SOLANO IRRIGATION DISTRICT

BASIC FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010

PREPARED BY THE
ADMINISTRATIVE SERVICES DEPARTMENT

This Page Left Intentionally Blank

SOLANO IRRIGATION DISTRICT
BASIC FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

Table of Contents

This Page Left Intentionally Blank

MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Solano Irrigation District
Vacaville, California

We have audited the accompanying basic financial statements of the business-type activities and major fund of the Solano Irrigation District, as of December 31, 2011 and 2010 for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects, the financial position of the Solano Irrigation District at December 31, 2011 and 2010 the changes in financial position and cash flows, thereof for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

As discussed in Note 1J to the financial statements, the District changed accounting principles from expensing inventory to capitalizing inventory. The balance of the inventory at December 31, 2011 is $621,073.

In accordance with Government Auditing Standards, we have also issued our report dated May 11, 2012 on our consideration of the Solano Irrigation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 this information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.. 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.

Maze + Associates

May 11, 2012

Solano Irrigation District

Management's Discussion and Analysis

For The Year Ended December 31, 2011

Management's discussion and analysis of the Solano Irrigation District's (the "District") financial performance provides an overview of the District's activities as well as its financial condition for the year ending December 31, 2011.

Financial Highlights

Assets

- The District is in a positive position with assets exceeding liabilities by $70.8 million at the end of 2011.

Capital Assets

- The District's investment in net capital assets represents 56.4%, or $39.9 million, of the total net assets. Investments in capital assets, net of related debt increased by 14.9%. The primary reason for the increase was the completion of the planned office and warehouse facilities.

Liabilities

- Total liabilities at year end 2011 were, $2.6 million less than at year end 2010. Debt payable was reduced by $1.4 million; with other current liabilities, primarily related to the planned construction of the office and warehouse facilities decreasing by $1.5 million.

Overview of Financial Statements

Background – Governmental Accounting Standards

The financial statements presented herein include all of the activities of the District using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB 34). The financial statements prescribed by GASB 34 (the statement of Net Assets, Statement of Revenues and Expenses, Changes in Net Assets, and The statement of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under an accrual basis of accounting, whereby revenues and expenses are recognized when others provide the service, regardless of when cash is exchanged.

Government-wide Financial Statements

The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are an indication of the overall position of the District's financial health. In the aggregate, over the past five years, net assets have increased.

The Statement of Revenues, Expenses and Changes in Net Assets present the revenues earned and expenses incurred during the fiscal year as either operating or non-operating. The utilization of capital assets is reflected as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows present information related to cash inflows and outflows summarized as operating, non-capital financing, capital financing, and investing activities.

Notes to the Financial Statements

The notes provide additional information that is essential to understanding the financial statements. The notes can be found on pages 13 through 28.

Government-Wide Financial Statements

Net assets serve, over time, as a useful indicator of an organization's financial position. The District is in a positive position with assets exceeding liabilities by $70.8 million at the end of the 2011 fiscal year.

Solano Irrigation District
Net Assets
For the years ended December 31,
(in thousands)

	2011	2010	% Increase (Decrease)
Current and other assets	$38,539	$49,176	-21.6%
Capital assets, net	60,980	57,205	6.6%
Total Assets	$99,519	$106,381	-6.5%
Current liabilities	$4,286	$5,607	-23.6%
Long-term liabilities	24,470	25,758	-5.0%
Total Liabilities	$28,756	$31,365	-8.3%
Net Assets:			
Investment in capital assets, net of related debt	$39,925	$34,723	15.0%
Restricted	4,917	6,838	-28.1%
Unrestricted	25,921	33,456	-22.5%
Total Net Assets	$70,763	$75,017	-5.7%

A portion of the District's net assets, $39.9 million, or 56.4%, reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt still outstanding used to finance those assets. The District uses these capital assets to provide services to citizens and consumers.

Investment in capital assets increased by 14.9% as of year-end 2011 compared to 2010, primarily due to the planned construction of the office and warehouse, which were placed into use in 2011.

An additional portion of the District's net assets, $4.9 million, or 6.9%, represents resources that are subject to restrictions on how they may be used. The restricted net assets consist of funds to provide for future debt service, operations and maintenance expenses, and joint equity agreements.

