

EXHIBIT A

NILAND SANITARY DISTRICT
FINANCIAL STATEMENTS
With Independent Auditor's Report

As of and for the Fiscal Year Ended June 30, 2015



George J. Woo
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Niland Sanitary District
Niland, California 92257

I have audited the accompanying financial statements of the Niland Sanitary District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise 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 audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's minimum audit requirements for California Special District. Those standards require that I 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 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 (CONTINUED)

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the activities of Niland Sanitary District as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 12 to the financial statements, the District has incurred substantial net operating losses during the last few years. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

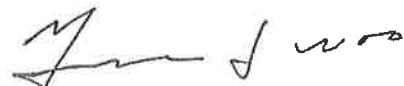
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the financial statements as a whole. The statement of revenues and expenses-actual compared to budget (page 20) is presented for purposes of additional analysis and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

March 1, 2016



Niland Sanitary District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

The discussion and analysis of the financial performance of the Niland Sanitary District (the District) provides an overview of the District's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the District's financial performance as a whole, users of these financial statements should read this discussion.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the 2014-2015 fiscal year by \$ 1,231,644 (Net Position), a deficit of \$ 336,178 is Unrestricted Net Deficit. In comparison with the prior fiscal year, Net Assets decreased \$ 260,283
- The District's net position decreased \$ 147,554 during the current fiscal year as compared with a decrease of \$ 260,283 during the prior fiscal year.
- The District's total long term debt did not change during the current fiscal year. The amount due during the current year was paid in the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. These statements are organized so that readers can understand the District as a financial whole or as an entire operating entity. This report also contains other supplementary information in addition to the financial statements themselves.

1. Financial Statements

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and 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 Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event takes place regardless of when cash is received or paid. Thus, some revenues and expenses are reported in this statement that will only result in cash inflows and outflows in future fiscal years.

Both the Statement of Net Position and the Statement of Revenues and Expenditures and Changes in Net Position distinguishes between activities that are primarily financed with taxes and revenues. The financial statements are presented on pages 7 through 10 of this report.

Niland Sanitary District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

2. Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in both government-wide and fund financial statements. The notes to the financial statements are presented on pages 11 through 19 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The District's assets exceeded liabilities \$ 1,231,644 (see Table 1) at the close of the current fiscal year.

A portion of the District's net assets, \$1,571,482, reflects its investment in capital assets (e.g. land, structures and improvements, vehicles, furniture and equipment), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of total net assets is comprised of a deficit of \$ 336,178.

At the end of the current fiscal year, the District as a whole and for its activities reported positive balances in net position.

Table 1 - District's Net Position

	<u>2015</u>	<u>2014</u>
Current Assets	\$ 7,548	\$ 22,311
Capital Assets	<u>1,956,482</u>	<u>2,073,187</u>
Total Assets	<u>1,964,030</u>	<u>2,095,498</u>
Current Liabilities	359,386	331,300
Non-current Liabilities	<u>373,000</u>	<u>385,000</u>
Total Liabilities	<u>732,386</u>	<u>716,300</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt and Accumulated Depreciation	1,567,822	1,676,187
Unrestricted (defecit)	<u>(336,178)</u>	<u>(296,989)</u>
Total Net Position	<u>\$ 1,231,644</u>	<u>\$ 1,379,198</u>

Niland Sanitary District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

As shown in Table 2, the District's Net Position decreased \$ 147,554 during the current fiscal year.

Table 2 – Districts Changes in Net Assets

	<u>2015</u>	<u>2014</u>
Revenue:		
Program revenues:		
Charges for services	\$ 256,131	\$ 178,566
Non operating Revenues:		
Property taxes	<u>13,467</u>	<u>12,383</u>
Total revenues	<u>269,598</u>	<u>190,949</u>
Expenses:		
Salaries	78,482	90,860
Services and supplies	193,569	216,374
Depreciation	122,205	122,140
Interest	<u>22,896</u>	<u>21,858</u>
Total expenses	<u>417,152</u>	<u>451,232</u>
Increase (Decrease) in net position	<u>\$ (147,554)</u>	<u>\$ (260,283)</u>

Business Activities

Business activities decreased the District's net position \$ 147,554 for the year ended June 30, 2015.

