



Solano Irrigation District
Annual Financial Report
December 31, 2014 and 2013



**Solano Irrigation District
Board of Directors as of December 31, 2014**

<u>Name</u>	<u>Division</u>	<u>Title</u>
John D. Kluge	1	Vice President
Bob Bishop	2	Director
Glen A. Grant	3	President
Guido E. Colla	4	Director
Michael German	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

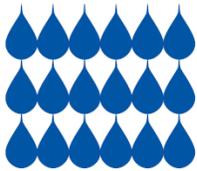
For the Years Ended December 31, 2014 and 2013

Solano Irrigation District
Annual Financial Report
For the Years Ended December 31, 2014 and 2013

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Financial Section	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Statements of Net Position	8-9
Statements of Revenues, Expenses and Changes in Net Position	10-11
Statements of Cash Flows	12-13
Notes to the Basic Financial Statements	14-39
Required Supplementary Information Section	
Schedule of Funding Progress	40-42
Report on Internal Controls and Compliance	
Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on the Audits of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43-44

Financial Section



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

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, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Solano Irrigation District as of December 31, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

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 40 through 42 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 audits 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 April 10, 2015, 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 43 and 44.

Charles Z. Fedak and Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
Cypress, California
April 10, 2015

Solano Irrigation District
Management's Discussion and Analysis
For the Years Ended December 31, 2014 and 2013

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, 2014 and 2013. 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 2014, the District's net position decreased 8.52% or \$6,420,025 from \$75,346,475 to \$68,926,450. In 2013, the District's net position increased 5.13% or \$3,675,940 from \$71,670,535 to \$75,346,475.
- The District's 2014 operating revenues increased 0.81% or \$106,842 due primarily to a \$289,421 increase in water service revenues. The District's 2013 operating revenues increased 11.11% or \$1,321,576 due primarily to a \$1,164,765 increase in water service revenues.
- The District's 2014 non-operating revenues increased 3.24% or \$248,277 due primarily to a \$208,775 increase in debt service reimbursement from PG&E. 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 2014 total expenses increased 55.40% or \$9,861,853 due primarily to a \$9,573,744 change in the investment in joint-powers authorities caused by a one-time non-cash write off of accumulated assets related to the Dixon-Solano Water Authority. See page 22 for further discussion. 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 Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements 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 Statements of Net Position include 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. They also provide 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 and prior years' revenue and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the District's operations over the past years and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. These statements can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows, which provide information about the District's cash receipts and cash payments during the reporting periods. The Statements of Cash Flows report cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provide 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.

Solano Irrigation District
Management's Discussion and Analysis
For the Years Ended December 31, 2014 and 2013

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 Statements of Net Position and the Statements 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 14 through 39.

Statements of Net Position

Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets:			
Current assets	\$ 19,305,632	17,400,053	1,905,579
Non-current assets	14,017,489	24,535,941	(10,518,452)
Capital assets, net	<u>62,295,771</u>	<u>62,125,387</u>	<u>170,384</u>
Total assets	<u>95,618,892</u>	<u>104,061,381</u>	<u>(8,442,489)</u>
Liabilities:			
Current liabilities	6,031,284	6,204,791	(173,507)
Non-current liabilities	<u>20,661,158</u>	<u>22,510,115</u>	<u>(1,848,957)</u>
Total liabilities	<u>26,692,442</u>	<u>28,714,906</u>	<u>(2,022,464)</u>
Net position:			
Net investment in capital assets	48,947,343	46,828,129	2,119,214
Restricted	4,773,184	3,385,413	1,387,771
Unrestricted	<u>15,205,923</u>	<u>25,132,933</u>	<u>(9,927,010)</u>
Total net position	<u>\$ 68,926,450</u>	<u>75,346,475</u>	<u>(6,420,025)</u>

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 \$68,926,450 and \$75,346,475 as of December 31, 2014 and 2013, respectively.

Solano Irrigation District
Management's Discussion and Analysis
For the Years Ended December 31, 2014 and 2013

A portion of the District's net position, 71% and 62% as of December 31, 2014 and 2013, 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 years 2014 and 2013, the District showed a positive balance in its unrestricted net position of \$15,205,923 and \$25,132,933, respectively.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 13,326,769	13,219,927	106,842
Non-operating revenues	7,916,513	7,668,236	248,277
Total revenues	<u>21,243,282</u>	<u>20,888,163</u>	<u>355,119</u>
Expenses:			
Operating expenses	14,293,928	14,323,504	(29,576)
Depreciation expense	2,603,622	2,554,051	49,571
Non-operating expenses	10,765,757	923,899	9,841,858
Total expenses	<u>27,663,307</u>	<u>17,801,454</u>	<u>9,861,853</u>
Net income before capital contributions	(6,420,025)	3,086,709	(9,506,734)
Capital contributions	<u>-</u>	<u>589,231</u>	<u>(589,231)</u>
Change in net position	(6,420,025)	3,675,940	(10,095,965)
Net position, beginning of year	<u>75,346,475</u>	<u>71,670,535</u>	<u>3,675,940</u>
Net position, end of year	<u>\$ 68,926,450</u>	<u>75,346,475</u>	<u>(6,420,025)</u>

The statements of revenues, expenses and changes in net position show how the District's net position changed during the years. In the case of the District, net position decreased by \$6,420,025 for the year ended December 31, 2014, and increased by \$3,675,940 for the year ended December 31, 2013.

