WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY-TAFT HEIGHTS
SANITATION DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2011

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
City of Taft/Ford City-Taft Heights
Sanitation District
Taft, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Wastewater Treatment Plant of the City of Taft / Ford City-Taft Heights Sanitation District (the WWTP), as of and for the fiscal year ended June 30, 2011, which collectively comprise the WWTP's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's and the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Wastewater Treatment Plant of the City of Taft and the Ford City-Taft Heights Sanitation District and do not purport to, and do not, present fairly the financial position of the City of Taft as a whole or the Ford City-Taft Heights Sanitation District as a whole as of June 30, 2011, and the changes in their financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. The financial statements of the WWTP are intended to present the financial position and results of operations of only that portion of the funds of the City of Taft that, are attributable to the transactions of the WWTP.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Wastewater Treatment Plant of the City of Taft / Ford City-Taft Heights Sanitation District as of June 30, 2011, and the respective changes in financial position, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2010, the WWTP adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 59, *Financial Instruments Omnibus.*

In accordance with *Government Auditing Standards,* we have also issued our report dated May 4, 2012, on our consideration of the WWTP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual – Special Revenue Fund on page 16 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 Standard Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the WWTP's basic financial statements. The Schedule of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual – Capital Projects Fund is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Schedule of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual – Capital Projects Fund is the responsibility of management and was derived from and relates 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
May 4, 2012

WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
ASSETS	
Current Assets:	
Cash and investments	$ 1,733,691
Account receivable	359,763
Interest receivable	1,796
Due from the City of Taft	1,357,167
Prepaid expenses	179
Total Current Assets	3,452,596
Noncurrent Assets:	
Capital assets:	
Non-depreciable:	
Land	18,750
Construction-in-progress	121,950
Depreciable, net of accumulated depreciation:	
Machinery and equipment	924,776
Structures and improvements	37,192
Total Noncurrent Assets	1,102,668
Total Assets	4,555,264
LIABILITIES	
Current Liabilities:	
Accounts payable	25,346
Compensated absences	1,999
Due to City of Taft	3,043
Total Current Liabilities	30,388
Noncurrent Liablities:	
Compensated absences	5,940
Total Noncurrent Liabilities	5,940
Total Liabilities	36,328
NET ASSETS	
Invested in capital assets, net of related debt	1,102,668
Unrestricted	3,416,268
Total Net Assets	$ 4,518,936

The notes to the basic financial statements are an integral part of this statement.

WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

		Program Revenues			Net (Expense)/Revenue and Changes in Net Assets
Funcation/Program	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	$ 552,345	$ 10,353	$ 746,242	$ -	$ 204,250
Total Governmental Activities	$ 552,345	$ 10,353	$ 746,242	$ -	204,250
General Revenues:					
Investment earnings					50,833
Total General Revenues					50,833
Change in Net Assets					255,083
Net Assets, Beginning of Fiscal Year					4,263,853
Net Assets, End of Fiscal Year					$ 4,518,936

The notes to basic financial statements are an integral part of this statement.

WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	WWTP Capital Projects	WWTP Special Revenue	Total Governmental Funds
ASSETS			
Cash and investments	$ 1,733,691	$ -	$ 1,733,691
Accounts receivable		359,763	359,763
Interest receivable	1,783	13	1,796
Due from the City of Taft	1,357,167		1,357,167
Prepaid expenses		179	179
Total Assets	$ 3,092,641	$ 359,955	$ 3,452,596
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ -	$ 25,346	$ 25,346
Due to City of Taft		3,043	3,043
Total Liabilities		28,389	28,389
FUND BALANCES			
Nonspendable		179	179
Restricted		331,387	331,387
Unassigned	3,092,641		3,092,641
Total Fund Balances	3,092,641	331,566	3,424,207
Total Liabilities and Fund Balances	$ 3,092,641	$ 359,955	$ 3,452,596

The notes to basic financial statements are an integral part of this statement.

WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund Balances of Governmental Funds	$	3,424,207
Amounts reported for governmental activities in the statement of net assets are different because:		
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. This balance reflects WWTP's compensated absences.		(7,939)
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		1,102,668
Net Assets of Governmental Activities	$	4,518,936

The notes to the basic financial statements are an integral part of this statement.

WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	WWTP Capital Projects	WWTP Special Revenue	Total Governmental Funds
REVENUES			
Intergovernmental	$ -	$ 746,242	$ 746,242
Use of money and property	48,824	2,009	50,833
Charges for services		10,353	10,353
Total Revenues	48,824	758,604	807,428
EXPENDITURES			
Current:			
General government		585,141	585,141
Total Expenditures		585,141	585,141
Excess (Deficiency) of Revenues Over Expenditures	48,824	173,463	222,287
OTHER FINANCING SOURCES (USES)			
Transfers in	131,200		131,200
Transfers out		(131,200)	(131,200)
Total Other Financing Sources (Uses)	131,200	(131,200)	
Net Change in Fund Balances	180,024	42,263	222,287
Fund Balances, Beginning of Fiscal Year	2,912,617	289,303	3,201,920
Fund Balances, End of Fiscal Year	$ 3,092,641	$ 331,566	$ 3,424,207

The notes to basic financial statements are an integral part of this statement.

WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net Change in Fund Balances of Governmental Funds			$	222,287
Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:				
Capital assets used in Governmental activities are not current resources and therefore are not reported in the governmental funds:				
Additions to capital assets	$	124,571		
Deletions to capital assets		(28,993)		
Depreciation		(62,838)		32,740
Debt repayments are reported as expenditures in the governmental funds. The repayment is not an expense in the statement of activities as it is a reduction of a long-term liability. This amount reflects the difference between compensated absences accrued and compensated absences paid for the period.				56
Change in Net Assets of Governmental Activities			$	255,083

The notes to the basic financial statements are an integral part of this statement.

WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The primary function of this organization is the operation and maintenance of the sewer treatment facility serving the City of Taft (the City) and the Ford City-Taft Heights Sanitation District. In accordance with the terms of the "Joint Exercise of Powers Agreements" between the City of Taft, and Taft Heights, and Ford City Sanitation District dated May 29, 1950, amended of March 7, 1966, restated April 24, 1972, and restated August 21, 1991, covering the "Joint Sewage Project – 1972," the City of Taft was designated to act on its own behalf and on behalf of each of the other agencies, to operate and maintain the Wastewater Treatment Plant (WWTP). All costs to operate and maintain the facilities shall be paid by the City of Taft and the other agencies in the following cost share ratios:

52 percent shall be paid by the City of Taft
19 percent shall be paid by the Taft Heights Sanitation District
29 percent shall be paid by the Ford City Sanitation District

The WWTP has access to the services and facilities of the City and the City's staff. The City assists the WWTP in the planning, financing, acquisition, construction, and maintenance or operation of the activities undertaken by the WWTP in accordance with the agreements and the applicable state and federal law. The costs incurred and paid by the City on behalf of the WWTP may include a part of the salaries and benefits of the City officers and employees who performed services for the WWTP, and are reimbursed by the WWTP.

The financial statements of the WWTP have been prepared in accordance with accounting principles generally accepted in the United States of America (USGAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant of the accounting principles are described below:

A. Reporting Entity

The City of Taft operates the WWTP pursuant to the Joint Exercise of Powers Agreement noted above. The WWTP is not a separate legal entity and therefore is not included as a component unit of the City. Because of the City's oversight responsibilities, the funds of the WWTP are included within the fund structure of the City. The financial statements of the WWTP do not purport to, and do not, present fairly the financial position of the City of Taft as a whole or the Ford City or Taft Heights Sanitation Districts as a whole.

B. Fund Accounting

The accounts of the Wastewater Treatment Plant are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The WWTP uses two funds as follows:

Capital Projects Fund – the Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Special Revenue Fund – the Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting/Measurement Focus

Consistent with the City's implementation of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments,* the WWTP financial statements report information on both the accrual and modified accrual basis of accounting. The differences between the two presentations are discussed below.

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all the WWTP's assets and liabilities, including capital assets are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized when the liability is incurred. Interfund activities (such as transfers) are eliminated from these statements.

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for each fund. A separate statement is presented to report the differences in fund balance as presented in these statements to the net assets presented in the Statement of Net Assets. All governmental funds are accounted for on a "spending" or "financial flow" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is their net current assets, which is considered only to be a measure of available resources. Governmental fund operating statements present a summary of sources and uses of available resources during a period by presenting increases and decreases in net assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after fiscal year end) are recognized when due. Revenues susceptible to accrual are investment earnings and assessments from member governments.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on long term obligations which are recognized when due. Because of their current financial resources focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund expenditures or fund liabilities.

D. Budgetary Policy and Control

1. General Budget Policies

The Taft City Council approves each fiscal year's budget for the WWTP as part of the overall City budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Council. All appropriations lapse at year-end. The City Council has the legal authority to amend the budget at any time during the fiscal year. The City Manager has the authority to make adjustments to the operating budget within program areas. Transfers of operating budget appropriations between program areas or to or from appropriated reserve accounts, use of unappropriated fund balances, cancellation of appropriations and all changes in capital improvement project budgets require the approval of the City Council.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Policy and Control (Continued)

2. General Budget Policies

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the operating budget that is the program area – total for all funds. Formal budgetary integration is employed as a management control device during the fiscal year for the Governmental Funds.

3. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances do not constitute expenditures or liabilities.

