

WINTON WATER AND SANITARY DISTRICT  
REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

August 8, 2016

Board of Directors  
Winton Water and Sanitary District  
Winton, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the component unit, each major fund and the aggregate remaining fund information of Winton Water and Sanitary District, State of California, as of and for the year ended June 30, 2016, 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 in 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 judgement, 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 District'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 governmental activities, the business-type activities, the component unit, each major fund and the aggregate remaining fund information of Winton Water and Sanitary District, State of California, as of June 30, 2016 and the respective 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.

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages three through eight 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 inquires 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 August 8, 2016 on our consideration of Winton Water and Sanitary 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 the District's internal control over financial reporting and compliance.

*Sanborn and Sanborn  
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS

**WINTON WATER AND SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

As management of Winton Water and Sanitary District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with information that is included within the financial statements.

**Financial Highlights**

- Assets of the District exceeded its liabilities as of June 30, 2016 by \$9,144,134. Of this amount, unrestricted net position of \$5,344,134 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2015, the assets of the District exceeded its liabilities by \$8,964,768, with unrestricted net position totaling \$4,912,454.
- Total net position increased by \$179,366. Of this amount, governmental activities net position decreased by \$682,629 and business-type activities net position increased by \$861,995. For the year ended June 30, 2015, total net position decreased by \$96,961, with net position associated with governmental activities increasing by \$51,094 and net position associated with business-type activities decreasing by \$148,055.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,600,153, a decrease of \$682,859 in comparison with the prior year. This entire amount is available for spending, but all of it has been committed for specific future uses by the Board of Directors of the District. For the year ended June 30, 2015, the District's governmental funds had combined ending fund balances of \$4,283,012, with the entire amount available for spending, but also committed for specific future uses. There was an increase of \$50,265 in the combined ending fund balances in the prior year.
- As of the close of the current fiscal year, the District's business-type funds reported combined ending net position of \$5,572,169, an increase of \$644,159 in comparison with the prior year. Of this amount, \$1,772,166 is unrestricted and available for spending and \$3,800,003 is invested in capital position, net of related debt. For the year ended June 30, 2015, the District's business-type funds had combined ending net position of \$4,928,010, with \$875,696 unrestricted and available for spending and \$4,052,314 invested in capital assets, net of related debt. There was a decrease of \$154,911 in the combined net position in the prior year.
- The District's total debt obligations decreased by the net of \$686,063. The decrease was mostly attributable to the payment of total long-term debt of \$679,622. In addition, net unfunded pension obligation in the amount of \$159,435 was liquidated. The District's net unfunded pension obligation as of June 30, 2015 was \$28,188. Prior year total debt obligations decreased by \$145,115. This decrease was mostly attributable to the payment of 108,760.
- The District's capital assets decreased by a net of \$252,311. The decrease was entirely attributable to depreciation, the ratable amortization of capital asset costs over estimated useful lives, of \$252,311. There were no new capital asset acquisitions. Prior year new capital assets amounted to \$122,723, while depreciation totaled \$270,952.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Winton Water and Sanitary District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the two 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 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 giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expense are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally non-business in nature (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include procuring reserves for future water and sewer systems improvements. The business-type activities of the District include water and sewer systems.

The government-wide financial statements include not only the District itself (known as the primary government), but also the legally separate Winton Public Facilities Corporation, a component unit of the District. Financial information for the component unit is reported within the financial information presented for the primary government itself.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the two.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balance for the two funds which are considered major funds.

**Proprietary funds.** The District maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District maintains two individual enterprise funds. Information is presented separately in the proprietary statement of net position and the proprietary statement of revenue, expense and changes in fund net position for the Water and Sanitary Funds, which are considered major funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2016, the District's assets exceeded liabilities by \$9,144,134. A significant portion of the District's net position (42 percent) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to customers and are not available for future spending. Although the investment in capital assets are 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 following represent summaries of the District's net position and changes in net position for the current and prior years:

#### Winton Water and Sanitary District's Net Position

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Current Year Total</u>	<u>Prior Year Total</u>
Current and other assets	\$ 3,607,100	\$ 2,115,788	\$ 5,722,888	\$ 6,207,811
Capital assets		3,800,003	3,800,003	4,052,314
Deferred outflows		<u>273,130</u>	<u>273,130</u>	<u>42,593</u>
Total assets	<u>3,607,100</u>	<u>6,188,921</u>	<u>9,796,021</u>	<u>10,302,718</u>
Long-term liabilities		199,374	199,374	906,908
Other liabilities		350,569	350,569	369,481
Deferred inflows		<u>101,944</u>	<u>101,944</u>	<u>61,561</u>
Total liabilities		<u>651,887</u>	<u>651,887</u>	<u>1,337,950</u>
Net position:				
Invested in capital assets - net		3,800,003	3,800,003	4,052,314
Unrestricted	<u>3,607,100</u>	<u>1,737,031</u>	<u>5,344,131</u>	<u>4,912,454</u>
Total net position	<u>\$ 3,607,100</u>	<u>\$ 5,537,034</u>	<u>\$ 9,144,134</u>	<u>\$ 8,964,768</u>

## Winton Water and Sanitary District's Changes in Net Position

	Governmental Activities	Business-type Activities	Current Year Total	Prior Year Total
Program revenue				
Charges for services	\$ 149,749	\$ 2,448,654	2,598,403	\$ 2,596,447
Operating grants/contributions	<u>                    </u>	<u>22,341</u>	<u>22,341</u>	<u>36,483</u>
Total revenue	<u>149,749</u>	<u>2,470,995</u>	<u>2,620,744</u>	<u>2,632,930</u>
Expense				
Sanitary		1,633,103	1,633,103	1,875,164
Water	<u>                    </u>	<u>897,076</u>	<u>897,076</u>	<u>941,980</u>
Total expense	<u>                    </u>	<u>2,530,179</u>	<u>2,530,179</u>	<u>2,817,144</u>
Increase/(decrease) in net position before transfers	149,749	(59,184)	90,565	(184,214)
Total general revenue and transfers	<u>(832,378)</u>	<u>921,179</u>	<u>88,801</u>	<u>87,253</u>
Change in net position	(682,629)	861,995	179,366	(96,961)
Net position, beginning of year	<u>4,289,729</u>	<u>4,675,039</u>	<u>8,964,768</u>	<u>9,061,729</u>
Net position, end of year	<u>\$ 3,607,100</u>	<u>\$ 5,537,034</u>	<u>\$ 9,144,134</u>	<u>\$ 8,964,768</u>

**Governmental activities.** Governmental activities decreased the District's net position by \$682,629, including charges for services in the amount of \$149,749 and operating transfers out of \$835,823.

**Business-type activities.** Business-type activities increased the District's net position by \$861,995. This increase consisted principally of operating losses added to general revenue and operating transfers in. The Water Fund generated an operating loss of \$337,811 while the Sanitary Fund had an operating income of \$52,366.

### Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds.** The purpose of the District's governmental fund financial statements is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2016, the District's governmental funds reported combined ending fund balances of \$3,600,153, a decrease of \$682,859 in comparison to the prior year. The entire combined ending fund balance is committed and available for spending at the District's discretion. The entire combined ending

fund balance has been designated by the Board of Directors for subsequent years' expenditure and other uses leaving no fund balance unreserved and undesignated.

**Proprietary funds.** The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sanitary Funds at the end of the year were \$858,928 and \$913,238, respectively. The total increase in net position for the year was \$(165,354) and \$809,513 for those funds, respectfully. Other factors concerning the finances of these funds have already been addressed in the discussion of the District's business-type activities.

### **Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets for its governmental and business-type activities as of June 30, 2016 amounted to \$3,800,003 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, service lines, construction in progress, vehicles and equipment.

The major capital asset event during the current fiscal year was depreciation that amounted to \$252,311.

Additional information on the District's capital assets can be found in note three.

**Long-term debt.** Except for the unfunded pension obligation, the District had no long-term debt as of June 30, 2016.

Additional information on the District's long-term debt can be found in notes seven and eleven.

### **Economic Factors and Next Year's Budgets and Rates**

The District's elected and appointed officials considered many factors when adopting the fiscal year 2016/2017 budget. Semi-annual reports are transmitted to the Board of Directors that provide actual information related to projections. Budgets for the fiscal year 2016/2017 were developed, adopted and amended based upon the following assumptions and information:

- Operating revenue for 2016/2017 is anticipated to be \$7,264 greater than actual revenue for the current year.
- Service rates are not anticipated to increase significantly in 2016/2017.
- Operating expenditures for 2016/2017 are expected to be \$289,744 greater than actual expenditures for the current year.
- Non-operating revenue is expected to decrease by \$14,672.

Development activity for the coming year is anticipated to be moderate. Anticipated growth in 2016/2017 is expected to be similar to that of 2015/2016. The overall economic forecast assumes that 2016/2017 will be approximately the same as 2015/2016.



