as the Cement Hill By-Pass) and other capital projects. The Agency continues to add new water monitoring equipment and field equipment as part of its water supply and flood control operations. The increase in capital assets is principally from construction in progress on the Putah South Canal. The details of the Agency's capital assets are as follows:

Table A-7
Capital Assets

	<u>FY 2007</u>	<u>FY 2006</u>
Cement Hill Bypass Land (not being depreciate \$	148,898	\$ 148,898
Construction in Progress/Capital Construction	2,017,454	202,643
Cement Hill Bypass Land Improvements	2,540,657	2,540,657
Water Monitoring Equipment	441,041	449,737
Machinery and Field Equipment	502,718	379,591
Furniture, Fixtures, and Office Equipment	<u>187,236</u>	<u>156,817</u>
Subtotal	<u>5,838,004</u>	<u>3,878,343</u>
Less Accumulated Depreciation	<u>(1,031,074)</u>	<u>(827,342)</u>
	<u>\$ 4,806,930</u>	<u>\$ 3,051,001</u>

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

ECONOMIC FACTORS AND RATES

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

Water rates charged by the Agency to cities, districts and agencies are fixed by contract and do not change in relationship to the Agency's expenditures or revenues. Rates did not change during fiscal year 2007.

REQUESTS FOR INFORMATION

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

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SOLANO COUNTY WATER AGENCY
Statements of Net Assets
June 30, 2007 and 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and cash equivalents	\$ 27,952,163	\$ 22,682,605
Due from other governments	1,366,124	2,171,670
Interest receivable	331,460	222,506
Prepaid water	193,668	201,713
	<hr/>	<hr/>
Total Current Assets	29,843,415	25,278,494
Capital Assets, Net	4,806,930	3,051,001
	<hr/>	<hr/>
Total Assets	34,650,345	28,329,495
	<hr/>	<hr/>
<u>Liabilities</u>		
Current Liabilities:		
Accounts payable	1,182,709	1,546,247
Compensated absences	111,863	76,456
Unearned revenue	692,867	738,508
	<hr/>	<hr/>
Total Current Liabilities	1,987,439	2,361,211
	<hr/>	<hr/>
<u>Net Assets</u>		
Invested in capital assets	4,806,930	3,051,001
Unrestricted	27,855,976	22,917,283
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Total Net Assets	\$ 32,662,906	\$ 25,968,284
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See Accompanying Notes to the Financial Statements.

SOLANO COUNTY WATER AGENCY
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Water sales	\$ 2,968,741	\$ 3,037,469
Operating Expenses:		
Water purchases	8,123,673	8,175,857
Operations and maintenance	3,441,269	4,243,632
Administration and general	1,794,929	1,574,675
Conservation and flood control	551,648	277,229
Engineering	1,513,092	1,263,033
Depreciation	213,793	173,614
	<u>15,638,404</u>	<u>15,708,040</u>
Total Operating Expenses		
Operating Loss	<u>(12,669,663)</u>	<u>(12,670,571)</u>
Nonoperating Revenues:		
Tax assessments	16,411,911	13,853,792
Interest revenue	988,824	678,391
Grant revenue	1,281,129	1,461,036
Other income	682,421	614,941
	<u>19,364,285</u>	<u>16,608,160</u>
Total Nonoperating Revenues		
Change in Net Assets	6,694,622	3,937,589
Net Assets, Beginning of Year	<u>25,968,284</u>	<u>22,030,695</u>
Net Assets, End of Year	<u>\$ 32,662,906</u>	<u>\$ 25,968,284</u>

See Accompanying Notes to the Financial Statements.