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

The District's 2014 operating revenues increased 0.81% or \$106,842 due primarily to a \$289,421 increase in water service revenues. The District's 2013 operating revenues increased 11.11% or \$1,321,576 due primarily to a \$1,164,765 increase in water service revenues.

The District's 2014 non-operating revenues increased 3.24% or \$248,277 due primarily to a \$208,775 increase in debt service reimbursement from PG&E. 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 2014 total expenses increased 55.40% or \$9,861,853 due primarily to a \$9,573,744 change in the investment in joint-powers authorities caused by a one-time non-cash write off of accumulated assets related to the Dixon-Solano Water Authority. See page 22 for further discussion. 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.

Solano Irrigation District
Management's Discussion and Analysis
For the Years Ended December 31, 2014 and 2013

Capital Asset Administration

At the end of years 2014 and 2013, the District's investment in capital assets amounted to \$62,295,771 and \$62,125,387 (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. See Note 6 for further discussion.

Changes in capital asset amounts for 2014 were as follows:

	Balance 2013	Additions	Transfers/ Deletions	Balance 2014
Capital assets:				
Non-depreciable assets	\$ 7,565,152	2,423,953	(3,445,598)	6,543,507
Depreciable assets	103,450,111	4,660,751	(960,748)	107,150,114
Accumulated depreciation	<u>(48,889,876)</u>	<u>(2,603,622)</u>	<u>95,648</u>	<u>(51,397,850)</u>
Total capital assets, net	<u>\$ 62,125,387</u>	<u>4,481,082</u>	<u>(4,310,698)</u>	<u>62,295,771</u>

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	<u>(47,188,898)</u>	<u>(2,554,051)</u>	<u>853,073</u>	<u>(48,889,876)</u>
Total capital assets, net	<u>\$ 62,134,057</u>	<u>2,998,832</u>	<u>(3,007,502)</u>	<u>62,125,387</u>

Solano Irrigation District
Management's Discussion and Analysis
For the Years Ended December 31, 2014 and 2013

Debt Administration

In 2014, long-term debt decreased by \$2,044,576, due primarily to regular principal payments on the District's outstanding debts. In 2013, long-term debt decreased by \$2,033,733, due to regular principal payments on the District's outstanding debts. See Note 8 for further discussion.

Changes in long-term debt amounts for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions/ Deletions</u>	<u>Principal Payments</u>	<u>Balance 2014</u>
Long-term debt:				
Bonds payable	\$ 15,083,767	13,748	(1,850,000)	13,247,515
Capital lease payable	87,522	-	(83,411)	4,111
Loans payable	<u>2,142,937</u>	<u>-</u>	<u>(124,913)</u>	<u>2,018,024</u>
Total long-term debt	<u>\$ 17,314,226</u>	<u>13,748</u>	<u>(2,058,324)</u>	<u>15,269,650</u>

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

	<u>Balance 2012</u>	<u>Additions/ Deletions</u>	<u>Principal Payments</u>	<u>Balance 2013</u>
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	<u>2,358,705</u>	<u>-</u>	<u>(215,768)</u>	<u>2,142,937</u>
Total long-term debt	<u>\$ 19,347,959</u>	<u>13,748</u>	<u>(2,047,481)</u>	<u>17,314,226</u>

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.

< Page Intentionally Left Blank >

Basic Financial Statements

Solano Irrigation District
Statements of Net Position
December 31, 2014 and 2013

	2014	2013
Current assets:		
Cash and cash equivalents (note 2)	\$ 7,472,655	7,189,964
Restricted – cash and cash equivalents (note 2)	9,180,421	7,840,319
Accrued interest receivable	6,887	6,058
Accounts receivable – water sales and services	140,024	207,217
Accounts receivable – other	530,872	678,435
Contracts receivable – current portion (note 3)	346,850	333,510
Debt service contracts receivable (note 4)	197,152	192,378
Due from other government agencies	547,493	395,964
Materials and supplies inventory	560,942	492,857
Prepaid expenses and other deposits	322,336	255,729
	19,305,632	17,592,431
Non-current assets:		
Contracts receivable – non-current portion (note 3)	231,901	578,751
Debt service contracts receivable (note 4)	1,080,585	1,277,737
Investment in joint-powers authorities (note 5)	12,705,003	22,487,075
Capital assets – not being depreciated (note 6)	6,543,507	7,565,152
Capital assets – being depreciated, net (note 6)	55,752,264	54,560,235
	76,313,260	86,468,950
Total assets	\$ 95,618,892	104,061,381

Continued on next page

See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Net Position
December 31, 2014 and 2013