E. Cash/Investment Policy

In order to maintain an effective investment program, all cash is pooled with the cash and investments of the City of Taft and amounts not required for day-to-day financial transactions are invested as approved by the Taft City Council on a pooled basis and earnings are allocated to each fund on the basis of its average cash balance at the end of each quarter. Investments are carried at fair value.

F. Capital Assets and Depreciation

Capital assets, which include land, buildings, infrastructure, machinery, and equipment, are reported in the Statement of Net Assets. Capital assets are defined as assets with an initial, individual cost of more than $500. Sensitive items with costs below $500 are also included. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Capital assets are depreciated over their estimated useful lives using the straight-line method. This means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The purpose of depreciation is to spread the cost of capital assets over the useful lives of these assets. The amount charged to depreciation expense each fiscal year represents that fiscal year's pro rata share of the cost of capital assets.

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is a reduction in the book value of the capital assets. The WWTP has assigned the useful lives listed below to capital assets.

Structures and improvements	20-40 years
Machinery and equipment	5-20 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the WWTP's policy to use restricted resources first, and then unrestricted resources as they are needed. Restricted resources are defined as resources received from outside agencies dedicated for specific projects or purposes.

I. New Accounting Pronouncements

The WWTP has implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54 and No. 59 during the fiscal year ended June 30, 2011.

GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definition
This Statement is effective for periods beginning June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement affects the Balance Sheet – Governmental Funds for the fiscal year ended June 30, 2011 by changing the classification of the fund balances. See Note 6 for detailed information on the effect on these financial statements.

GASB Statement No. 59 – Financial Instruments Omnibus
For the fiscal year ended June 30, 2011, the WWTP implemented GASB Statement No. 59, "*Financial Instruments Omnibus*". This Statement is effective for financial statements for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The implementation of this Statement did not have an effect on these financial statements.

NOTE 2 – CASH AND INVESTMENTS

The WWTP's cash and investments are pooled with the funds of the City for deposit and investment purposes. Interest on pooled cash and investments is credited to the funds based on each prospective fund's average cash balance at each quarter end. Detailed information concerning the City of Taft's pooled cash and investments can be found in the City's Annual Financial Report for the fiscal year ended June 30, 2011. The WWTP's cash and investments balance at June 30, 2011 is $1,733,691.

The WWTP's cash and investments are held within the City of Taft's investment pool. As the WWTP does not hold specific investments or deposits in its name, the cash and investments are not evidenced by deposits or securities that exist in physical or book entry form.

NOTE 3 – CAPITAL ASSETS

During the fiscal year ended June 30, 2011, the following changes in capital assets occurred:

Governmental Activities	Beginning Balance July 1, 2010	Additions	Deletions	Ending Balance June 30, 2011
Capital Assets Not Being Depreciated:				
Land	$ 18,750	$ -	$ -	$ 18,750
Construction in Progress		121,950		121,950
Total Capital Assets Not Being Depreciated	18,750	121,950	-	140,700
Capital Assets, Being Depreciated:				
Machinery and equipment	371,820	2,621	(28,993)	345,448
Structures and improvements	2,696,723			2,696,723
Total Capital Assets Being Depreciated	3,068,543	2,621		3,042,171
Less Accumulated Depreciation For:				
Machinery and equipment	(290,920)	(17,336)		(308,256)
Structures and improvements	(1,726,445)	(45,502)		(1,771,947)
Total Accumulated Depreciation	(2,017,365)	(62,838)		(2,080,203)
Total Capital Assets, Being Depreciated, Net	1,051,178	(60,217)		961,968
Governmental Activities Capital Assets, Net	$ 1,069,928	$ 61,733	$ -	$ 1,102,668

Depreciation expense of $62,838 was charged to general government on the Statement of Activities for the fiscal year ended June 30, 2011.

NOTE 4 – INTERFUND TRANSFERS

Interfund Transfers as of June 30, 2011 were as the following:

Fund	Transfers in	Transfers out
WWTP Capital Projects	$ 131,200	$ -
WWTP Special Revenue		131,200
Total	$ 131,200	$ 131,200

The transfers are for operating expenditures incurred in the Capital Projects Fund.

NOTE 5 – LONG TERM DEBT

During the fiscal year ended June 30, 2011, the following changes occurred to the governmental activities long-term liabilities:

Governmental Activities	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due in One Year
Compensated Absences	$ 7,995	$ 170	$ (170)	$ 7,995	$ 1,999
Total governmental activities long-term debt	$ 7,995	$ 170	$ (170)	$ 7,995	$ 1,999

NOTE 5 – LONG TERM DEBT (Continued)

Compensated Absences

The short-term portion of the liability is recorded in the various funds and is determined to be the amount due to employees for future absences, which is attributable to services already rendered, and which is expected to be paid during the next fiscal year. The long-term portion is recorded only in the statement of net assets.