The unrestricted net assets are used to finance the District's daily operations and maintenance as well as to meet its obligations to consumers and creditors. The District's unrestricted net assets decreased by $7.5 million, or 22.5% during the 2011 fiscal year. The primary reasons for the decrease are: (1) that in 2011 unrestricted net assets of approximately $5.5 million were invested in capital assets, primarily related to the planned construction of the office and warehouse; (2) net assets were used to fund increasing pension costs, and preparation of assets for sale of approximately $1.4; and (3) the balance of the increased use of unrestricted net assets was to pay for general operating expense increases.

The District, as part of Governmental Accounting Standards Board (GASB) Statement Number 45, is required to report on other post employment benefits (OPEB). This includes reporting on the present liability to continue to provide for future health benefits for its retirees and to recognize an annual expense. Presently, the District reports the expense on a pay as you go basis. In 2011, the District's annual actual premiums paid totaled $202,839.

A second component of GASB 45 requires the District to report on its obligation to be able to provide for the cost of the other post employment benefits. The result is recognition of an additional $714,656 liability reported as part of the long term liabilities, for a cumulative, presently unfunded, post employment benefit obligation of $2.9 million on the Statement of Net Assets.

Solano Irrigation District
Changes in Net Assets
For the years ended December 31,
(in thousands)

	2011	2010	Percent (+) Increase (-) Decrease
Revenues:			
Property taxes	$4,546	$4,567	-0.5%
Water sales	3,455	3,182	8.6%
Service revenue	2,180	2,156	1.1%
Power plant revenue	2,738	5,546	-50.6%
Investment earnings	182	265	-31.3%
Other	1,192	1,062	12.2%
Total Revenues	14,293	16,778	-14.8%
Expenses:			
Operating	12,808	11,433	12.0%
Interest on long-term debt	1,155	1,978	-41.6%
Bond refunding costs and amortization	578	578	0.0%
Depreciation	2,396	2,187	9.6%
Other	1,610	413	289.8%
Total Expenses	18,547	16,589	11.8%
(Decrease) increase in net assets	(4,254)	189	-2150.8%
Net assets, beginning of period	75,017	74,828	0.3%
Net assets, end of period	$70,763	$75,017	-5.7%

Comparing Revenues at Year-End December 31, 2011 to Revenues at Year-End December 31, 2010

Total revenues decreased by $2.5 million, or 14.8%. Water sales increased by $273,000, or 8.6%, due in part to an overall 4.0% water rate increase and greater than anticipated agricultural water sales. Power Plant revenues decreased by $2.8 million, or 50.6%, due to the timing of the receipt of cash from PG&E to make the January principal payment on the Monticello Power Project 2006 and 1986 Refunding Hydroelectric bonds. (See note 6 – Long-Term Debt in accompanying notes to basic financial statement) In 2010 the funds were received and recorded as revenue in December 2010; whereas; in 2011 the funds were received and recorded as revenue in January 2012. Investment earnings decreased by $83,000, or 31.3%, due the continued low interest rates, and a reduction in principal for investment. Cash was used to construct the office and warehouse. Other revenues increased by $130,000, or 12.2%. Other revenues include miscellaneous revenues and Joint Power and Partner System income. Other revenue, for the year 2011, included a one-time refund of $900,000 related to the pay-off of the agricultural water system, and a decrease in Joint Power and Partner Systems of $870,000. Joint Power and Partner Systems deceased due to revenues falling short of expense in the Dixon-Solano Water Authority Joint Power Authority. Dixon-Solano Water Authority is in the process of considering raising water rates to fully fund operating expenses.

Comparing Expenses at Year-End December 31, 2011 to Expenses at Year-End December 31, 2010

Total expenses increased by $2.0 million, or 11.8%. Operating expenses increased by $1.4 million, or 12.0%, primarily due to costs incurred to demolish the prior Solano Irrigation District headquarters to prepare the land for resale, increased pension funding costs as a result of the continued volatility in the investment markets, and an overall 2.3% cost of living increase in staff wages. Interest, on long-term debt, decreased by $823,000, or 41.6%, due to the declining principal balance due on the 1986 Refunding Hydroelectric bonds. Depreciation expense increased by $209,000, or 9.6%, as a result of placing the new office and warehouse into use in March 2011. Other expenses increased by $1.2 million, as a result of the non-cash loss of demolition of the former office and warehouse facilities.

