

SOLANO COUNTY WATER AGENCY

**Independent Auditor's Reports, Management's
Discussion and Analysis, Basic Financial Statements,
and Supplementary Information**

For the Years Ended June 30, 2009 and 2008

SOLANO COUNTY WATER AGENCY
Financial Statements
For the Years Ended June 30, 2009 and 2008

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WALNUT CREEK

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

The Board of Directors of the
Solano County Water Agency

Independent Auditor's 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, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 9 to the financial statements, the Agency has not properly reported the financial effects of other postemployment benefits on the accrual basis of accounting in accordance with Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In our opinion, accounting principles generally accepted in the United States of America require that other postemployment benefits be accounted for and disclosed on the accrual basis of accounting.

In our opinion, except for the effects of not reporting other postemployment benefits on the accrual basis of accounting as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years 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 March 1, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 identified in the accompanying table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 audits were conducted for the purpose of forming an opinion on the basic financial statements. The supplementary information listed 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 audits 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.

Macias Gini : O'Connell LLP

Certified Public Accountants

Sacramento, California

March 1, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2009. This information is presented in conjunction with the audited financial statements.

FINANCIAL HIGHLIGHTS

Fiscal Year 2009 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 Statements of Net Assets at June 30, 2009 and 2008, the Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2009 and 2008, and the Statements of Cash Flows for the years ended June 30, 2009 and 2008.

The financial 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 *Statements 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 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 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 \$2.3 million to \$39.3 million in fiscal year 2009 up from \$36.9 million in fiscal year 2008. Net assets invested in capital assets, decreased \$6,962 reflecting depreciation and reduced capital projects completed in 2009. Unrestricted net assets increased \$2.3 million primarily due to continuation of favorable operations as a result of budgeted expenses being less than budgeted income.

The net assets increased \$4.3 million to \$36.9 million in fiscal year 2008 up from \$32.7 million in fiscal year 2007. Net assets invested in capital assets, decreased about \$0.6 million reflecting \$1.7 million in capital projects completed during 2008 that were not capitalized as they were for improvements on federal land. Unrestricted net assets increased \$4.9 million primarily due to continuation of favorable operations 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 Statements of Net Assets is presented in Table A-1.

Table A-1
Condensed Statement of Net Assets

	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Current and other assets	\$ 38,120,083	\$ 36,737,561	\$ 29,843,415
Capital assets	<u>4,154,804</u>	<u>4,161,766</u>	<u>4,806,930</u>
Total assets	<u>42,274,887</u>	<u>40,899,327</u>	<u>34,650,345</u>
Current liabilities	<u>2,995,199</u>	<u>3,951,467</u>	<u>1,987,439</u>
Total liabilities	<u>2,995,199</u>	<u>3,951,467</u>	<u>1,987,439</u>
Invested in capital assets	4,154,804	4,161,766	4,806,930
Unrestricted	<u>35,124,884</u>	<u>32,786,094</u>	<u>27,855,976</u>
Total net assets	<u>\$ 39,279,688</u>	<u>\$ 36,947,860</u>	<u>\$ 32,662,906</u>

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statements of Net Assets are a snapshot that shows assets, liabilities and net assets at a specific point in time. The Statements of Revenues, Expenses and Changes in Net Assets, provide information on the nature and source of these assets represented on the Statements of Net Assets. They also show that revenues exceeded expenses by \$2.3 million for fiscal year 2009. Ending net assets totaled \$39.3 million or an increase in net assets of 6.31%. Total revenues were lower by \$3.5 million during the fiscal year 2009 compared to 2008, totaling \$19.3 million. Operating revenues decreased in fiscal year 2009 compared to 2008 by \$1.6 million due to pay off of Solano Project debt resulting in reduced charges to member agencies and non-operating revenues (mostly property taxes) decreased by \$1.8 million.

For fiscal year 2008, revenues exceeded expenses by \$4.3 million. Ending net assets totaled \$36.9 million or an increase in net assets of 13.12%. Total revenue were higher by \$0.5 million during fiscal year 2008 compared to 2007, totaling \$22.8 million. Operating revenues decreased in fiscal year 2008 compared to 2007 by \$0.8 million and non-operating revenues increased by \$1.3 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 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Operating revenues	\$ 521,366	\$ 2,169,371	\$ 2,968,741
Non operating revenues	18,785,693	20,631,961	19,364,285
Total revenues	<u>19,307,059</u>	<u>22,801,332</u>	<u>22,333,026</u>
Depreciation expenses	189,931	208,764	213,793
Other operating expenses	16,774,200	18,177,226	15,424,611
Non operating expenses	11,100	130,388	-
Total expenses	<u>16,975,231</u>	<u>18,516,378</u>	<u>15,638,404</u>
Change in net assets	2,331,828	4,284,954	6,694,622
Beginning net assets	<u>36,947,860</u>	<u>32,662,906</u>	<u>25,968,284</u>
Ending net assets	<u>\$ 39,279,688</u>	<u>\$ 36,947,860</u>	<u>\$ 32,662,906</u>