	2014	2013
Current liabilities:		
Accounts payable and accrued expenses	\$ 258,461	329,879
Accrued payroll and employee benefits	138,439	440,409
PG&E – debt service reimbursement advancement	2,100,250	2,017,100
Deposits for work-orders	474,944	336,862
Unearned revenue	29,688	70,538
Accrued interest payable	385,765	420,838
Long-term liabilities – due in one year:		
Compensated absences (note 7)	377,496	426,285
Bonds payable (note 8)	1,945,000	1,850,000
Capital lease payable (note 8)	4,111	83,411
Loans payable (note 8)	198,991	124,941
Pension-related debt payable (note 9)	118,139	104,528
	6,031,284	6,204,791
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 7)	408,953	461,808
Unearned debt service contracts (note 4)	1,275,469	1,465,920
Bonds payable (note 8)	11,385,000	13,330,000
Bonds payable – discount, net (note 8)	(82,485)	(96,233)
Capital lease payable (note 8)	-	4,111
Loans payable (note 8)	1,819,033	2,017,996
Other post-employment benefits payable (note 10)	4,906,658	4,259,844
Pension-related debt payable (note 9)	948,530	1,066,669
	20,661,158	22,510,115
Total liabilities	26,692,442	28,714,906
Net position:		
Net investment in capital assets (note 11)	48,947,343	46,828,129
Restricted (note 12)	4,773,184	3,385,413
Unrestricted (note 13)	15,205,923	25,132,933
Total net position	\$ 68,926,450	75,346,475

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, 2014 and 2013

	2014	2013
Operating revenues:		
Water sales and service charges:		
Agriculture water sales	\$ 3,864,194	3,639,015
Municipal, industrial and other water sales	722,904	757,276
City water transfers	708,785	673,812
Standby charges	1,061,398	1,052,356
Capital replacement charge	259,402	198,634
Other water service charges	39,666	45,835
Total water service charges	6,656,349	6,366,928
Contracted reimbursement revenue:		
Suisun-Solano Water Authority	2,695,608	2,620,386
Suisun Valley Water System	83,267	114,720
Dixon-Solano Water Authority	429,517	614,621
Rural North Vacaville Water District	131,464	-
U.S. Bureau of Reclamation	508,876	465,249
Putah South Canal	1,275,124	1,214,372
Monticello Power Plant	721,610	1,298,721
Grants	114,212	108,748
Work completed for others	710,742	416,182
Total contracted reimbursement revenue	6,670,420	6,852,999
Total operating revenues	13,326,769	13,219,927
Operating expenses:		
Salaries and wages	6,325,360	6,079,198
Employee benefits	2,473,708	2,651,870
Materials and services	5,494,860	5,592,436
Total operating expenses	14,293,928	14,323,504
Operating loss before depreciation expense	(967,159)	(1,103,577)
Depreciation expense	(2,603,622)	(2,554,051)
Operating loss	\$ (3,570,781)	(3,657,628)

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, 2014 and 2013

	2014	2013
Non-operating revenue(expense):		
Property taxes – ad valorum	\$ 1,045,742	1,156,606
PG&E – debt service reimbursement	2,982,350	2,773,575
Rehabilitation and betterment assessment	2,620,212	2,449,824
Other special assessments	486,654	515,905
Power plant revenue	389,810	431,212
Investment earnings	97,450	111,585
Change in investment in joint-powers authorities (note 5)	(9,782,072)	(208,328)
Interest expense – long-term debt	(864,616)	(909,837)
County administrative fees	(42,174)	(14,062)
ACWA-JPIA insurance refunds	-	101,615
Gain from sale of capital assets	218,997	261,250
Improvement districts – contract delinquency charge	-	21,856
Detachment, easement/title and annexation fees	75,298	24,683
Other non-operating revenues	(76,895)	28,453
	Total non-operating revenues, net	6,744,337
	Net income before capital contributions	3,086,709
Capital contributions:		
USBR federal capital grants	-	258,500
FEMA reimbursement – 2005 flood damage	-	278,047
Cal EMA reimbursement – 2005 flood damage	-	52,684
	Total capital contributions	589,231
	Change in net position	3,675,940
Net position, beginning of year	75,346,475	71,670,535
Net position, end of year	\$ 68,926,450	75,346,475

See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 6,820,774	6,459,577
Cash receipts from contracted reimbursement services	6,518,891	7,113,756
Cash receipts from others	535,776	720,123
Cash paid to vendors and suppliers for materials and services	(5,743,144)	(8,076,428)
Cash paid to employees for salaries and wages	(8,660,396)	(5,755,466)
Net cash provided by (used in) operating activities	(528,099)	461,562
Cash flows from non-capital financing activities:		
Proceeds from property taxes – ad valorem	1,045,742	1,156,606
Proceeds from rehabilitation and betterment assessment	2,620,212	2,449,824
Proceeds from other special assessments	486,654	515,905
Net cash provided by non-capital financing activities	4,152,608	4,122,335
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,784,057)	(2,755,858)
Proceeds from capital contributions	-	589,231
Proceeds from the sale of capital assets	229,048	261,250
PG&E – debt service reimbursement	3,065,500	2,874,582
Proceeds from contracts and debt service contracts receivable	335,437	532,766
Principal paid on long-term debt	(2,044,576)	(2,047,481)
Interest paid on long-term debt	(899,689)	(931,583)
Net cash used in capital and related financing activities	(2,098,337)	(1,477,093)
Cash flows from investing activities:		
Interest and investment earnings	96,621	110,498
Net cash provided by investing activities	96,621	110,498
Net increase in cash and cash equivalents	1,622,793	3,217,302
Cash and cash equivalents, beginning of year	15,030,283	11,812,981
Cash and cash equivalents, end of year	\$ 16,653,076	15,030,283
Reconciliation of cash and cash equivalents to statements of net position:	2014	2013
Cash and cash equivalents	\$ 7,472,655	7,189,964
Restricted – cash and cash equivalents	9,180,421	7,840,319
Total cash and cash equivalents	\$ 16,653,076	15,030,283