## **Requests for Information**

This financial report is designed to provide a general overview of Winton Water and Sanitary District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office Supervisor, Winton Water and Sanitary District, 6951 North Winton Way, P. O. Box 970, Winton, California 95388-0970.

WINTON WATER AND SANITARY DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Totals - Reporting Entity</u>
<b>Assets</b>			
Cash and cash equivalents	\$3,607,100	\$1,804,987	\$5,412,087
Accounts receivable		286,011	286,011
Taxes receivable		7,800	7,800
Prepaid expense		16,990	16,990
Capital assets (net of allowance for depreciation)	<u>                    </u>	<u>3,800,003</u>	<u>3,800,003</u>
Total assets	3,607,100	5,915,791	9,522,891
<b>Deferred outflows</b>			
Pension plan contributions and adjustments	<u>                    </u>	<u>273,130</u>	<u>273,130</u>
Total assets and deferred outflows	<u>3,607,100</u>	<u>6,188,921</u>	<u>9,796,021</u>
<b>Liabilities</b>			
Accounts payable and accrued expense		182,324	182,324
Deposits		168,245	168,245
Noncurrent liabilities			
Unfunded pension obligation	<u>                    </u>	<u>199,374</u>	<u>199,374</u>
Total liabilities		549,943	549,943
<b>Deferred inflows</b>			
Pension plan resources	<u>                    </u>	<u>101,944</u>	<u>101,944</u>
Total liabilities and deferred inflows	<u>                    </u>	<u>651,887</u>	<u>651,887</u>
<b>Net position</b>			
Invested in capital assets, net of related debt		3,800,003	3,800,003
Unrestricted	<u>3,607,100</u>	<u>1,737,031</u>	<u>5,344,131</u>
Total net position	<u>\$3,607,100</u>	<u>\$5,537,034</u>	<u>\$9,144,134</u>

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Totals - Reporting Entity</u>
Program revenue			
Charges for services	\$ 149,749	\$2,448,654	\$2,598,403
Operating grants and contributions	<u>                    </u>	<u>22,341</u>	<u>22,341</u>
Total program revenue	<u>149,749</u>	<u>2,470,995</u>	<u>2,620,744</u>
Expense			
Sanitary enterprise		1,633,103	1,633,103
Water enterprise		<u>897,076</u>	<u>897,076</u>
Total expense		<u>2,530,179</u>	<u>2,530,179</u>
Net program revenue/(loss)	<u>149,749</u>	<u>(59,184)</u>	<u>90,565</u>
General revenue and transfers			
Property taxes		84,540	84,540
Unrestricted investment earnings	3,445	816	4,261
Transfers in/(out) - net	<u>(835,823)</u>	<u>835,823</u>	<u>                    </u>
Total general revenue and transfers in/(out)	<u>(832,378)</u>	<u>921,179</u>	<u>88,801</u>
Change in net position	(682,629)	861,995	179,366
Net position, beginning of year	<u>4,289,729</u>	<u>4,675,039</u>	<u>8,964,768</u>
Net position, end of year	<u>\$3,607,100</u>	<u>\$5,537,034</u>	<u>\$9,144,134</u>

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
 GOVERNMENTAL FUNDS  
 BALANCE SHEET  
 JUNE 30, 2016

	<u>Water Reserves Fund</u>	<u>Sanitary Reserves Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$1,230,145	\$2,376,955	\$3,607,100
Due from other funds	<u>4,428</u>	<u>6,529</u>	<u>10,957</u>
	<u>\$1,234,573</u>	<u>\$2,383,484</u>	<u>\$3,618,057</u>
Liabilities and Fund Balance			
Liabilities			
Due to other funds	\$ <u>17,904</u>	\$ _____	\$ <u>17,904</u>
Total liabilities	17,904		17,904
Fund balance			
Committed	<u>1,216,669</u>	<u>2,383,484</u>	<u>3,600,153</u>
	<u>\$1,234,573</u>	<u>\$2,383,484</u>	<u>\$3,618,057</u>

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE  
SHEET TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances – total governmental funds	\$3,600,153
Elimination of interfund receivables/payables	<u>6,947</u>
Net position of governmental activities	<u>\$3,607,100</u>

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2016

	Water Reserves Fund	Sanitary Reserves Fund	Total
Revenue			
Assessments	\$ 48,907	\$ 100,842	\$ 149,749
Interest	993	2,452	3,445
Total revenue	49,900	103,294	153,194
Expenditures			
Revenue over/(under) expenditures	49,900	103,294	153,194
Other financing sources/(uses)			
Operating transfers in/(out)		(836,053)	(836,053)
Net change in fund balance	49,900	(732,759)	(682,859)
Fund balance, beginning of year	1,166,769	3,116,243	4,283,012
Fund balance, end of year	\$1,216,669	\$2,383,484	\$3,600,153

