

*El Solyo Water District* 2010 JUL 27 P 12:09

542 Center Road  
Vernalis, CA 95385  
Phone (209) 602-2513  
Fax (209) 894-5399

Stanislaus County Board of Supervisors  
Chairman Thomas W. Mayfield  
1010 10<sup>th</sup> Street, Suite 6700  
Modesto, CA 95354

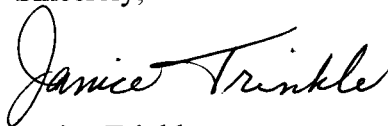
RE: Filing of Our Independent Auditor's Report

July 05, 2010

Dear Mr. Mayfield,

Enclosed is our Independent Auditor's Report for our Fiscal Year Ending 12/31/08 and 12/31/09 for the El Solyo Water District. This report is being forwarded to you as required by Government Code Section 26909. Should you have any questions or concerns about this filing, please contact me at (209) 602-2513.

Sincerely,



Janice Trinkle  
Manager / Secretary

Enclosure

**EL SOLYO WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**WITH SUPPLEMENTARY INFORMATION**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**

**EL SOLYO WATER DISTRICT**  
Financial Statements with Supplemental Information  
December 31, 2009 and 2008

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**EL SOLYO WATER DISTRICT**  
**Management's Discussion and Analysis**  
**December 31, 2009 and 2008**

This section presents management's analysis of the El Solyo Water District's (the District) financial condition and activities as of and for the years ended December 31, 2009 and 2008. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the District's basic financial statements, and should be read in conjunction with the audited financial statements that follow this section.

**ORGANIZATION AND BUSINESS**

The El Solyo Water District is a California special District formed under the provisions of the Statutes of 1951, Chapter 390, California Water District Law. The approximately 3,600 acres of irrigable District lands are located along the San Joaquin River in Stanislaus County. The District was organized to administer delivery of agricultural water supplies to landowners within its geographical boundaries. All water supplies are pumped from the San Joaquin River and delivered through District maintained canals and ditches. The District operates one (1) pumping station located along the San Joaquin River and three (3) lift stations along its main canal. District lands produce a variety of crops, including nuts, fruits, vegetables and forage crops. A five person Board of Directors elected from among District landowners governs the District.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The District's basic financial statements are prepared on an accrual basis and in conformity with generally accepted accounting principles and include certain amounts based upon reliable estimates and judgments. The annual financial report consists of a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

- The Statement of Net Assets presents information on the District's assets and liabilities, with the difference between the two being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Assets presents the results of the District's operations showing total revenues versus total expenses and how the net assets changed during the year. This statement can be used as an indicator of the extent to which the District has successfully recovered its costs through user fees.
- The Statement of Cash Flows presents changes in cash and cash equivalents resulting from operation, capital, noncapital, financing and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, and reconciles the year-end cash and cash-equivalents balance.

**EL SOLYO WATER DISTRICT**  
**Management's Discussion and Analysis**  
**December 31, 2009 and 2008**

**FINANCIAL ANALYSIS**

Financial Highlights

- The total assets of the District exceeded the total liabilities by \$683,135 and \$728,910 (Net Assets) for the years ended December 31, 2009 and 2008.
- Net assets decreased by \$45,775 for the year ended December 31, 2009 and net assets increased by \$137,706 for the year ended December 31, 2008.
- Net capital assets increased by \$61,194 and \$138,819 for years ended December 31, 2009 and 2008.
- Operating revenue increased by \$50,462 and 15,650 for years ended December 31, 2009 and 2008.
- Operating expense increased by \$237,118 for December 31, 2009 and increased by \$84,080 for December 31, 2008.
- Other income (expenses) decreased by \$4,242 in December 31, 2009 and increased by \$4,434 in December 31, 2008 compared to 2007.

The District's total operating revenues increased by \$50,462 in 2009 as compared to 2008 and \$15,650 in 2008 as compared to December 31, 2007. This increase in revenues was due to increase in deliveries and irrigation efficiencies and improvements.

The District's operating expenses increased by \$237,118 in 2009 as compared to year 2008 and decreased by \$84,080 as compared to year 2007. The increase in operating expenses in 2009 was due to increase in power charges, repair and maintenance, labor and other expenses. The decrease in operating expenses in 2008 was due primarily to decrease in repairs and maintenance expense.