NOTE 6 – NET ASSETS/FUND BALANCES

Net assets are divided into three captions. These captions apply to net assets as determined at the government-wide level and are described below:

Invested in Capital Assets, net of related debt describes the portion of net assets which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include debt service requirements, and redevelopment funds restricted to low and moderate income housing purposes.

Unrestricted describes the portion of net assets which is not restricted as to use.

Fund balances is divided into five classifications based primarily on the extent to which the WWTP is bound to observe constraints imposed upon the use if the resources in the governmental funds. The classifications are as follows:

1. Nonspendable Fund Balance.
   That portion of a fund balance that includes amounts that cannot be spent because they are either (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable: or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment. This category was traditionally reported as a "reserved" fund balance under the old standard.

2. Restricted Fund Balance.
   That portion of a fund balance that reflects constraints placed in the use of resources (other than nonspendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. This category was traditionally reported as a "reserved" fund balance under old standard.

3. Committed Fund Balance.
   That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, and remain binding unless removed in the same manner. This category was traditionally reported as a "designated" fund balance under the old standard.

NOTE 6 – NET ASSETS/FUND BALANCES (Continued)

4. Assigned Fund Balance.
   That portion of a fund balance that includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted no committed. Such intent needs to be established at either the highest level of decision making, or by an official designated for that purpose. This category was traditionally reported as a "designated" fund balance under the old standard.

   Enabling legislation authorizes the WWTP to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirements that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the WWTP can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

5. Unassigned Fund Balance.
   That portion of a fund balance that includes amounts that do not fall into one of the above categories. The General Fund is the only fund that should report this category of fund balance. This category was traditionally reported as an "undesignated" fund balance under the old standard.

NOTE 7 – DUE TO AND DUE FROM THE CITY OF TAFT

As of June 30, 2011, the WWTP has $3,043 due to the City of Taft and $1,357,167 due from the City of Taft.

NOTE 8 – SUBSEQUENT EVENTS

The WWTP has evaluated subsequent events through the date the financial statements were available to be issued which is May 4, 2012.

SUPPLEMENTARY INFORMATION

WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Use of money and property	$ -	$ -	$ 2,009	$ 2,009
Intergovernmental	745,290	745,290	746,242	952
Charges for services	4,500	9,281	10,353	1,072
Total Revenues	749,790	754,571	758,604	4,033
EXPENDITURES				
Current:				
General government	616,090	620,871	585,141	35,730
Capital outlay	17,000	63,808		63,808
Debt service:				
Interest expense	2,500	2,500		2,500
Total Expenditures	635,590	687,179	585,141	102,038
Excess (Deficiency) of Revenues Over Expenditures	114,200	67,392	173,463	106,071
OTHER FINANCING SOURCES (USES)				
Transfers in	17,000	63,808		(63,808)
Transfers out	(131,200)	(131,200)	(131,200)	
Total other financing sources (uses)	(114,200)	(67,392)	(131,200)	(63,808)
Net Change in Fund Balance			42,263	42,263
Fund Balance, Beginning of Fiscal year	289,303	289,303	289,303	
Fund Balance, End of the Fiscal Year	$ 289,303	$ 289,303	$ 331,566	$ 42,263

WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Use of money and property	$ 46,000	$ 48,824	$ 2,824
Total Revenues	46,000	48,824	2,824
EXPENDITURES			
Capital outlay	113,392		113,392
Total Expenditures	113,392		113,392
Excess (Deficiency) of Revenues Over Expenditures	(67,392)	48,824	116,216
OTHER FINANCING SOURCES (USES)			
Transfers in	131,200	131,200	
Transfers out	(63,808)		63,808
Total other financing sources (uses)	67,392	131,200	63,808
Net Change in Fund Balance		180,024	180,024
Fund Balance, Beginning of Fiscal Year	2,912,617	2,912,617	
Fund Balance, End of the Fiscal Year	$ 2,912,617	$ 3,092,641	$ 180,024

MOSS, LEVY & HARTZHEIM LLP
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INDEPENDENT AUDITOR'S 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*

To the Board of Directors
City of Taft/Ford City-Taft Heights
Sanitation District
Taft, California

We have audited the financial statements of the governmental activities and each major fund of the Wastewater Treatment Plant of the City of Taft/Ford City-Taft Heights Sanitation Districts (the WWTP), as of and for the fiscal year ended June 30, 2011, which collectively comprise the WWTP's basic financial statements and have issued our report thereon dated May 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the WWTP's internal control over financial reporting as a basis for designing our auditing procedures 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 WWTP's internal control over financial reporting. According, we do not express an opinion on the effectiveness of the WWTP's internal control over financial reporting.

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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the WWTP'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 that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the management, the WWTP's Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim, LLP
Culver City, California
May 4, 2012