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF  
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balance – total governmental funds	\$ (682,859)
Amounts reported for governmental activities in the statement of activities are different because:	
Elimination of interfund transfers	<u>230</u>
Change in net position of governmental activities	<u>\$ (682,629)</u>

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2016

	Business-type Activities – Enterprise Funds		Total
	<u>Water</u>	<u>Sanitary</u>	
Assets			
Current assets			
Cash and cash equivalents	\$ 798,756	\$1,006,231	\$1,804,987
Accounts receivable	88,759	197,252	286,011
Taxes receivable		7,800	7,800
Due from other funds	18,140	15,298	33,438
Prepaid expense	<u>7,043</u>	<u>9,947</u>	<u>16,990</u>
Total current assets	<u>912,698</u>	<u>1,236,528</u>	<u>2,149,226</u>
Capital assets			
Land, buildings and equipment	5,643,531	4,192,142	9,835,673
Allowance for depreciation	<u>(3,687,448)</u>	<u>(2,348,222)</u>	<u>(6,035,670)</u>
Net capital assets	<u>1,956,083</u>	<u>1,843,920</u>	<u>3,800,003</u>
Total assets	<u>2,868,781</u>	<u>3,080,448</u>	<u>5,949,229</u>
Liabilities			
Current liabilities			
Accounts payable and accrued expense	34,044	148,280	182,324
Customer deposits		168,245	168,245
Due to other funds	<u>19,726</u>	<u>6,765</u>	<u>26,491</u>
Total liabilities	<u>53,770</u>	<u>323,290</u>	<u>377,060</u>
Net Position			
Invested in capital assets, net of related debt	1,956,083	1,843,920	3,800,003
Unrestricted	<u>858,928</u>	<u>913,238</u>	<u>1,772,166</u>
Total net position	<u>\$2,815,011</u>	<u>\$2,757,158</u>	<u>\$5,572,169</u>

See accompanying notes to financial statements.



WINTON WATER AND SANITARY DISTRICT  
RECONCILIATION OF PROPRIETARY FUNDS STATEMENT OF NET POSITION  
TO NET POSITION OF BUSINESS-TYPE ACTIVITIES  
JUNE 30, 2016

Amounts reported for business-type activities in the statement of net position are different because:

Total net position for proprietary funds statement of net position	\$5,572,169
Unfunded pension plan obligation and deferred outflows and inflows are not current financial resources and, therefore, are not reported in the funds statements	(28,188)
Elimination of interfund receivables/payables and amounts due from component units.	<u>(6,947)</u>
Net position of business-type activities	<u>\$5,537,034</u>

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSE  
 AND CHANGES IN FUND NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2016

	Business-type Activities – Enterprise Funds		Total
	Water	Sanitary	
Operating revenue			
Charges for services	<u>\$ 706,123</u>	<u>\$1,742,531</u>	<u>\$2,448,654</u>
Operating expense			
Sewage treatment		1,088,739	1,088,739
Salaries and wages	312,237	171,040	483,277
Depreciation	156,518	95,793	252,311
Employee benefits	129,808	100,533	230,341
Utilities and telephone	168,677	26,619	195,296
Repairs and maintenance	98,907	71,946	170,853
Legal and professional	46,718	48,691	95,409
Operating supplies	47,892	11,686	59,578
Office supplies	13,026	42,417	55,443
Insurance	11,386	11,478	22,864
Dues, subscriptions and fees	13,659	8,721	22,380
Monitoring and testing	18,322	2,170	20,492
Other	12,538	2,121	14,659
Gasoline, fuel and oil	10,296	2,294	12,590
Equipment rental	<u>3,950</u>	<u>5,917</u>	<u>9,867</u>
Total operating expense	<u>1,043,934</u>	<u>1,690,165</u>	<u>2,734,099</u>
Net operating income/(loss)	<u>(337,811)</u>	<u>52,366</u>	<u>(285,445)</u>
Nonoperating revenue/(expense)			
Property taxes	42,270	42,270	84,540
Miscellaneous	80	22,261	22,341
Interest revenue	614	202	816
Interest expense	<u>          </u>	<u>(14,146)</u>	<u>(14,146)</u>
Net nonoperating revenue/(expense)	<u>42,964</u>	<u>50,587</u>	<u>93,551</u>
Revenue over/(under) expense	(294,847)	102,953	(191,894)
Other financing sources/(uses)			
Operating transfers in/(out)	<u>129,493</u>	<u>706,560</u>	<u>836,053</u>
Change in net position	(165,354)	809,513	644,159
Total net position, beginning of year	<u>2,980,365</u>	<u>1,947,645</u>	<u>4,928,010</u>
Total net position, end of year	<u>\$2,815,011</u>	<u>\$2,757,158</u>	<u>\$5,572,169</u>