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, 2014 and 2013

	2014	2013
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ <u>(3,570,781)</u>	<u>(3,657,628)</u>
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Deprecation expense	2,603,622	2,554,051
Power plant revenue	389,810	431,212
County administrative fees	(42,174)	(14,062)
ACWA-JPIA insurance refunds	-	101,615
Improvement districts – contract delinquency charge	-	21,856
Detachment, easement/title and annexation fees	75,298	24,683
Other non-operating revenues	(76,895)	28,453
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services, net	67,193	92,649
Accounts receivable – other	(3,966)	260,757
Materials and supplies inventory	(68,085)	(34,505)
Prepaid expenses and other deposits	(66,607)	(83,388)
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	(71,418)	(151,179)
Accrued payroll and employee benefits	(301,970)	98,041
Deposits for work-orders	138,082	41,766
Unearned revenue	(40,850)	70,538
Compensated absences	(101,644)	99,572
Other post employment benefits payable	646,814	669,232
Pension-related debt payable	<u>(104,528)</u>	<u>(92,101)</u>
Total adjustments	<u>3,042,682</u>	<u>4,119,190</u>
Net cash provided (used in) by operating activities	\$ <u><u>(528,099)</u></u>	<u><u>461,562</u></u>

See accompanying notes to the basic financial statements

Solano Irrigation District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2014 and 2013

(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 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(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. Material and supply items are charged to expense at the time the items are consumed.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(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 statements 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. Unearned Revenue

Unearned revenues consist of customer and developer deposits held at year-end.

10. 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.

11. 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 are 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 components of net position.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(2) Cash and Investments

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

	2014	2013
Cash and cash equivalents	\$ 7,472,655	7,189,964
Restricted – cash and cash equivalents	9,180,421	7,840,319
Total cash and investments	\$ 16,653,076	15,030,283

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

	2014	2013
Cash on hand	\$ 550	550
Deposits with financial institutions	2,539,046	1,660,690
Investments	14,113,481	13,369,043
Total cash and investments	\$ 16,653,077	15,030,283

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. Treasury Money-Market Fund	N/A	None	None	10%
Certificates of Deposit	5 years	IUQCI* of 85	None	\$100,000
U.S. Treasury 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, 2014 and 2013, the balance with the fiscal agent had been invested in the First American Treasury Obligation Class D Money Market Fund.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(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. As of December 31, 2014 and 2013, bank balances are federally insured up to \$250,000. 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:

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(2) Cash and Investments, continued

Interest Rate Risk, continued

Investment maturities as of December 31, 2014, were as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
Local Agency Investment Fund (LAIF)	\$ 11,595,311	11,595,311	-	-
First American Treasury obligation	2,518,170	2,518,170	-	-
Total	\$ 14,113,481	14,113,481	-	-

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

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
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	-	-

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, 2014, were as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of year-end</u>	
			<u>Moody's Aaa</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 11,595,311	N/A	\$ -	11,096,211
First American Treasury obligation	2,518,170	Aaa	2,272,832	-
Total	\$ 14,113,481		\$ 2,272,832	11,096,211

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

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of year-end</u>	
			<u>Moody's Aaa</u>	<u>Not Rated</u>
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

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.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(3) Contracts Receivable

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.

The balance at December 31, consists of the following:

	<u>2013</u>	<u>Additions</u>	<u>Payment Received</u>	<u>2014</u>
City of Fairfield – Reclaimed water				
Contract receivable	\$ 912,261	-	(333,510)	578,751
Less: current portion	(333,510)			(346,850)
Total non-current	<u>\$ 578,751</u>			<u>231,901</u>

(4) Debt Service Contracts Receivable

The balance at December 31, consists of the following:

	<u>2013</u>	<u>Additions</u>	<u>Payment Received</u>	<u>2014</u>
Elmira Improvement District	\$ 4,195	-	(1,927)	2,268
Peabody Improvement District	212,286	-	(21,461)	190,825
Blue Ridge Oaks Improvement District	501,208	-	(50,697)	450,511
Gibson Canyon Improvement District	752,426	-	(118,293)	634,133
Debt service contracts receivable	\$ 1,470,115	-	(192,378)	1,277,737
	<u>(192,378)</u>			<u>(197,152)</u>
	<u>\$ 1,277,737</u>			<u>1,080,585</u>

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, 2014 and 2013, the outstanding balances of the charge were \$2,268 and \$4,195, respectively.