SOLANO COUNTY WATER AGENCY
Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities:		
Cash receipts from customers	\$ 2,931,145	\$ 3,376,640
Cash paid to suppliers for goods and services	(15,050,834)	(14,616,013)
Cash paid to employees for services	(701,908)	(514,925)
Net Cash Used by Operating Activities	(12,821,597)	(11,754,298)
Cash Flows from Noncapital Financing Activities:		
Tax assessments	16,411,911	13,853,792
Grants received	2,086,675	611,362
Other income	682,421	614,941
Net Cash Provided by Noncapital Financing Activities	19,181,007	15,080,095
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	(1,969,722)	(335,376)
Net Cash Used by Capital and Related Financing Activities	(1,969,722)	(335,376)
Cash Flows from Investing Activities:		
Interest received	879,870	578,776
Net Cash Provided by Investing Activities	879,870	578,776
Net Increase in Cash and Cash Equivalents	5,269,558	3,569,197
Cash and Cash Equivalents, Beginning of Year	22,682,605	19,113,408
Cash and Cash Equivalents, End of Year	\$ 27,952,163	\$ 22,682,605

See Accompanying Notes to the Financial Statements.

SOLANO COUNTY WATER AGENCY
Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of Net Loss from Operations to Net Cash Used by Operating Activities:		
Net loss from operations	\$ (12,669,663)	\$ (12,670,571)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:		
Depreciation	213,793	173,614
Changes in Operating Assets and Liabilities:		
Decrease (increase) in due from other governmental agencies		(22,718)
Decrease (increase) prepaid water	8,045	
Increase (decrease) accounts payable	(363,538)	367,540
Increase (decrease) compensated absences	35,407	35,948
Increase (decrease) unearned revenue	(45,641)	361,889
	\$ (12,821,597)	\$ (11,754,298)
Net Cash and Cash Equivalents Used by Operating Activities		

See Accompanying Notes to the Financial Statements.

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SOLANO COUNTY WATER AGENCY
Notes to Financial Statements
June 30, 2007 and 2006

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Solano County Water Agency was created in 1951 by an act of the California Legislature as the "Solano County Flood Control and Water Conservation District." In 1988 the legislative act was changed to modify the governing board and the name was changed to Solano County Water Agency 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.

To facilitate the accounting for its various projects, the Agency maintains separate funds for the following projects. However, these projects do not represent separate enterprise funds. The accompanying basic financial statements include all of these projects that the Agency maintains as one enterprise fund.

Solano Project – The Project relates to the Agency's water supply contract with the U.S. Bureau of Reclamation for the repayment of construction, operations and maintenance of the Solano Project and the purchase of this water by cities, districts and state agencies. Operations and maintenance is performed by Solano Irrigation District. Included in this Project are costs associated with a Watermaster to monitor water use in the Upper Putah Creek Watershed and administration of the Agency and its flood control program.

State Water Project – This project relates to 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 units for the purchase of this water.

Ulatis Flood Control Project – This project relates to the costs of operating and maintaining the Ulatis Flood Control Facilities, which were built by the Federal Soil Conservation Service and turned over to the Agency for operation and maintenance. The Agency contracts with the Solano County Resource Management for the maintenance of this Project.

Green Valley Flood Control Project – This Project relates to the costs of operating and maintaining the Green Valley Flood Control Facilities, which were built by the U.S. Army Corps of Engineers and turned over to the Agency for operation and maintenance. The Agency contracts with the Solano County Transportation Department for the maintenance of this Project.

SOLANO COUNTY WATER AGENCY
Notes to Financial Statements (Continued)
June 30, 2007 and 2006

B. Basic Financial Statements

The basic financial statements of the Solano County Water Agency (the Agency) have been prepared in conformity with the generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. As allowed by the GASB, the Agency has elected not to apply to its proprietary activities statements and related interpretations issued by the Financial Accounting Standards Board after November 30, 1989. The more significant of the Agency's accounting principles are described below.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Agency's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type. The enterprise fund basis of accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets represent amounts available for future operations.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Agency are included on the balance sheet. Net assets are segregated into amounts invested in capital assets, net of related debt, if any, and amounts restricted and unrestricted. Enterprise fund type operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The Agency uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grant revenues are recognized when program expenditures are incurred in accordance with program guidelines. If such revenues are received before the program revenues are incurred, they are recorded as deferred revenue or unearned revenue until earned.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Agency. Operating revenues consist primarily of water sales. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

SOLANO COUNTY WATER AGENCY
Notes to Financial Statements (Continued)
June 30, 2007 and 2006

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents are defined as demand deposit account balances and investments in the State of California Local Agency Investment Fund (LAIF).

2. Prepaid Water

Prepaid water represents payments made for water purchases that have not been delivered as of June 30, 2007 and 2006.

3. Capital Assets

All capital assets are valued at historical cost. Provision is made for depreciation by the straight-line over the estimated useful lives of the assets, which range from three to fifty years. It is the Agency's policy to capitalize all capital assets with a cost of more than \$300 for administration and \$1,000 for everything else. 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 operating statement.

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

Cement hill bypass land improvements	50 years
Water monitoring equipment	5-10 years
Machinery and field equipment	5-10 years
Furniture, fixtures, and office equipment	5-10 years

4. Compensated Absences

The Agency's policy allows employees to accumulate earned but unused vacation, which will be paid to employees upon separation from the Agency's service. The cost of vacation and administrative leave is recorded in the period it is earned. The policy also allows employees to receive payment for one-half of their accumulated sick leave upon retirement. Accrued sick leave is recorded in the period in which the employee becomes vested in this benefit.

SOLANO COUNTY WATER AGENCY
Notes to Financial Statements (Continued)
June 30, 2007 and 2006

5. Unearned Revenue

Unearned revenue represents revenues received for water sales prior to June 30 related to water sales in the following year and grant revenues received before the related program expenditures are incurred.

6. Property Taxes

The Agency receives property taxes from Solano County. Property taxes are recorded in the fiscal year for which tax is levied based on the assessed value as of March 1 of the preceding fiscal year. They become a lien on the first day of the year they are levied. Secured property tax is levied on January 1 and due in two installments, on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. At that time, delinquent accounts are assessed a penalty of 10 percent. Accounts that remain unpaid on June 30, 2007 are charged an additional 1 ½ percent per month. Unsecured property tax is levied on July 1 and due on July 31, and becomes delinquent on August 31. The penalty percentage rates are the same as secured property tax. The Agency elected to receive the property taxes from the County under the Teeter Bill. Under this program the Agency receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

II. Stewardship, Compliance and Accountability

A. Budgetary Principles

The Board of Directors does not operate under any legal budgeting constraints. Budget integration is employed as a management control device. Budgets are formally adopted by the Board and take effect on each July 1.

B. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SOLANO COUNTY WATER AGENCY
Notes to Financial Statements (Continued)
June 30, 2007 and 2006

III. Cash and Cash Equivalents

Cash and investments as of June 30 consist of the following:

	2007	2006
Deposits with financial institutions	\$ 1,527,681	\$ 1,640,348
Investments in Local Agency Investment Fund (LAIF)	26,424,483	21,042,797
Total Cash and Cash Investments	\$ 27,952,164	\$ 22,683,145

A. Investment Policy

California statutes authorize districts 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), 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, and concentration of credit risk.

B. 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. As of June 30, 2007, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 176 days.

C. 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.

SOLANO COUNTY WATER AGENCY
Notes to Financial Statements (Continued)
June 30, 2007 and 2006

D. 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.

E. 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 does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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.

None of the Agency's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

SOLANO COUNTY WATER AGENCY
Notes to Financial Statements (Continued)
June 30, 2007 and 2006

F. Investment in LAIF

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

IV. Capital Assets

Capital asset activity for the years ended June 30, 2007 and 2006 are as follows:

	Balance at July 1, 2006	Additions	Deletions	Balance at July 1, 2007
Capital Assets not being Depreciated:				
Cement Hill Bypass land	\$ 148,898			\$ 148,898
Construction in progress	202,643	\$ 1,814,811		2,017,454
Total Capital Assets not being Depreciated	351,541	1,814,811		2,166,352
Capital Assets being Depreciated:				
Cement Hill Bypass land improvements	2,540,657			2,540,657
Water monitoring equipment	449,737		\$ (8,696)	441,041
Machinery and field equipment	379,591	123,127		502,718
Furniture, fixtures and office equipment	156,817	31,784	(1,365)	187,236
Total Capital Assets being Depreciated	3,526,802	154,911	(10,061)	3,671,652
Less Accumulated Depreciation for:				
Cement Hill Bypass land improvements	(206,324)	(50,813)		(257,137)
Water monitoring equipment	(335,019)	(42,233)	8,696	(368,556)
Machinery and field equipment	(221,966)	(94,307)		(316,273)
Furniture, fixtures and office equipment	(64,033)	(26,440)	1,365	(89,108)
Total Accumulated Depreciation	(827,342)	(213,793)	10,061	(1,031,074)
Capital Assets being Depreciated, Net	2,699,460	(58,882)		2,640,578
Capital Assets, Net	\$ 3,051,001	\$ 1,755,929	\$ -	\$ 4,806,930