Operating revenues consist entirely of water sales as follows:

Table A-3
Operating Revenues

	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Water sales	\$521,366	\$2,169,371	\$2,968,741

Significant components of operating expenses are as follows:

**Table A-4
Operating Expenses (Excluding Depreciation)**

	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Operating expenses			
Water purchases	\$ 7,363,174	\$ 6,811,590	\$ 8,123,673
Operations and maintenance	3,509,398	5,018,253	3,441,269
Administration and general	2,105,054	2,088,318	1,794,929
Conservation and flood control	1,327,922	2,859,079	551,648
Engineering	2,468,652	1,399,986	1,513,092
	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	\$ 16,774,200	\$ 18,177,226	\$ 15,424,611

Other operating expenses, excluding depreciation, decreased by \$1.4 million from \$18.2 million in fiscal year 2008 to \$16.8 million in fiscal year 2009. The increase in water purchases expenses is due to the refund of overpayments for water charges in prior years. Operations and maintenance expenses decreased 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 expenses is due to increased benefits costs and database services costs. The conservation and flood control expenses decrease is due to a reduction of \$1.5 million in reimbursement payments to the City of Vacaville for a flood control grant. Engineering expenses increased due to a higher level of studies performed in fiscal year 2008-2009 and due to funding the costs of environmental analysis, planning and design of the North Bay Aqueduct.

Other operating expenses, excluding depreciation, increased by \$2.8 million from \$15.4 million in fiscal year 2007 to \$18.2 million in fiscal year 2008. The decrease in water purchases expenses is due to the Agency fully paying off the construction obligation with the United States Bureau of Reclamation. Operations and maintenance expenses increased due to the expense of capital construction projects on federal land completed during the year. The increase in administration and general expenses is due to the addition of two new employees and more consultants hired for the Agency's additional projects. The conservation and flood control expenses increased due to a \$2.0 million contribution to the Vacaville Floods Control Project. Engineering expenses decreased due to a lower 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 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Operating revenues	\$ 521,366	\$ 2,169,371	\$ 2,968,741
Operating expenses	(16,774,200)	(18,177,226)	(15,424,611)
	<u> </u>	<u> </u>	<u> </u>
Total operating loss	\$ (16,252,834)	\$ (16,007,855)	\$ (12,455,870)

Significant items of Non Operating revenues are as follows:

**Table A-6
Non Operating Revenues**

	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Tax assessments	\$ 16,663,435	\$ 17,612,527	\$ 16,411,911
Interest revenue	647,309	1,150,344	988,824
Grant revenue	413,326	875,880	1,281,129
Other revenue	1,061,623	993,210	682,421
Total non operating revenues	<u>\$ 18,785,693</u>	<u>\$ 20,631,961</u>	<u>\$ 19,364,285</u>

Tax assessments were lower in fiscal year 2009 by \$1 million due to decreasing assessed valuation of real property. Interest revenue decreased by \$0.5 million as a result of a decrease in the balances maintained in the Local Agency Investment Fund and California Asset Management Program, as well as a decrease in interest rates. Grant revenues decreased by \$0.5 million due to reduced grant activity of the Lower Putah Creek Coordinating Committee and some projects being completed in FY 2008-2009. Other revenue increased by \$0.1 million due to revenues from Water Conservation.

Tax assessments were higher in fiscal year 2008 by \$1.2 million due to increased assessed valuation of real property. Interest revenue increased by \$0.2 million as a result of an increase in the balances maintained in the Local Agency Investment Fund, as well as an increase in interest rates. Grant revenues decreased by \$0.4 million due to decrease in grant activity of the Lower Putah Creek Coordinating Committee and some of the projects were completed in FY 2006-2007. Other income increased by \$0.3 million due to receipt of revenue from the Southeast Vallejo Redevelopment and due to revenues coming from Water Conservation.

CAPITAL ASSETS

The Agency's capital assets, net of accumulated depreciation, consist mainly of ground monitoring wells and improvements (such as the Cement Hill Bypass) and other capital projects. The Agency continues to add new water monitoring equipment and field equipment as part of its water supply and flood control operations. In addition, the Agency added a new server to its office equipment. The increase in construction in progress is for groundwater monitoring wells.