Capital Assets and Debt Administration

Capital Assets

The District's capital assets, net of accumulated depreciation of $45.1 million, as of December 31, 2011, total $61.0 million. This investment in capital assets includes land and improvements, buildings and improvements, machinery and equipment, construction in progress and current year infrastructure additions.

Capital assets, before depreciation, increased by $4.2 million, or 4.1%. Capital asset additions included the office and warehouse, and water system assets, reduced by the loss on demolition of the former office and warehouse.

Debt Administration

At the end of fiscal year 2011, the District had $21.1 million in debt outstanding compared to $22.5 million in 2010, or a 6.2% decrease.

Solano Irrigation District
Outstanding Obligations
For the years ended December 31,
(in thousands)

	2011	2010
Monticello power project refunding hydroelectric revenue bonds	$18,257	$19,709
Economic Development Administration loan	180	205
Department of Water Resources loan - Elmira Improvement District (ID)	63	87
Department of Water Resources loan - Gibson Canyon ID	1,390	1,490
Department of Water Resources loan - Blue Ridge Oaks ID	647	685
Department of Water Resources loan - Peabody ID	288	306
Capital Lease, copiers	229	0
	$21,054	$22,482

The District has met all required debt service payments and is maintaining required reserves. The hydroelectric revenue bonds are paid by PG&E as part of their contract with the District. The Economic Development Administration loan is paid with assessments against the value of land within District boundaries. Each of the Department of Water Resources loans are paid with funds assessed on the property with the respective Improvement District. The capital lease is paid from the general revenues of the District. Additional information on the District's long-term debt obligations can be found on pages 21 through 23 of the notes accompanying basic financial statements.

Economic Factors and Next Year's Budget and Rates

On January 17, 2012, the Board adopted the 2012 Operating Budget. The adopted 2012 Operating Budget required $182,000 from General Fund Cash Reserves to balance the budget. As of April 30, 2012, it is expected that an approximately $416,000 additional General Fund Cash Reserves may be required to balance the 2012 Operating results. Adequate unrestricted and self-restricted funds are available to balance the 2012 operating results.

As planned, the District presently, and is expected to end 2012 with less General Fund Cash Reserves than policy recommends.

On February 21, 2012, the Board also approved the 2012 through 2016 Capital Improvement Plan budget. The Capital Improvement Plan budget is currently not fully funded for years 2012 through 2015.

On July 20, 2010, the Board adopted the Financial Plan Update, and Water Rate Study and thus rate increases of 4 percent per year for the next three years, which commenced in August 2010 and concluding in January 2012. The water rate increases were adopted with the intention to offset inflationary cost increases necessary to fund operations and maintenance.

Presently, the District has a contract to update the Financial Plan and will then consider proposing rate increases for 2013 and forward.

Requests For Information

This financial report is designed to provide our citizens, taxpayers, creditors and government regulators with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Below is the contact address for questions about this report or requests for additional financial information:

Solano Irrigation District
810 Vaca Valley Parkway, Suite 201
Vacaville, CA 95688-8709
(707) 448-6847

SOLANO IRRIGATION DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2011
WITH COMPARATIVE AMOUNTS FOR DECEMBER 31, 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	$4,335,149	$11,111,177
Restricted cash and cash equivalents (Note 2)	4,916,643	6,837,448
Receivables	1,323,459	1,381,519
Prepaid expenses	73,761	184,902
Inventory	621,073	541,842
Current portion of long-term loans receivable (Note 3)	575,628	575,861
Current portion of unamortized bonds costs	63,547	576,646
Total current assets	11,909,260	21,209,395
NON-CURRENT ASSETS		
Non-current portion of long-term loans receivable (Note 3)	2,855,323	3,463,498
Equity in joint powers (Note 4)	23,302,719	23,967,758
Unamortized bond costs	469,678	533,225
Loan fees - Net	1,987	2,978
Total other assets	26,629,707	27,967,459
Capital Assets (Note 5):		
Non-depreciable	7,613,527	12,357,393
Depreciable	98,477,147	89,518,877
Less accumulated depreciation	(45,110,994)	(44,671,022)
Capital assets, net of accumulated depreciation	60,979,680	57,205,248
Total noncurrent assets	87,609,387	85,172,707
TOTAL ASSETS	99,518,647	106,382,102

(Continued)

See accompanying notes to financial statements

SOLANO IRRIGATION DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2011
WITH COMPARATIVE AMOUNTS FOR DECEMBER 31, 2010

