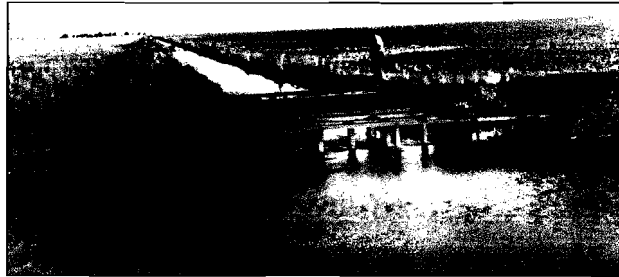


El Solyo Water District

Directors

James W. Lopes
Steve McManis
Greg Nunes
Henry Bettencourt
John M. Morris

Delivering Water
Since 1920



Mail Address
542 Center Road
Vernalis, CA 95385

elsolyowd@gmail.com

Phone (209) 602-2513
Fax (209) 894-5399

Established 1959

Riparian Rights 1918

July 23, 2012

Stanislaus County Board of Supervisors
Chairman William O'Brien
1010 10th Street, Suite 6700
Modesto, CA 95354

RE: Filing of Our Independent Auditor's Report

Dear Mr. O'Brien,

Enclosed is our Independent Auditor's Report for our fiscal years ending 12/31/10 and 12/31/11 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

BOARD OF SUPERVISORS
2012 JUL 30 PM 12:11

EL SOLYO WATER DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
AND
INDEPENDENT AUDITOR'S REPORT

EL SOLYO WATER DISTRICT
Financial Statements with Supplemental Information
December 31, 2011 and 2010

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EL SOLYO WATER DISTRICT
Management's Discussion and Analysis
December 31, 2011 and 2010

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, 2011 and 2010. 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 (5) 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 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, 2011 and 2010

FINANCIAL ANALYSIS

Financial Highlights

- The total assets of the District exceeded the total liabilities by \$959,491 and \$818,040, (Net Assets) for the years ended December 31, 2011 and 2010.
- Net assets increased by \$141,451 for the year ended December 31, 2011 and net assets increased by \$134,905 for the year ended December 31, 2010.
- Net capital assets increased by \$62,299 and for years ended December 31, 2011. Net capital assets decreased by \$6,758.
- Operating revenue decreased by \$9,103 and \$9,022 for years ended December 31, 2011 and 2010.
- Operating expense decreased by \$18,798 for the year ended December 31, 2011 and decreased by \$183,467 for the year ended December 31, 2010

CONDENSED FINANCIAL INFORMATION

Statement of Net Assets December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Variance</u>	<u>2009</u>	<u>Variance</u>
ASSETS:					
Current Assets	\$ 186,877	\$ 173,465	\$ 13,412	\$ 17,887	\$ 155,578
Non Current Assets	41,969	22,473	19,496	22,473	-
Capital Assets Net	<u>874,624</u>	<u>812,325</u>	<u>62,299</u>	<u>819,083</u>	<u>(6,758)</u>
Total Assets	<u>1,103,470</u>	<u>1,008,263</u>	<u>95,207</u>	<u>859,443</u>	<u>\$ 148,820</u>
LIABILITIES:					
Current Liabilities	57,784	77,607	(19,823)	14,037	63,570
Long Term Liabilities	<u>86,195</u>	<u>112,616</u>	<u>(26,421)</u>	<u>162,271</u>	<u>(49,655)</u>
Total Liabilities	<u>143,979</u>	<u>190,223</u>	<u>(46,244)</u>	<u>176,308</u>	<u>13,915</u>
NET ASSETS:					
Invested in Capital Assets	762,008	674,365	87,643	656,812	17,553
Unrestricted	<u>197,483</u>	<u>143,675</u>	<u>53,808</u>	<u>26,323</u>	<u>117,352</u>
Total Net Assets	<u>\$ 959,491</u>	<u>\$ 818,040</u>	<u>\$ 141,451</u>	<u>\$ 683,135</u>	<u>\$ 134,905</u>

EL SOLYO WATER DISTRICT
Management's Discussion and Analysis
December 31, 2011 and 2010

CONDENSED FINANCIAL INFORMATION (Continued)

Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended
December 31, 2011, 2010, and 2009

