Solano Irrigation District

Annual Financial Report

December 31, 2013 and 2012

Solano Irrigation District

Board of Directors as of December 31, 2013

Name	Division	Title
John D. Kluge	1	Vice President
Bob Biship	2	Director
Glen A. Grant	3	President
Guido E. Colla	4	Director
Robert Hansen	5	Director

Solano Irrigation District
Cary Keaten, General Manager
810 Vaca Valley Parkway, Suite 201
Vacaville, California 95688
(707) 448-6847 – www.sidwater.org

Solano Irrigation District

Annual Financial Report

For the Years Ended December 31, 2013 and 2012

Solano Irrigation District
Annual Financial Report
For the Years Ended December 31, 2013 and 2012

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Financial Section

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An Accountancy Corporation

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Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Independent Auditor's Report

Board of Directors
Solano Irrigation District
Vacaville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Solano Irrigation District (District), which comprises the statements of net position as of December 31, 2013, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. The comparative financial information as of December 31, 2012, was audited by other auditors whose report dated May 10, 2013, expressed an unmodified opinion on those basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2013, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the schedule of funding progress on pages 38 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 31, 2014, on our consideration of the District'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* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 40 and 41.

Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
Cypress, California
May 31, 2014

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Solano Irrigation District (District) provides an introduction to the financial statements of the District for the years ended December 31, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2013, the District's net position increased 5.13% or $3,675,940 from $71,670,535 to $75,346,475. In 2012, the District's net position increased 3.24% or $2,250,069 from $69,420,466 to $71,670,535.
- The District's 2013 operating revenues increased 11.11% or $1,321,576 due primarily to the $1,164,765 increase in water service revenues.
- The District's 2013 non-operating revenues increased 7.04% or $504,278 due primarily to a $224,888 increase in property tax collections and a $398,988 change in the investment in joint-powers authorities.
- The District's 2013 total expenses increased 0.91% or $161,263 due primarily to a $751,768 increase in operating expenses and a $812,854 decrease in non-operating expenses.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), deferred inflows of resources and net position. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the District's net position – the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 37.

Statement of Net Position

Condensed Statements of Net Position

		2013	2012	Change
Assets:				
Current assets	$	17,400,053	14,404,349	2,995,704
Non-current assets		24,535,941	25,289,863	(753,922)
Capital assets, net		62,125,387	62,134,057	(8,670)
Total assets	$	104,061,381	101,828,269	2,233,112
Liabilities:				
Current liabilities	$	6,204,791	6,035,820	168,971
Non-current liabilities		22,510,115	24,121,914	(1,611,799)
Total liabilities		28,714,906	30,157,734	(1,442,828)
Net position:				
Net investment in capital assets		46,828,129	44,991,056	1,837,073
Restricted		3,385,413	2,260,784	1,124,629
Unrestricted		25,132,933	24,418,695	714,238
Total net position		75,346,475	71,670,535	3,675,940
Total liabilities and net position	$	104,061,381	101,828,269	2,233,112

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $75,346,475 and $71,670,535 as of December 31, 2013 and 2012, respectively.

A portion of the District's net position, 62% and 63% as of December 31, 2013 and 2012, respectively, reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of year 2013 and 2012, the District showed a positive balance in its unrestricted net position of $25,132,933 and $24,418,695, respectively.

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	Change
Revenues:			
Operating revenues	$ 13,219,927	11,898,351	1,321,576
Non-operating revenues	7,668,236	7,163,958	504,278
Total revenues	20,888,163	19,062,309	1,825,854
Expenses:			
Operating expenses	14,323,504	13,571,736	751,768
Depreciation expense	2,554,051	2,331,702	222,349
Non-operating expenses	923,899	1,736,753	(812,854)
Total expenses	17,801,454	17,640,191	161,263
Net income before capital contributions	3,086,709	1,422,118	1,664,591
Capital contributions	589,231	827,951	(238,720)
Change in net position	3,675,940	2,250,069	1,425,871
Net position, beginning of year	71,670,535	69,420,466	2,250,069
Net position, end of year	$ 75,346,475	71,670,535	3,675,940

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the years. In the case of the District, net position increased by $3,675,940 and $2,250,069 for the years ended December 31, 2013 and 2012, respectively.

A closer examination of the sources of changes in net assets reveals that:

The District's 2013 operating revenues increased 11.11% or $1,321,576 due primarily to the $1,164,765 increase in water service revenues.

The District's 2013 non-operating revenues increased 7.04% or $504,278 due primarily to a $224,888 increase in property tax collections and a $398,988 change in the investment in joint-powers authorities.

The District's 2013 total expenses increased 0.91% or $161,263 due primarily to a $751,768 increase in operating expenses and a $812,854 decrease in non-operating expenses.

Capital Asset Administration

At the end of year 2013 and 2012, the District's investment in capital assets amounted to $62,125,387 and $62,134,057 (net of accumulated depreciation), respectively. This investment in capital assets includes land, land rights, water distribution and treatment plant, a power plant, buildings and structures, equipment, vehicles, and construction-in-process. There were numerous capital asset additions in the years 2013 and 2012 (See Note 6).

Changes in capital asset amounts for 2013 were as follows:

		Balance 2012	Additions	Transfers/ Deletions	Balance 2013
Capital assets:					
Non-depreciable assets	$	7,819,032	2,543,145	(2,797,025)	7,565,152
Depreciable assets		101,503,923	3,009,738	(1,063,550)	103,450,111
Accumulated depreciation		(47,188,898)	(2,554,051)	853,073	(48,889,876)
Total capital assets, net	$	62,134,057	2,998,832	(3,007,502)	62,125,387

Changes in capital asset amounts for 2012 were as follows:

		Balance 2011	Additions	Transfers/ Deletions	Balance 2012
Capital assets:					
Non-depreciable assets	$	7,613,527	2,487,526	(2,282,021)	7,819,032
Depreciable assets		98,477,147	3,185,527	(158,751)	101,503,923
Accumulated depreciation		(45,110,994)	(2,331,702)	253,798	(47,188,898)
Total capital assets, net	$	60,979,680	3,341,351	(2,186,974)	62,134,057

Debt Administration

In 2013, long-term debt decreased by $2,033,733, due primarily to regular principal payments on the District's outstanding debts. In 2012, long-term debt decreased by $1,706,494, due to regular principal payments on the District's outstanding debts (See Note 8).

Changes in long-term debt amounts for 2013 were as follows:

		Balance 2012	Additions/ Deletions	Principal Payments	Balance 2013
Long-term debt:					
Bonds payable	$	16,825,019	13,748	(1,755,000)	15,083,767
Capital lease payable		164,235	-	(76,713)	87,522
Loans payable		2,358,705	-	(215,768)	2,142,937
Total long-term debt	$	19,347,959	13,748	(2,047,481)	17,314,226

Changes in long-term debt amounts for 2012 were as follows:

		Balance 2011	Additions/ Deletions	Principal Payments	Balance 2012
Long-term debt:					
Bonds payable	$	18,256,761	183,258	(1,615,000)	16,825,019
Capital lease payable		229,132	-	(64,897)	164,235
Loans payable		2,568,560	-	(209,855)	2,358,705
Total long-term debt	$	21,054,453	183,258	(1,889,752)	19,347,959

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Finance Manager at 801 Vaca Valley Parkway, Suite 201, Vacaville, CA 95688 or by phone (707) 448-6847.