The details of the Agency's capital assets are as follows:

**Table A-7
Capital Assets**

	<u>FY, 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Cement Hill Bypass land (not being depreciated) \$	148,898	\$ 148,898	\$ 148,898
Construction in progress/capital construction	1,278,161	1,186,450	2,017,454
Cement Hill Bypass land improvements	2,535,494	2,535,494	2,540,657
Grade control	76,562	76,562	-
Flood control - Horse Creek	82,819	82,819	-
Water monitoring equipment	394,759	381,224	441,041
Machinery and field equipment	531,288	520,237	502,718
Furniture, fixtures, and office equipment	83,598	63,065	187,236
Subtotal	<u>5,131,579</u>	<u>4,994,749</u>	<u>5,838,004</u>
Less accumulated depreciation	<u>(976,775)</u>	<u>(832,983)</u>	<u>(1,031,074)</u>
	<u>\$ 4,154,804</u>	<u>\$ 4,161,766</u>	<u>\$ 4,806,930</u>

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

ECONOMIC FACTORS AND RATES

Every year the Agency develops 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 expenses or revenues. Capital costs for the Solano Project has been paid off, therefore Solano County Water Agency and some of its member agencies will no longer remit annual water entitlement payments to the United States Bureau of Reclamation for Solano Project water.

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.

SOLANO COUNTY WATER AGENCY
Statements of Net Assets
June 30, 2009 and 2008

	2009	2008
Assets:		
Current assets:		
Cash and investments	\$ 36,442,635	\$ 33,944,000
Due from other governments	1,581,499	2,547,348
Interest receivable	95,949	246,213
Total current assets	38,120,083	36,737,561
Capital assets, net	4,154,804	4,161,766
Total assets	42,274,887	40,899,327
Liabilities:		
Current liabilities:		
Accounts payable	2,562,592	3,296,818
Compensated absences	138,184	130,382
Unearned revenue	294,423	524,267
Total current liabilities	2,995,199	3,951,467
Net assets:		
Invested in capital assets	4,154,804	4,161,766
Unrestricted	35,124,884	32,786,094
Total net assets	\$ 39,279,688	\$ 36,947,860

See Accompanying Notes to Basic Financial Statements.

SOLANO COUNTY WATER AGENCY
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Water sales	\$ 521,366	\$ 2,169,371
Operating expenses:		
Water purchases	7,363,174	6,811,590
Operations and maintenance	3,509,398	5,018,253
Administration and general	2,105,054	2,088,318
Conservation and flood control	1,327,922	2,859,079
Engineering	2,468,652	1,399,986
Depreciation	189,931	208,764
Total operating expenses	<u>16,964,131</u>	<u>18,385,990</u>
Operating loss	<u>(16,442,765)</u>	<u>(16,216,619)</u>
Nonoperating revenues (expenses):		
Tax assessments	16,663,435	17,612,527
Interest revenue	647,309	1,150,344
Grant revenue	413,326	875,880
Loss on disposal of capital assets	(11,100)	(130,388)
Other revenue	1,061,623	993,210
Total nonoperating revenues (expenses)	<u>18,774,593</u>	<u>20,501,573</u>
Change in net assets	2,331,828	4,284,954
Net assets, beginning of year	<u>36,947,860</u>	<u>32,662,906</u>
Net assets, end of year	<u>\$ 39,279,688</u>	<u>\$ 36,947,860</u>

See Accompanying Notes to Basic Financial Statements.

SOLANO COUNTY WATER AGENCY
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,404,356	\$ 1,806,983
Cash paid to suppliers for goods and services	(16,503,802)	(13,502,329)
Cash paid to employees for services	(1,004,301)	(1,193,944)
Net cash used by operating activities	(15,103,747)	(12,889,290)
Cash flows from noncapital financing activities:		
Tax assessments	16,663,435	17,612,527
Grants received	335,443	1,408,425
Net cash provided by noncapital financing activities	16,998,878	19,020,952
Cash flows from capital and related financing activities:		
Purchases of capital assets	(194,069)	(1,375,416)
Cash flows from investing activities:		
Interest received	797,573	1,235,591
Net increase in cash and cash equivalents	2,498,635	5,991,837
Cash and cash equivalents, beginning of year	33,944,000	27,952,163
Cash and cash equivalents, end of year	\$ 36,442,635	\$ 33,944,000

(Continued)

See Accompanying Notes to Basic Financial Statements.