	2011	2010
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$803,251	$1,374,346
Accrued liabilities	292,834	310,281
Compensated absences, current portion (Note 11)	443,236	444,965
Accrued interest	523,387	584,534
Deposits payable	330,610	1,205,246
Current portion of long-term debt (Note 6)	1,892,493	1,687,937
Total current liabilities	4,285,811	5,607,309
NONCURRENT LIABILITIES		
Compensated absences, noncurrent portion (Note 11)	409,380	416,814
Deferred revenue	1,975,213	2,258,694
Suisun Valley Fund Reserves		79,717
Other Post Employment Benefits Obligation (Note 9)	2,923,629	2,208,973
Noncurrent portion of long-term debt (Note 6)	19,161,868	20,793,885
Total noncurrent liabilities	24,470,090	25,758,083
Total liabilities	28,755,901	31,365,392
NET ASSETS (Note 7)		
Invested in capital assets, net of related debt	39,925,319	34,723,426
Restricted for debt service	4,916,643	6,837,448
Unrestricted	25,920,784	33,455,836
TOTAL NET ASSETS	$70,762,746	$75,016,710

See accompanying notes to financial statements

SOLANO IRRIGATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011	2010
OPERATING REVENUES		
Water service charges	$3,454,823	$3,182,350
Service revenue	2,179,818	2,155,944
Total operating revenues	5,634,641	5,338,294
OPERATING EXPENSES		
General and administrative	7,671,007	6,231,805
Other Post Employment Benefits (Note 9)	714,656	767,820
Agricultural systems	2,023,764	2,085,925
Municipal and industrial systems	1,044,201	1,019,722
Public water systems	349,473	375,795
Non-public water systems	433,950	419,724
Reimbursable systems	569,259	320,602
Rehabilitation and betterment		202,224
Interest - operating	1,154,901	1,978,149
Bad debt expense	1,044	9,121
Depreciation (Note 5)	2,085,413	1,876,732
Total operating expenses	16,047,668	15,287,619
OPERATING INCOME (LOSS)	(10,413,027)	(9,949,325)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	4,546,238	4,567,107
MPP Power revenue	2,737,544	5,545,719
Interest	182,114	265,265
Other income	1,037,224	36,772
Loss on disposal	(1,488,466)	(324,329)
Joint Power and Partner System	154,998	1,024,791
Bond refunding costs and amortization (Note 6)	(577,637)	(577,637)
Depreciation - Monticello power plant (Note 5)	(310,544)	(310,544)
Grant expenses	(122,408)	(88,960)
Total nonoperating revenues (expenses)	6,159,063	10,138,184
Changes in net assets	(4,253,964)	188,859
NET ASSETS, BEGINNING OF YEAR, (AS RESTATED Note 1 J)	75,016,710	74,827,851
NET ASSETS, END OF YEAR	$70,762,746	$75,016,710

See accompanying notes to financial statements

SOLANO IRRIGATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$3,149,685	$3,499,166
Receipts from services	2,179,818	2,155,944
Payments to employees	(7,251,816)	(6,485,921)
Payments to suppliers	(6,721,558)	(6,389,890)
Net Cash Provided by (Used for) Operating Activities	(8,643,871)	(7,220,701)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax assessments	4,546,238	4,567,107
Net Cash Provided by Noncapital Financing Activities	4,546,238	4,567,107
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Collection of long-term receivables	608,175	436,791
Acquisition and retirement of property, plant and equipment (net)	(2,553,124)	(3,623,654)
MPP Depreciation and grant expenses	(432,952)	(399,504)
Principal payment of capital debt	(1,673,444)	(1,545,996)
Interest payment	(1,729,147)	(2,732,078)
Change in restricted cash for debt service	(1,920,805)	332,493
Borrowing under capital lease	245,983	
Net Cash Provided by (Used for) Capital and Related Financing Activities	(7,455,314)	(7,531,948)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	182,114	265,265
Sale of power	2,737,544	5,545,719
Other receipts	1,037,224	36,772
Joint Power and Partner System	820,037	1,485,343
Net Cash Flows from Investing Activities	4,776,919	7,333,099
NET INCREASE IN CASH AND CASH EQUIVALENTS	(6,776,028)	(2,852,443)
Cash and cash equivalents at beginning of year	11,111,177	13,963,620
Cash and cash equivalents at end of year	$4,335,149	$11,111,177
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	($10,413,027)	($11,188,460)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	2,085,413	1,876,732
Change in assets and liabilities:		
Receivables	58,060	476,939
Prepaid expenses	111,141	(42,642)
Inventory	(79,231)	
Accounts payable	(571,095)	366,809
Other Post Employment Benefits	714,656	
Deposits	(874,636)	604,059
Accrued expenses	697,209	845,564
Compensated absences	(9,163)	421
Deferred revenue and reserves	(363,198)	(160,123)
Net cash provided by (used for) operating activities	($8,643,871)	($7,220,701)

See accompanying notes to financial statements

This Page Left Intentionally Blank

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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.

B. Basis of Presentation

The District's Basic Financial Statements are prepared in conformity with United States generally accepted accounting principles. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

C. Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

D. Budgets and Budgetary Accounting

Solano Irrigation District adopts an operations and maintenance budget at the beginning of each year for the following fiscal year. Capital budgets are adopted on a project basis. Formal budgetary integration is employed as a management control device.

E. Use of Estimates

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include all cash and temporary investments with original maturities of three months or less from the date of acquisition.

G. Accounts Receivable

Management believes that accounts receivable are fully collectible and that no allowance for uncollectible accounts is needed.

H. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

I. Inventory

Inventories consist of operational materials and supplies, which are valued using the weighted average costing method.

J. Change in Application of Accounting Principle and Restatement

During the current fiscal year, the District changed accounting principles from expensing inventory at year end to capitalizing inventory as a current asset. Therefore prior year inventory balance and expense was restated by $541,842.

In addition, the District overstated accrued interest and interest expense in the amount of $697,293 on their Monticello Power Project 1986 Hydroelectric Refunding Bonds.

As a result beginning balance fund balance was increased by $1,239,135.

NOTE 2 – CASH AND INVESTMENTS

A. Classification

Cash and investments are classified in the financial statements as shown below at December 31, based on whether or not their use is restricted under the terms of District debt instruments.

	2011	2010
Cash and cash equivalents	$4,335,149	$11,111,177
Restricted cash and cash equivalents	4,916,643	6,837,448
Total cash and investments	$9,251,792	$17,948,625

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. Investments

Under the provisions of District's investment policy, and in accordance with California Government code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Investment Fund	Upon Demand	N/A	None	$50 million
Interest Bearing Checking Account	N/A	N/A	None	100%
United States Treasury Money Market Fund	N/A	N/A	None	10%
Certificates of Deposit	5 years	IUQCI* of 85	None	$100,000
U.S. Treasury Bills and Notes	5 years	N/A	None	100%
U.S. Government and Agency Securities	5 years	N/A	None	100%
Bankers' Acceptances	180 days	Moody's A	40%	30%
Commercial Paper	270 days	Moody's A	15%	10%
Repurchase Agreements	30 days	N/A	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

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity is of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At December 31, 2011 these investments matured in an average of 256 days.

Under the terms of the indentures of trust issued pursuant to the 1986 and 2006 Monticello Power Project Refunding Hydroelectric Revenue Bonds (see Note 6), 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, 2011, the balance with the fiscal agent amounted to $275,184, which had been invested in the First American Treasury Obligation Class D Money Market Fund. As of December 31, 2011, this money market fund was rated Aaa by Moody's and had an average maturity of 50 days.

NOTE 2 – CASH AND INVESTMENTS (Continued)

D. Credit Risk

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 the California Government Code, the District's investment policy, or debt agreements and the actual rating as of December 31 for each investment type:

Investment Type	2011	2010
Aaa:		
First American Treasury Obligation	$275,184	$2,114,717
Not Rated:		
Local Agency Investment Fund	5,539,125	14,462,889
Cash in banks	3,436,933	1,370,519
Petty cash	550	500
Total Cash and Investments	$9,251,792	$17,948,625

E. Reserve Funds

The Board of Directors has set up the following reserves which are all held in the Local Agency Investment Fund (LAIF).

	2011	2010
Cash Flow Reserve		$1,135,012
Operating Reserve	$314,441	5,825,066
LAFCO Operation and Maintenance Reserve	781,358	1,152,079
LAFCO Capital Reserve		1,696,268
Rehabilitation and Betterment	3,956,353	3,056,309
Rolling Stock Sinking Fund	296,999	375,947
Suisun Valley Fund Reserve		79,717
Water Supply Augmentation Reserve	1,512,491	1,142,491
	$6,861,642	$14,462,889

NOTE 3 – LOANS RECEIVABLE

A. Composition and Changes

Loans receivable, including related deferred revenue, comprised balances from the following agreements at December 31, all of which are discussed below:

	2011	2010
City of Fairfield – Reclaimed Water	$1,541,291	$1,837,780
Gibson Canyon Improvement District	981,027	1,201,883
Blue Ridge Oaks Improvement District	599,151	646,449
Peabody Improvement District	253,748	273,771
Elmira Improvement District	55,734	79,476
Total Long-Term Loans Receivable	$3,430,951	$4,039,359
Current Portion of Long-Term Loans Receivable	$575,628	$575,861

B. Description of the District's Long Term Loans Receivable

City of Fairfield Reclaimed Water – On October 1, 2002, the District, City of Fairfield and the Fairfield-Suisun Sewer District entered into an agreement known as "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. The balance at December 31, 2011 was $1,541,291.

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 program 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, 2011 the outstanding balance of the charges was $981,027.

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, 2011 the outstanding balance of the charges was $599,151.

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, 2011 the outstanding balance of the charges was $253,748.

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 20 year period at 3.46% interest rate. As of December 31, 2011 the outstanding balance of the charges was $55,734.

NOTE 4 – 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 District has recorded its interest in the joint powers under the equity method of accounting whereby, the District's equity in the joint powers is equal to the original cost of assets contributed plus its pro rata share of the net assets of the joint powers.

A. Suisun – Solano Water Authority

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

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

Audited financial statements are available from the City of Suisun City at 701 Civic Center Blvd, Suisun City, CA, 94585.

B. Dixon – Solano Municipal Water Service

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

Audited financial statements are available from the City of Dixon at 600 East A Street, Dixon, CA 95620.

NOTE 4 – INVESTMENT IN JOINT POWERS AUTHORITIES (Continued)

C. 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.

NOTE 5 – CAPITAL ASSETS

Property, plant, equipment and infrastructure are recorded at historical cost or estimated historical cost if purchased or constructed with an initial, individual cost greater than $5,000 with an estimated useful life in excess of one year.

Donated capital assets and assets constructed by developers are recorded at estimated fair market value at the date of donation.

The District capitalizes as part of the asset cost, any significant interest incurred during the construction phase of the asset. All assets are capitalized.

Depreciation is provided using the straight-line method for assets other than land. Estimated useful lives are as follows:

Assets	Years
Water distribution system	25-40
Buildings	10-40
Equipment	4-20
Monticello power plant	50
Water treatment plant	40

NOTE 5 – CAPITAL ASSETS (Continued)

Changes in property, plant and equipment accounts are summarized below:

	Balance at December 31, 2010	Additions & Transfers	Retirements & Transfers	Balance at December 31, 2011
Capital assets not being depreciated:				
Land	$3,619,706			$3,619,706
Construction in Progress	8,737,687	$8,126,000	($12,869,866)	3,993,821
Total capital assets not being depreciated	12,357,393	8,126,000	(12,869,866)	7,613,527
Capital assets being depreciated:				
Water Distribution Plant (pledged)	57,673,966	3,755,126		61,429,092
Buildings	8,129,080	6,989,138	(2,262,482)	12,855,736
Equipment	6,206,637	1,828,612	(1,352,124)	6,683,125
Monticello Power Plant	15,527,224			15,527,224
Water Treatment Plant	1,981,970			1,981,970
Total capital assets being depreciated:	89,518,877	12,572,876	(3,614,606)	98,477,147
Less accumulated depreciation for:				
Water Distribution Plant (pledged)	(30,152,057)	(1,168,031)		(31,320,088)
Buildings	(969,827)	(299,304)	789,523	(479,608)
Equipment	(4,873,985)	(568,529)	1,166,462	(4,276,052)
Monticello Power Plant	(8,229,212)	(310,544)		(8,539,756)
Water Treatment Plant	(445,941)	(49,549)		(495,490)
Total accumulated depreciation	(44,671,022)	(2,395,957)	1,955,985	(45,110,994)
Net capital assets being depreciated, net	44,847,855	10,176,919	(1,658,621)	53,366,153
Total business-type capital assets, net	$57,205,248	$18,302,919	($14,528,487)	$60,979,680