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
RECONCILIATION OF PROPRIETARY FUNDS STATEMENT OF  
REVENUE, EXPENSE AND CHANGES IN FUND NET POSITION TO  
CHANGE IN NET POSITION OF BUSINESS-TYPE ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

Net change in net position – business-type activities	\$ 644,159
Amounts reported for business-type activities in the statement of activities are different because:	
Changes in unfunded pension obligation are not current financial resources and, therefore, are not reported in the funds statements. This is the amount of net changes in unfunded pension obligation in the current period.	218,066
Elimination of interfund transfers.	<u>(230)</u>
Change in net position of business-type activities	<u>\$ 861,995</u>

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOW  
 FOR THE YEAR ENDED JUNE 30, 2016

Page 1 of 2

	Business-type Activities – Enterprise Funds		Total
	Water	Sanitary	
Cash flow from operating activities			
Receipts from customers and users	\$ 710,065	\$1,751,618	\$2,461,683
Payments to suppliers	(428,181)	(1,325,532)	(1,753,713)
Payments to employees	<u>(442,045)</u>	<u>(271,573)</u>	<u>(713,618)</u>
Net cash provided by/(used for) operating activities	<u>(160,161)</u>	<u>154,513</u>	<u>(5,648)</u>
Cash flow from noncapital financing activities			
Property taxes revenue	42,270	57,625	99,895
Miscellaneous nonoperating revenue	80	22,261	22,341
Transfers (to)/from other funds	<u>89,020</u>	<u>746,803</u>	<u>835,823</u>
Net cash provided by/(used for) noncapital financing activities	<u>131,370</u>	<u>826,689</u>	<u>958,059</u>
Cash flow from capital and related financing activities			
Principal paid on noncurrent liabilities		(679,622)	(679,622)
Interest paid on noncurrent liabilities		<u>(27,738)</u>	<u>(27,738)</u>
Net cash provided by/(used for) capital and related financing activities		<u>(707,360)</u>	<u>(707,360)</u>
Cash flow from investing activities			
Interest on investments	<u>614</u>	<u>202</u>	<u>816</u>
Net increase/(decrease) in cash	(28,177)	274,044	245,867
Cash, beginning of year	<u>826,933</u>	<u>732,187</u>	<u>1,559,120</u>
Cash, end of year	<u>\$ 798,756</u>	<u>\$1,006,231</u>	<u>\$1,804,987</u>

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOW  
 FOR THE YEAR ENDED JUNE 30, 2016

Page 2 of 2

	Business-type Activities – Enterprise Funds		Total
	Water	Sanitary	
	Reconciliation of operating income to net cash provided by/(used for) operating activities:		
Operating income/(loss)	\$ (337,811)	\$ 52,366	\$ (285,445)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities			
Depreciation and amortization expense	156,518	95,793	252,311
(Increase)/decrease in accounts receivable	3,942	4,498	8,440
(Increase)/decrease in prepaid expense	7,318	17,048	24,366
Increase/(decrease) in accounts payable and accrued expense	9,872	(19,781)	(9,909)
Increase/(decrease) in customer deposits	_____	4,589	4,589
Net cash provided by/(used for) operating activities	\$ (160,161)	\$ 154,513	\$ (5,648)

See accompanying notes to financial statements.

WINTON WATER AND SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies

Winton Water and Sanitary District was organized in 1952, upon the approval of the Board of Supervisors of Merced County. The District was originally organized to maintain the sewer operations in the community of Winton. The water distribution operations for Winton were acquired by the District in 1985. Division 12 of the California Water Code governs the water distribution operations of the District and Division 6 of the California Health and Safety Code governs the sewer operations of the District. As the District is a governmental unit, it is exempt from federal and California taxes on income.

The accounting and reporting policies of the District (including its component units, Winton Public Facilities Corporation and Winton Community Facilities District) conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Government Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (when applicable).

A. Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements present the District and its component unit in conformance with GASB Statement No. 14, "The Financial Reporting Entity." Under Statement No. 14, component units are organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

The District's component unit, Winton Public Facilities Corporation (WPFC) is a separate and distinct legal entity created by state statutes, but does not have fiscal independence from the District. The directors for WPFC are appointed by the District. WPFC is included in the financial statements as a blended activity within the Sewer Enterprise activity. WPFC provides a financing conduit for improvements made within the District.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements, which are the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue include charges to customers and grants and contributions that are restricted to meeting the operational or capital requirements of a particular

WINTON WATER AND SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

function or activity. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with the GASB pronouncements. The District's reporting entity does not apply FASB pronouncements of APB opinions issued after November 30, 1989.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, District revenues are available if they are collected within 90 days of the end of the current period. Expenditures generally are recorded when liabilities are incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

The District reports the following major governmental funds:

The Water Reserves Fund is used to account for financial resources to be used for the acquisition of water system facilities.

The Sanitary Reserves Fund is used to account for financial resources to be used for the acquisition of sewer system facilities.

The District reports the following major proprietary funds:

The Water Enterprise Fund accounts for the water system operations in the community of Winton.

The Sanitary Enterprise Fund accounts for the sewer system operations in the community of Winton.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include charges to customers for goods and services, operating grants and contributions and capital grants and contributions.

WINTON WATER AND SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Proprietary funds distinguish operating revenue and expense from nonoperating items. Operating revenue and expense 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 proprietary funds are charges to 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 revenue and expense not meeting this definition are reported as nonoperating revenue and expense.

D. Assets, Liabilities and Net Position or Equity

1. Cash and Investments

Investments are reported at fair value. Cash represents cash on hand and in banks. Some of the cash resources of individual funds are combined to form a pool of cash for cash management purposes. Investments made from pooled cash consist primarily of short-term investments. Interest income earned as a result of pooling is distributed to the appropriate funds based on the average daily balance of pooled cash of each fund.

2. Receivables and Payables

Outstanding balances between funds at the end of the fiscal year are referred to as either "due to/from other funds" for the current portion of interfund loans or "advances to/from other funds" for the non current portion.

In the proprietary funds, receivables are shown net of an allowance for uncollectible accounts.

3. Inventories

Inventories are stated at cost using the first-in, first-out method. The cost of inventory items are recognized as expenditures in governmental financial statements and as expenses in government-wide and proprietary fund financial statements when used.

4. Property, Plant and Equipment

Capital assets, which include property, plant, equipment and infrastructure assets related to business-type activities (e.g., water and sewer lines) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. All material fixed assets are valued at historical cost. Donated fixed assets are valued at their estimated fair value on the date donated. When an asset is disposed of, cost and related accumulated depreciation is removed and any gain or loss arising from its disposal is credited or charged to operations.



WINTON WATER AND SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position or Equity (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is recorded by using the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

	<u>Estimated Useful Life in Years</u>
Buildings and improvements	5 to 40
Equipment	5 to 20

5. Long-Term Liabilities

Long-term liabilities consist of bonds, notes and other indebtedness

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement on net position.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

6. Net Position

Net position comprise the various net earnings from operating income, nonoperating revenue and expense and capital contributions. Net position are classified in the following three components:

*Invested in capital assets, net of related debt* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset components as the unspent proceeds.

*Restricted* – This component of net position consists of 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 do not meet the definition of restricted or invested in capital assets, net of related debt.

WINTON WATER AND SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position or Equity (continued)

7. Fund Equity

In the fund financial statements, governmental funds report fund balance amounts in the following classifications: Nonspendable, restricted, committed, assigned and unassigned. Nonspendable amounts represent inventories, prepaid items and long-term receivables. Restricted amounts have been restricted by external bodies. Committed amounts have been restricted by the District's governing board. Assigned amounts represent tentative designations by the District. Unassigned amounts are spendable and are not restricted, committed or assigned.

E. Budgets and Budgetary Accounting

The District established budgets for its proprietary funds for the year ended June 30, 2016. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Formal budgetary integration is not employed for the proprietary funds because effective budgetary control is alternatively achieved through the profit motive nature of the funds. No budgets were established for the District's governmental fund types for the year ended June 30, 2016.

F. Due From/To other Funds

Periodically, one fund will advance funds to another to finance operations. Such loans are reflected in these financial statements as "Due from other funds" or "Due to other funds."

G. Accumulated Unpaid Vacation and Sick Leave

As part of its compensation program, the District provides vacation and sick leave benefits for its full-time employees. Accrued vacation and sick leave benefits are reflected as liabilities and expense, where appropriate, within the financial statements.