**EL SOLYO WATER DISTRICT**  
**Management's Discussion and Analysis**  
**December 31, 2009 and 2008**

**CONDENSED FINANCIAL INFORMATION**

Statement of Net Assets December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>Variance</u>	<u>2007</u>	<u>Variance</u>
<b>ASSETS:</b>					
Current Assets	\$ 17,887	\$ 144,128	\$ (126,241)	\$ 163,367	\$ (19,239)
Non Current Assets	22,473	22,473	-	22,473	-
Capital Assets Net	<u>819,083</u>	<u>757,889</u>	<u>61,194</u>	<u>619,070</u>	<u>138,819</u>
Total Assets	<u>859,443</u>	<u>924,490</u>	<u>(65,047)</u>	<u>804,910</u>	<u>\$ 119,580</u>
<b>LIABILITIES:</b>					
Current Liabilities	14,037	9,989	(4,048)	5,746	(4,243)
Long Term Liabilities	<u>162,271</u>	<u>185,591</u>	<u>23,320</u>	<u>207,960</u>	<u>22,369</u>
Total Liabilities	<u>176,308</u>	<u>195,580</u>	<u>19,272</u>	<u>213,706</u>	<u>18,126</u>
<b>NET ASSETS:</b>					
Invested in Capital Assets	656,812	572,298	84,514	411,110	161,188
Unrestricted	<u>26,323</u>	<u>156,612</u>	<u>(130,289)</u>	<u>180,094</u>	<u>(23,482)</u>
Total Net Assets	<u>\$ 683,135</u>	<u>\$ 728,910</u>	<u>\$ (45,775)</u>	<u>\$ 591,204</u>	<u>\$ 137,706</u>

Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended  
December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>Variance</u>	<u>%</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
<b>Revenues</b>							
Water Sales	\$ 707,452	\$ 647,858	\$ 59,594	9.20%	\$ 641,340	\$ 6,518	1.02%
West Side Coalition Fees	<u>-</u>	<u>9,132</u>	<u>(9,132)</u>	<u>-100.00%</u>	<u>-</u>	<u>9,132</u>	<u>0.00%</u>
Total Operating Revenues	<u>707,452</u>	<u>656,990</u>	<u>50,462</u>	<u>7.68%</u>	<u>641,340</u>	<u>\$ 15,650</u>	<u>2.44%</u>
<b>Expenses</b>							
Pumping, Distribution and System	655,721	427,666	228,055	-53.33%	451,050	(23,384)	-5.18%
Administration and General	<u>89,431</u>	<u>80,368</u>	<u>9,063</u>	<u>-11.28%</u>	<u>141,064</u>	<u>(60,696)</u>	<u>-43.03%</u>
Total Operating Expenses	<u>745,152</u>	<u>508,034</u>	<u>237,118</u>	<u>-46.67%</u>	<u>592,114</u>	<u>(84,080)</u>	<u>-14.20%</u>
Operating Income (Loss)	<u>(37,700)</u>	<u>148,956</u>	<u>(186,656)</u>	<u>-125.31%</u>	<u>49,226</u>	<u>99,730</u>	<u>202.60%</u>
Non Operating Income (Expenses)	<u>(8,075)</u>	<u>(3,833)</u>	<u>(4,242)</u>	<u>110.67%</u>	<u>601</u>	<u>(4,434)</u>	<u>-737.77%</u>
Changes in Net Assets	<u>\$ (45,775)</u>	<u>\$ 145,123</u>	<u>\$ (190,898)</u>	<u>-131.54%</u>	<u>\$ 49,827</u>	<u>\$ 95,296</u>	<u>191.25%</u>

**EL SOLYO WATER DISTRICT  
Management's Discussion and Analysis  
December 31, 2009 and 2008**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of December 31, 2009 and 2008 the District had \$819,083 and \$757,889 (net of accumulated depreciation) invested in the following categories of capital assets: Canal Right of Way & Easements, Canals & Pumping Plants, River Pumping Station & Installation, Pumps & Motors, Equipment, Drain Water Installation and Office Furniture & Fixtures. This amount represents a \$99,709 increase before depreciation over December 31, 2008 and \$168,848 over December 31, 2007, a majority of which was expended on improvement of canals, pumps and equipment.

**Long Term Debt**

As of December 31, 2009 and 2008 the District has incurred long-term debt of \$162,271 and \$185,591 to finance the replacement of the River Pumping Station. The loan has a repayment term of ten years and an interest rate of 4.25%.

**FACTORS IMPACTING FUTURE PERIODS**

The District anticipates that the upgrade and replacement of the River Pumping Station facilities will provide savings in the area of utility cost and repairs and maintenance which will more than offset the annual installment payment required to repay the financing arrangement noted above.

The District anticipates that the rising costs of fossil fuels will lead to increases in power and fuel costs for the upcoming water year.

**REQUEST FOR INFORMATION**

This report is designed to provide El Solyo Water District's elected officials, landholders, customers and creditors a general overview of the District's finances and demonstrate its accountability of the revenues it receives. If you have any questions about this report or need additional information, please contact: El Solyo Water District, Attn: Board of Directors, 542 Center Road, Vernalis, CA 95385



Blomberg & Griffin Accountancy Corporation  
Certified Public Accountant

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
El Solyo Water District  
Vernalis, California

We have audited the accompanying basic financial statements of El Solyo Water District (District) as of and for the years ended December 31, 2009 and December 31, 2008, as listed in the table of contents. These basic financial statements are responsibility of the District's Management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the El Solyo Water District as of December 31, 2009 and December 31, 2008, and the respective changes in financial position and cash flows, for the years ended in conformity with accounting principles generally accepted in the United States of America.



Independent Auditors Report (Continued)

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2010 on our consideration of the El Solyo Water District's internal control over financial reporting and our tests of it's 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 compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 4 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Blomberg & Griffin Accountancy Corporation  
June 22, 2010

**EL SOLYO WATER DISTRICT**  
**Statement of Net Assets**  
**December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash in Checking	\$ 10,917	\$ 129,607
Accounts Receivable	1,245	8,425
Prepaid Expenses	<u>5,725</u>	<u>6,096</u>
<b>Total Current Assets</b>	<u>17,887</u>	<u>144,128</u>
<b>Capital Assets:</b>		
Canals and Pump Plants	468,109	468,109
River Pump and Installation	304,020	304,020
Pump and Motor	273,378	190,910
Equipment	183,785	167,411
Drain Water Installation	40,524	40,524
Office Furniture and Fixtures	12,787	11,920
Less: Accumulated Depreciation	<u>(463,520)</u>	<u>(425,005)</u>
<b>Total Capital Assets, Net</b>	<u>819,083</u>	<u>757,889</u>
<b>Other Assets:</b>		
Canal Right of Way and Easements	<u>22,473</u>	<u>22,473</u>
<b>Total Assets</b>	<u>859,443</u>	<u>924,490</u>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Customer Deposits	1,589	-
Accounts Payable	2,769	-
Other Accrued Liabilities	<u>9,679</u>	<u>9,989</u>
<b>Total Current Liabilities</b>	<u>14,037</u>	<u>9,989</u>
<b>Long Term Liabilities:</b>		
West America Bank Installment Loan	<u>162,271</u>	<u>185,591</u>
<b>Total Long Term Liabilities</b>	<u>162,271</u>	<u>185,591</u>
<b>Total Liabilities</b>	<u>176,308</u>	<u>195,580</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	656,812	572,298
Unrestricted	<u>26,323</u>	<u>156,612</u>
<b>Total Net Assets</b>	<u>\$ 683,135</u>	<u>\$ 728,910</u>

EL SOLYO WATER DISTRICT  
Statement of Cash Flows  
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Receipts from Landowners	\$ 714,632	\$ 654,135
Payments for Operating Expenses	<u>(702,217)</u>	<u>(473,203)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>12,415</u>	<u>180,932</u>
Cash Flow from Capital Activities:		
Acquisition of Property and Equipment	<u>(99,709)</u>	<u>(168,848)</u>
<b>Net Cash Used For Capital Activities</b>	<u>(99,709)</u>	<u>(168,848)</u>
Cash Flows from Investing Activities:		
Miscellaneous Expense	(1,403)	(170)
Miscellaneous Income	-	1,624
Investment Income	2	2,602
<b>Net Cash Provided by Investing Activities</b>	<u>(1,401)</u>	<u>4,056</u>
Cash Flows from Financing Activities:		
Long Term Debt	(23,320)	(22,369)
Interest Paid on Capital Debt	<u>(6,675)</u>	<u>(7,888)</u>
<b>Net Cash Used for Financing Activities</b>	<u>(29,995)</u>	<u>(30,257)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(118,690)	(14,117)
Prior Period Adjustment	-	(7,417)
Cash and Cash Equivalents, Beginning of Year	<u>129,607</u>	<u>151,141</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>10,917</u></u>	<u><u>129,607</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Income (Loss) from Operations	(37,700)	148,956
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	38,516	30,028
Decrease in Prepaid Expenses	371	560
Decrease in Deposits	-	-
(Increase) Decrease in Accounts Receivable	7,180	(2,855)
(Increase) Decrease in Interest Receivable	-	-
(Decrease) Increase in Accounts Payable	2,769	-
(Decrease) in Payroll Taxes Payable	-	-
( Decrease) in Other Liabilities	(310)	4,243
Increase (Decrease) in Customer Deposits	<u>1,589</u>	<u>-</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 12,415</u></u>	<u><u>\$ 180,932</u></u>

The accompanying notes are an integral part of these financial statements

**EL SOLYO WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2009 and 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities:**

El Solyo Water District operates a Special District and was formed in 1959 under the California Water District Law, Statutes of 1951, Chapter 390. The primary place of business is at 542 Center Road in Vernalis. The District was organized to administer delivery of water supplies to landowners within the District. All Water supplies are pumped from the San Joaquin River.

The accompanying financial statements comply with the provisions of GASB Statement 14, "The Financial Reporting Entity", in that the financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate organizations for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

**Basis of Presentation:**

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

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Statements No. 34, Basic Financial Statements, and Management's Discussion and Analysis for State and Local Governments, No. 36, Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33, No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, Omnibus, and No. 38, Certain Financial Statement Note Disclosures.

The District's financial activities are accounted for using the principles of enterprise fund accounting. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

**EL SOLYO WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2009 and 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting Method:**

The District's financial statements have been prepared using the accrual basis of accounting; therefore, revenues are recognized when they become both measurable and available and expenses are recognized when incurred, regardless of when the related cash flow takes place. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities.

**Classification of Revenues:**

Operating revenues principally consist of charges to landowners of the District for water. Non-operating revenues consist of investment earnings.

**Cash and Cash Equivalents:**

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include all cash and short-term investments with an original maturity of the three months or less from the date of acquisition. Also, time certificates that do not have material penalties for early withdrawal of funds or restrict withdrawal of funds also considered to be cash and cash equivalents. All investments are reported at cost, which approximates fair value.

**Accounts Receivable and Bad Debts:**

The District uses the direct write-off method of recognizing bad debt losses, as the amount has been determined to be immaterial. There were no bad debts written off during the year ended December 31, 2009 and 2008.

**Net Assets:**

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

**Income Taxes:**

The District is a California special District exempt from income taxes. Therefore, no provision for income taxes have been made in these financial statements.

**EL SOLYO WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2009 and 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 - DEPOSITS**

The following information classifies deposits and investments by categories of risk as defined in GASB 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements". These categories are defined as:

Category 1 Insured or registered, with securities held by the District or its agent in the District's name.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the District's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution pledging the collateral.

The carrying amount of the District's cash in banks was \$10,917 and \$129,607 at December 31, 2009 and 2008.

**NOTE 3 - CAPITAL ASSETS**

All property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Repairs and maintenance are recorded as expenses. Donated fixed assets are recorded at estimated cost, and the corresponding revenue recognized. Fixed Depreciation has been calculated on each class of depreciable property using the straight-line method over the assets estimated useful life,

Estimated useful lives are as follows:

Canals and Pump Plants	40 Years	Equipment	10 Years
River Pump Installation	40 Years	Drain Water Installation	40 Years
Pump and Motor	15-40 Years	Office Furniture and Fixtures	5-15 Years

**EL SOLYO WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2009 and 2008**

**NOTE 3 - CAPITAL ASSETS (Continued)**

The following table summarizes the activity of fixed assets and accumulated depreciation for the years:

	Balance January 1, 2008	Change 2008	Balance December 31, 2008	Change 2009	Balance December 31, 2009
Canals and Pump Plants	\$ 387,421	\$ 80,688	\$ 468,109	\$ -	\$ 468,109
River Pump and Installations	304,020	-	304,020	-	304,020
Pump and Motor	154,378	36,532	190,910	82,468	273,378
Equipment	115,783	51,628	167,411	16,374	183,785
Drain Water Installation	40,524	-	40,524	-	40,524
Office Furniture	11,920	-	11,920	867	12,787
<b>Total Capital Assets</b>	<b>1,014,046</b>	<b>168,848</b>	<b>1,182,894</b>	<b>99,709</b>	<b>1,282,603</b>
<b>Accumulated Depreciation</b>	<b>(394,976)</b>	<b>(30,028)</b>	<b>(425,004)</b>	<b>(38,516)</b>	<b>(463,520)</b>
	<u><u>\$ 619,070</u></u>	<u><u>\$ 138,820</u></u>	<u><u>\$ 757,890</u></u>	<u><u>\$ 61,193</u></u>	<u><u>\$ 819,083</u></u>

**NOTE 4 - OTHER ASSETS**

The District has perpetual easements (right of ways) at the main pump house on the river. All easements relate to the canals and represent permanent grants from the landowners.

**NOTE 5 - ECONOMIC DEPENDENCY**

The District was organized to administer delivery of water supplies to landowners within the geographical boundaries of the District. Therefore, the District's existence relies exclusively on the continuance of the need for water supplies by the landowners within the District. Also, various regulatory proceedings may impact the guarantees of water available for pumping in the future. Management does not believe that these impacts will have a material adverse financial or operating effect on the District.

**NOTE 6 - RISK MANAGEMENT AND INSURANCE**

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. During 2009 and 2008, the District purchased commercial insurance for claims and all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the recent fiscal years. During the year under audit, there were no claims against the insurance coverage.

**EL SOLYO WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2009 and 2008**

**NOTE 7 - SAN JOAQUIN VALLEY DRAINAGE AUTHORITY**

In February 2004, the District executed a Memorandum of Understanding with the San Joaquin Valley Drainage Authority for purposes of participating in regional water quality management activities, and specifically for membership in the Westside San Joaquin River Watershed Coalition. The Coalition was organized in response to conditions set forth in the Central Valley Regional Water Quality Control Board's Conditional Agricultural Waiver Program, (effective 7-1-04) which mandates that all operator's of irrigated lands implement extensive monitoring, testing and reporting programs evaluating the "discharges" leaving their property. Participation in this coalition group affords the District's Landowner's with the most cost efficient means of complying with the Waiver, and ensures that all lands within the District are in compliance with the requirements of the new regulations.

**NOTE 8 - RELATED PARTIES**

The District's Board of Directors are all landowner's within the District. The Board of Directors is responsible for setting water rates as well as overseeing and approving cash disbursements. In addition, substantially all income is received from the landowners of the District.

**NOTE 9 - INSTALLMENT SALES (LOAN) AGREEMENT**

On January 12, 2005, the District entered into an installment sales (loan) agreement with the Municipal Finance Corporation for \$250,000. The District has pledged the District's gross revenues as collateral for this installment agreement. Interest on this agreement is at 4.25%. Starting on March 8, 2006 the District's annual payment will be \$31,207.53. The obligation will be satisfied on March 8, 2015.





Blomberg & Griffin Accountancy Corporation  
Certified Public Accountant

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
El Solyo Water District  
Vernalis, California

We have audited the accompanying basic financial statements of El Solyo Water District (District) as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents and have issued our report thereon dated June 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing audit, we considered the El Solyo Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurances on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operations of one or more of the internal control components does not reduce to a relatively low level the risk that a misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

A handwritten signature in cursive script, appearing to read "Blomberg & Griffin".

Blomberg & Griffin Accountancy Corporation.  
June 22, 2010