NOTE 6 – LONG-TERM DEBT

A. *Composition and Changes*

The District generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance December 31, 2010	Additions	Retirements	Balance December 31, 2011	Amount due within one year
Refunding Bonds						
Monticello Power Project 2006 Refunding Hydroelectric Revenue Bonds 5.04-5.47%, due 1/1/2020	$19,015,000	$17,640,000		$340,000	$17,300,000	$365,000
Less unamortized bond discount		(137,477)		(13,748)	(123,729)	
Monticello Power Project 1986 Refunding Hydroelectric Revenue Bonds 9.15-9.25%, due 1/1/2012	29,500,000	2,395,000		1,145,000	1,250,000	1,250,000
Less unamortized bond discount		(188,455)		(18,845)	(169,610)	
Loans Payable						
Economic Development Administration 5%, due 2017	613,100	205,396		25,195	180,201	23,045
Department of Water Resources Elmira Improvement District 3.46%, due 4/1/2014	416,325	86,610		23,722	62,888	24,498
Department of Water Resources Gibson Canyon Improvement District 2.32%, due 1/1/2024	2,127,300	1,489,686		99,409	1,390,277	101,729
Department of Water Resources Blue Ridge Improvement District 2.34%, due 2025	866,000	685,430		38,633	646,797	39,542
Department of Water Resources Peabody Improvement District 2.34%, due 2025	386,000	305,632		17,226	288,406	17,632
Capital Lease						
CIT Copier Lease, 7%, due 2014	245,983		$245,983	16,852	229,131	71,047
Total Long-Term Debt, net		$22,481,822	$245,983	$1,673,444	$21,054,361	$1,892,493

B. *Description of the District's Long Term-Debt Issues*

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. The total principal and interest remaining to be paid on the bonds is $22,150,386. The Refunding Revenue Bond's principal and interest paid for the current year and total revenues received from PG&E were $1,280,542 and $1,280,542 respectively.

NOTE 8 – RETIREMENT PLAN

A. CALPERS Miscellaneous Employees Plans

Substantially all District employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS). An agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous Employee Plan. Benefit provisions under both Plans are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions are determined annually on an actuarial basis as of June 30 by CALPERS; the District must contribute these amounts. The District's labor contracts require it to pay the employee's contributions as well as its own. The Plans' provisions and benefits in effect at December 31, 2011, are summarized as follows:

	Miscellaneous
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	
Tier 1	50
Tier 2	60
Monthly benefits, as a % of annual salary	
Tier 1	2.0%-2.7%
Tier 2	1.1%-2.4%
Required employee contribution rate	
Tier 1	8%
Tier 2	7%
Required employer contribution rates	
Tier 1	16.861%
Tier 2	9.664%

CALPERS determines contribution requirements using a modification of the Entry Age Actuarial Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The District uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation rate at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

NOTE 8 – RETIREMENT PLAN (Continued)

As required by State law, effective July 1, 2005, the District's Miscellaneous Plan was terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the District true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The District satisfied its Miscellaneous Plan Tier 1's unfunded liability of $177,631 agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 9 years.

CALPERS' latest available actuarial value (which differs from market value) and funding progress are set forth below at their actuarial valuation date of June 30, 2010:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Miscellaneous Plan			
2009	$1,164,959	100%	0
2010	1,326,685	100%	0
2011	1,674,351	100%	0

The latest available actuarial value of the above State-side pools (which differs from market value) and funding progress were set forth as follows. The information presented below relates to the State-wide pool as a whole, of which the District is one of the participating employers.

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
6/30/2008	$1,823,366,479	$1,529,548,799	$293,817,680	83.9%	$414,589,514	70.9%
6/30/2009	2,140,438,884	1,674,260,302	466,178,582	78.2%	440,071,499	105.9%
6/30/2010	2,297,871,345	1,815,671,616	482,199,729	79.0%	434,023,381	111.1%

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

A. Trust Description

The District's employees are eligible for postretirement health care benefits if they directly retire from employment at the District. As of December 31, 2011, there were 41 retirees or their beneficiaries, receiving these health care benefits. These benefits are fully funded by the District and are accounted for on a pay-as-you-go basis through payments to an insurance company. The cost of these benefits totaled $202,839 in 2011.

During fiscal year 2008, the District implemented the provisions of the Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes uniform financial reporting standards for employers providing other postemployment benefits (OPEB).

B. Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined by an actuarial valuation using the actuarial cost method. The actuarial assumptions included (a) 4.50% investment rate of return, and (b) between 5.0% - 8.75% healthcare inflation increases. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period.

Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the actuarial accrued liability when such assets are placed in an irrevocable trust or equivalent arrangement. The District has calculated and recorded the net OPEB liability, representing the difference between the ARC, amortization and contributions, as presented below:

Annual required contribution (ARC)	$909,210
Amortization of the Net OPEB Liability	(91,119)
Interest on the Net OPEB Liability	99,404
Annual OPEB Cost	917,495
Contributions made:	
District portion of current year premiums paid	202,839
Contributions less than the ARC	714,656
Net OPEB Obligation at December 31, 2010	2,208,973
Net OPEB Obligation at December 31, 2011	$2,923,629

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)

The Trust's annual required contributions and actual contributions for the year ended December 31, 2011 is as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost	Net OPEB Obligation (Asset)
2009	$902,754	$164,347	18%	$1,441,153
2010	931,605	163,785	18%	2,208,973
2011	917,495	202,839	22%	2,923,629

The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the December 31, 2011 actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Cost Method Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A - B)	Funding Ratio (A / B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Accrued Liability as Percentage of Covered Payroll [(A – B)/C]
12/31/2009	$0	$9,224,012	($9,224,012)	0%	$5,633,667	(164%)
12/31/2010	0	9,812,308	(9,812,308)	0%	6,258,325	(157%)
12/31/2011	0	10,050,852	(10,050,852)	0%	6,461,721	(156%)

NOTE 10 – RISK MANAGEMENT

The following is a summary of the insurance policies in force carried by the District as of December 31, 2011:

Type of Coverage	District Limits	District Deductibles
General Liability	$20,000,000	None
Auto Liability	20,000,000	None
Public Officials Liability	20,000,000	None
Property Damage	100,000,000	$1,000 to $10,000
Worker's Compensation	2,000,000	None
Public Employee Dishonesty	100,000	1,000

The District paid no material uninsured losses during the last three fiscal years.

NOTE 10 – RISK MANAGEMENT (Continued)

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. There were no material uninsured claim liabilities at December 31, 2011 or 2010.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Compensated Absences

The District is contingently liable for potential unused sick leave, unpaid vacation leave and compensating time off. An employee will receive up to 100 percent of unused sick leave upon retirement if at least 55 years old and with at least 20 years of service. A reduction will be made of 1/20th of each year less than 55 years of age and for each year less than 20 years of service. The liability for compensated absences is determined annually. As of December 31, 2011 and 2010, the potential unused sick leave, unpaid vacation leave and compensating time off amounted to $852,616 and $861,779 respectively.

B. Future Agriculture Water Sales

A number of environmental initiatives are being sponsored by Federal and State Agencies. The most prominent of these initiatives is CalFed. Financing of these goals is problematic. Most recently a CalFed Draft Decision has incorporated a footnote proposing that charges be levied for use of surface water by all water right holders not subject to CVPIA Restoration charges. The charge could be in the range of $4.00 to $7.50 per acre foot. If this charge was levied upon Solano Irrigation District users, there is a substantial question of whether the economic ability to pay would continue to exist for some agricultural customers.

NOTE 12 – TAXING AUTHORITY

Proposition 13, Proposition 4, and Proposition 218 each provide limitations upon the use of funds acquired from property-related assessments and shares of property tax or the like for the operation, maintenance and rehabilitation of the Districts facilities. At the time the Solano Project was built, which facilities provide water service within Solano Irrigation District it was anticipated that substantial rehabilitation would be required from year 30 to year 50, and the District is 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 standby charges, property tax, levies, and the benefit assessments regarding these propositions occur from time to time, resulting in new legal principles applicable as a result of these voter initiatives to the ability of the District to obtain the funds necessary to rehabilitate the water distribution system. As a result, the District is unable at the time to assure that it will have the funds necessary to provide for the 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. Legal counsel, as well as the District staff, is unable to offer an opinion at this stage regarding the outcome of the matter since the interpretation of these rules, regulations and legal requirements is ongoing in the courts and legislature.