

EAST NILES COMMUNITY SERVICES DISTRICT

REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

EAST NILES COMMUNITY SERVICES DISTRICT

JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
East Niles Community Services District
Bakersfield, California

I have audited the accompanying financial statements of East Niles Community Services District which comprise the Statements of Net Position as of June 30, 2016 and 2015, and the related Statements of Revenue and Expense and Changes in Net Position and of Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

INDEPENDENT AUDITOR'S REPORT

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Niles Community Services District as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Supplementary Information

Management's Discussion and Analysis and the Supplementary Information are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Jeffery C. Goossen

Jeffery C. Goossen
Certified Public Accountant
November 2, 2016

EAST NILES COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the East Niles Community Services District, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ending June 30, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

The East Niles Community Services District was formed by an election held December 21, 1954 in accordance with the Community Services District Law of the State of California. A Board of Directors consisting of five members governs the District. On November 8, 1955 the voters approved a Resolution providing for the issuance of \$1,500,000 principal amounts of revenue bonds. The proceeds of these bonds were used to acquire the properties and rights of the East Bakersfield Water Company and the Pacific Water Company. During the month of April, 1956, the District commenced operations for the purpose of furnishing water and related services to the residents within its boundaries comprising approximately 2,440 acres at the time.

The District was petitioned to expand its powers to include sewage services in addition to the water service performed. The election expanding the powers of the District was held in February, 1960. The question of incurring bonded indebtedness of an amount sufficient to finance the sewage project was submitted to the voters at a special election held on September 27, 1960. The voters approved financing of the project using a combination of General Obligation Bonds (\$1.7 million) and Sewer Revenue Bonds (\$1.35 million). Financing costs of the General Obligation Bond issue were supported by an ad valorem tax levied on property within the District. The financing costs of the Sewer Revenue Bonds and the annual maintenance and operation costs of the project are being supported by a monthly sewer service charge. The District entered into a joint exercise of powers agreement with the City of Bakersfield and Mt. Vernon County Sanitation District, also known as the Kern Sanitation Authority, concerning portions of the sewerage project. General Obligation Bonds in the amount of \$1,410,000, and Sewer Revenue Bonds in the amount of \$1,200,000 were sold to construct the project.

The District presently serves approximately 31,500 consumers, with 7,800 active water services within approximately 5,870 acres of service area.

EAST NILES COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements. In addition, this report presents certain Supplementary Information.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenue and Expense and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

EAST NILES COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED FINANCIAL STATEMENTS

A summary of the District's Statement of Net Position is as follows:

	<u>JUNE 30</u>	
	<u>2016</u>	<u>2015</u>
Current assets	\$ 6,639,436	\$ 6,446,155
Capital and other assets	<u>24,886,566</u>	<u>20,560,610</u>
Total assets	<u>\$ 31,526,002</u>	<u>\$ 27,006,765</u>
Current liabilities	\$ 1,402,119	\$ 1,087,789
Long-term liabilities	<u>1,231,526</u>	<u>1,448,606</u>
Total liabilities	<u>\$ 2,633,645</u>	<u>\$ 2,536,395</u>
Net Position:		
Capital investment, net	\$ 23,000,619	\$ 18,451,170
Fiscal stabilization reserve	1,000,000	1,000,000
Restricted	117,915	104,283
Unrestricted	<u>4,773,823</u>	<u>4,914,917</u>
Total net position	<u>\$ 28,892,357</u>	<u>\$ 24,470,370</u>

A summary of the District's Revenue and Expense and Changes in Net Position is as follows:

	<u>YEAR ENDED JUNE 30</u>	
	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 9,028,736	\$ 9,522,486
Operating expenses	<u>9,863,649</u>	<u>10,070,538</u>
(Loss) from operations	<u>(834,913)</u>	<u>(548,052)</u>
Net non-operating revenue (expense):		
Interest income	22,605	15,803
Taxes and assessments, other	474,757	390,271
Interest expense	<u>(43,264)</u>	<u>(39,491)</u>
Net non-operating revenue (expense)	<u>454,098</u>	<u>366,583</u>
Revenue (under) expense	(380,815)	(181,469)
Contributed capital - transfer of assets	4,802,802	-0-
Net Position, beginning of year	<u>24,470,370</u>	<u>24,651,839</u>
Net Position, end of year	<u>\$ 28,892,357</u>	<u>\$ 24,470,370</u>

EAST NILES COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

District operating revenues during the 2015-2016 fiscal year decreased approximately \$494,000 compared to the prior year. The major components of revenue are water and sewer service charges.

Components related to the current year operating revenue decrease include the following:

- 1) Water service charges decreased \$375,000. Water rates have remained the same, however, usage/consumption decreased when compared to the prior year due to continued mandatory drought restrictions.
- 2) Water and sewer connection fees decreased approximately \$184,000 compared to the prior year.

Operating expenses for the year ended June 30, 2016 decreased approximately \$207,000 when compared to the prior year. Components of this net decrease include the following:

- 1) \$413,000 decrease in water purchases, which includes Kern County Water Agency I.D. 4 pumping costs.
- 2) Increase in depreciation expense of \$191,000.

In June, 2011, the Board of Directors established a Fiscal Stabilization Reserve of \$720,000, which remained at June 30, 2012. The Reserve was increased to \$800,000 as of June 30, 2013, \$900,000 as of June 30, 2015, then to \$1,000,000 as of June 30, 2015 and June 30, 2016.

CAPITAL ASSETS AND LONG-TERM DEBT

During the year ended June 30, 2016, the District invested \$932,902 in additions to capital assets, principally the Morning Drive Pipeline projects, various well rehabilitation projects, a pump station project, and various other improvements and equipment purchases.

The District's long-term debt included assessment bonds and loans from U.S.D.A. Rural Development, a loan from the City of Bakersfield, and an installment sale agreement. During the year, long-term debt was reduced \$212,593.

EAST NILES COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS

The District continues to participate in the debt service for the repayment of bonds to construct the Kern County Water Agency Improvement District No. 4 Henry C. Garnett Water Purification Plant expansion and the East Pipeline expansion.

Other projects funded by the bonds include the Henry C. Garnett Water Purification Plant Electrical Service Entrance Project, the solar photovoltaic power system project, the East Niles Pump Station located at the Agency's 23 Corner Tank Facility, and the relocation of the State Route 178 16-inch pipeline crossing. The District also funded a 20-inch pipeline project on Morning Drive and completed construction of a 20-inch pipeline through the Morning Drive/State Route 178 interchange.

EAST NILES COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION

ASSETS

	<u>JUNE 30,</u>	
	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and equivalents, including reservations and restrictions (Note 2)	\$ 5,762,904	\$ 5,636,724
Accrued interest receivable	8,156	5,139
Accounts receivable (Note 3)	779,900	708,831
Inventory	86,476	93,461
Prepaid expenses	2,000	2,000
Total Current Assets	6,639,436	6,446,155
Plant and facilities (Note 4)	24,450,084	20,113,228
Accounts receivable - restricted (Note 5)	436,482	447,382
	<u>\$ 31,526,002</u>	<u>\$ 27,006,765</u>

LIABILITIES AND NET POSITION

Current Liabilities:		
Accounts payable	\$ 1,098,653	\$ 801,620
Accrued vacation pay (Note 6)	78,979	65,716
Accrued interest payable	6,548	7,001
Current portion of long-term debt (Note 7)	217,939	213,452
Total Current Liabilities	1,402,119	1,087,789
Long-term debt (Note 7)	1,231,526	1,448,606
Total Liabilities	2,633,645	2,536,395
Net Position (Note 8):		
Invested in plant and facilities, net of related debt	23,000,619	18,451,170
Fiscal stabilization reserve	1,000,000	1,000,000
Restricted for debt service	117,915	104,283
Unrestricted	4,773,823	4,914,917
Total Net Position	28,892,357	24,470,370
	<u>\$ 31,526,002</u>	<u>\$ 27,006,765</u>

The accompanying notes are an integral part
of these financial statements

EAST NILES COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUE AND EXPENSE AND CHANGES IN NET POSITION

	<u>YEAR ENDED JUNE 30,</u>	
	<u>2016</u>	<u>2015</u>
Operating Revenue:		
Water service charges	\$ 6,587,546	\$ 6,963,003
Sewer service charges	1,859,387	1,792,884
Connection fees	405,122	589,241
All other fees	176,681	177,358
	<u>9,028,736</u>	<u>9,522,486</u>
Operating Expenses:		
Water purchases	2,304,544	2,718,014
Pumping and well maintenance	1,302,341	1,410,336
Transmission and distribution	2,707,277	2,744,453
Sewer treatment	935,942	842,961
Administration and general	1,211,367	1,142,589
Depreciation	1,398,848	1,207,933
Other operating expenses	3,330	4,252
	<u>9,863,649</u>	<u>10,070,538</u>
(Loss) from operations	<u>(834,913)</u>	<u>(548,052)</u>
Non-operating revenues and expenses:		
Interest income	22,605	15,803
Interest expense	(43,264)	(39,491)
Taxes and assessments	411,881	377,626
State grant (Note 9)	62,922	-0-
All other, net	(46)	12,645
	<u>454,098</u>	<u>366,583</u>
Revenue (under) expense	(380,815)	(181,469)
Contributed capital - transfer of assets (Note 11)	4,802,802	-0-
Net Position, beginning of year	<u>24,470,370</u>	<u>24,651,839</u>
Net Position, end of year	<u>\$ 28,892,357</u>	<u>\$ 24,470,370</u>

The accompanying notes are an integral part
of these financial statements

EAST NILES COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS

	YEAR ENDED JUNE 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 8,968,567	\$ 9,692,840
Cash paid to suppliers of goods and services	(6,491,407)	(7,364,208)
Cash paid to employees for services	(1,173,901)	(1,138,560)
Cash paid for employee benefits	(482,212)	(494,599)
Net Cash Provided By Operating Activities	821,047	695,473
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income received	19,588	13,791
Additions to plant and facilities	(932,902)	(1,942,924)
Net Cash (Used in) Investing Activities	(913,314)	(1,929,133)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest paid	(43,717)	(38,771)
Proceeds from installment sale agreement	-0-	285,000
Repayment of long-term debt	(212,593)	(156,207)
Taxes, assessments and other receipts, net	474,757	390,271
Net Cash Provided By Financing Activities	218,447	480,293
Net Increase(Decrease) in Cash and Equivalents	126,180	(753,367)
Cash and Equivalents at Beginning of Year	5,636,724	6,390,091
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 5,762,904</u>	<u>\$ 5,636,724</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATIONS:		
(Loss) from operations	\$ (834,913)	\$ (548,052)
Adjustments to Reconcile to Net Cash Provided By Operating Activities:		
Depreciation	1,398,848	1,207,933
(Increase)Decrease in receivables	(60,169)	170,354
Decrease in prepaid expenses and other current assets	6,985	52,172
Increase(Decrease) in accounts payable and accrued expenses	310,296	(186,934)
Net Cash Provided By Operating Activities	<u>\$ 821,047</u>	<u>\$ 695,473</u>

The accompanying notes are an integral part
of these financial statements

EAST NILES COMMUNITY SERVICES DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The East Niles Community Services District (the "District") was formed by an election held December 21, 1954, in accordance with the Community Services District Law of the State of California. The original function of the District was to provide water and service related to residences, businesses and other entities within its boundaries. As a result of an election held in February, 1960, powers of the District were expanded to include sewage services. The District operates under an elected Board of Directors - Manager form of government.

The District is a reporting entity which consists of the District as the only oversight unit. Oversight responsibility is determined by such criteria as financial interdependency, selection of governing authority and designation of management, budget control, and the ability to significantly influence operations. The District has no component units which meet these criteria.

Fund Accounting

The District utilizes a proprietary enterprise fund category to account for its activities. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy management control, accountability, or other purposes. All assets and liabilities associated with an enterprise fund's activities are included on its statement of net position.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

East Niles Community Services District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to the customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Plant and Facilities

Plant and facilities are stated at cost. Depreciation is provided over the useful life of the assets by use of the straight-line method. Maintenance and repairs which do not increase the useful life of the assets are charged to expense as incurred. Major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed and any gain/loss is included in income.

The District holds title to certain assets and improvements transferred from developers and other parties. When available, the cost or estimated value of the assets transferred is included in plant and facilities of the District. If not available, only the District's direct costs are capitalized.

Cash and Cash Equivalents

For purposes of reporting cash flows, the District considers cash equivalents to be all highly liquid investments purchased with a maturity of three months or less.

Cash Flows

For purposes of preparing the statement of cash flows all transactions that are not classified as financing activities or investing activities are classified as operating activities.

East Niles Community Services District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year for the District. The enterprise fund budget is on the accrual basis. Actual revenues and expenses compared to budget are shown in the supplementary schedules of these financial statements.

Inventories

Inventory is based on a physical count at June 30, 2016 and 2015, and is valued at cost on the first-in, first-out basis.

Revenue Recognition - Property Taxes and Assessments

Property taxes and assessments are recognized when they become available. Available includes the amount collected by the County Treasurer but not remitted to the District at year-end. Delinquent taxes and assessments are considered fully collectible and therefore no allowance for uncollectibles is provided.

Special Assessment Districts

The District maintains five Assessment Districts. Assessment Districts #3, #7 and #8, include loans and bonds which are the responsibility of the District and are shown as liabilities in the Enterprise Funds.

Assessments Districts #4 and #6 were established under the Municipal Improvement Act of 1913 and partially financed with 1915 Improvement Act bonds. Accounting for these Assessment Districts follows Governmental Accounting Standards Board Statements. These state that Enterprise Funds such as that of the District are to account for special assessment financing and capital asset acquisition on the same basis and within the same fund as the rest of the District enterprise activities, unless the governing body of the District has deemed that the District has no responsibility for the debt or bond reserve, in that case the Assessment Districts are not shown within the body of the financial statements.

East Niles Community Services District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 2 - CASH AND EQUIVALENTS

The District's investment policy authorizes investment in local obligations, obligations of the United States Treasury and agencies, State Treasurer's local agency investment fund, County of Kern Treasury, Savings and other interest bearing accounts. The District selects investments based on safety, liquidity and yield.

Cash and equivalents consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Cash in bank accounts	\$ 2,054,096	\$ 2,076,721
Cash drawer	1,400	1,400
State of California Local Agency Investment Fund	1,377,768	1,692,599
County of Kern Treasury	<u>2,329,640</u>	<u>1,866,004</u>
	<u>\$ 5,762,904</u>	<u>\$ 5,636,724</u>

The cash deposited with banks is in excess of the standard deposit insurance coverage. Funds deposited with the State of California and the County of Kern's Treasurer are in pooled money funds. Funds are pooled with other agencies in California and Kern County and are collateralized by cash, investments and securities.

As discussed in Note 8, \$1,000,000 of the Local Agency Investment Fund has been established as a Fiscal Stabilization Reserve as of June 30, 2016 and 2015, respectively.

Cash with the County of Kern's Treasurer includes amounts pledged for Assessment District debt. These restricted cash amounts were \$117,915 and \$104,283 as of June 30, 2016 and 2015, respectively.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
User Accounts Receivable - Billed and unbilled	\$ 805,908	\$ 737,543
Accounts Receivable - Taxes/assessments	<u>18,046</u>	<u>7,520</u>
	823,954	745,063
Less: Allowance for doubtful accounts	<u>(44,054)</u>	<u>(36,232)</u>
	<u>\$ 779,900</u>	<u>\$ 708,831</u>

East Niles Community Services District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 4 - PLANT AND FACILITIES

Plant and facilities consists of the following at June 30:

	Estimated Life (Years)	2016	2015
Buildings and improvements	10-40	\$ 1,265,958	\$ 1,174,446
Equipment	5-10	4,368,071	4,036,906
Sewer facility	5-40	8,599,653	6,845,008
Transmission and distribution	10-40	30,065,365	25,677,178
Organization expense	30-40	285,827	285,827
		<u>44,584,874</u>	<u>38,019,365</u>
Less Accumulated Depreciation		<u>21,284,985</u>	<u>19,886,136</u>
		23,299,889	18,133,229
Land and land rights		788,706	788,706
Construction in progress		<u>361,489</u>	<u>1,191,293</u>
		<u>\$24,450,084</u>	<u>\$20,113,228</u>

NOTE 5 - ACCOUNTS RECEIVABLE - RESTRICTED

Accounts receivable - restricted consists of the following at June 30:

	2016	2015
Deferred assessments receivable	<u>\$ 436,482</u>	<u>\$ 447,382</u>

The deferred assessments receivable for Assessment Districts No. 3, 7, and 8 consists of the total original principal amount levied, reduced by the amounts that have become measurable and available.

NOTE 6 - ACCRUED VACATION PAY

The District accrues vacation pay, as shown in the accompanying financial statements.

The District's sick leave policy provides for accumulation of sick leave pay for all full-time employees. On termination or retirement, employees are not paid for the accumulated sick leave. Accumulated sick leave at June 30, 2016 and 2015, amounted to approximately \$228,306 and \$229,945, respectively. Since the District has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

East Niles Community Services District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following:

Description	Interest rates	Maturity	Carrying amount June 30	
			2016	2015
Assessment Bonds:				
USDA Rural Development:				
91-04	5.000%	2023	\$ 22,000	\$ 25,000
91-06	4.500%	2036	23,982	24,882
91-08	4.375%	2044	262,900	267,600
91-10	4.375%	2044	127,600	129,900
City of Bakersfield:				
Additional Capacity	1.800%	2021	781,436	929,676
Installment Sale Agreement				
	2.600%	2020	231,547	285,000
			1,449,465	1,662,058
Less: Current portion			(217,939)	(213,452)
			\$ 1,231,526	\$ 1,448,606

During the year ended June, 30, 2015, the District entered into an installment sale agreement with Municipal Finance Corporation for the purpose of financing the acquisition of certain real property. \$285,000 was received by the District to be repaid in five annual installments of \$61,522, including interest at 2.6%, through May, 2020. The District's obligation to make the payments is a special obligation of the District limited to Net Revenues, as defined.

Municipal Finance Corporation subsequently assigned all of its right, title and interest in the installment sale agreement to WestAmerica Bank.

Aggregate maturities required on long-term debt at June 30, 2016 are as follows:

Year Ended	Principal Due
6/30/17	\$ 217,939
6/30/18	222,411
6/30/19	227,070
6/30/20	232,379
6/30/21	174,084
Thereafter	375,582
	<u>\$ 1,449,465</u>

NOTE 8 - NET POSITION

The District's net position is broken down into four categories:

- Invested in plant and facilities, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction or improvement of those assets.
- The Fiscal Stabilization Reserve was established by the Board of Directors in June, 2011 to mitigate the negative effects of revenue shortfalls, unanticipated expenses, or other extraordinary events or downturns. The reserve was established at \$720,000 and can be adjusted by the Board of Directors. The reserve was increased from \$800,000 at June 30, 2013 to \$900,000 as of June 30, 2014, then to \$1,000,000 at June 30, 2015 where it remains as of June 30, 2016.
- Restricted - This component of net position consists of constraints placed on assets use through external constraints imposed by creditors, grantors, contributors, or law or regulations of other governments.
- Unrestricted - This component of net position consists of net amounts that do not meet the definition of "restricted" or "invested in plant and facilities, net of related debt".

NOTE 9 - STATE GRANT

During the year ended June 30, 2016 the District received \$62,922 in grant funds from the California State Water Resources Control Board. The funding will assist the District in completing a feasibility study, which includes engineering design, for the selected project in meeting safe drinking water standards. Grant funding will be provided in an amount not to exceed \$381,955, for project costs approved by the State.

NOTE 10 - EMPLOYEE PENSION PLAN

The District provides a money purchase pension plan and trust for its employees, whereby the District is required to annually contribute 9% of compensation, as defined, of all its eligible participants under the plan. For the years ended June 30, 2016 and 2015, District contributions to the trust totaled \$90,745 and \$99,086, respectively.

East Niles Community Services District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 11 - CONTRIBUTED CAPITAL - TRANSFER OF ASSETS

In connection with a development project, the District has agreed to accept ownership of certain improvements related to the Project. These improvements are as follows:

<u>Acquisition Improvement</u>	<u>Project Costs</u>
Freeway Pump Station	\$ 2,736,333
Morning Drive - Sewer Line	822,555
Morning Drive - Development Onsite Sewer	698,047
Morning Drive - Development Onsite Water	545,867
	<u>\$ 4,802,802</u>

Once improvements are constructed to the satisfaction of the District, the District will accept ownership and assume maintenance responsibility.

The Developer has certified the costs above as true and correct. As a result, these improvements have been recorded as District assets during the year ended June 30, 2016.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The District has contracts to purchase water from the Kern County Water Agency Improvement District No. 4, totaling 5,000 acre-feet of treated water. In September, 2005 the District increased this contract to 11,000 acre-feet of treated water.

The District participates with the City of Bakersfield and one sanitation district in the operation of a subregional wastewater treatment plant. This plant treats the sewage of the District and the City bills the user agencies for the related capital and maintenance and operation costs based upon their percentage of use.

The District has entered into an agreement with the Kern County Water Agency Improvement District No. 4. Under terms of the agreement, the Agency expanded certain facilities to increase its treated water supply available to the District. As a result, the District will be billed a semi-annual capital facilities charge to assist Improvement District No. 4 in meeting its related debt obligation. This obligation continues through May, 2036, total projected payments aggregate approximately \$6.5 million, and amounted to \$219,667 and \$218,727 for the years ended June 30, 2016 and 2015, respectively, which amounts are included in Transmission and Distribution expense in the accompanying financial statements.

East Niles Community Services District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 12 - COMMITMENTS AND CONTINGENCIES (continued)

In 2008, the District entered into a supplemental agreement with Kern County Water Agency Improvement District No. 4. Additional projects have been approved which will continue to develop and expand facilities to further increase water supply available to the District. As a result, an additional semi-annual capital facilities charge will be billed to assist I.D. No. 4 in meeting its related debt obligation. This obligation commenced in July, 2008 and continues through January, 2038. Payments under the supplemental agreement amounted to \$1,446,450 and \$1,444,700 for the years ended June 30, 2016 and 2015, respectively, which amounts are included in Transmission and Distribution expense in the accompanying financial statements.

Under the 2006 and 2008 agreements, including the effect of issuing Revenue Refunding Bonds in March, 2016, future capital facilities payments are estimated as follows as of June 30, 2016:

Capital Facilities Charge Amounts

<u>Year Ended</u>	<u>TOTAL</u>
6/30/17	\$ 1,572,794
6/30/18	1,569,631
6/30/19	1,523,981
6/30/20	1,525,781
6/30/21	1,524,836
Thereafter	<u>25,528,420</u>
	<u>\$ 33,245,443</u>

In 2007, the District entered into an agreement with the Kern County Water Agency Improvement District No. 4. Under terms of this agreement, the District will participate in debt service associated with a rehabilitation project of the Oswell 6.8 Million Gallon Reservoir. The Agency funded the project with a State loan, which will be repaid, including pro-rata District reimbursements, over a 20 year period. The facilities remain the property of the Agency. District payments under this agreement amounted to \$98,210 for the years ended June 30, 2016 and 2015, which amounts are included in Transmission and Distribution expense in the accompanying financial statements.

East Niles Community Services District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 13 - SUBSEQUENT EVENTS

Events that occur after the statement of net position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date require disclosure in the accompanying notes. Management evaluated the activity of the District through November 2, 2016 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

EAST NILES COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUE AND EXPENSE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016

(UNAUDITED)

	FINAL AMENDED BUDGET	ACTUAL
Operating Revenue:		
Water services charges	\$ 6,527,000	\$ 6,587,546
Sewer service charges	1,793,000	1,859,387
Connection fees	575,000	405,122
All other fees	169,900	176,681
	<u>9,064,900</u>	<u>9,028,736</u>
Operating Expenses:		
Water purchases	2,458,000	2,304,544
Pumping and well maintenance	1,319,000	1,302,341
Transmission and distribution	3,156,000	2,707,277
Sewer treatment	1,157,500	935,942
Administration and general	1,115,900	1,211,367
Depreciation	-0-	1,398,848
Other operating expenses	-0-	3,330
	<u>9,206,400</u>	<u>9,863,649</u>
(Loss) from operations	<u>(141,500)</u>	<u>(834,913)</u>
Non-operating revenues and expenses:		
Interest income	9,000	22,605
Debt service/interest expense	(256,410)	(43,264)
Taxes and assessments	363,950	411,881
State grant	382,000	62,922
All other, net	1,000	(46)
	<u>499,540</u>	<u>454,098</u>
Revenue over/(under) expense	<u>\$ 358,040</u>	<u>\$ (380,815)</u>

Note the following:

- Actual expenses include current year depreciation for which the District does not budget. Related capital outlays for the year were budgeted for \$1,367,000. Actual capital outlays of \$932,902 during the year have been capitalized and are not reflected in actual expense above.
- Budgeted debt service expenditures include repayment of debt principal. Actual expenses do not include \$212,593 in debt retired during the year.
- District Budgets can include carryover amounts from the prior year. The year ended June 30, 2016 Budget includes \$507,500 in carryover funds, not reflected in this analysis.