SOLANO COUNTY WATER AGENCY
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2009 and 2008

	2009	2008
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (16,442,765)	\$ (16,216,619)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	189,931	208,764
Completed construction in progress on projects on federal land	-	1,681,428
Other revenue	1,061,623	993,210
Changes in assets and liabilities:		
Due from other governments	1,043,732	(1,713,769)
Prepaid water	-	193,668
Accounts payable	(734,226)	2,114,109
Compensated absences	7,802	18,519
Unearned revenue	(229,844)	(168,600)
	<u>\$ (15,103,747)</u>	<u>\$ (12,889,290)</u>
Net cash used by operating activities	<u>\$ (15,103,747)</u>	<u>\$ (12,889,290)</u>

See Accompanying Notes to Basic Financial Statements.

SOLANO COUNTY WATER AGENCY
Notes to Basic Financial Statements
For the Years Ended June 30, 2009 and 2008

(1) 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 (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 – Project that relates to 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 Project are costs associated with a Watermaster to monitor water use in the Upper Putah Creek Watershed and development of a Habitat Conservation Plan. Other functions include the flood control program and water conservation program.

State Water Project – This 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 agencies for the purchase of this water.

Ulatris Flood Control Project – This project relates to the costs of operating and maintaining the Ulatris 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 Department 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 Resource Management Department for the maintenance of this Project.

SOLANO COUNTY WATER AGENCY
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(1) Summary of Significant Accounting Policies (continued)

(b) 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. 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 statement of net assets. 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 expenses are incurred in accordance with program guidelines. If such revenues are received before the program expenses are incurred, they are recorded as 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 of water sales. Nonoperating 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.

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.

SOLANO COUNTY WATER AGENCY
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(1) Summary of Significant Accounting Policies (continued)

(d) Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the Statements 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) and California Asset Management Program (CAMP).

2. 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 \$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 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
Grade control	7 years
Flood control - Horse Creek	7-50 years
Water monitoring equipment	5-10 years
Machinery and field equipment	5-10 years
Furniture, fixtures, and office equipment	5-10 years

3. Compensated Absences

The Agency's policy allows employees to accumulate earned but unused vacation which will be paid to employees upon separation of service from the Agency. 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 to receive this benefit.

SOLANO COUNTY WATER AGENCY
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(1) Summary of Significant Accounting Policies (continued)

(d) Assets, Liabilities and Net Assets (continued)

4. 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 expenses are incurred.

5. Property Taxes

The Agency receives property taxes from Solano County (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. Property taxes 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 after 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, 2009 are charged an additional 1½ percent per month. Unsecured property tax is levied on July 1 and due on July 31, and becomes delinquent after 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 program. Under this program the Agency receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

(2) 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 July 1 of each year.

(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 certain reported amounts and disclosures. Actual results could differ from those estimates.

SOLANO COUNTY WATER AGENCY
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(3) Cash and Investments

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

	2009	2008
Deposits with financial institutions	\$ 683,710	\$ 651,755
Investments in Local Agency Investment Fund (LAIF) and California Asset Management Program (CAMP)	35,758,925	33,292,245
Total cash and cash investments	\$ 36,442,635	\$ 33,944,000

(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), 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, 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 its fair value is to changes in market interest rates. The weighted average maturity of the investments contained in the LAIF investment pool is approximately 235 days and 212 days as of June 30, 2009 and 2008, respectively. The weighted average maturity of the investments contained in the CAMP investment pool is approximately 56 days as of December 31, 2008.

(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. CAMP is rated as AAAm by Standard & Poor’s.

(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.

SOLANO COUNTY WATER AGENCY
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(3) Cash and Investments (continued)

(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.

As of June 30, 2009 and 2008, cash and cash equivalents was comprised of deposits with a book balance of \$683,710 and \$651,755, respectively, and a balance per financial institution of \$2,038,949 and \$769,923, respectively, of which \$1,788,949 and \$669,923, respectively, was in excess of insured amounts by the Federal Deposit Insurance Corporation (FDIC). 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).

(f) Investment in LAIF

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF). The total amount invested by all public agencies in LAIF at June 30, 2009 and 2008 was \$25.2 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA), which at June 30, 2009 and 2008 had balances of \$50.7 billion and \$70.0 billion, respectively. Of the June 30, 2009 amount, 1.48% is invested in short-term asset backed commercial paper, and 13.23% is invested in structured notes and medium-term asset backed securities. Of the June 30, 2008 amount, 3.60% is invested in short-term asset backed commercial paper, and 11.12% is invested in structured notes and medium-term asset backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The Local Investment Advisory Board (LIAB) has oversight responsibility for LAIF. The LIAB consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Agency's portion in the pool.

SOLANO COUNTY WATER AGENCY
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(3) Cash and Investments (continued)

(g) Investment in CAMP

The Agency is a voluntary participant in the California Asset Management Program (CAMP) that was formed in 1989 as a joint powers authority and common law trust. The trust is only accountable to its public agency shareholders. CAMP is invested in such a way as to maintain a \$1 per share net asset value.

(4) Capital Assets

Capital asset activity for the years ended June 30, 2009 and 2008 is as follows:

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
Capital assets not being depreciated:				
Cement Hill Bypass land	\$ 148,898	\$ -	\$ -	\$ 148,898
Construction in progress	1,186,450	91,711	-	1,278,161
Total capital assets not being depreciated	1,335,348	91,711	-	1,427,059
Capital assets being depreciated:				
Cement Hill Bypass land improvements	2,535,494	-	-	2,535,494
Grade control	76,562	-	-	76,562
Flood control - Horse Creek	82,819	-	-	82,819
Water monitoring equipment	381,224	17,387	(3,852)	394,759
Machinery and field equipment	520,237	29,816	(18,765)	531,288
Furniture, fixtures and office equipment	63,065	55,155	(34,622)	83,598
Total capital assets being depreciated	3,659,401	102,358	(57,239)	3,704,520
Less accumulated depreciation for:				
Cement Hill Bypass land improvements	(307,451)	(50,710)	-	(358,161)
Grade control	(10,422)	(10,938)	-	(21,360)
Flood control - Horse Creek	(17,145)	(7,706)	-	(24,851)
Water monitoring equipment	(178,731)	(44,156)	3,852	(219,035)
Machinery and field equipment	(284,543)	(57,138)	18,765	(322,916)
Furniture, fixtures and office equipment	(34,691)	(19,283)	23,522	(30,452)
Total accumulated depreciation	(832,983)	(189,931)	46,139	(976,775)
Capital assets being depreciated, net	2,826,418	(87,573)	(11,100)	2,727,745
Capital assets, net	\$ 4,161,766	\$ 4,138	\$ (11,100)	\$ 4,154,804

SOLANO COUNTY WATER AGENCY
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(4) Capital Assets (continued)

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2008</u>
Capital assets not being depreciated:				
Cement Hill Bypass land	\$ 148,898	\$ -	\$ -	\$ 148,898
Construction in progress	2,017,454	1,233,641	(2,064,645)	1,186,450
Total capital assets not being depreciated	<u>2,166,352</u>	<u>1,233,641</u>	<u>(2,064,645)</u>	<u>1,335,348</u>
Capital assets being depreciated:				
Cement Hill Bypass land improvements	2,540,657	-	(5,163)	2,535,494
Grade control	-	76,562	-	76,562
Flood control - Horse Creek	-	82,819	-	82,819
Water monitoring equipment	441,041	250,495	(310,312)	381,224
Machinery and field equipment	502,718	115,116	(97,597)	520,237
Furniture, fixtures and office equipment	187,236	-	(124,171)	63,065
Total capital assets being depreciated	<u>3,671,652</u>	<u>524,992</u>	<u>(537,243)</u>	<u>3,659,401</u>
Less accumulated depreciation for:				
Cement Hill Bypass land improvements	(257,137)	(50,813)	499	(307,451)
Grade control	-	(10,422)	-	(10,422)
Flood control - Horse Creek	-	(17,145)	-	(17,145)
Water monitoring equipment	(368,556)	(56,731)	246,556	(178,731)
Machinery and field equipment	(316,273)	(47,813)	79,543	(284,543)
Furniture, fixtures and office equipment	(89,108)	(25,840)	80,257	(34,691)
Total accumulated depreciation	<u>(1,031,074)</u>	<u>(208,764)</u>	<u>406,855</u>	<u>(832,983)</u>
Capital assets being depreciated, net	<u>2,640,578</u>	<u>316,228</u>	<u>(130,388)</u>	<u>2,826,418</u>
Capital assets, net	<u>\$ 4,806,930</u>	<u>\$ 1,549,869</u>	<u>\$ (2,195,033)</u>	<u>\$ 4,161,766</u>

SOLANO COUNTY WATER AGENCY
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(5) 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, 2009 and 2008, earmarkings included:

	<u>2009</u>	<u>2008</u>
Solano Project operating reserve	\$ 3,438,000	\$ 1,337,000
Solano Project rehabilitation and betterment reserve	3,140,000	3,746,000
Solano Project future replacement capital reserve	4,563,000	6,000,000
State Water Project operating reserve	4,445,000	3,510,000
State Water Project future capital reserve	10,585,000	4,018,000
Ulatis Flood Control Project operating reserve	354,000	286,000
Ulatis Flood Control Project capital reserve	1,732,000	-
Green Valley Flood Control Project operating reserve	40,000	34,000
Green Valley Flood Control Project capital reserve	28,000	-
Other flood control capital projects	2,000,000	3,000,000
Other capital projects and emergency reserves	4,700,000	6,021,000
Total	<u>\$ 35,025,000</u>	<u>\$ 27,952,000</u>

(6) 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 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 2.5% at 55 risk pool. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, CA 95811.

(b) Funding Policy

Active plan members are required to contribute 7% of their annual covered salary. The Agency makes the contributions required of the Agency employees on their behalf and for their account. The Agency is required to contribute at an actuarially determined rate of 11.653% and 11.806% for the years ended June 30, 2009 and 2008, respectively. The contribution requirements of plan members and the Agency are established and may be amended by PERS.

SOLANO COUNTY WATER AGENCY
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(6) **Employees' Retirement Plan (continued)**

(c) *Annual Pension Cost*

For the year ending June 30, 2009 and 2008, the Agency incurred an annual pension cost of \$109,583 and \$102,121, respectively.

Three-Year Trend Information for the Agency

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2007	\$ 132,987	100%	-0-
6/30/2008	102,121	100%	-0-
6/30/2009	109,583	100%	-0-

(7) **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, 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 Coverage</u>	<u>Commercial Coverage</u>	<u>Self-Insured Retention</u>
General and auto liability	\$ 1,000,000	\$ 60,000,000	
Public officials and omissions liability	1,000,000	60,000,000	
Property	50,000	100,000,000	\$ 10,000 - 25,000
Fidelity	100,000	None	
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 Basic Financial Statements (Continued)
For the Years Ended June 30, 2009 and 2008

(8) Commitments

The Agency leases its facilities under an operating lease through December 31, 2009, with an option to renew with a 3% increase in the rental rate. Lease expense for the years ended June 30, 2009 and 2008 totaled \$35,880 and \$85,343 respectively. After December 31, 2009, the lease will be month to month with a monthly cost of \$3,118. As of June 30, 2009, future minimum lease payments under noncancellable operating leases are as follows:

<u>Year Ending:</u>	
June 30, 2010	<u>\$18,161</u>

(9) Other Postemployment 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 two employees meet 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 \$6,147 and \$4,947 for the fiscal years ended June 30, 2009 and 2008, respectively.

In June of 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective for the Agency for the year ended June 30, 2009. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenses, related assets and liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This statement no longer permits governmental employers to account for and disclose such benefits on a pay-as-you-go basis, but rather requires them to be accounted for and disclosed on the accrual basis of accounting. The Agency did not implement GASB Statement No. 45 during the year ended June 30, 2009, and is in the process of evaluating its impact and will implement the statement as soon as possible.

SOLANO COUNTY WATER AGENCY
Combining Statement of Net Assets by Project
June 30, 2009

	Solano Project	State Water Project
Assets:		
Current assets:		
Cash and investments	\$ 19,995,606	\$ 14,068,610
Due from other governments	1,110,427	463,556
Interest receivable	61,575	27,599
Total current assets	21,167,608	14,559,765
Inter-project loan receivable	200,000	-
Capital assets, net	3,976,409	6,608
Total assets	25,344,017	14,566,373
Liabilities:		
Current liabilities:		
Accounts payable	1,113,174	1,230,978
Compensated absences	138,184	-
Unearned revenue	51,042	243,381
Total current liabilities	1,302,400	1,474,359
Inter-project loan payable	-	-
Total liabilities	1,302,400	1,474,359
Net assets (deficiency):		
Invested in capital assets	3,976,409	6,608
Unrestricted net assets (deficiency)	20,065,208	13,085,406
Total net assets (deficiency)	\$ 24,041,617	\$ 13,092,014