H. Estimates

The presentation 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2: Cash

The District's deposits as of June 30, 2016, were entirely covered by federal depository insurance or otherwise collateralized. The Government Code of the State of California requires California financial institutions to secure District deposits by pledging government securities as collateral.

The market value of pledged securities must equal at least 110 percent of the District's deposit. California law also allows financial institutions to secure the District's deposit by pledging first deed mortgage notes having a value of at least 150 percent of the District's total deposit.

WINTON WATER AND SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

Note 2: Cash (continued)

The following is an analysis of cash as of June 30, 2016:

	<u>Bank Balance Category*</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash on hand	\$ 1,125	\$	\$	\$ 1,125
Cash in bank	250,000	5,155,997		5,405,997
Local Agency Investment Fund		4,965		4,965
	<u>\$ 251,125</u>	<u>\$5,160,962</u>	<u>\$</u>	<u>\$5,412,087</u>

\* These categories are as follows:

Category 1: Cash on hand or insured by the Federal Deposit Insurance Corporation or collateralized with securities held by the District or by its agents in the District's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3: Uncollateralized.

Note 3: Property, Plant and Equipment

The following is an analysis of Enterprise Funds capital assets as of June 30, 2016:

	<u>Water Fund</u>	<u>Sanitary Fund</u>	<u>Totals</u>
Land*	\$	\$ 677,822	\$ 677,822
Buildings and improvements	5,364,899	2,942,887	8,307,786
Construction in progress*	29,307	55,542	84,849
Equipment			
Automotive	131,928	242,729	374,657
Office		73,771	73,771
Other	<u>117,397</u>	<u>199,391</u>	<u>316,788</u>
Total	5,643,531	4,192,142	9,835,673
Allowance for depreciation	<u>(3,687,448)</u>	<u>(2,348,222)</u>	<u>(6,035,670)</u>
	<u>\$1,956,083</u>	<u>\$1,843,920</u>	<u>\$3,800,003</u>

\* Not currently depreciated

WINTON WATER AND SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2016

Note 3: Property, Plant and Equipment (continued)

The following is a summary of activity affecting capital assets for the year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Land*	\$ 677,822	\$	\$	\$ 677,822
Buildings and improvements	8,307,786			8,307,786
Construction in progress*	84,849			84,849
Equipment	<u>765,216</u>	<u>                    </u>	<u>                    </u>	<u>765,216</u>
Total	9,835,673			9,835,673
Allowance for depreciation	<u>(5,783,359)</u>	<u>(252,311)</u>	<u>                    </u>	<u>(6,035,670)</u>
	<u>\$4,052,314</u>	<u>\$ (252,311)</u>	<u>\$                    </u>	<u>\$3,800,003</u>

\* Not currently depreciated

Note 4: Fund Balance – Committed

The following is an analysis of designated fund balances as of June 30, 2016:

Water Reserves Fund – future facilities acquisition	\$1,216,669
Sanitary Reserves Fund – future facilities acquisition	<u>2,383,484</u>
	<u>\$3,600,153</u>

Note 5: Interfund Receivables and Payables

Interfund receivables and payables as of June 30, 2016, consisted of the following:

	<u>Due from</u>	<u>Due to</u>
Governmental funds		
Water Reserves Fund	\$ 4,428	\$ 17,904
Sanitary Reserves Fund	6,529	
Proprietary funds		
Water Fund	18,140	19,726
Sanitary Fund	<u>15,298</u>	<u>6,765</u>
	<u>\$ 44,395</u>	<u>\$ 44,395</u>

Note 6: Sewage Disposal Agreement

The District and the City of Atwater have entered into a sewage treatment and disposal agreement. This agreement is not limited in time, but is cancelable by mutual consent. Charges related to this agreement are based upon the capacity used by the District. Charges to the District under this agreement by the City of Atwater for the year ended June 30, 2016 aggregated \$1,088,739. Charges to the District for the year ending June 30, 2017 should approximate \$1,301,928. Payments to the City by the District are made monthly.