	2011	2010	Variance	%	2009	Variance
Revenues						
Water Sales	\$ 688,141	\$ 697,114	\$ (8,973)	-1.29%	\$ 707,452	\$ (10,338)
West Side Coaliation Fees	1,186	1,316	(130)	-	-	1,316
Total Operating Revenues	<u>689,327</u>	<u>698,430</u>	<u>(9,103)</u>	<u>-1.30%</u>	<u>707,452</u>	<u>\$ (9,022)</u>
Expenses						
Pumping, Distribution & System	442,743	474,573	(31,830)	6.71%	655,721	(181,148)
Administration and General	100,144	87,112	13,032	-14.96%	89,431	(2,319)
Total Operating Expenses	<u>542,887</u>	<u>561,685</u>	<u>(18,798)</u>	<u>3.35%</u>	<u>745,152</u>	<u>(183,467)</u>
Operating Income (Loss)	<u>146,440</u>	<u>136,745</u>	<u>9,695</u>	<u>7.09%</u>	<u>(37,700)</u>	<u>174,445</u>
Non Operating Income (Expenses)	<u>(4,989)</u>	<u>(6,057)</u>	<u>1,068</u>	<u>-17.63%</u>	<u>(8,075)</u>	<u>2,018</u>
Changes in Net Assets	<u>\$ 141,451</u>	<u>\$ 130,688</u>	<u>\$ 10,763</u>	<u>8.24%</u>	<u>\$ (45,775)</u>	<u>\$ 176,463</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2011 and 2010 the District had \$874,624 and \$812,325 (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. Capital assets net of accumulated depreciation increased by \$62,299 for the year ended December 31, 2011. Capital assets net of accumulated depreciation decreased by \$6,758.

Long Term Debt

As of December 31, 2011 and 2010 the District has incurred long-term debt of \$112,616 and \$137,960 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%.

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, 2011 and December 31, 2010, 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, 2011 and December 31, 2010, 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.

The Management's Discussion and Analysis on pages 1 through 3 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 A.C.
Blomberg & Griffin A.C.
May 22, 2012

EL SOLYO WATER DISTRICT
Statement of Net Assets
December 31, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash in Checking	\$ 172,015	\$ 146,346
Accounts Receivable	9,122	17,922
Prepaid Expenses	5,740	9,197
Total Current Assets	<u>186,877</u>	<u>173,465</u>
Capital Assets:		
Canals and Pump Plants	578,702	478,259
River Pump and Installation	316,536	316,536
Pump and Motor	283,549	283,549
Equipment	192,158	185,491
Drain Water Installation	40,524	40,524
Office Furniture and Fixtures	13,506	12,947
Less: Accumulated Depreciation	<u>(550,351)</u>	<u>(504,981)</u>
Total Capital Assets, Net	<u>874,624</u>	<u>812,325</u>
Other Assets:		
Canal Right of Way and Easements	22,473	22,473
Construction in Progress	<u>19,496</u>	<u>-</u>
Total Assets	<u>\$ 1,103,470</u>	<u>\$ 1,008,263</u>

LIABILITIES

Current Liabilities:		
Customer Deposits	\$ 4,739	\$ 34,244
Accounts Payable	22,735	13,255
Interest Payable	3,889	4,764
West America Bank Installment Loan	<u>26,421</u>	<u>25,344</u>
Total Current Liabilities	<u>57,784</u>	<u>77,607</u>
Long Term Liabilities:		
West America Bank Installment Loan	<u>86,195</u>	<u>112,616</u>
Total Long Term Liabilities	<u>86,195</u>	<u>112,616</u>
Total Liabilities	<u>143,979</u>	<u>190,223</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	762,008	674,365
Unrestricted	<u>197,483</u>	<u>143,675</u>
Total Net Assets	<u>959,491</u>	<u>818,040</u>
Total Liabilities and Net Assets	<u>\$ 1,103,470</u>	<u>\$ 1,008,263</u>

The accompanying notes are an integral part of these financial statements

EL SOLYO WATER DISTRICT
Statement of Revenues, Expenditures, and Changes in Net Assets
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Water Sales	\$ 688,141	\$ 697,114
Miscellaneous Income	<u>1,186</u>	<u>1,316</u>
Total Revenues	<u>689,327</u>	<u>698,430</u>
Pumping, Distribution and System Expenses		
Labor	115,504	99,236
Transportation	15,030	30,115
Power	217,191	245,037
Repairs and Maintenance	72,440	81,956
Supplies	12,098	9,684
Weed Control	9,985	7,345
Outside Labor	<u>495</u>	<u>1,200</u>
Total Pumping, Distribution and System Expenses	<u>442,743</u>	<u>474,573</u>
Administrative and General Expenses		
Internet	389	368
Permits and Fees	2,192	815
Electric and Gas	3,175	3,090
Telephone	2,698	1,690
Property Insurance	8,155	5,656
Compensation Insurance	9,152	7,956
Employee Insurance	16,652	13,009
Labor	2,407	1,539
Legal and Auditing	4,890	6,533
Depreciation	45,370	41,461
Office and Miscellaneous	1,630	1,133
Bank Fees	192	25
Postage	287	177
Travel & Entertainment	-	23
Rent	1,800	1,800
Miscellaneous	264	964
Disposal	<u>891</u>	<u>873</u>
Total Administrative and General Expenses	<u>100,144</u>	<u>87,112</u>
Total Operating Expenses	<u>542,887</u>	<u>561,685</u>
Net Income (Loss) from Operations	<u>146,440</u>	<u>136,745</u>
Non Operating Income (Expense):		
Interest Expense	<u>(4,989)</u>	<u>(6,057)</u>
Total Non Operating Income (Expense)	<u>(4,989)</u>	<u>(6,057)</u>
Change in Net Assets	141,451	130,688
Net Assets, Beginning of Year	818,040	683,135
Prior Period Adjustment	<u>-</u>	<u>4,217</u>
Net Assets, End of Year	<u>\$ 959,491</u>	<u>\$ 818,040</u>

The accompanying notes are an integral part of these financial statements

EL SOLYO WATER DISTRICT
Statement of Cash Flows
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Receipts from Landowners	\$ 668,622	\$ 714,408
Payments to Suppliers	(390,980)	(412,435)
Payments to Employees	<u>(113,097)</u>	<u>(100,775)</u>
Net Cash Provided by Operating Activities	<u>164,545</u>	<u>201,198</u>
Cash Flow from Capital Activities:		
Acquisition of Property and Equipment	<u>(107,669)</u>	<u>(34,703)</u>
Net Cash Used For Capital Activities	<u>(107,669)</u>	<u>(34,703)</u>
Cash Flows from Investing Activities:	<u>-</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>-</u>	<u>-</u>
Cash Flows from Financing Activities:		
Long Term Debt	(25,344)	(24,311)
Interest Paid on Capital Debt	<u>(5,863)</u>	<u>(10,972)</u>
Net Cash Used for Financing Activities	<u>(31,207)</u>	<u>(35,283)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	25,669	131,212
Prior Period Adjustment	-	4,217
Cash and Cash Equivalents, Beginning of Year	<u>146,346</u>	<u>10,917</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 172,015</u></u>	<u><u>\$ 146,346</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Income (Loss) from Operations	\$ 146,440	\$ 136,745
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	45,370	41,461
Decrease in Prepaid Expenses	3,456	(3,472)
Increase in Deposits	(29,505)	32,655
(Increase) Decrease in Accounts Receivable	8,800	(16,677)
(Decrease) Increase in Accounts Payable	<u>(10,016)</u>	<u>10,486</u>
Net Cash Provided by Operating Activities	<u><u>\$ 164,545</u></u>	<u><u>\$ 201,198</u></u>

The accompanying notes are an integral part of these financial statements

EL SOLYO WATER DISTRICT
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

El Solyo Water District operates as 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
For the Years Ended December 31, 2011 and 2010

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 years ended December 31, 2011 and 2010.

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
For the Years Ended December 31, 2011 and 2010

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 \$169,386 and \$144,346 at December 31, 2011 and 2010.

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
For the Years Ended December 31, 2011 and 2010

NOTE 3 - CAPITAL ASSETS (Continued)

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

	Balance January 1, 2010	Change 2010	Balance December 31, 2010	Change 2011	Balance December 31, 2011
Canals and Pump Plants	\$ 468,109	\$ 10,150	\$ 478,259	\$ 100,443	\$ 578,702
River Pump and Installations	304,020	12,516	316,536	-	316,536
Pump and Motor	273,378	10,171	283,549	-	283,549
Equipment	183,785	1,706	185,491	6,667	192,158
Drain Water Installation	40,524	-	40,524	-	40,524
Office Furniture	12,787	160	12,947	559	13,506
Total Capital Assets	<u>1,282,603</u>	<u>34,703</u>	<u>1,317,306</u>	<u>107,669</u>	<u>1,424,975</u>
Accumulated Depreciation	<u>(463,520)</u>	<u>(41,461)</u>	<u>(504,981)</u>	<u>(45,370)</u>	<u>(550,351)</u>
	<u>\$ 819,083</u>	<u>\$ (6,758)</u>	<u>\$ 812,325</u>	<u>\$ 62,299</u>	<u>\$ 874,624</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 2011 and 2010, 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
For the Years Ended December 31, 2011 and 2010

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.

As of December 31, 2011, annaul debt service requirements of activities to maturity are as follows:

Year <u>Ending</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 26,421	\$ 4,786
2013	27,544	3,663
2014	28,715	2,492
2015	29,936	1,271
	<u>\$ 112,616</u>	<u>\$ 12,212</u>

EL SOLYO WATER DISTRICT
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

NOTE 10-CONTINGENCY LIABILITY

The District received a notice of a legal case from one of its prior employees in 2011. The District has not discussed the legal case with its legal counsel. The amount of the liability is not estimable at this time.

OTHER INFORMATION



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, 2011 and 2010, as listed in the table of contents and have issued our report thereon dated May 22, 2012. 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.

Blomberg & Griffin A.C.
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May 22, 2012