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Basic Financial Statements

Solano Irrigation District
Statements of Net Position
December 31, 2013 and 2012

Assets		2013	2012
Current assets:			
Cash and cash equivalents (note 2)	$	7,189,964	4,950,457
Restricted – cash and cash equivalents (note 2)		7,840,319	6,862,524
Accrued interest receivable		6,058	4,971
Accounts receivable – water sales and services		75,271	167,920
Accounts receivable – other		1,206,345	1,467,102
Contracts receivable – current portion (note 3)		333,510	320,682
Materials and supplies inventory		492,857	458,352
Prepaid expenses and other deposits		255,729	172,341
Total current assets		17,400,053	14,404,349
Non-current assets:			
Contracts receivable – non-current portion (note 3)		578,751	912,261
Debt service contracts receivable (note 4)		1,470,115	1,682,199
Investment in joint-powers authorities (note 5)		22,487,075	22,695,403
Capital assets – not being depreciated (note 6)		7,565,152	7,819,032
Capital assets – being depreciated, net (note 6)		54,560,235	54,315,025
Total non-current assets		86,661,328	87,423,920
Total assets	$	104,061,381	101,828,269
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	$	340,163	491,342
Accrued payroll and employee benefits		440,409	342,368
PG&E – debt service reimbursement advancement		2,017,100	1,940,450
Deposits for work-orders		326,578	284,812
Unearned revenue		70,538	-
Accrued interest payable		420,838	456,332
Long-term liabilities – due in one year:			
Compensated absences (note 7)		426,285	380,935
Bonds payable (note 8)		1,850,000	1,755,000
Capital lease payable (note 8)		83,411	76,713
Loans payable (note 8)		124,941	215,767
Pension-related debt payable (note 9)		104,528	92,101
Total current liabilities		6,204,791	6,035,820
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 7)		461,808	407,586
Unearned debt service contracts (note 4)		1,465,920	1,652,040
Bonds payable (note 8)		13,330,000	15,180,000
Bonds payable – discount, net (note 8)		(96,233)	(109,981)
Capital lease payable (note 8)		4,111	87,522
Loans payable (note 8)		2,017,996	2,142,938
Other post-employment benefits payable (note 10)		4,259,844	3,590,612
Pension-related debt payable (note 9)		1,066,669	1,171,197
Total non-current liabilities		22,510,115	24,121,914
Total liabilities		28,714,906	30,157,734
Net position:			
Net investment in capital assets (note 11)		46,828,129	44,991,056
Restricted (note 12)		3,385,413	2,260,784
Unrestricted (note 13)		25,132,933	24,418,695
Total net position		75,346,475	71,670,535
Total liabilities and net position	$	104,061,381	101,828,269

See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

		2013	2012
Operating revenues:			
Water sales and service charges:			
Agriculture water sales	$	3,639,015	2,806,985
Municipal, industrial and other water sales		757,276	635,124
City water transfers		673,812	667,504
Standby charges		1,052,356	1,044,339
Capital replacement charge		198,634	-
Other water service charges		45,835	48,211
Total water service charges		6,366,928	5,202,163
Contracted reimbursement revenue:			
Suisun-Solano Water Authority		2,620,386	2,483,271
Suisun Valley Water System		114,720	65,509
Dixon-Solano Water Authority		614,621	406,698
U.S. Bureau of Reclamation		465,249	453,294
Putah South Canal		1,214,372	1,231,798
Monticello Power Plant		1,298,721	1,542,595
Grants		108,748	66,750
Work completed for others		416,182	446,273
Total contracted reimbursement revenue		6,852,999	6,696,188
Total operating revenues		13,219,927	11,898,351
Operating expenses:			
Salaries and wages		6,079,198	5,777,627
Employee benefits		2,651,870	2,423,679
Materials and services		5,592,436	5,370,430
Total operating expenses		14,323,504	13,571,736
Operating loss before depreciation expense		(1,103,577)	(1,673,385)
Depreciation expense		(2,554,051)	(2,331,702)
Operating loss		(3,657,628)	(4,005,087)

Continued on next page

See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Revenues, Expenses and Changes in Net Position, continued
For the Years Ended December 31, 2013 and 2012

		2013	2012
Non-operating revenue(expense):			
Property taxes – ad valorum		1,156,606	931,718
PG&E – debt service reimbursement		2,773,575	2,821,743
Rehabilitation and betterment assessment		2,449,824	2,498,118
Other special assessments		515,905	600,902
Power plant revenue		431,212	537,323
Investment earnings		111,585	129,287
Change in investment in joint-powers authorities (note 5)		(208,328)	(607,316)
Interest expense – long-term debt		(909,837)	(1,179,467)
Amortization of deferred charges		-	(533,225)
County administrative fees		(14,062)	(24,061)
ACWA-JPIA insurance refunds		101,615	87,913
Gain from sale of capital assets		261,250	27,247
Improvement districts – contract delinquency charge		21,856	21,856
Detachment, easement/title and annexation fees		24,683	60,167
Other non-operating revenues		28,453	55,000
Total non-operating revenues, net		6,744,337	5,427,205
Net income before capital contributions		3,086,709	1,422,118
Capital contributions:			
USBR federal capital grants		258,500	-
FEMA reimbursement – 2005 flood damage		278,047	-
Cal EMA reimbursement – 2005 flood damage		52,684	-
Contributed capital assets		-	827,951
Total capital contributions		589,231	827,951
Change in net position		3,675,940	2,250,069
Net position, beginning of year – as restated (note 14)		71,670,535	69,420,466
Net position, end of year	$	75,346,475	71,670,535

See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	6,459,577	5,310,318
Cash receipts from contracted reimbursement services		7,113,756	6,271,499
Cash receipts from others		720,123	393,288
Cash paid to vendors and suppliers for materials and services		(8,076,428)	(8,096,025)
Cash paid to employees for salaries and wages		(5,755,466)	(5,173,104)
Net cash provided by (used in) operating activities		461,562	(1,294,024)
Cash flows from non-capital financing activities:			
Proceeds from property taxes – ad valorum		1,156,606	931,718
Proceeds from rehabilitation and betterment assessment		2,449,824	2,498,118
Proceeds from other special assessments		515,905	600,902
Net cash provided by non-capital financing activities		4,122,335	4,030,738
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(2,755,858)	(3,391,032)
Proceeds from capital contributions		589,231	827,951
Proceeds from the sale of capital assets		261,250	122,294
PG&E – debt service reimbursement		2,874,582	4,697,409
Proceeds from contracts and debt service contracts receivable		532,766	515,809
Principal paid on long-term debt		(2,047,481)	(1,889,752)
Interest paid on long-term debt		(931,583)	(1,187,491)
Net cash used in capital and related financing activities		(1,477,093)	(304,812)
Cash flows from investing activities:			
Interest and investment earnings		110,498	129,287
Net cash provided by investing activities		110,498	129,287
Net increase in cash and cash equivalents		3,217,302	2,561,189
Cash and cash equivalents, beginning of year		11,812,981	9,251,792
Cash and cash equivalents, end of year	$	15,030,283	11,812,981