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, 2014 and 2013, the outstanding balances of the charge were \$190,825 and \$212,286, respectively.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(4) Debt Service Contracts Receivable, continued

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, 2014 and 2013, the outstanding balances of the charge were \$450,511 and \$501,208, respectively.

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, 2014 and 2013, the outstanding balances of the charge were \$634,133 and \$752,426, respectively.

(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:

	2014	2013
Suisun-Solano Water Authority	\$ 12,650,755	12,551,221
Dixon-Solano Water Authority	-	9,873,881
Solano Water Authority	54,248	61,973
Note receivable – property taxes from state	\$ 12,705,003	22,487,075

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 their 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. Under the terms of the agreement, the District is responsible for the operation and maintenance of all water facilities. The City of Suisun City is responsible for all of the billing of water service and the collection and investment of all monies.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(5) Investment in Joint-Powers Authorities, continued

Suisun-Solano Water Authority, continued

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 Boulevard, Suisun City, CA 94585.

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 of Dixon 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.

Provisions of the agreement call for all assets to revert to the City of Dixon at the effective date. On August 9, 2012, the City of Dixon enacted a provision in their contract terminating their Joint Powers Agreement with the District. The action dissolved 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.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(6) Capital Assets

Changes in capital assets for 2014, were as follows:

	<u>Balance 2013</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land and land rights	\$ 3,619,706	-	-	3,619,706
Construction-in-process	3,945,446	2,423,953	(3,445,598)	2,923,801
Total non-depreciable assets	<u>7,565,152</u>	<u>2,423,953</u>	<u>(3,445,598)</u>	<u>6,543,507</u>
Depreciable assets:				
Water distribution plant	63,849,458	4,093,856	-	67,943,314
Monticello power plant	15,527,224	-	-	15,527,224
Water treatment plant	5,314,206	206,791	(855,049)	4,665,948
Buildings and structures	12,862,167	-	-	12,862,167
Machinery and equipment	5,897,056	360,104	(105,699)	6,151,461
Total depreciable assets	<u>103,450,111</u>	<u>4,660,751</u>	<u>(960,748)</u>	<u>107,150,114</u>
Accumulated depreciation:				
Water distribution plant	(31,489,847)	(1,367,862)	-	(32,857,709)
Monticello power plant	(9,161,829)	(310,554)	-	(9,472,383)
Water treatment plant	(2,629,497)	(69,258)	-	(2,698,755)
Buildings and structures	(1,119,065)	(328,956)	-	(1,448,021)
Machinery and equipment	(4,489,638)	(526,992)	95,648	(4,920,982)
Total accumulated depreciation	<u>(48,889,876)</u>	<u>(2,603,622)</u>	<u>95,648</u>	<u>(51,397,850)</u>
Total depreciable assets, net	<u>54,560,235</u>	<u>2,057,129</u>	<u>(865,100)</u>	<u>55,752,264</u>
Total capital assets, net	<u>\$ 62,125,387</u>	<u>4,481,082</u>	<u>(4,310,698)</u>	<u>62,295,771</u>

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(6) Capital Assets, continued

Changes in capital assets for 2013, were as follows:

	<u>Balance 2012</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
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	<u>7,819,032</u>	<u>2,543,145</u>	<u>(2,797,025)</u>	<u>7,565,152</u>
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	<u>101,503,923</u>	<u>3,009,738</u>	<u>(1,063,550)</u>	<u>103,450,111</u>
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	<u>(47,188,898)</u>	<u>(2,554,051)</u>	<u>853,073</u>	<u>(48,889,876)</u>
Total depreciable assets, net	<u>54,315,025</u>	<u>455,687</u>	<u>(210,477)</u>	<u>54,560,235</u>
Total capital assets, net	<u>\$ 62,134,057</u>	<u>2,998,832</u>	<u>(3,007,502)</u>	<u>62,125,387</u>

(7) Compensated Absences

Changes in compensated absences for 2014, were as follows:

	<u>Balance 2013</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2014</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$	<u>888,093</u>	<u>643,164</u>	<u>(744,808)</u>	<u>786,449</u>	<u>377,496</u>	<u>408,953</u>

Changes in compensated absences for 2013, were as follows:

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

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(8) Long-term Debt

Changes in long-term debt amounts for 2014, were as follows:

	<u>Balance 2013</u>	<u>Additions/ Deletions</u>	<u>Principal Payments</u>	<u>Balance 2014</u>
Long-term debt:				
<i>Bonds payable:</i>				
2006 – Revenue refunding bonds – MPP	\$ 15,180,000	-	(1,850,000)	13,330,000
Less: Unamortized bond discount	(96,233)	13,748	-	(82,485)
<i>Total bonds payable</i>	<u>15,083,767</u>	<u>13,748</u>	<u>(1,850,000)</u>	<u>13,247,515</u>
<i>Capital lease payable:</i>				
Capital lease payable	87,522	-	(83,411)	4,111
<i>Loans payable:</i>				
1988 Economic Development Administration	125,969	-	(29,167)	96,802
2000 DWR – Gibson Canyon Improv. District	1,184,442	-	(52,959)	1,131,483
2004 DWR – Elmira Improvement District	13,013	-	(13,013)	-
2004 DWR – Blue Ridge Improvement District	566,786	-	(20,592)	546,194
2004 DWR – Peabody Improvement District	252,727	-	(9,182)	243,545
<i>Total loans payable</i>	<u>2,142,937</u>	<u>-</u>	<u>(124,913)</u>	<u>2,018,024</u>
Total long-term debt	17,314,226	13,748	(2,058,324)	15,269,650
Less: current portion	(2,058,352)			(2,148,102)
Total non-current portion	<u>\$ 15,255,874</u>			<u>13,121,548</u>

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

	<u>Balance 2012</u>	<u>Additions/ Deletions</u>	<u>Principal Payments</u>	<u>Balance 2013</u>
Long-term debt:				
<i>Bonds payable:</i>				
2006 – Revenue refunding bonds – MPP	\$ 16,935,000	-	(1,755,000)	15,180,000
Less: Unamortized bond discount	(109,981)	13,748	-	(96,233)
<i>Total bonds payable</i>	<u>16,825,019</u>	<u>13,748</u>	<u>(1,755,000)</u>	<u>15,083,767</u>
<i>Capital lease payable:</i>				
Capital lease payable	164,235	-	(76,713)	87,522
<i>Loans payable:</i>				
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
<i>Total loans payable</i>	<u>2,358,705</u>	<u>-</u>	<u>(215,768)</u>	<u>2,142,937</u>
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	<u>\$ 17,300,479</u>			<u>15,255,874</u>

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	\$ 13,330,000	<u>2,290,937</u>	<u>15,620,937</u>
Less: current	<u>(1,945,000)</u>		
Total non-current	\$ <u>11,385,000</u>		

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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,111	29	4,140
Total	\$ 4,111	<u>29</u>	<u>4,140</u>
Less: current	<u>(4,111)</u>		
Total non-current	\$ <u>-</u>		

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(8) Long-Term Debt, continued

1988 Economic Development Administration Loan

In December 1988, the District entered into an agreement 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 30,625	4,810	35,435
2016	32,187	3,278	35,465
2017	33,990	1,533	35,523
Total	\$ 96,802	<u>9,621</u>	<u>106,423</u>
Less: current	<u>(30,625)</u>		
Total non-current	\$ <u>66,177</u>		

2000 Department of Water Resources Gibson Canyon Improvement District Loan

In June 2000, the District entered into a contract to borrow funds from the Department of Water Resources. The loan totals \$2,127,300, bearing an interest rate of 2.32%, with a 20 year term. The funds were used to finance the construction of a project to improve water quality. 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	118,185	47,833	666,985
2020-2024	566,901	765	66,699
Total	\$ 1,131,483	<u>135,789</u>	<u>1,267,272</u>
Less: current	<u>(107,768)</u>		
Total non-current	\$ <u>1,023,715</u>		

2004 Department of Water Resources Elmira Improvement District Loan

In January 2004, the District entered into a contract to borrow funds from the Department of Water Resources. The loan totaled \$416,325 bearing an interest rate of 3.46%, with a ten year term. The funds were used to finance construction of a project to improve water quality. Principal payments are due annually on January 1st and interest payments are due semi-annually on January 1st and July 1st. On January 1, 2014, the loan was paid in full.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(8) Long-Term Debt, continued

2004 Department of Water Resources Blue Ridge Improvement District Loan

In January 2004, the District entered into a contract to borrow funds from the Department of Water Resources. The loan totaled \$866,000 bearing an interest rate of 2.34%, with a twenty year term. The funds were used to finance the construction of a project to improve water quality. 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	45,998	8,449	54,447
2020-2024	246,746	25,492	272,238
2025-2026	79,797	1,874	81,671
Total	\$ 546,194	79,952	626,146
Less: current	(41,910)		
Total non-current	\$ 504,284		

2004 Department of Water Resources Peabody Improvement District Loan

In January 2004, the District entered into a contract to borrow funds from the Department of Water Resources. The loan totaled \$386,000 bearing an interest rate of 23.4%, with a term of twenty years. The funds were used to finance construction of a project to improve water quality. 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	20,510	3,768	24,278
2020-2024	110,023	11,367	121,390
2025-2026	35,581	836	36,417
Total	\$ 243,545	35,652	279,197
Less: current	(18,688)		
Total non-current	\$ 224,857		

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(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 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 a 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 118,139	72,964	191,103
2016	132,944	63,892	196,836
2017	149,037	53,704	202,741
2018	166,521	42,302	208,823
2019	185,506	29,582	215,088
2020-2021	314,524	19,424	221,540
Total	\$ 1,066,669	281,867	1,236,129
Less: current	(118,139)		
Total non-current	\$ 948,530		

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(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 benefit 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 of 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 14.85% for 2014 and 15.19% for 2013 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, 2014 and 2013, the District's ARC cost was \$1,054,049 and \$1,044,272, respectively. The District's net OPEB payable obligation amounted to \$4,906,658 and \$4,259,844 for the years ended December 31, 2014 and 2013, respectively. The District contributed \$423,210 and \$388,266 in age adjusted contributions for current retiree OPEB premiums for the years ended December 31, 2014 and 2013, respectively.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(10) Other Post Employment Benefits Payable, continued

Annual Cost, continued

The balance at December 31, consists of the following:

	2014	2013
Annual OPEB expense:		
Annual required contribution (ARC)	\$ 1,054,049	1,044,272
Interest on net OPEB obligation	191,693	161,578
Adjustment to annual required contribution	(175,718)	(148,352)
Total annual OPEB expense	1,070,024	1,057,498
Change in net OPEB payable obligation:		
Age adjusted contributions made	(423,210)	(388,266)
Total change in net OPEB payable obligation	646,814	669,232
OPEB payable – beginning of year	4,259,844	3,590,612
OPEB payable – end of year	\$ 4,906,658	4,259,844

The District’s annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and the two preceding years are as follows:

<i>Three-Year History of Net OPEB Obligation</i>					
Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable	
2014	\$ 1,070,024	423,210	39.55%	\$ 4,906,658	
2013	1,057,498	388,266	36.72%	4,259,844	
2012	955,419	288,436	30.19%	3,590,612	

Funded Status and Funding Progress of the Plan

The most recent valuation (dated December 31, 2014) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$12,902,104. 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, 2014 was \$7,098,036. The ratio of the unfunded actuarial accrued liability to annual covered payroll was 181.77% as of December 31, 2014.

See Page 40 for the Schedule of Funding Progress.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(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, 2014
Actuarial cost method	Projected unit credit with linear proration to decrement
Amortization method	Level % of pay over 30 years based on an open group
Actuarial assumptions:	
Investment rate of return	4.50%
Inflation - discount rate	3.00% per year
Individual salary growth	District annual COLA
Health Care Trend Rates	Annual trend rates by benefit are as shown below:

<u>FYE</u>	<u>Medical / Rx</u>	
	<u>Pre-65</u>	<u>Post-65</u>
2015	8.50%	8.25%
2016	8.00%	7.75%
2017	7.50%	7.25%
2018	7.00%	6.75%
2019	6.50%	6.25%
2020	6.00%	7.75%
2021	5.50%	5.25%
2022+	5.00%	5.00%

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(11) Net Investment in Capital Assets

The balance at December 31, consists of the following:

	<u>2014</u>	<u>2013</u>
Capital assets – not being depreciated	\$ 6,543,507	7,565,152
Capital assets – being depreciated, net	55,752,264	54,560,235
Bonds payable	(13,330,000)	(15,180,000)
Bonds payable – discount, net	82,485	96,233
Capital lease payable	(4,111)	(87,522)
Loan payable – EDA loan	(96,802)	(125,969)
Net investment in capital assets	<u>\$ 48,947,343</u>	<u>46,828,129</u>

(12) Restricted Net Position

The balance at December 31, consists of the following:

	<u>2014</u>	<u>2013</u>
Restricted – cash and cash equivalents	\$ 9,180,421	7,840,319
PG&E – debt service reimbursement advancement	(2,100,250)	(2,017,100)
Accrued interest payable	(385,765)	(420,838)
Loans payable – Improvement Districts	(1,921,222)	(2,016,968)
Total restricted net position	<u>\$ 4,773,184</u>	<u>3,385,413</u>

(13) Designations of Unrestricted Net Position

The balance at December 31, consists of the following:

	<u>2014</u>	<u>2013</u>
Non-spendable assets:		
Materials and supplies inventory	\$ 560,942	492,857
Prepaid expenses and other deposits	322,336	255,729
Investment in joint-powers authorities	12,705,003	22,487,075
Total non-spendable unrestricted net position	<u>13,588,281</u>	<u>23,235,661</u>
Undesignated net position(deficit)	<u>1,617,642</u>	<u>1,897,272</u>
Add back – Long-term operational liabilities:		
Other post-employment benefits payable	4,906,658	4,259,844
Pension-related debt payable	948,530	1,066,669
Undesignated net position(deficit), before liabilities	<u>5,855,188</u>	<u>5,326,513</u>
Undesignated net position, before liabilities	<u>7,472,830</u>	<u>7,223,785</u>
Long-term operational liabilities	(5,855,188)	(5,326,513)
Total unrestricted net position	<u>\$ 15,205,923</u>	<u>25,132,933</u>

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(14) 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 statements of net position.

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 from their executive office at 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 2014, 2013 and 2012 are as follows:

<u>Time Period</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Jan. 1 - June 30	17.972%	17.211%	11.913%
July 1 - Dec. 31	19.788%	17.972%	17.211%

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 2014, 2013 and 2012 are as follows:

<u>Time Period</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Jan. 1 - June 30	8.049%	7.846%	7.733%
July 1 - Dec. 31	8.005%	8.049%	7.846%

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(15) Defined Benefit Pension Plan

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.

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 2014, 2013 and 2012, the District's annual contribution was equal to the District's required and actual contributions for each year as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2014	\$ 1,007,247	100%	-
2013	1,041,012	100%	-
2012	1,040,398	100%	-

See Pages 40 through 42 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.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(15) Defined Benefit Pension Plan, continued

Actuarial Methods and Assumptions, continued

Tier I / Tier II / Tier III - The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Asset valuation method	Mark value
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 employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

(16) 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, 2014, 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 computer fraud coverages.
- 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 \$500 deductible per occurrence for vehicles and \$1,000 deductible per occurrence for other covered properties.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- 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.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(16) Risk Management, continued

In addition, in August 2013, the District 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 the followings provisions:

- The loss limit is \$1,000,000 per occurrence and in the annual aggregate.
- Deductible is 5% of values per unit of insurance subject to \$75,000 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 ended December 31, 2014, 2013 and 2012. 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, 2014, 2013 and 2012.

(17) 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. 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 provisions of Statement 71 are required to be applied simultaneously with the provisions of Statement No. 68. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(18) 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.

Solano Irrigation District
Notes to the Basic Financial Statements, continued
For the Years Ended December 31, 2014 and 2013

(18) Commitments and Contingencies, continued

Taxing Authority, continued

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) Subsequent Events

Events occurring after December 31, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of April 10, 2015, 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.

< Page Intentionally Left Blank >

Required Supplementary Information

Solano Irrigation District
Schedule of Funding Progress
For the Years Ended December 31, 2014 and 2013

(1) Defined Benefit Pension Plan – Classic 2.7% @ 55 years

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, 2012	June 30, 2013	June 30, 2014
1. Plan's accrued liability	\$ 41,718,357	43,186,961	-
2. Plan's side fund	(1,306,394)	1,220,202	-
3. Pool's accrued liability	2,680,181,441	2,858,732,321	-
4. Pool's side fund	(128,673,283)	110,416,422	-
5. Pool's actuarial value of assets (AVA) including receivables	2,178,799,790	N/A	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	34,508,836	N/A	-
7. Pool's market value of assets (MVA) including receivables	1,849,406,219	N/A	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	29,291,749	32,192,607	-

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)	Market Value of Assets (MVA) (b)	Plan's Share of Pool's Unfunded Liability (a) - (b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2012	\$ 41,718,357	29,291,749	12,426,608	70.21%	\$ 4,654,001
June 30, 2013	43,186,961	32,192,607	10,994,354	74.54%	4,704,939
June 30, 2014	*	-	-	0.00%	-

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

(2) Defined Benefit Pension Plan – Classic Pre-PEPRA 2.0% @ 55 years

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, 2012	June 30, 2013	June 30, 2014
1. Plan's accrued liability	\$ 137,860	267,446	-
2. Plan's side fund	-	-	-
3. Pool's accrued liability	736,231,913	798,282,602	-
4. Pool's side fund	2,948,645	(13,568,129)	-
5. Pool's actuarial value of assets (AVA) including receivables	701,224,211	N/A	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	130,781	N/A	-
7. Pool's market value of assets (MVA) including receivables	589,970,009	N/A	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	110,032	225,499	-

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.

Solano Irrigation District
Schedule of Funding Progress
For the Years Ended December 31, 2014 and 2013

(2) Defined Benefit Pension Plan – Classic Pre-PEPRA 2.0% @ 55 years, continued

Funding History, continued

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Market Value of Assets (MVA) (b)	Market Value of Assets (MVA) (a) - (b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2012	\$ 137,860	110,032	27,828	79.81%	\$ 699,415
June 30, 2013	267,446	225,499	41,947	84.32%	844,597
June 30, 2014	*	-	-	0.00%	-

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

(3) PEPRA 2.0% @ 62 years

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, 2012	June 30, 2013	June 30, 2014
1. Plan's accrued liability	\$ N/A	326	-
2. Plan's side fund	N/A	-	-
3. Pool's accrued liability	N/A	1,063,294	-
4. Pool's side fund	N/A	-	-
5. Pool's actuarial value of assets (AVA) including receivables	N/A	N/A	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	N/A	N/A	-
7. Pool's market value of assets (MVA) including receivables	N/A	N/A	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	N/A	32,192,607	-

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 Value of Plan Assets (a)	Market Value of Assets (MVA) (b)	Market Value of Assets (MVA) (a) - (b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2012	\$ N/A	N/A	N/A	N/A	\$ N/A
June 30, 2013	326	437	(111)	134.05%	57,907
June 30, 2014	-	-	-	0.00%	-

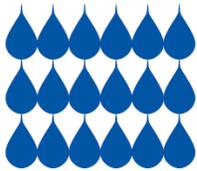
Solano Irrigation District
Schedule of Funding Progress
For the Years Ended December 31, 2014 and 2013

(4) 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)
12/31/2014	\$ -	12,902,104	12,902,104	0.00%	\$ 7,098,036	181.77%
12/31/2013	-	12,690,488	12,690,488	0.00%	6,874,611	184.60%
12/31/2012	-	10,450,463	10,450,463	0.00%	6,671,727	156.64%

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



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on the Audits 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 statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years 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 audits, 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 audits 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, contract and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 the Audits 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 CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
April 10, 2015