Flood Control Zone 1 (Ulatis)	Flood Control Zone 2 (Green Valley)	Eliminating Entries	Total
\$ 2,255,261	\$ 123,158	\$ -	\$ 36,442,635
7,516	-	-	1,581,499
<u>6,522</u>	<u>253</u>	<u>-</u>	<u>95,949</u>
2,269,299	123,411	-	38,120,083
-	-	(200,000)	-
<u>171,787</u>	<u>-</u>	<u>-</u>	<u>4,154,804</u>
<u>2,441,086</u>	<u>123,411</u>	<u>(200,000)</u>	<u>42,274,887</u>
209,512	8,928	-	2,562,592
-	-	-	138,184
<u>-</u>	<u>-</u>	<u>-</u>	<u>294,423</u>
209,512	8,928	-	2,995,199
-	200,000	(200,000)	-
<u>209,512</u>	<u>208,928</u>	<u>(200,000)</u>	<u>2,995,199</u>
171,787	-	-	4,154,804
<u>2,059,787</u>	<u>(85,517)</u>	<u>-</u>	<u>35,124,884</u>
<u>\$ 2,231,574</u>	<u>\$ (85,517)</u>	<u>\$ -</u>	<u>\$ 39,279,688</u>

SOLANO COUNTY WATER AGENCY
Combining Statement of Revenues, Expenses and
Changes in Net Assets by Project
For the Year Ended June 30, 2009

	Solano Project	State Water Project
Operating revenues:		
Water sales	\$ -	\$ 521,366
Operating expenses:		
Water purchases	591,379	6,771,795
Operations and maintenance	2,851,755	21,058
Administration and general	1,999,436	94,872
Conservation and flood control	977,603	350,319
Engineering	1,228,402	1,199,342
Depreciation	175,320	5,769
Overhead allocation	(777,059)	738,423
Total operating expenses	7,046,836	9,181,578
Operating loss	(7,046,836)	(8,660,212)
Nonoperating income (expenses):		
Tax assessments	6,332,842	9,468,829
Interest revenue	389,264	217,007
Grant revenue	419,215	(9,948)
Loss on disposal of capital assets	(11,100)	-
Other revenue	927,814	-
Total nonoperating income (expenses)	8,058,035	9,675,888
Change in net assets	1,011,199	1,015,676
Net assets, beginning of year	23,030,418	12,076,338
Net assets, end of year	\$ 24,041,617	\$ 13,092,014

Flood Control Zone 1 (Ulatis)	Flood Control Zone 2 (Green Valley)	Total
\$ -	\$ -	\$ 521,366
-	-	7,363,174
612,995	23,590	3,509,398
9,840	906	2,105,054
-	-	1,327,922
40,908	-	2,468,652
8,842	-	189,931
34,847	3,789	-
<u>707,432</u>	<u>28,285</u>	<u>16,964,131</u>
<u>(707,432)</u>	<u>(28,285)</u>	<u>(16,442,765)</u>
790,121	71,643	16,663,435
39,719	1,319	647,309
4,059	-	413,326
-	-	(11,100)
133,809	-	1,061,623
<u>967,708</u>	<u>72,962</u>	<u>18,774,593</u>
260,276	44,677	2,331,828
<u>1,971,298</u>	<u>(130,194)</u>	<u>36,947,860</u>
<u>\$ 2,231,574</u>	<u>\$ (85,517)</u>	<u>\$ 39,279,688</u>

SOLANO COUNTY WATER AGENCY
Statements of Administration and General Expenses
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Salaries and benefits	\$ 1,204,486	\$ 1,094,067
Strategic planning	-	(2,680)
Professional services	218,085	102,473
Governmental advocacy	74,681	74,502
Dues and memberships	113,757	113,730
Endangered species contract	27,204	91,935
Property tax administration fees	90,449	81,972
Office expenses	19,736	32,173
Watermaster services	46,050	59,297
Other expenses	151,667	163,010
Liability insurance	36,875	52,058
Putah Creek grant	(294)	100,356
Board expenses	19,258	19,099
Office rent	35,880	34,578
Telephone	24,669	23,399
Postage	7,304	6,154
Talent decision monitoring	10,188	10,058
Travel	4,419	3,501
Office equipment	12,838	10,117
Vacation accrual adjustment	7,802	18,519
	<u>\$ 2,105,054</u>	<u>\$ 2,088,318</u>



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WALNUT CREEK

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

The Board of Directors of the
Solano County Water Agency

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

We have audited the financial statements of the Solano County Water Agency (Agency), as of and for the year ended June 30, 2009, and have issued our report thereon dated March 1, 2010. The report on the financial statements was qualified because the Agency did not report other postemployment benefits on the accrual basis of accounting in accordance with Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as Findings 09-1, 09-2, and 09-3 to be material weaknesses.

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*.

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California

March 1, 2010

SOLANO COUNTY WATER AGENCY
Schedule of Findings and Recommendations
For the Year Ended June 30, 2009

Finding 09-1 – Capital Assets

Several issues regarding the accountability of capital assets were noted as follows:

- Accumulated depreciation and depreciation expense per the general ledger did not agree to the capital assets schedule prepared by the Agency.
- Disposed capital assets were not recorded in the general ledger properly.
- These errors can be attributable to the use of a manual (Excel) capital assets schedule.

We recommend that:

- 1) The Agency agree accumulated depreciation and depreciation expense per its capital assets schedule to accumulated depreciation and depreciation expense reported in its general ledger at least at the end of every year.
- 2) The Agency post the proper journal entry in its general ledger anytime a capital asset is disposed of. That entry would be a credit of the gross value of the capital asset and a debit of the accumulated depreciation on the capital asset at the time of disposal. Then a debit for any value received for the disposed capital asset, if any, whether it be cash, receivable, another capital asset (trade), etc. Any difference would be either a debit (loss) or credit (gain) on the disposal of capital asset recorded as a nonoperating revenue or expense. Also, we recommend that the Agency use the Asset Disposal form as a way to track when asset are disposed of. Note that if the agency still has an asset that may be fully depreciated, that asset should still be on the books of the Agency.
- 3) The Agency consider acquiring a financial reporting package with a fixed asset module.

Management response: In September, 2009 the Agency hired an Administrative Services Manager who will review the accumulated depreciation and depreciation expense in the general ledger with the capital assets schedule for agreement. The manager will review the capital asset processes and procedures and make improvements in the processing of asset disposals and the calculation and recording of depreciation expense and accumulated depreciation.

Finding 09-2 – Revenues, Receivables, and Unearned Revenues

Proper cut-off procedures were not properly followed for revenues resulting in audit adjustments. We recommend that the Agency establish procedures to ensure proper cut-off of its revenues, receivables and unearned revenue.

Management response: In September, 2009 the Agency hired an Administrative Services Manager who has implemented processes to ensure proper cut-off of revenues, receivables and unearned income.

Finding 09-3 – Other Postemployment Benefits

The Agency did not implement Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was effective for the Agency for the year ended June 30, 2009 and resulted in a qualified opinion on the Agency's financial statements. We recommend that the Agency research its options for implementing GASB Statement No. 45 and adopt the provisions of the Statement as soon as possible.

Management response: The Agency will implement GASB Statement No. 45 as soon as possible.

SOLANO COUNTY WATER AGENCY
Status of Prior Year Findings and Recommendations
For the Year Ended June 30, 2009

Finding 08-1 – Capital Assets

Several issues regarding the accountability of capital assets were noted as follows:

- Accumulated depreciation and depreciation expense per the general ledger did not agree to the capital assets schedule prepared by the Agency.
- Disposed capital assets were not recorded in the general ledger properly.
- Construction in progress was not evaluated to determine completed projects at year-end.
- These errors can be attributable to the use of a manual (Excel) capital assets schedule.

We recommend that:

- 1) The Agency agree accumulated depreciation and depreciation expense per its capital assets schedule to accumulated depreciation and depreciation expense reported in its general ledger at least at the end of every year.
- 2) The Agency post the proper journal entry in its general ledger anytime a capital asset is disposed of. That entry would be a credit of the gross value of the capital asset and a debit of the accumulated depreciation on the capital asset at the time of disposal. Then a debit for any value received for the disposed capital asset, if any, whether it be cash, receivable, another capital asset (trade), etc. Any difference would be either a debit (loss) or credit (gain) on the disposal of capital asset recorded as a nonoperating revenue or expense.
- 3) The Agency evaluate construction in progress at the end of every year in order to determine which projects are completed. Those completed projects that are the responsibility of the Agency would then be transferred to the proper depreciable capital assets category (improvements, equipment, etc.), at which point the Agency would start to depreciate. Those completed projects that are the responsibility of another entity would then be expensed as a transfer of capital assets to an outside entity.
- 4) The Agency consider acquiring a financial reporting package with a fixed asset module.

Status: The Agency evaluated construction in progress at the end of the year and determined that there were no projects that were completed, therefore we consider recommendation #3 implemented. However, recommendations #1, #2, and #4 were not implemented (see Finding 09-1).

Finding 08-2 – Revenues, Receivables, and Unearned Revenues

Proper cut-off procedures were not properly followed for revenues resulting in audit adjustments. We recommend that the Agency establish procedures to ensure proper cut-off of its revenues, receivables and unearned revenue.

Status: The Agency did not establish procedures to ensure proper cut-off of its revenues, receivable and unearned revenue (see Finding 09-2).