WINTON WATER AND SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2016

Note 7: Wastewater System Improvement Project Refunding Certificates of Participation/Refunding Debt

On March 1, 1998, the Board of Directors authorized the creation of Winton Public Facilities Corporation and the sale of certificates of participation in the amount of \$1,770,000 to finance the refunding of an obligation due to the City of Atwater. Net revenues of the Sanitary Fund secure this obligation. On July 12, 2005 this obligation was defeased with the issuance of a new debt obligation. In January 2016, this obligation was paid in total. The following is a summary of the activity of this obligation for the year ended June 30, 2016:

<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
\$ 679,622	\$ _____	\$ 679,622	\$ _____-0-

Note 8: Interfund Transfers

The following is a summary of interfund transfers for the year ended June 30, 2016:

	<u>Transfers</u> <u>Out</u>	<u>Transfers</u> <u>In</u>
Governmental funds		
Sanitary Reserves Fund	\$ 836,053	\$
Proprietary funds		
Water Fund		129,493
Sanitary Fund	<u>25,287</u>	<u>731,847</u>
	<u>\$ 861,340</u>	<u>\$ 861,340</u>

Note 9: Subsequent Events

Events affecting the District subsequent to June 30, 2016 through August 8, 2016 have been evaluated and included within these financial statements when applicable.

Note 10: Board of Directors

The following were members of the Board of Directors as of June 30, 2016:

Stevan Ogden	President
Michelle Allison	Director
Carol Bonin	Director
Jose Martinez	Director
Shiella Shamblin	Director

The Secretary to the Board of Directors is Georgina Bos.

WINTON WATER AND SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016

Note 11: Employee Retirement System

The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

PERS offers three types of benefits. The Service Retirement plan provides monthly income upon retirement of eligible employees. The Non-Industrial (Non-Job Related) Disability Retirement plan provides monthly income to eligible employees who become permanently disabled on or off the job. The Pre-Retirement Death Benefits plan provides a lump sum payment to an employee's beneficiary (or estate) should a member die while actively employed. PERS has the authority to amend any one of these plans.

*Contributions.* District employees are required to contribute seven percent of their annual salary to the System. The District is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis adopted by the PERS Board of Administration.

For the year ended June 30, 2016, the District's total payroll for all employees was \$483,277. Total covered payroll was \$480,066. Normal contributions by the District to the plan during the year ended June 30, 2016 aggregated \$46,755. In addition, during the year ended June 30, 2016, the District paid its unfunded liability from prior years in the amount of \$159,435. Accordingly, the District had no unfunded liability due to PERS as of June 30, 2016.

*Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* As of June 30, 2016, the District reported an unfunded pension obligation of \$199,374 for its proportionate share of the net pension obligation. The net pension obligation was measured as of June 30, 2015 and the total pension obligation used to calculate the net unfunded pension obligation was determined by an actuarial valuation as of that date. The District's portion of the net pension obligation was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

Pension plan activity and balances reflected in the Statement of Net Position and Statement of Activities reflect activity and balances through June 30, 2015. Pension plan payments to the plan during the year ended June 30, 2016 (\$206,190) are included in deferred outflows pension plan contributions and adjustments.

Additional amounts included in deferred outflows pension plan contributions and adjustments (\$66,940) are adjustments due to differences in proportions.

Deferred inflows pension plan resources (\$101,944) reflect the net difference between projected and actual earnings on pension plan investments. Amounts reported as deferred outflows and deferred inflows of resources related to pensions, other than the employer-specific item, will be recognized in future pension expense over the four years ending June 30, 2019.

The net pension obligation was computed using a 7.65 percent future annual earnings rate on current investments. The following reflects the net pension obligation at various annual earnings rates:

WINTON WATER AND SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2016

Note 11: Employee Retirement System (continued)

Net pension obligation using a 6.65 percent annual rate of earnings	\$ 334,364
Net pension obligation using a 7.65 percent annual rate of earnings	199,374
Net pension obligation using a 8.65 percent annual rate of earnings	87,924

A summary of principle assumptions and methods used to determine pension obligations is shown below:

Valuation date	June 30, 2015
Actuarial cost method	Entry age normal.
Amortization method/period	For details, see June 30, 2012 Funding Valuation Report.
Asset valuation method	Actuarial value of assets. For details, see June 30, 2012 Funding Valuation Report.
Inflation	2.75 percent.
Salary increases	Varies by entry age and service.
Payroll growth	3.00 percent
Investment rate of return	7.50 percent net of pension plan investment and Administrative expenses; includes inflation.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include five years of projected mortality improvement using Scale AA published by the Society of Actuaries.

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

**INDEPENDENT AUDITOR'S REPORT**

August 8, 2016

Board of Directors  
Winton Water and Sanitary District  
Winton, California

We have audited, in accordance with the 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, the financial statements of the business-type activities of Winton Water and Sanitary District as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 8, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Winton Water and Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency*, or a combination of Deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Winton Water and Sanitary District's financial statements are free of material misstatement, 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*.

### **Purpose of the Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sanborn and Sanborn  
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS