

El Solyo Water District

Directors

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Delivering Water
Since 1918



Riparian Rights

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Established 1959

August 25, 2014

Clerk of the Board of Supervisors
Stanislaus County
Christine Ferraro Tallman
1010 Tenth Street, Suite 6700
Modesto, CA 95354

BOARD OF SUPERVISORS
2014 SEP - 2 A 10:56

RE: Annual Audit Report 2012-2013

Dear Ms Klein,

Enclosed please find the final Independent Auditor's Report for the El Solyo Water District. These reports are being forwarded to you as required by Government Code Section 53901 and 26909, respectively. I apologize for the delay. I just received them from the auditor. Should you have any questions or concerns about this filing, please contact me at (209) 602-2513.

Sincerely,

Janice Trinkle
Secretary / Manager

EL SOLYO WATER DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2013 & 2012
AND
INDEPENDENT AUDITOR'S REPORT

EL SOLYO WATER DISTRICT
Financial Statements with Supplemental Information
December 31, 2013 and 2012

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EL SOLYO WATER DISTRICT
Management's Discussion and Analysis
December 31, 2013 and 2012

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, 2013 and 2012. 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 five (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 Position, (formally net assets) Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. GASB statement number 63 changed the terminology for reporting net financial position.

- The Statement of Net Position presents information on the District's assets and liabilities, with the difference between the two being reported as net position. Over time, increases or decreases in net position 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 Position presents the results of the District's operations showing total revenues versus total expenses and how the net position 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, 2013 and 2012

FINANCIAL ANALYSIS

Financial Highlights

- The total assets of the District exceeded the total liabilities by \$1,378,433 and \$1,256,875, (Net Position) for the years ended December 31, 2013 and 2012.
- Net position increased by \$121,558 for the year ended December 31, 2013 and net position increased by \$294,145 for the year ended December 31, 2012.
- Net capital assets increased by \$189,335 for year ended December 31, 2013. Net capital assets increased by \$153,979 for the year ended December 31, 2012.
- Operating revenue decreased by \$34,400 and increased by \$179,486 for years ended December 31, 2013 and 2012.
- Operating expense decreased by \$40,589 for the year ended December 31, 2013 and increased by \$207,959 for the year ended December 31, 2012.

CONDENSED FINANCIAL INFORMATION

Statement of Net Position December 31, 2013, 2012, and 2011

	<u>2013</u>	<u>2012</u>	<u>Variance</u>	<u>2011</u>	<u>Variance</u>
ASSETS:					
Current Assets	\$ 216,343	\$ 302,305	\$ (85,962)	\$ 186,877	\$ 115,428
Non Current Assets	22,473	22,473	-	41,969	(19,496)
Capital Assets Net	<u>1,217,938</u>	<u>1,028,603</u>	<u>189,335</u>	<u>874,624</u>	<u>153,979</u>
Total Assets	<u>1,456,754</u>	<u>1,353,381</u>	<u>103,373</u>	<u>1,103,470</u>	<u>249,911</u>
LIABILITIES:					
Current Liabilities	48,386	37,856	10,530	57,784	(19,928)
Long Term Liabilities	<u>29,935</u>	<u>58,650</u>	<u>(28,715)</u>	<u>86,195</u>	<u>(27,545)</u>
Total Liabilities	<u>78,321</u>	<u>96,506</u>	<u>(18,185)</u>	<u>143,979</u>	<u>(47,473)</u>
NET POSITION:					
Invested in Capital Assets	1,159,288	942,409	216,879	762,008	180,401
Unrestricted	<u>219,145</u>	<u>314,466</u>	<u>(95,321)</u>	<u>197,483</u>	<u>116,983</u>
Total Net Position	<u>\$ 1,378,433</u>	<u>\$ 1,256,875</u>	<u>\$ 121,558</u>	<u>\$ 959,491</u>	<u>\$ 297,384</u>

EL SOLYO WATER DISTRICT
Management's Discussion and Analysis
December 31, 2013 and 2012

CONDENSED FINANCIAL INFORMATION (Continued)

Statement of Revenues, Expenses and Changes in Net Position for the Years Ended December 31, 2013, 2012, and 2011.

	<u>2013</u>	<u>2012</u>	<u>Variance</u>	<u>%</u>	<u>2011</u>	<u>Variance</u>
Revenues						
Water Sales	\$ 834,405	\$ 862,643	\$ (28,238)	-3.27%	\$ 688,141	\$ 174,502
Miscellaneous Insurance	8	6,170	(6,162)	-	1,186	4,984
Total Operating Revenues	<u>834,413</u>	<u>868,813</u>	<u>(34,400)</u>	<u>-3.96%</u>	<u>689,327</u>	<u>179,486</u>
Expenses						
Pumping, Distribution & System	587,139	630,852	(43,713)	6.93%	442,743	188,109
Administration and General	123,118	119,994	3,124	-2.60%	100,144	19,850
Total Operating Expenses	<u>710,257</u>	<u>750,846</u>	<u>(40,589)</u>	<u>5.41%</u>	<u>542,887</u>	<u>207,959</u>
Operating Income (Loss)	<u>124,156</u>	<u>117,967</u>	<u>6,189</u>	<u>5.25%</u>	<u>146,440</u>	<u>(28,473)</u>
Non Operating Income (Expenses)	<u>(2,598)</u>	<u>176,178</u>	<u>(178,776)</u>	<u>-101.47%</u>	<u>(4,989)</u>	<u>181,167</u>
Changes in Net Position	<u>\$ 121,558</u>	<u>\$ 294,145</u>	<u>\$ (172,587)</u>	<u>-58.67%</u>	<u>\$ 141,451</u>	<u>\$ 152,694</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2013 and 2012 the District had \$1,217,938 and \$1,028,603 (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 \$189,335 for the year ended December 31, 2013. Capital assets net of accumulated depreciation decreased by \$153,979 for the year ended December 31, 2012.

Long Term Debt

As of December 31, 2013 and 2012 the District has incurred long-term debt of \$58,650 and \$86,194 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%. As of December 31, 2013 two years remained.

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

Report on the Financial Statements

We have audited the accompanying financial statements of El Solyo Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the El Solyo Water District, as of December 31, 2013 and December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 thru 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 14, 2014, on our consideration of the El Solyo Water 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering El Solyo Water District's internal control over financial reporting and compliance.

Blomberg & Griffin A.C.

Blomberg & Griffin A.C.

Stockton, CA

July 14, 2014

EL SOLYO WATER DISTRICT
Statement of Net Position
December 31, 2013 and 2012

ASSETS

	2013	2012
Current Assets:		
Cash in Checking	\$ 208,622	\$ 294,714
Accounts Receivable	-	-
Prepaid Expenses	7,721	7,591
Total Current Assets	216,343	302,305
Capital Assets:		
Canals and Pump Plants	851,787	701,429
River Pump and Installation	316,536	316,536
Pump and Motor	433,637	341,114
Equipment	232,440	220,797
Drain Water Installation	40,524	40,524
Office Furniture and Fixtures	14,401	14,543
Less: Accumulated Depreciation	(671,387)	(606,340)
Total Capital Assets, Net	1,217,938	1,028,603
Other Assets:		
Canal Right of Way and Easements	22,473	22,473
Construction in Progress	-	-
Total Assets	\$ 1,456,754	\$ 1,353,381

LIABILITIES and NET POSITION

Current Liabilities:		
Customer Deposits	\$ 15,921	\$ 7,240
Accounts Payable	1,486	-
Interest Payable	2,264	3,072
Installment Loan - Current Portion	28,715	27,544
Total Current Liabilities	48,386	37,856
Long Term Liabilities:		
West America Bank Installment Loan	29,935	58,650
Total Long Term Liabilities	29,935	58,650
Total Liabilities	78,321	96,506
Net Position:		
Invested in Capital Assets, Net of Related Debt	1,159,288	942,409
Unrestricted	219,145	314,466
Total Net Position	1,378,433	1,256,875
Total Liabilities and Net Position	\$ 1,456,754	\$ 1,353,381

The accompanying notes are an integral part of these financial statements

EL SOLYO WATER DISTRICT
Statement of Revenues, Expenditures, and Changes in Net Position
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Water Sales	\$ 834,405	\$ 862,643
Miscellaneous Income	<u>8</u>	<u>6,170</u>
Total Revenues	<u>834,413</u>	<u>868,813</u>
Pumping, Distribution and System Expenses		
Labor	117,011	114,550
Transportation	23,654	18,173
Power	314,034	355,592
Repairs and Maintenance	121,153	121,617
Supplies	4,715	13,504
Weed Control	6,076	4,190
Outside Labor	<u>496</u>	<u>3,226</u>
Total Pumping, Distribution and System Expenses	<u>587,139</u>	<u>630,852</u>
Administrative and General Expenses		
Internet	758	864
Permits and Fees	1,818	1,528
Electric and Gas	1,611	1,609
Telephone	2,171	2,687
Property Insurance	15,049	12,731
Compensation Insurance	10,908	9,890
Employee Insurance	15,908	14,883
Labor	-	80
Legal and Auditing	3,211	7,746
Depreciation	65,047	55,989
Office and Miscellaneous	1,165	1,605
Bank Fees	108	226
Postage	185	234
Rent	1,800	1,800
Miscellaneous	1,116	422
Disposal	1,037	958
Security	<u>1,054</u>	<u>6,742</u>
Total Administrative and General Expenses	<u>122,946</u>	<u>119,994</u>
Total Operating Expenses	<u>710,085</u>	<u>750,846</u>
Net Income (Loss) from Operations	<u>124,328</u>	<u>117,967</u>
Non Operating Income (Expense):		
Interest Income	85	146
Discharge Rights	-	180,000
Interest Expense	<u>(2,855)</u>	<u>(3,968)</u>
Total Non Operating Income (Expense)	<u>(2,770)</u>	<u>176,178</u>
Change in Net Position	121,558	294,145
Net Position, Beginning of Year	1,256,875	959,491
Prior Period Adjustment	<u>-</u>	<u>3,239</u>
Net Position, End of Year	<u>\$ 1,378,433</u>	<u>\$ 1,256,875</u>

The accompanying notes are an integral part of these financial statements

EL SOLYO WATER DISTRICT
Statement of Cash Flows
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Receipts from Landowners	\$ 843,094	\$ 874,266
Payments to Suppliers	(526,671)	(598,723)
Payments to Employees	(117,011)	(114,550)
Net Cash Provided by Operating Activities	<u>199,412</u>	<u>160,993</u>
Cash Flow from Capital Activities:		
Discharge Rights	-	180,000
Acquisition of Property and Equipment	(254,382)	(190,472)
Net Cash Used For Capital Activities	<u>(254,382)</u>	<u>(10,472)</u>
Cash Flows from Investing Activities:		
Interest Income	85	146
Net Cash Provided by Investing Activities	<u>85</u>	<u>146</u>
Cash Flows from Financing Activities:		
Long Term Debt	(27,544)	(26,422)
Interest Paid on Capital Debt	(3,663)	(4,785)
Net Cash Used for Financing Activities	<u>(31,207)</u>	<u>(31,207)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(86,092)	119,460
Prior Period Adjustment	-	3,239
Cash and Cash Equivalents, Beginning of Year	<u>294,714</u>	<u>172,015</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 208,622</u></u>	<u><u>\$ 294,714</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Income (Loss) from Operations	\$ 124,328	\$ 117,967
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	65,047	55,989
Increase in Prepaid Expenses	(130)	(1,851)
Increase in Deposits	8,681	2,501
(Increase) Decrease in Accounts Receivable	-	9,122
(Decrease) Increase in Accounts Payable	1,486	(22,735)
Net Cash Provided by Operating Activities	<u><u>\$ 199,412</u></u>	<u><u>\$ 160,993</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, 2013 and 2012

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. Updates to the financial statements have been made in accordance with GASB statements number 54 and 63.

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, 2013 and 2012

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, 2013 and 2012.

Net Position:

Net position present the difference between assets and liabilities in the statement of net position. Net position invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is 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, 2013 and 2012

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 \$208,622 and \$294,714 at December 31, 2013 and 2012.

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, 2013 and 2012

NOTE 3 - CAPITAL ASSETS (Continued)

The following table summarizes the activity of fixed assets and accumulated depreciation for the years: During the year 2012, construction in progress was reclassified to capital assets in the amount of \$19,496.

	Balance January 1, 2012	Change 2012	Balance December 31, 2012	Change 2013	Balance December 31, 2013
Canals and Pump Plants	\$ 578,702	\$ 122,727	\$ 701,429	\$ 150,358	\$ 851,787
River Pump and Installations	316,536	-	316,536	-	316,536
Pump and Motor	283,549	57,565	341,114	92,523	433,637
Equipment	192,158	28,639	220,797	11,643	232,440
Drain Water Installation	40,524	-	40,524	-	40,524
Office Furniture	13,506	1,037	14,543	(142)	14,401
Total Capital Assets	<u>1,424,975</u>	<u>209,968</u>	<u>1,634,943</u>	<u>254,382</u>	<u>1,889,325</u>
Accumulated Depreciation	<u>(550,351)</u>	<u>(55,989)</u>	<u>(606,340)</u>	<u>(65,047)</u>	<u>(671,387)</u>
	<u>\$ 874,624</u>	<u>\$ 153,979</u>	<u>\$ 1,028,603</u>	<u>\$ 189,335</u>	<u>\$ 1,217,938</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 2013 and 2012, 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 claims against the insurance coverage which resulted in reimbursement of \$1,727 for theft of tools.

EL SOLYO WATER DISTRICT
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE 7 - 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 8 - 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 is \$31,207.53. The obligation will be satisfied on March 8, 2015.

As of December 31, 2013, annual debt service requirements to maturity are as follows:

<u>Year</u> <u>Ending</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 28,715	\$ 2,492
2015	29,935	1,271
	<u>\$ 58,650</u>	<u>\$ 3,763</u>

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, 2013 and 2012, as listed in the table of contents and have issued our report thereon dated July 14, 2014. 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.

Blomberg & Griffin A. C.
Stockton, CA
July 14, 2014