- Total revenue for the District's business activities increased 42%.
- Total expenses for business activities increased 7%.

Budgetary Analysis

Budget to actual analysis provides the reader with useful information regarding the District's use of budgets and a sense of what management was attempting to achieve during the year. Budget to actual comparisons can be found on page 20.

Niland Sanitary District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

**Table 3 -The District's Capital Assets
June 30, 2015**

Buildings and structures	\$ 3,414,100
Land	3,660
Sewer upgrade	670,000
Equipment	<u>165,695</u>
Total	<u>4,253,455</u>
Less Accumulated depreciation	<u>(2,296,973)</u>
Net capital assets	<u>\$ 1,956,482</u>

REQUESTS FOR INFORMATION

This financial report is designed to provide our Board of Directors, citizens, customers, ratepayers, creditors, and investors with a general overview of the District's finances and to show the District's accountability for the funds it receives and the stewardship of facilities it owns and operates. If you have any questions about this report or need additional financial information, you may contact the Secretary of the Board at the Niland Sanitary District, P.O. Box 40, Niland, CA 92257, (760) 359-0410.

NILAND SANITARY DISTRICT
STATEMENT OF NET POSITION
As of June 30, 2015

ASSETS

Current Assets:

Cash in bank	\$ 6,170
Accounts receivable	<u>1,378</u>
Total current assets	7,548

Non-Current Assets

Capital Assets

Land, not being depreciated	3,660
Capital Assets - Net of Depreciation	<u>1,952,822</u>
Total capital assets, net	<u>1,956,482</u>

Deferred outflows of resources	<u>-0-</u>
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Total Assets	<u><u>\$ 1,964,030</u></u>
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LIABILITIES

Current Liabilities:

Line of Credit- County of Imperial	324,386
Accounts payable	13,745
Interest Payable	9,255
Current portion of bonds payable	<u>12,000</u>
Total current liabilities	359,386

Non-Current Liabilities

Bonds payable - USDA, net of current portion	<u>373,000</u>
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Total Liabilities	<u>732,386</u>
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Contingency

Deferred inflows of resources	<u>-0-</u>
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NET POSITION

Invested in capital assets, net of related debt	1,567,822
Unrestricted (deficit)	<u>(336,178)</u>

Total Net Position	<u>1,231,644</u>
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Total Liabilities and Net Position	<u><u>\$ 1,964,030</u></u>
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The accompanying notes are an integral part of the financial statements.

NILAND SANITARY DISTRICT
STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES
IN NET POSITION
For The Fiscal Year Ended June 30, 2015

Operating Revenues:

Charges for services	\$ 256,131
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Operating Expenses:

Salaries	78,482
Services and supplies	193,569
Depreciation expense	<u>122,205</u>

Total operating expenses	<u>394,256</u>
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Operating income (loss)	<u>(138,125)</u>
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Non-operating revenues (expenses):

Property taxes	13,467
Interest expense	<u>(22,896)</u>

Total non-operating revenues (expenses) - Net	<u>(9,429)</u>
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Change in net position	(147,554)
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Total net position - beginning	<u>1,379,198</u>
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Total net position - ending	<u><u>\$ 1,231,644</u></u>
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The accompanying notes are an integral part of the financial statements.

NILAND SANITARY DISTRICT
Statement of Cash Flows
For The Fiscal Year Ended June 30, 2015

Cash flows from operating activities:

Cash received from customers and users	284,559
Cash paid to employees for services	(78,482)
Cash paid to suppliers of goods and services	<u>(213,746)</u>
Net cash provided (used) by operating activities	<u>(7,669)</u>

Cash flows from non capital financing activities:

Proceeds from line of credit	35,950
Cash received from property taxes	<u>13,467</u>
Net cash provided (used) by non-capital financing activities	<u>49,417</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets	(5,500)
Principal paid on capital debt	(12,000)
Interest paid on capital debt	<u>(20,528)</u>
Net cash provided (used) by capital and related financing activities	<u>(38,028)</u>

Net increase (decrease) in cash and cash equivalents	3,720
Cash and cash equivalents at beginning of year	<u>2,450</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,170</u></u>

The accompanying notes are an integral part of the financial statements.

NILAND SANITARY DISTRICT
Statement of Cash Flows (continued)
For The Fiscal Year Ended June 30, 2015

Reconciliation of operating income to
Net cash from operating activities

Operating income (loss)	<u>\$ (138,125)</u>
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	122,205
Decrease in accounts receivable	18,483
Increase/(decrease) in accounts payable	(10,803)
Increase/(decrease) in accrued interest payable	<u>571</u>
Total adjustments	<u>130,456</u>
Net cash used in operating activities	<u>(7,669)</u>

The accompanying notes are an integral part of the financial statements.

NILAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization and Operations of the Reporting Entity:

The Niland Sanitary District (the District) was formed in 1945 under the Sanitation District Act of 1923. The purpose of the District is to provide sewer services to the Niland area. The District is governed by a Board of Directors consisting of five members who are elected or appointed for terms of four years.

The accounting policies of the Niland Sanitary District conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

b. Measurement Focus, Basis of Accounting and Financial Statements Presentation:

"Measurement focus" is a term used to describe which transactions are recorded within the various financial statements. "Basis of accounting" refers to when transaction are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus," and the "accrual basis of accounting." Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statements of Net Position. The Statements of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating revenues, such as water service charges, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water services to its customers on a continuing basis be financed or recovered

See accompanying independent auditor's report.

NILAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

primarily through user charges (water service charges), capital grants and similar funding.

The basic financial statements of the Niland Sanitary District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

Net Position of the District is classified into three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

Net Investment in Capital Assets

This component of Net Position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Restricted Net Position

This component of Net Position consists of Net Position with constrained use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

This component of Net Position consists of Net Position that does not meet the definition of "net investment in capital assets" or "restricted Net Position".

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

See accompanying independent auditor's report.

NILAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Deferred Outflows / Inflows of Resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of Net Position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any type of these items as of June 30, 2015.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any type of these items as of June 30, 2015.

d. Cash and Cash Equivalents:

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

e. Accounts Receivable:

The District has made no provision for uncollectible receivables as all accounts are considered to be collectible as of June 30, 2015.

f. Restricted Assets:

Certain assets of the District are restricted in use by debt covenant and, accordingly are shown as restricted assets on the accompanying Statements of Net Position. The District used restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

See accompanying independent auditor's report.

NILAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Capital Assets:

Capital assets acquired and /or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$ 500 if they have an expected useful life of more than one year. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 years
Tools and Equipment	5 to 7 years

h. Property Taxes:

Property tax in California is levied in accordance with Article XIII A of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to state law to the appropriate units of local government. The District's property tax calendar for the fiscal year ended June 30, 2015, was as follows:

Lien date	January 1
Levy date	July 1
Due date:	
First installment	November 1
Second installment	February 1
Delinquent date:	
First installment	December 10
Second installment	April 10

i. Budgetary Policies:

The District adopts an annual budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period.

See accompanying independent auditor's report.

NILAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates include useful lives of property, plant and equipment for depreciation purposes and fair value of financial instruments.

NOTE 2. CASH AND INVESTMENTS

Cash is deposited with the county treasurer. Demands are made against funds held by the county to pay current expenses. Funds held by the county are pooled with other districts' funds and interest is paid to the District on a proportionate basis. The balance in this account was \$ -0- as of June 30, 2015.

NOTE 3. DEPOSITS AND INVESTMENTS

California Government Code 53601 authorizes the District to invest in obligations of the U. S. Treasury or its agencies, obligations of the State of California and any local agency, corporate bonds rated AAA by Standard and Poor, certificates of deposit or other interest bearing deposits of insured financial institutions and other investments as may be allowed by law. The

District deposits its funds with the County of Imperial Treasurer where it is maintained along with other funds in a pool of investments and deposits.

Investments - The District's investments are classified into three categories of credit risk:

1. Insured or registered, or securities held by the District or its agent in the District's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name.

See accompanying independent auditor's report.

NILAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

Classification of Investments by Credit Risk

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Demand accounts	<u>\$ 6,170</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 6,170</u>	<u>\$ 6,170</u>
Total	<u>\$ 6,170</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 6,170</u>	<u>\$ 6,170</u>

NOTE 4. EXTERNAL INVESTMENT POOL

The District is a member of an external investment pool. The Treasurer of Imperial County receives funds on behalf of the District and pools them with other funds. These funds are invested in a variety of instruments including Certificates of Deposit and Government Agency Funds. The funds are recorded at fair market value. Interest earnings are allocated quarterly based on the average balance of the invested amount for the quarter. The balance in this external investment pool was \$ -0- as of June 30, 2015.

NOTE 5. FIXED ASSETS

A summary of capital assets as of June 30, 2015 follows:

	<u>Balance as of July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of June 30, 2015</u>
<u>Non-depreciable Assets:</u>				
Land	<u>\$ 3,660</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 3,660</u>
<u>Depreciable Assets:</u>				
Building/Improvements	3,414,100	-0-	-0-	3,414,100
Equipment	160,195	5,500	-0-	165,695
Sewer upgrade	<u>670,000</u>	<u>-0-</u>	<u>-0-</u>	<u>670,000</u>
Total Depreciable Assets	<u>4,244,295</u>	<u>5,500</u>	<u>-0-</u>	<u>4,249,795</u>
Less Accumulated Depreciation				<u>(2,296,973)</u>
Total Depreciable Assets, Net				<u>1,952,822</u>
Total Capital Assets, Net				<u>\$ 1,956,482</u>

Depreciation expense for the year ended June 30, 2015 was \$ 122,205.

See accompanying independent auditor's report.

NILAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 6. COMPENSATED ABSENCES

Upon completion of twelve calendar months of continuous service, all salaried employees who work on a full time basis are granted vacation time of ten days per year. The District records and includes vacation expense in the period it is paid rather than when it is accumulated. As of June 30, 2015, the amount of vacation expense which has been accumulated but not used is not material and no liability for accrued vacation expense has been recorded.

NOTE 7. LINE OF CREDIT

The County of Imperial has granted the District a line of credit to cover overdrafts with the County of Imperial. The County charges interest based upon the rate of interest they receive for their pooled monies. As of June 30, 2015, the balance due to the County of Imperial was \$ 324,386.

NOTE 8. LONG-TERM DEBT

On August 12, 1993, the District issued \$ 545,100 of Niland Sanitary District Sewer Revenue Bonds, Series 1993 with an effective interest rate of 5.25%. The bonds are to be paid off over a period of 40 years. Pursuant to an agreement with the Farmers Home Administration, the bonds were purchased in total by the Farmers Home Administration acting under the provisions of the Consolidated Farm and Rural Development Act.

Interest only payments on the loan began February 1, 1994 and are due annually thereafter until maturity August 1, 2033. Principal and interest payments began on August 1, 1994 and are due annually thereafter until maturity August 1, 2033.

The annual requirements to amortize the bonds are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 12,000	\$ 19,897	\$ 31,897
2017	13,000	19,241	32,241
2018	14,000	18,533	32,533
2019	15,000	17,771	32,771
2020	16,000	16,957	32,957
2021-2025	90,000	71,189	161,189
2026-2030	113,000	44,912	157,912
2031-2034	112,000	12,127	124,127
	<u>\$ 385,000</u>	<u>\$ 220,627</u>	<u>\$ 605,627</u>

See accompanying independent auditor's report.

NILAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 8. LONG-TERM DEBT (CONTINUED)

Changes in Long-term Debt:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Current</u> <u>portion</u>
1993 Revenue Bonds	\$ 397,000	\$ - 0 -	\$ 12,000	\$ 385,000	\$ 12,000

NOTE 9. RESTRICTED ASSETS

The resolution authorizing the sale of the Niland Sanitary District 1993 Sewer Revenue Bonds requires that the District establish a reserve fund in an amount not less than the maximum annual requirements for the payment of principal and interest on the revenue bonds, which is \$ 33,465. This amount is to be funded in ten annual payments. The balance in the reserve account as of June 30, 2015 was \$ -0-.

NOTE 10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

NOTE 11. CONTINGENCY

During a prior fiscal year a plant compliance violation was issued. The Administrative Civil Liabilities Complaint (ACLC) mandates that agencies be fined. The ACLC issued a complaint against the District with fines over \$100,000. The California Regional Water Quality Control Board has agreed that if an approved compliance project is submitted to them the cost of the project could be mitigated in lieu of the fine. The District is currently working on projects to bring the plant back into compliance. The Regional Board has offered assistance to the District to help secure funding to pay for the compliance project. It has not been determined what the total cost will be to bring the plant into compliance.

A proposed compliance project was submitted to the Regional Water Quality Control Board March 21, 2015. The Niland Sanitary District (NSD) proposed a compliance project to the State to mitigate the \$ 90,000 in minimum mandatory penalties set forth in ACL R7-2015-0023. The proposed compliance project is to change the billing method of the NSD by removing the current method of billing for sewage fees as an assessment on the property taxes and changing to monthly billing in an attempt to stabilize the districts operating budget.

See accompanying independent auditor's report.

NILAND SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 11. CONTINGENCY (CONTINUED)

This will consist of creating a new position for a billing clerk at an annual salary of \$ 30,000 and purchasing the equipment and supplies related to the new monthly billing system.

A list of proposed expenditures which will be paid out of the general fund was submitted. Stabilizing the operating budget will provide funds to maintain the infrastructure to minimize failures of critical systems and provide for replacing failed equipment in a timely manner to lessen the chances of violations of the NPDES Permit of occurring in the future.

Current Status

The suggested compliance project was never accepted by the RWQCB. The \$ 90,000 liability still exists but the RWQCB is not forcing the issue at this time. If the District were to pay a share of cost or obtain a loan to pay a share of cost in the next project that may be used as a settlement to this issue. Grant funds are no longer allowed to settle fines.

NOTE 12. GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As reported in the financial statements during the year ended June 30, 2015, the District incurred a operating loss of \$ 260,283. In the prior year the District incurred a loss of \$ 198,480. These factors including a deficit in unrestricted assets of \$ 296,989 may indicate that the District will be unable to continue as a going concern for reasonable period of time.

The District's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis. In addition, the District relies on the County of Imperial to grant a line of credit each year for operating expenses.

NOTE 13 SUBSEQUENT EVENT

Subsequent to the year end, the District enrolled in the Teeter Plan. Revenue will be recognized in the fiscal year for which the tax and assessment is levied. The County of Imperial levies, bills and collects property taxes and special assessments for the District; under the County's "Teeter Plan" the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties.

See accompanying independent auditor's report.

NILAND SANITARY DISTRICT
STATEMENT OF REVENUES AND EXPENSES
ACTUAL COMPARED TO BUDGET
For The Fiscal Year Ended June 30, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 295,000	\$ 256,131	\$ (38,869)
Operating Expenses			
Employee benefits	-0-	283	(283)
Depreciation expense	-0-	122,205	(122,205)
Insurance	23,000	6,414	16,586
Maintenance	25,000	707	24,293
Office expense	5,000	4,344	656
Other operations - structures and improvements	130,000	101,239	28,761
Payroll taxes	27,000	34,146	(7,146)
Professional services	20,000	12,114	7,886
Rents & leases - equipment	5,000	-0-	5,000
Salaries	95,400	78,482	16,918
Travel	25,000	2,078	22,922
Utilities	28,000	32,244	(4,244)
Total expenses	383,400	394,256	(10,856)
Net operating income (loss)	(88,400)	(138,125)	(49,725)
Non-operating revenues (expenses)			
Property taxes	7,000	13,467	6,467
Interest expense	-0-	(22,896)	(22,896)
Non-operating revenues (expenses) - Net	7,000	(9,429)	(16,429)
Net Income (loss)	\$ (81,400)	\$ (147,554)	\$ (66,154)

See accompanying independent auditor's report.