SOLANO COUNTY WATER AGENCY
Notes to Financial Statements (Continued)
June 30, 2007 and 2006

	Balance at July 1, 2005	Additions	Deletions	Balance at July 1, 2006
Capital Assets not being Depreciated:				
Cement Hill Bypass land	\$ 148,898			\$ 148,898
Contruccion in progress	49,784	\$ 152,859		202,643
Total Capital Assets not being Depreciated	198,682	152,859		351,541
Capital Assets being Depreciated:				
Cement Hill Bypass land improvements	2,540,657			2,540,657
Water monitoring equipment	386,043	63,694		449,737
Machinery and field equipment	317,062	78,041	\$ (15,512)	379,591
Furniture, fixtures and office equipment	135,556	40,782	(19,521)	156,817
Total Capital Assets being Depreciated	3,379,318	182,517	(35,033)	3,526,802
Less Accumulated Depreciation for:				
Cement Hill Bypass land improvements	(155,511)	(50,813)		(206,324)
Water monitoring equipment	(287,741)	(47,278)		(335,019)
Machinery and field equipment	(185,361)	(52,117)	15,512	(221,966)
Furniture, fixtures and office equipment	(60,148)	(23,406)	19,521	(64,033)
Total Accumulated Depreciation	(688,761)	(173,614)	35,033	(827,342)
Capital Assets being Depreciated, Net	2,690,557	8,903		2,699,460
Capital Assets, Net	\$ 2,889,239	\$ 161,762	\$ -	\$ 3,051,001

V. Earmarked Net Assets

Earmarkings of unrestricted net assets are imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Earmarkings may be modified, amended or removed by Board action. At June 30, 2007 and 2006, earmarkings included:

	2007	2006
Solano Project rehabilitation and betterment projects	\$ 4,730,000	\$ 4,234,198
North Bay Aquaduct future capital projects	6,000,000	6,000,000
Operating reserves	2,000,000	2,000,000
Total	\$ 12,730,000	\$ 12,234,198

SOLANO COUNTY WATER AGENCY
Notes to Financial Statements (Continued)
June 30, 2007 and 2006

VI. Employees' Retirement Plan

A. Plan Description

The Agency contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. All permanent full and part time Agency employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times their monthly average salary over twelve highest consecutive months of employment. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

B. Funding Policy

Active plan members are required to contribute 7% of their annual covered salary. The Agency makes the contributions required of the Agency employees on their behalf and for their account. The Agency is required to contribute at an actuarially determined rate of 12.4% and 12.108% for the years ended June 30, 2007 and 2006, respectively. The contribution requirements of plan members and the Agency are established and may be amended by PERS.

C. Annual Pension Cost

For the year ending June 30, 2007 and 2006, the Agency incurred an annual pension cost of \$132,987 and \$104,467, respectively. The required contribution was determined as part of June 30, 2004 actuarial validation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary in duration of service ranging from 3.25% to 14.45% and (c) 3.25% cost of living adjustment. Both (a) and (b) include an inflation component of 3%. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a three-year period (smoothed market value). The plan's excess assets are being amortized as a level percentage of projected payroll in a closed basis.

SOLANO COUNTY WATER AGENCY
Notes to Financial Statements (Continued)
June 30, 2007 and 2006

Three-Year Trend Information for the Agency

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension Cost</u> <u>(APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/2005	\$ 80,956	100%	\$ -0-
6/30/2006	104,467	100%	-0-
6/30/2007	132,987	100%	-0-

VII. Insurance Coverage

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

	<u>Pool</u> <u>Coverage</u>	<u>Commercial</u> <u>Coverage</u>	<u>Self-Insured</u> <u>Retention</u>
General and auto liability	\$ 1,000,000	\$ 39,000,000	
Public officials and omissions liability	1,000,000	39,000,000	
Property	50,000	100,000,000	\$ 5,000 - 25,000
Fidelity	100,000	None	1,000
Workers compensation liability	2,000,000	Statutory	
Employer's liability	2,000,000	4,000,000	

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

SOLANO COUNTY WATER AGENCY
Notes to Financial Statements (Continued)
June 30, 2007 and 2006

VIII. Commitments

The Settlement Agreement with the Putah Creek parties requires that the Agency provide grants totaling \$250,000 for the preservation and enhancement of the natural values of lower Putah Creek, which is to be allocated by the Lower Putah Creek Coordinating Committee. As of June 30, 2007, grants totaling \$124,522 have been allocated.

The Agency leases its facilities under an operating lease through December 31, 2007, with an option to renew for two additional years with a 3% increase in the rental rate. The Agency also leases certain field equipment. Lease expense for the years ended June 30, 2007 and 2006 totaled \$98,334 and \$122,360 respectively. As of June 30, 2007, future minimum lease payments under noncancellable operating leases are as follows:

June 30, 2007	<u>\$15,482</u>
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IX. Post Employment Health Care Benefits

In addition to providing pension benefits, the Agency provides certain healthcare benefits for retired employees through PERS, in accordance with State statutes. Substantially all of the Agency's full-time employees may become eligible for those benefits if they reach normal retirement age while working for the Agency. Currently one employee meets those eligibility requirements. The Agency's contributions are financed on a pay-as-you-go basis and thus the Agency recognized the cost of providing these benefits by expensing the annual insurance premiums, which amounted to approximately \$4,100 for the fiscal year ended June 30, 2007.

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Required Supplementary Information

**SOLANO COUNTY WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress
Pension Plan**

The information below, which is from the latest available actuarial valuation reports, shows a three-year analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the funded status of the accrued liability as a percentage of the annual covered payroll of the annual covered payroll of the PERS Risk Pool as of June 30:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	(Excess Assets) Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability As a % of Covered Payroll
June 30, 2004	\$ 2,746,095,668	\$ 2,460,944,656	\$ 285,151,012	89.6%	\$ 743,691,970	38.3%
June 30, 2005	2,891,460,651	2,588,713,000	302,747,651	89.5%	755,046,679	40.1%
June 30, 2006	2,754,396,608	2,492,226,176	262,170,462	90.5%	699,897,835	37.5%

Solano County Water Agency participates in risk pool for California Public Employees Retirement System.

Supplementary Information

SOLANO COUNTY WATER AGENCY
Combining Statement of Net Assets by Project
June 30, 2007

<u>Assets</u>	<u>Solano Project</u>	<u>State Water Project</u>
Current Assets:		
Cash and cash equivalents	\$ 12,924,966	\$ 13,646,273
Due from other governmental agencies	1,356,176	9,948
Interest receivable	164,359	149,170
Prepaid water	193,668	
Total Current Assets	<u>14,639,169</u>	<u>13,805,391</u>
Interfund Loan Receivable	6,118,000	
Capital Assets, Net	<u>4,502,357</u>	<u>85,484</u>
Total Assets	<u>25,259,526</u>	<u>13,890,875</u>
 <u>Liabilities</u>		
Current Liabilities:		
Accounts payable	893,935	142,191
Compensated absences	111,863	
Unearned revenue	207,724	485,143
Total Current Liabilities	1,213,522	627,334
Interfund Loan Payable		<u>6,118,000</u>
Total Liabilities	<u>1,213,522</u>	<u>6,745,334</u>
 <u>Net Assets (Deficiency)</u>		
Invested in capital assets	4,502,357	85,484
Unrestricted net assets (deficiency)	<u>19,543,647</u>	<u>7,060,057</u>
Total Net Assets (Deficiency)	<u>\$ 24,046,004</u>	<u>\$ 7,145,541</u>

Flood Control Zone 1 (Ulatis)	Flood Control Zone 2 (Green Valley)	Eliminating Entries	Total
\$ 1,467,070	\$ (86,146)		\$ 27,952,163
19,170	(1,239)		1,366,124
			331,460
			193,668
<u>1,486,240</u>	<u>(87,385)</u>		<u>29,843,415</u>
		\$ (6,118,000)	
<u>219,089</u>			<u>4,806,930</u>
<u>1,705,329</u>	<u>(87,385)</u>	<u>(6,118,000)</u>	<u>34,650,345</u>
140,629	5,954		1,182,709
			111,863
			692,867
<u>140,629</u>	<u>5,954</u>		<u>1,987,439</u>
		(6,118,000)	
<u>140,629</u>	<u>5,954</u>	<u>(6,118,000)</u>	<u>1,987,439</u>
219,089			4,806,930
<u>1,345,611</u>	<u>(93,339)</u>		<u>27,855,976</u>
<u>\$ 1,564,700</u>	<u>\$ (93,339)</u>	<u>\$ -</u>	<u>\$ 32,662,906</u>

SOLANO COUNTY WATER AGENCY
Combining Statement of Revenues, Expenses and
Changes in Net Assets by Project
For the Year Ended June 30, 2007

	<u>Solano Project</u>	<u>State Water Project</u>
Operating Revenues:		
Water Sales	\$ 1,326,455	\$ 1,642,286
Operating Expenses:		
Water purchases	818,920	7,304,753
Operations and maintenance	2,616,374	1,000
Administration and general	1,742,784	42,299
Conservation and flood control	551,411	
Engineering	1,373,442	138,274
Depreciation	159,000	34,350
Overhead allocation	(249,047)	195,472
	<u>7,012,884</u>	<u>7,716,148</u>
Total Operating Expenses		
Operating Loss	<u>(5,686,429)</u>	<u>(6,073,862)</u>
Nonoperating Income:		
Tax assessments	6,287,009	9,274,469
Interest revenue	507,938	422,020
Grant revenue	1,116,016	5,267
Other income	587,761	
	<u>8,498,724</u>	<u>9,701,756</u>
Total Nonoperating Income		
Change in Net Assets	2,812,295	3,627,894
Net Assets, Beginning of Year	<u>21,233,709</u>	<u>3,517,647</u>
Net Assets, End of Year	<u>\$ 24,046,004</u>	<u>\$ 7,145,541</u>

Flood Control Zone 1 (Ulatis)	Flood Control Zone 2 (Green Valley)	Total
		\$ 2,968,741
		8,123,673
\$ 739,559	\$ 84,336	3,441,269
8,700	1,146	1,794,929
	237	551,648
1,376		1,513,092
20,443		213,793
45,322	8,253	
815,400	93,972	15,638,404
(815,400)	(93,972)	(12,669,663)
775,400	75,033	16,411,911
63,635	(4,769)	988,824
159,846		1,281,129
94,660		682,421
1,093,541	70,264	19,364,285
278,141	(23,708)	6,694,622
1,286,559	(69,631)	25,968,284
<u>\$ 1,564,700</u>	<u>\$ (93,339)</u>	<u>\$ 32,662,906</u>

SOLANO COUNTY WATER AGENCY
Statement of Administration and General Expenses
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Salaries and benefits	\$ 915,156	\$ 760,961
Strategic planning	147,664	6,429
Contracted services		96,917
Professional services	114,642	106,933
Governmental advocacy	74,579	74,563
Dues and memberships	68,883	63,463
Endangered species contract	56,935	66,155
Property tax administration fees	60,813	47,850
Legal fees	5,963	44,176
Office expenses	35,305	33,922
Watermaster services	33,817	32,317
Other expenses	37,644	18,988
Liability insurance	113,278	53,678
Putah Creek grant	(1,676)	24,271
Board expenses	19,415	19,044
Office rent	34,236	33,738
Telephone	15,878	8,515
State water contractor auditors		10,959
Postage	9,842	7,370
Talent decision monitoring	(1,685)	17,563
Travel	2,704	3,382
Office equipment	16,128	7,533
Vacation accrual adjustment	35,408	35,948
	<u>\$ 1,794,929</u>	<u>\$ 1,574,675</u>