Reconciliation of cash and cash equivalents to statements of net position:		2013	2012
Cash and cash equivalents	$	7,189,964	4,950,457
Restricted – cash and cash equivalents		7,840,319	6,862,524
Total cash and cash equivalents	$	15,030,283	11,812,981

Continued on next page

See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Cash Flows, continued
For the Years Ended December 31, 2013 and 2012

		2013	2012
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	$	(3,657,628)	(4,005,087)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Deprecation expense		2,554,051	2,331,702
Power plant revenue		431,212	537,323
County administrative fees		(14,062)	(24,061)
ACWA-JPIA insurance refunds		101,615	87,913
Improvement districts – contract delinquency charge		21,856	21,856
Detachment, easement/title and annexation fees		24,683	60,167
Other non-operating revenues		28,453	55,000
Changes in assets and liabilities:			
(Increase)Decrease in assets:			
Accounts receivable – water sales and services, net		92,649	108,155
Accounts receivable – other		260,757	(424,689)
Materials and supplies inventory		(34,505)	162,721
Prepaid expenses and other deposits		(83,388)	(97,584)
Increase(Decrease) in liabilities:			
Accounts payable and accrued expenses		(151,179)	(311,909)
Accrued payroll and employee benefits		98,041	49,534
Deposits for work-orders		41,766	(45,798)
Unearned revenue		70,538	(323,173)
Compensated absences		99,572	(64,095)
Other post employment benefits payable		669,232	666,983
Pension-related debt payable		(92,101)	(78,982)
Total adjustments		4,119,190	2,711,063
Net cash provided by operating activities	$	461,562	(1,294,024)

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Solano Irrigation District (District) was organized in 1948 under the provisions of the California Irrigation District Law now codified as Division II of the water code of the State of California. It encompasses some 72,768 acres in Solano County midway between the San Francisco Bay Area and the City of Sacramento. The District provides water for agricultural, commercial and residential purposes, as well as operates and maintains the Monticello Dam and other water distribution systems. The District is governed by a five-member board of directors elected by division within the District's service area.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, The Financial Reporting Entity. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

Comparative Data Selected information regarding the prior year has been included in the accompanying financial statements. The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

The District has reclassified certain prior year information to conform to current year presentations as well as conforming to the implementation of GASB No. 63 and 65.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Use of Estimates

The preparation of the basic 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing management to deposit funds in financial institutions.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

5. Property Taxes and Assessments

The County of Solano Assessor's Office assesses all real and personal property within the County each year. The County of Solano Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County of Solano Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of Solano, which have not been credited to the District's cash balance as of December 31. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

6. Materials and Supplies

Materials and supplies consist primarily of water pipe and pipefittings for construction and repair to the District's water treatment and distribution system. Materials and supplies are valued at cost using a weighted average method. Materials and supplies items are charged to expense at the time that individual items are consumed.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

7. Restricted Assets

Certain assets of the District are restricted for use by ordinance or debt covenant and, accordingly are shown as restricted assets on the accompanying statement of net position. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Water distribution plant	25-40 years
Monticello power plant	50 years
Water treatment plant	40 years
Buildings and structures	10-40 years
Machinery and equipment	4-20 years

9. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated.

10. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets Component of Net Position**– This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position

- **Restricted Component of Net Position** – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

- **Unrestricted Component of Net Position** – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

(2) Cash and Investments

Cash and investments as of December 31, are classified in the accompanying financial statements as follows:

		2013	2012
Cash and cash equivalents	$	7,189,964	4,950,457
Restricted – cash and cash equivalents		7,840,319	6,862,524
Total cash and investments	$	15,030,283	11,812,981

Cash and investments as of December 31, consist of the following:

		2013	2012
Cash on hand	$	550	550
Deposits with financial institutions		1,660,690	1,838,136
Deposits with the Local Agency Investment Fund (LAIF)		11,096,211	7,730,756
Investments		2,272,832	2,243,539
Total cash and investments	$	15,030,283	11,812,981

Investments Authorized by the California Government Code and the District's Investment Policy

The following table identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (LAIF)	Upon Demand	None	None	$50 M
Interest Bearing Checking Accounts	N/A	None	None	100%
U.S. Treasuery Money-Market Fund	N/A	None	None	10%
Certificates of Deposit	5 years	IUQCI* of 85	None	$100,000
U.S. Treasuery Bills and Notes	5 years	None	None	100%
U.S. Government Sponsored Entities	5 years	None	None	100%
Banker's Acceptances	180 days	Moody's A	40%	30%
Commercial Paper	270 days	Moody's A	15%	10%
Repurchase Agreements	30 days	None	20%	100%
Medium Term Notes	5 years	Moody's AA	30%	10%
Negotiable Certificates of Deposit	2 years	Moody's A+	30%	10%

*Irwin Union Quality Code Index

Investments Authorized by Debt Agreements

Under the terms of the indentures of trust issued pursuant to the 2006 Monticello Power Project Refunding Hydroelectric Revenue Bonds (see Note 8), a fiscal agent is holding funds for debt service reserves. The funds are to be used in the event the District lease payments are insufficient to pay debt service due on the bonds. As of December 31, 2013 and 2012, the balance with the fiscal agent had been invested in the First American Treasury Obligation Class D Money Market Fund.

(2) Cash and Investments, continued

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 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. 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).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, federally insured is unlimited for non-interest bearing accounts through December 31, 2013 and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

The District 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 District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District'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.

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

(2) Cash and Investments, continued

Interest Rate Risk, continued

Investment maturities as of December 31, 2013, were as follows:

Investment Type	Amount	Remaining Maturity (in Months) 12 Months Or Less	13 to 24 Months	25-60 Months
Local Agency Investment Fund (LAIF)	$ 11,096,211	11,096,211	-	-
First American Treasury obligation	2,272,832	2,272,832	-	-
Total	$ 13,369,043	13,369,043	-	-

Investment maturities as of December 31, 2012, were as follows:

Investment Type	Amount	Remaining Maturity (in Months) 12 Months Or Less	13 to 24 Months	25-60 Months
Local Agency Investment Fund (LAIF)	$ 7,730,756	7,730,756	-	-
First American Treasury obligation	2,243,539	2,243,539	-	-
Total	$ 9,974,295	9,974,295	-	-

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings as of December 31, 2013, were as follows:

Investment Type	Amount	Minimum Legal Rating	Rating as of year-end Moody's Aaa	Not Rated
Local Agency Investment Fund (LAIF)	$ 11,096,211	N/A	$ -	11,096,211
First American Treasury obligation	2,272,832	Aaa	2,272,832	-
Total	$ 13,369,043		$ 2,272,832	11,096,211

Credit ratings as of December 31, 2012, were as follows:

Investment Type	Amount	Minimum Legal Rating	Rating as of year-end Moody's Aaa	Not Rated
Local Agency Investment Fund (LAIF)	$ 7,730,756	N/A	$ -	7,730,756
First American Treasury obligation	2,243,539	Aaa	2,243,539	-
Total	$ 9,974,295		$ 2,243,539	7,730,756

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

(3) Contracts Receivable

The balance at December 31, consists of the following:

		2013	2012
City of Fairfield – Reclaimed water	$	333,510	320,682
Contracts receiveble – current portion	$	333,510	320,682
City of Fairfield – Reclaimed water	$	578,751	912,261
Contracts receiveble – non-current portion	$	578,751	912,261

City of Fairfield – Reclaimed Water

On October 1, 2002, the District, the City of Fairfield and the Fairfield-Suisan Sewer District entered into an agreement known as the "Second Amended Agreement" which modified Amendment No. 1 dated July 19,1976. In this agreement, the District agreed to transfer immediately to the City of Fairfield the District's entire reclaimed water rights established by Section III of the agreement. The District is receiving payment for these reclaimed water rights over a period of time from the City of Fairfield.

(4) Debt Service Contracts Receivable

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The balance at December 31, consists of the following:

		2013	2012
Elmira Improvement District	$	4,195	30,159
Peabody Improvement District		212,286	233,257
Blue Ridge Oaks Improvement District		501,208	550,746
Gibson Canyon Improvement District		752,426	868,037
Debt service contracts receivable	$	1,470,115	1,682,199

Elmira Improvement District

In 1994, the District entered into an agreement with the Elmira Improvement District whereby the District charged landowners the cost of metered connection to the water system built for the Elmira Improvement District's landowners. Under the terms of the agreement, each landowner pays their share of the cost over a 10 year period at 3.46% interest rate. As of December 31, 2013 the outstanding balance of the charges was $4,195.

Peabody Improvement District

In 2004, the District entered into an agreement with the Peabody Improvement District whereby the District incurred the costs of financing a potable water system for the Peabody Improvement District's landowners. Under the terms of the agreement, each landowner pays their share of the cost over a 20 year period at 2.34% interest rate. As of December 31, 2013 the outstanding balance of the charges was $212,286.

Blue Ridge Oaks Improvement District

In 2004, the District entered into an agreement with the Blue Ridge Oaks Improvement District whereby the District incurred the costs of financing a safe water drinking program for the Blue Ridge Oaks Improvement District's landowners. Under the terms of the agreement, each landowner pays their share of the cost over a 20 year period at 2.32% interest rate. As of December 31, 2013 the outstanding balance of the charges was $501,208.

(4) Debt Service Contracts Receivable, continued

Gibson Canyon Ranch Improvement District

In 2004, the District entered into an agreement with the Gibson Canyon Ranch Improvement District whereby the District incurred the costs of financing a water treatment and distribution improvement system for the Gibson Canyon Ranch Improvement District's landowners. Under the terms of the agreement, each landowner pays their share of the cost over a 20 year period at 2.32% interest rate. As of December 31, 2013 the outstanding balance of the charges was $752,426.

(5) Investment in Joint-Powers Authorities

Jointly governed organizations are legal entities or other organizations that result from a contractual arrangement and that are owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility as permitted by the California Government Code.

The District is a participant in the following organizations:

The balance at December 31, consists of the following:

		2013	2012
Suisun-Solano Water Authority	$	12,551,221	12,602,727
Dixon-Solano Water Authority		9,873,881	10,030,703
Solano Water Authority		61,973	61,973
Investment in Joint-Powers Authorities	$	22,487,075	22,695,403

The District has recorded its interest in the joint-powers authorities under the equity method of accounting whereby, the District's equity in the joint-powers authorities is equal to the original cost of assets contributed plus its pro rata share of the net position of the joint-powers authorities.

Suisun-Solano Water Authority

On May 17, 1976, the District and the City of Suisun City entered into a joint exercise powers agreement for the construction and operation of a domestic water system in the Tolenas and joint service area. In May of 1990, the District and the City of Suisun City entered into a joint powers agreement for the operation and maintenance of the domestic water system.

Pursuant to the agreement, a Joint Executive Committee has been established consisting of one member of the City Council, the City Administrator, the Secretary-Manager and one member of the Board from the District. On July 1, 1982, the day-to-day water service function was taken over by the District. The City is the treasurer of the joint authority and has the responsibility of billing the water customers. The cost of the water treatment plant is recorded as an asset of the District under property, plant and equipment. Audited financial statements are available from the City of Suisun City at 701 Civic Center Blvd, Suisun City, CA, 94585.

(5) Investment in Joint-Powers Authorities, continued

Dixon-Solano Water Authority

On July 2, 1984, the District entered into a joint exercise powers agreement with the City of Dixon wherein, the District and the City would combine their facilities and resources to provide land within their common boundaries with high quality, treated domestic water. The agreement calls for joint construction and operation of water treatment plants. Pursuant to the agreement, a Joint Water Committee, composed of one member of City Council, the City Manager, one member of the Board from the District and the District Manager, shall function as an administrative entity and advisory board. Facilities contributed by each entity were valued and each entity will be entitled to reimbursement for value contributed when funds are available.

On August 9, 2012 the City of Dixon enacted a provision in their contract terminating their Joint Powers Agreement with the District. The action will dissolve the Dixon/Solano Water Authority effective in August 2014. Audited financial statements are available from the City of Dixon at 600 East A Street, Dixon, CA 95620.

Solano Water Authority

On September 22, 1987, the District entered into a joint powers agreement with various cities and other entities to form the Solano Water Authority (Authority). The joint powers was formed to acquire, construct, operate and maintain any project for the purpose of providing water resources or water treatment for public or private uses and to enter into project agreements to provide security for the repayment of any revenue bonds issued to finance such project, subject to the conditions and restrictions contained in the project agreement. Audited financial statements are available from the Authority at 810 Vaca Valley Parkway, Suite 203, Vacaville, CA 95687.

(6) Capital Assets

Changes in capital assets for 2013, were as follows:	Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
Non-depreciable assets:				
Land and land rights	$ 3,619,706	-	-	3,619,706
Construction-in-process	4,199,326	2,543,145	(2,797,025)	3,945,446
Total non-depreciable assets	7,819,032	2,543,145	(2,797,025)	7,565,152
Depreciable assets:				
Water distribution plant	61,174,277	2,682,730	(7,549)	63,849,458
Monticello power plant	15,527,224	-	-	15,527,224
Water treatment plant	5,314,206	-	-	5,314,206
Buildings and structures	12,873,361	-	(11,194)	12,862,167
Machinery and equipment	6,614,855	327,008	(1,044,807)	5,897,056
Total depreciable assets	101,503,923	3,009,738	(1,063,550)	103,450,111
Accumulated depreciation:				
Water distribution plant	(30,181,980)	(1,307,867)	-	(31,489,847)
Monticello power plant	(8,851,380)	(310,449)	-	(9,161,829)
Water treatment plant	(2,579,950)	(49,547)	-	(2,629,497)
Buildings and structures	(790,081)	(328,984)	-	(1,119,065)
Machinery and equipment	(4,785,507)	(557,204)	853,073	(4,489,638)
Total accumulated depreciation	(47,188,898)	(2,554,051)	853,073	(48,889,876)
Total depreciable assets, net	54,315,025	455,687	(210,477)	54,560,235
Total capital assets, net	$ 62,134,057	2,998,832	(3,007,502)	62,125,387

(6) Capital Assets, continued

Changes in capital assets for 2012, were as follows:		Balance 2011	Additions/ Transfers	Deletions/ Transfers	Balance 2012
Non-depreciable assets:					
Land and land rights	$	3,619,706	-	-	3,619,706
Construction-in-process		3,993,821	2,487,526	(2,282,021)	4,199,326
Total non-depreciable assets		7,613,527	2,487,526	(2,282,021)	7,819,032
Depreciable assets:					
Water distribution plant		58,096,856	3,077,421	-	61,174,277
Monticello power plant		15,527,224	-	-	15,527,224
Water treatment plant		5,314,206	-	-	5,314,206
Buildings and structures		12,855,736	17,625	-	12,873,361
Machinery and equipment		6,683,125	90,481	(158,751)	6,614,855
Total depreciable assets		98,477,147	3,185,527	(158,751)	101,503,923
Accumulated depreciation:					
Water distribution plant		(29,334,862)	(939,215)	92,097	(30,181,980)
Monticello power plant		(8,539,756)	(311,624)	-	(8,851,380)
Water treatment plant		(2,480,716)	(99,234)	-	(2,579,950)
Buildings and structures		(479,608)	(313,423)	2,950	(790,081)
Machinery and equipment		(4,276,052)	(668,206)	158,751	(4,785,507)
Total accumulated depreciation		(45,110,994)	(2,331,702)	253,798	(47,188,898)
Total depreciable assets, net		53,366,153	853,825	95,047	54,315,025
Total capital assets, net	$	60,979,680	3,341,351	(2,186,974)	62,134,057

(7) Compensated Absences

Changes in compensated absences for 2013, were as follows:

	Balance 2012	Earned	Taken	Balance 2013	Current Portion	Long-term Portion
$	788,521	526,833	(427,261)	888,093	426,285	461,808

Changes in compensated absences for 2012, were as follows:

	Balance 2011	Earned	Taken	Balance 2012	Current Portion	Long-term Portion
$	852,616	520,661	(584,756)	788,521	380,935	407,586

(8) Long-term Debt

Changes in long-term debt amounts for 2013, were as follows:

	Balance 2012	Additions/ Deletions	Principal Payments	Balance 2013
Long-term debt:				
Bonds payable:				
2006 – Revenue refunding bonds – MPP	$ 16,935,000	-	(1,755,000)	15,180,000
Less: Unamortized bond discount	(109,981)	13,748	-	(96,233)
Total bonds payable	16,825,019	13,748	(1,755,000)	15,083,767
Capital lease payable:				
Capital lease payable	164,235	-	(76,713)	87,522
Loans payable:				
1988 Economic Development Administration	153,747	-	(27,778)	125,969
2000 DWR – Gibson Canyon Improv. District	1,288,545	-	(104,103)	1,184,442
2004 DWR – Elmira Improvement District	38,380	-	(25,367)	13,013
2004 DWR – Blue Ridge Improvement District	607,259	-	(40,473)	566,786
2004 DWR – Peabody Improvement District	270,774	-	(18,047)	252,727
Total loans payable	2,358,705	-	(215,768)	2,142,937
Total long-term debt	19,347,959	13,748	(2,047,481)	17,314,226
Less: current portion	(2,047,480)			(2,058,352)
Total non-current portion	$ 17,300,479			15,255,874

Changes in long-term debt amounts for 2012, were as follows:

	Balance 2011	Additions/ Deletions	Principal Payments	Balance 2012
Long-term debt:				
Bonds payable:				
2006 – Revenue refunding bonds – MPP	$ 17,300,000	-	(365,000)	16,935,000
Less: Unamortized bond discount	(123,729)	13,748	-	(109,981)
1986 – Revenue refunding bonds – MPP	1,250,000	-	(1,250,000)	-
Less: Unamortized bond discount	(169,510)	169,510	-	-
Total bonds payable	18,256,761	183,258	(1,615,000)	16,825,019
Capital lease payable:				
Capital lease payable	229,132	-	(64,897)	164,235
Loans payable:				
1988 Economic Development Administration	180,201	-	(26,454)	153,747
2000 DWR – Gibson Canyon Improv. District	1,390,274	-	(101,729)	1,288,545
2004 DWR – Elmira Improvement District	62,878	-	(24,498)	38,380
2004 DWR – Blue Ridge Improvement District	646,801	-	(39,542)	607,259
2004 DWR – Peabody Improvement District	288,406	-	(17,632)	270,774
Total loans payable	2,568,560	-	(209,855)	2,358,705
Total long-term debt	21,054,453	183,258	(1,889,752)	19,347,959
Less: current portion	(1,892,493)			(2,047,480)
Total non-current portion	$ 19,161,960			17,300,479

(8) Long-Term Debt, continued

Bonds Payable

2006 Bonds Payable – Monticello Power Project 2006 Refunding Hydroelectric Revenue Bonds

On February 6, 2006, the District issued $19,015,000 in bonds with an average interest rate of 5.39% to advance refund $15,185,000 of outstanding Monticello Power Project 1986 Refunding Hydroelectric Revenue Bonds with an average interest rate of 9.18%. The net proceeds of $18,263,595 (after payment of $751,405 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payments on the 1986 series bonds. As a result, a portion ($15,185,000) of the 1986 Series bonds are considered to be defeased and the liability for those bonds has been removed from the District's long-term debt.

The District has pledged future revenue to be received from PG&E to repay the Refunding Hydroelectric Revenue Bonds through 2020. Projected revenue from PG&E is expected to provide coverage over debt service of 1.15 over the life of the bonds. Principal payments are due annually on January 1st and interest payments are due semi-annually on January 1st and July 1st. Bond payments are due through January 1, 2020.

Annual debt service requirements for the 2006 bonds payable are as follows:

Year		Principal	Interest	Total
2014	$	1,850,000	770,892	2,620,892
2015		1,945,000	670,515	2,615,515
2016		2,050,000	564,847	2,614,847
2017		2,150,000	451,823	2,601,823
2018		2,265,000	331,072	2,596,072
2019		2,395,000	203,621	2,598,621
2020		2,525,000	69,059	2,594,059
Total	$	15,180,000	3,061,829	18,241,829
Less: current		(1,850,000)		
Total non-current	$	13,330,000		

Capital Lease Payable

In September, 2011, the District entered into a capital lease contract with CIT Finance LLC to lease a copier and equipment. Monthly lease payments of $7,300 began in November 2011. The total lease obligation was $284,700, which includes sales tax of $20,999 which was not financed by the District. The lease has an interest rate of 7.00% and is due in January 2015. Annual debt service requirements for the capital lease payable are as follows:

Year		Principal	Interest	Total
2014	$	83,411	4,189	87,600
2015		4,111	29	4,140
Total	$	87,522	4,218	91,740
Less: current		(83,411)		
Total non-current	$	4,111		

(8) Long-Term Debt, continued

1988 Economic Development Administration Loan

The District entered into an agreement in December 1988 to borrow funds from the Economic Development Administration, in the amount of $613,100. The funds are being used for the acquisition, construction and completion of improvements to the District's water system. Principal and interest payments are due annually on July 1st with an interest rate of 5.00%. Loan payments are due through July 1, 2017. Annual debt service requirements for the loan payable are as follows:

Year		Principal	Interest	Total
2014	$	29,195	6,270	35,465
2015		30,655	4,810	35,465
2016		32,187	3,278	35,465
2017		33,932	1,533	35,465
Total	$	125,969	15,891	141,860
Less: current		(29,195)		
Total non-current	$	96,774		

2000 Department of Water Resources Gibson Canyon Improvement District Loan

The District entered into a contract in June 2000 to borrow funds from the Department of Water Resources. The funds were used to finance construction of a project that was used to improve water quality. The maximum loan amount was $2,127,300 and bears interest at 2.32% semi-annually for a term of twenty years. Principal payments are due annually on January 1st and interest payments are due semi-annually on January 1st and July 1st. Loan payments are due through January 1, 2024. Annual debt service requirements for the loan payable are as follows:

Year		Principal	Interest	Total
2014	$	52,959	13,739	66,698
2015		107,768	25,629	133,397
2016		110,283	23,114	133,397
2017		112,856	20,541	133,397
2018		115,490	17,907	133,397
2019-2023		619,152	47,833	666,985
2024		65,934	765	66,699
Total	$	1,184,442	149,528	1,333,970
Less: current		(52,959)		
Total non-current	$	1,131,483		

2004 Department of Water Resources Elmira Improvement District Loan

The District entered into a contract in January 2004 to borrow funds from the Department of Water Resources. The funds were used to finance construction of a project that was used to improve water quality. The maximum loan amount was $416,325 and bears interest at 3.46% semi-annually for a term of ten years. Principal payments are due annually on January 1st and interest payments are due semi-annually on January 1st and July 1st. Loan payments are due through January 1, 2014. Annual debt service requirements for the loan payable are as follows:

Year		Principal	Interest	Total
2014	$	13,013	225	13,238

(8) Long-Term Debt, continued

2004 Department of Water Resources Blue Ridge Improvement District Loan

The District entered into a contract in January 2004 to borrow funds from the Department of Water Resources. The funds were used to finance construction of a project that was used to improve water quality. The maximum loan amount was $866,000 and bears interest at 2.34% semi-annually for a term of twenty years. Principal payments are due annually on January 1st and interest payments are due semi-annually on January 1st and July 1st. Loan payments are due through January 1, 2026. Annual debt service requirements for the loan payable are as follows:

Year		Principal	Interest	Total
2014	$	20,592	6,632	27,224
2015		41,910	12,537	54,447
2016		42,897	11,551	54,448
2017		43,906	10,541	54,447
2018		44,940	9,508	54,448
2019-2023		241,072	31,165	272,237
2024-2026		131,469	4,650	136,119
Total	$	566,786	86,584	653,370
Less: current		(20,592)		
Total non-current	$	546,194		

2004 Department of Water Resources Peabody Improvement District Loan

The District entered into a contract in January 2004 to borrow funds from the Department of Water Resources. The funds were used to finance construction of a project that was used to improve water quality. The maximum loan amount was $386,000 and bears interest at 2.34% semi-annually for a term of twenty years. Principal payments are due annually on January 1st and interest payments are due semi-annually on January 1st and July 1st. Loan payments are due through January 1, 2026. Annual debt service requirements for the loan payable are as follows:

Year		Principal	Interest	Total
2014	$	9,182	2,957	12,139
2015		18,688	5,590	24,278
2016		19,127	5,151	24,278
2017		19,578	4,700	24,278
2018		20,038	4,240	24,278
2019-2023		107,493	13,897	121,390
2024-2026		58,621	2,074	60,695
Total	$	252,727	38,609	291,336
Less: current		(9,182)		
Total non-current	$	243,545		

(9) Pension-Related Debt – CalPERS Side-Fund

As of June 30, 2003, CalPERS implemented risk-pooling for the District's agent multiple-employer public employee defined benefit pension plan. As a result, the District's defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate. CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies who had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the District's annual required contributions to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District is required to make annual payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District's CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the Side Fund falls under the definition of pension-related debt, as described in GASB Statement No. 27 and recorded as liability on the District's financial statements.

Annual payments on the CalPERS Side-Fund represent principal and interest payments on the pension-related debt. Debt principal and interest expense is blended into the CalPERS pension benefit rate by individual class of District employee and repaid to CalPERS each payroll period throughout the fiscal year. The following is a pay-down schedule of the remaining payments of the District's CalPERS Side-Fund at a 7.50% interest rate, which was reduced by CalPERS in fiscal year 2012 for fiscal years 2012 and beyond as follows:

Year	Principal	Interest	Total
January 1, 2014 to December 31, 2014	$ 104,528	81,008	185,536
January 1, 2015 to June 30, 2015	55,523	38,616	94,139
July 1, 2015 to June 30, 2016	125,232	68,695	193,927
July 1, 2016 to June 30, 2017	140,655	59,089	199,744
July 1, 2017 to June 30, 2018	157,418	48,319	205,737
July 1, 2018 to June 30, 2019	175,624	36,285	211,909
July 1, 2019 to June 30, 2020	195,387	22,879	218,266
July 1, 2020 to June 30, 2021	216,830	7,984	224,814
Total	$ 1,171,197	362,875	1,534,072
Less: current	(104,528)		
Total non-current	$ 1,066,669		

(10) Other Post Employment Benefits Payable

During the year ended December 31, 2008, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

The District administers its post-employment benefits plan, a single-employer defined benefit plan (Plan). The following requirements must be satisfied in order to be eligible for post employment medical, dental and vision benefits: (1) Attainment of age 55, and 20 years for full-time service, and (2) Retirement from the District (the District must be the last employer prior to retirement).

Plan Description – Benefits

The District offers post employment medical, dental and vision benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the ACWA-JPIA medical, dental and vision programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 15.19% for 2013 and 14.15% for 2012 of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual Cost

For the years ended December 31, 2013 and 2012, the District's ARC cost was $1,044,272 and $944,455, respectively. The District's net OPEB payable obligation amounted to $4,259,844 and $3,590,612 for the years ended December 31, 2013 and 2012, respectively. The District contributed $388,266 and $288,436 in age adjusted contributions for current retiree OPEB premiums for the years ended December 31, 2013 and 2012, respectively.

(10) Other Post Employment Benefits Payable, continued

Annual Cost, continued

The balance at December 31, consists of the following:		2013	2012
Annual OPEB expense:			
Annual required contribution (ARC)	$	1,044,272	944,455
Interest on net OPEB obligation		161,578	131,563
Adjustment to annual required contribution		(148,352)	(120,599)
Total annual OPEB expense		1,057,498	955,419
Change in net OPEB payable obligation:			
Age adjusted contributions made		(388,266)	(288,436)
Total change in net OPEB payable obligation		669,232	666,983
OPEB payable – beginning of year		3,590,612	2,923,629
OPEB payable – end of year	$	4,259,844	3,590,612

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended		Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation Payable
2013	$	1,057,498	388,266	36.72%	$	4,259,844
2012	$	955,419	288,436	30.19%	$	3,590,612
2011	$	917,495	202,839	22.11%	$	2,923,629

Funded Status and Funding Progress of the Plan

The most recent valuation (dated December 31, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $10,751,077. There are no plan assets because the District funds on a pay-as-you-go basis and maintains no reserves equal to the remaining net post-employment benefits payable obligation. The covered payroll (annual payroll of active employees covered by the plan) for the year ended December 31, 2013 was $6,874,411 The ratio of the unfunded actuarial accrued liability to annual covered payroll was 156.39% as of December 31, 2010.

See Page 39 for the Schedule of Funding Progress.

(10) Other Post Employment Benefits Payable, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	December 31, 2013
Actuarial cost method	Projected unit credit with linear proration to decrement
Amortization method	Level % of pay over 30 years based on an open group
Remaining amortization period	25 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	4.50%
Projected salary increase	3.25%
Inflation - discount rate	3.00% per year
Individual salary growth	District annual COLA

(11) Net Investment in Capital Assets

The balance at December 31, consists of the following:	2013	2012
Capital assets – not being depreciated	$ 7,565,152	7,819,032
Capital assets – being depreciated, net	54,560,235	54,315,025
Bonds payable	(15,180,000)	(16,935,000)
Bonds payable – discount, net	96,233	109,981
Capital lease payable	(87,522)	(164,235)
Loan payable – EDA loan	(125,969)	(153,747)
Net investment in capital assets	$ 46,828,129	44,991,056

(12) Restricted Net Position

The balance at December 31, consists of the following:	2013	2012
Restricted – cash and cash equivalents	$ 7,840,319	6,862,524
PG&E – debt service reimbursement advancement	(2,017,100)	(1,940,450)
Accrued interest payable	(420,838)	(456,332)
Loans payable – Improvement Districts	(2,016,968)	(2,204,958)
Total restricted net position	$ 3,385,413	2,260,784

(13) Designations of Unrestricted Net Position

The balance at December 31, consists of the following:		2013	2012
Non-spendable assets:			
Materials and supplies inventory	$	492,857	458,352
Prepaid expenses and other deposits		255,729	172,341
Investment in joint-powers authorities		22,487,075	22,695,403
Total non-spendable unrestricted net position		23,235,661	23,326,096
Undesignated net position		1,897,272	1,092,599
Add back – Long-term operational liabilities:			
Other post-employment benefits payable		4,259,844	3,590,612
Pension-related debt payable		1,066,669	1,171,197
Total long-term operational liabilities		5,326,513	4,761,809
Undesignated net position, before liabilities		7,223,785	5,854,408
Long-term operational liabilities		(5,326,513)	(4,761,809)
Total unrestricted net position	$	25,132,933	24,418,695

(14) Prior Period Adjustment

		2012	2011
Net position – end of year – as previously stated	$	72,933,833	70,762,746
Recognition of pension-related debt – CalPERS side-fund		(1,342,280)	(1,342,280)
Pension-related debt amortization		78,982	-
Net position – end of year – as restated	$	71,670,535	69,420,466

Pension-Related Debt – CalPERS Side-Fund

At December 31, 2011, the District's liability for the pension-related debt – CalPERS side-fund amounted to $1,342,280 and was recorded as a prior period adjustment and a liability on the District's accompanying financial statements. During 2012, the District paid-down $78,982 in debt principal. See Note 9 for a further explanation of this liability.

(15) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net assets.

(16) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

Tier I – Classic 2.7% @ 55 years

The contribution rate for plan members in the CalPERS 2.7% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for years 2013, 2012 and 2011 were as follows:

Time Period	2012	2011	2010
Jan. 1 - June 30	11.913%	11.004%	10.392%
July 1 - Dec. 31	12.385%	11.913%	11.004%

Tier II – Classic Pre-PEPRA 2.0% @ 60 years

The contribution rate for plan members in the CalPERS 2.0% at 60 Risk Pool Retirement Plan is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for years 2013, 2012 and 2011 were as follows:

Time Period	2013	2012	2011
Jan. 1 - June 30	8.049%	7.846%	7.733%
July 1 - Dec. 31	7.846%	7.733%	N/A

Tier III – PEPRA 2.0% @ 62 years

California Public Employees Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. District employees contribute 6.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer contribution rate (6.25%) and member contribution rate (6.25%) is a combined rate of 13.20% which will be in effect until June 30, 2015.

(16) Defined Benefit Pension Plan, continued

Contribution Rates

The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2013, 2012 and 2011, the District's annual contribution was equal to the District's required and actual contributions for each year as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	$ 1,041,012	100%	-
2012	1,040,398	100%	-
2011	1,674,351	100%	-

See Pages 38 and 39 for the Schedule of Funding Progress.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

Tier I – The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Average remaining amortization period	19 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of emplyment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of emplyment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

Tier II – The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Average remaining amortization period	7 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of emplyment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of emplyment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

(17) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At December 31, 2013, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability: The District has a zero deductible for general and auto liability. The District purchased additional excess coverage layers: $60 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud coverage's.
- Property loss is paid based on the replacement cost or actual cash value for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of $100 million per occurrence it is subject to a $2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Public officials' liability coverage up to $1 million for each occurrence subject to the policy term.
- Workers' compensation insurance provides coverage with a self-insured retention limit of $2 million for all work related injuries/illnesses covered by California law. The District has purchased an excess insurance policy for an additional $2 million to statutory limits.

In addition, the District in August 2013 continued a separate policy from ACWA/JPIA with underwriters at Lloyd's for commercial earthquake/business income interruption insurance. This insurance was purchased to safeguard the District in case of a major earthquake until disaster relief funds are made available by state and federal agencies. This policy has provisions as follows:

- The loss limit is $5,000,000 per occurrence and in the annual aggregate.
- Deductible is 20% of values per unit of insurance subject to $25,000 minimum per occurrence.
- Coverage for 2029 East Avenue Q location is $2,780,625 building limit and $378,000 contents, including $6,000,000 business income.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending December 31, 2013, 2012 and 2011. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of December 31, 2013, 2012 and 2011.

(18) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to December 31, 2013, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations.* The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Guarantees.* Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

(19) Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction.

Other Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. Nevertheless, after consultation with legal counsel, the District believes that these actions, when finally concluded and determined are not likely to have a material adverse effect on the District's financial position, results of operations, or cash flows.

Putah Creek

The District, in prior years, was involved in litigation known as ***Putah Creek Council v. Solano Irrigation District, et al.,*** Sacramento County Superior Court Case No. 515766. This matter was coordinated with the matter of ***Solano Irrigation District, et al. v. All Interested Appropriative Water Rights Holders in Upper Basin, et al.,*** Solano County Superior Court Case No. 108552. The Trial Court rendered judgment in favor of requiring additional amounts of water to be released down the Putah Creek and awarded substantial amounts of attorneys' fees, approximately $2,000,000, against the Solano interests including the District. A settlement was then entered into under which Agreement of the participants the amounts of attorney fees ordered will finally be payable by the Solano Water Agency, which the District landowners contribute to through taxes and water charges.

The Settlement Agreement terms permit the lawsuit's reopening under certain conditions. Substantial reduction in water yields in the Solano Project will be encountered due to the settlement and substantial costs of enforcement and compliance of the Settlement Agreement terms. The District receives in excess of 70% of its water from the Solano Project and therefore would suffer a loss of revenues and its landowners will be less able to financially support the District. This may have a potential detrimental financial impact to the District and the significance and the possibility of a reopening most likely would relate to a claim that further amounts of water should be released for flooding areas for fish habitat, thus further reducing reliable future water yields to the District and others.

Taxing Authority

Proposition 13, Proposition 4, and now Proposition 218 each provide limitations upon the use of funds acquired from property-related assessments, shares of property tax and limitations upon charges and rates for service or the like for the operation and maintenance and rehabilitation of the District's facilities. At the time the Solano Project was built, which facilities provide water service with the District, it was anticipated that substantial rehabilitation would be required from year 30 to year 50, and it is now in the latter portion of that period of time. The availability of funds to provide for that rehabilitation is essential to the continued financial viability of the District. Court decisions regarding Proposition 13 limits, voter-approved initiatives such as Proposition 218 relating to standby charges, property tax, levies and benefit assessments regarding powers to charge the District occur from time to time, resulting in new legal interpretations and principles applicable as a result of these voter initiatives. These Court decisions often alter or constrain the ability of the District to obtain the funds necessary to rehabilitate or operate the water distribution system and may require that monies be reimbursed. As a result, the District is unable at this time to assure that it will have the funds necessary to provide for operation, reconstruction and rehabilitation of these aging facilities which are deteriorating rapidly. Rehabilitation and reconstruction of aging water conveyance, storage, measurement and operation facilities are essential for the continued viability of the District.

(19) Commitments and Contingencies

City of Dixon and the Dixon-Solano Water Authority

The District performs work and management services for certain activities of the Solano Project, the Dixon area domestic water service system and the Suisun area domestic water system. A substantial portion of the work force of the District is utilized in these endeavors. The arrangements are generally terminable upon election by either party. If any of those operations should be terminated and the work was contracted with third parties or performed directly by the systems or operators, a substantial disruption of the work force and economies of scale of the District might occur. The likelihood of such a termination in the case of the City of Dixon is imminent. In prior years, the Dixon City Council Members had not approved an increase in water rates to cover ongoing operating costs and to replenish reserves. A deficit in collections and payments resulted in substantial amounts being owed to the District in the Spring of 2012. This deficit has since been cured and the Dixon City Council Members have approved an increase in water rates which eliminated the deficit and is allowing a slow rebuilding of reserves. Until reserves are placed in a status to be available to meet emergencies, a public health risk could be possible.

The City of Dixon on a number of recent occasions has voted and reaffirmed through various means their intention to terminate the Joint-Powers Authority (Dixon-Solano Water Authority) and to take over the operation and maintenance of the water system serving a substantial portion of Dixon. This will occur in August 2014 or, with possible delays, shortly thereafter. There is no provision for payment of severance or reorganization costs to the District, and therefore a substantial amount of the personnel, equipment and District organization presently paid for by and through this contract will no longer be needed. There may also be substantial financial impacts to the District from the need to reorganize its operations.

The City of Dixon's takeover of the operation and maintenance of the water system could give rise to substantial dislocations to the customers of that system and expenses due to lack of experience and expertise. The District will have some financial costs in explaining to former customers that the District is not abandoning them and is attempting to cooperate with Dixon in the transition. It is also anticipated that issues may arise in regard to whether the reserves established by the Joint-Powers Authority may be utilized by Dixon for normal operation and maintenance costs or its costs of organizing a new water department. There could be significant financial impacts to the District should these issues arise and require resolution by arbitration. The Department of Public Health must release the District and its personnel, and to accomplish that, the Department must be convinced that the successors are well-qualified and organized.

(20) Subsequent Events

Events occurring after December 31, 2013, have been evaluated for possible adjustment to the financial statements or disclosure as of May 31, 2014, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

Solano Irrigation District
Schedule of Funding Progress
For the Years Ended December 31, 2013 and 2012

(1) Defined Benefit Pension Plan

Tier I

Development of the Actuarial Value of Assets Calculation in a Risk Pool				
The District is part of the CalPERS Miscellaneous 2.7% at 55 yrs. Risk Pool		June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	$	39,630,432	41,718,357	-
2. Plan's side fund		(1,378,167)	(1,306,394)	-
3. Pool's accrued liability		2,486,708,579	2,680,181,441	-
4. Pool's side fund		(160,864,546)	(128,673,283)	-
5. Pool's actuarial value of assets (AVA) including receivables		1,981,073,089	2,178,799,790	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]		32,581,949	34,508,836	-
7. Pool's market value of assets (MVA) including receivables		1,786,913,296	1,849,406,219	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]		29,388,678	29,291,749	-

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date		Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Market Value of Assets (MVA) (c)	Funded Ratio AVA (b/a)	Funded Ratio MVA (c/a)		Annual Covered Payroll
June 30, 2011	$	39,630,432	32,581,949	29,388,678	82.21%	74.16%	$	5,751,812
June 30, 2012		41,718,357	34,508,836	29,291,749	82.72%	70.21%		4,654,001
June 30, 2013	*	-	-	-	0.00%	0.00%		-

* CalPERS has not provided the information for this period as of the date of the audit report.

Tier II

Development of the Actuarial Value of Assets Calculation in a Risk Pool				
The District is part of the CalPERS Miscellaneous 2.0% at 60 yrs. Risk Pool		June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	$	50,385	137,860	-
2. Plan's side fund		-	-	-
3. Pool's accrued liability		522,463,102	736,231,913	-
4. Pool's side fund		3,012,224	2,948,645	-
5. Pool's actuarial value of assets (AVA) including receivables		499,528,127	701,224,211	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]		48,123	130,781	-
7. Pool's market value of assets (MVA) including receivables		473,587,421	589,970,009	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]		42,143	110,032	-

Solano Irrigation District
Schedule of Funding Progress
For the Years Ended December 31, 2013 and 2012

(1) Defined Benefit Pension Plan, continued

Tier II, continued

Actuarial Valuation Date		Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Market Value of Assets (MVA) (c)	Funded Ratio AVA (b/a)	Funded Ratio MVA (c/a)		Annual Covered Payroll
June 30, 2011	$	50,385	48,123	42,143	95.51%	83.64%	$	5,751,812
June 30, 2012		137,860	130,781	110,032	94.87%	79.81%		4,654,001
June 30, 2013	*	-	-	-	0.00%	0.00%		-

* CalPERS has not provided the information for this period as of the date of the audit report.

(2) Other Post-Employment Benefits Payable

Schedule of Funding Progress

Actuarial Valuation Date		Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2013	$	-	10,751,077	10,751,077	0.00%	$	6,874,611	156.39%
12/31/2012	$	-	10,450,463	10,450,463	0.00%	$	6,671,727	156.64%
12/31/2011	$	-	10,050,852	10,050,852	0.00%	$	6,461,721	155.54%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in 2016 based on the year ending December 31, 2015.

Report on Internal Controls and Compliance

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Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

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

Board of Directors
Solano Irrigation District
Vacaville, California

We have audited, 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, the financial statements of the Solano Irrigation District (District), which comprise the statement of net position as of December 31, 2013, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Internal Control Over Financial Reporting

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

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

Purpose of this Report

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

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
May 31, 2014