

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

FINANCIAL STATEMENTS

JUNE 30, 2010

**WASTEWATER TREATMENT PLANT
 CITY OF TAFT / FORD CITY-TAFT HEIGHTS
 SANITATION DISTRICT
 FINANCIAL STATEMENTS
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Table of Contents

INDEPENDENT AUDITOR’S REPORT	1	
 BASIC FINANCIAL STATEMENTS:		
Government-wide Financial Statements		
Statement of Net Assets	3	
Statement of Activities	4	
 Fund Financial Statements		
Balance Sheet – Governmental Funds	5	
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	6	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	7	
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	8	
 Notes to the Basic Financial Statements	9	
 REQUIRED SUPPLEMENTARY INFORMATION		
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – Special Revenue Fund	16	
 OTHER SUPPLEMENTARY INFORMATION		
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – Capital Projects Fund	17	
 REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>		18



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

RONALD A. LEVY, C.P.A.
CRAIG A. HARTZHEIM, C.P.A.
HADLEY Y. HUI, C.P.A.

9107 WILSHIRE BLVD., STE 400
BEVERLY HILLS, CA 90210
PHONE: (310) 273-2745
FAX: (310) 273-1689
EMAIL: mlhbh@mlhpcpas.com

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, 2010, 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, 2010, 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, 2010, 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.

As discussed in note 1 of the notes to basic financial statements, effective July 1, 2009, the WWTP adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No.45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2011, 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.

The major special revenue fund budgetary comparison schedule, 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 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
Beverly Hills, California
March 21, 2011

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010**

ASSETS	<u>Governmental Activities</u>
Current Assets:	
Cash and investments	\$ 2,911,210
Account receivable	323,869
Interest receivable	<u>1,407</u>
Total Current Assets	<u>3,236,486</u>
Noncurrent Assets:	
Capital assets:	
Non-depreciable:	
Land	18,750
Depreciable, net of accumulated depreciation:	
Machinery and equipment	80,900
Structures and improvements	<u>970,278</u>
Total Noncurrent Assets	<u>1,069,928</u>
Total Assets	<u>4,306,414</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	28,609
Compensated absences	1,999
Due to City of Taft	<u>5,957</u>
Total Current Liabilities	<u>36,565</u>
Noncurrent Liabilities:	
Compensated absences	<u>5,996</u>
Total Noncurrent Liabilities	<u>5,996</u>
Total Liabilities	<u>42,561</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,069,928
Restricted for:	
Capital projects	2,912,617
Unrestricted	<u>281,308</u>
Total Net Assets	<u>\$ 4,263,853</u>

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, 2010

<u>Funcation/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)/Revenue and Changes in Net Assets Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 565,730	\$ 16,366	\$ 381	\$ -	\$ (548,983)
Interest and fiscal charges	62,767				(62,767)
Total Governmental Activities	<u>\$ 628,497</u>	<u>\$ 16,366</u>	<u>\$ 381</u>	<u>\$ -</u>	<u>(611,750)</u>
General Revenues:					
Investment earnings					764,392
Total General Revenues					<u>764,392</u>
Change in Net Assets					152,642
Net Assets, Beginning of Fiscal Year					<u>4,111,211</u>
Net Assets, End of Fiscal Year					<u>\$ 4,263,853</u>

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, 2010**

	WWTP Capital Projects	WWTP Special Revenue	Total Governmental Funds
ASSETS			
Cash and investments	\$ 2,911,210	\$ -	\$ 2,911,210
Accounts receivable		323,869	323,869
Interest receivable	1,407		1,407
Total Assets	\$ 2,912,617	\$ 323,869	\$ 3,236,486
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ 28,609	\$ 28,609
Due to City of Taft		5,957	5,957
Total Liabilities		34,566	34,566
 FUND BALANCES			
Unreserved, undesignated and reported in:			
Special revenue fund		289,303	289,303
Capital projects fund	2,912,617		2,912,617
Total Fund Balances	2,912,617	289,303	3,201,920
Total Liabilities and Fund Balances	\$ 2,912,617	\$ 323,869	\$ 3,236,486

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, 2010

Fund Balances of Governmental Funds	\$	3,201,920
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. This balance reflects the WWTP's compensated absences balance.</p>	(7,995)	
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.</p>		1,069,928
Net Assets of Governmental Activities	\$	4,263,853

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, 2010**

	WWTP Capital Projects	WWTP Special Revenue	Total Governmental Funds
REVENUES			
Intergovernmental	\$ -	\$ 381	\$ 381
Use of money and property	44,617	719,775	764,392
Charges for services		16,366	16,366
Total Revenues	<u>44,617</u>	<u>736,522</u>	<u>781,139</u>
EXPENDITURES			
Current:			
General government		560,094	560,094
Capital outlay		62,767	62,767
Total Expenditures		<u>622,861</u>	<u>622,861</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>44,617</u>	<u>113,661</u>	<u>158,278</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	109,360		109,360
Transfers out		(109,360)	(109,360)
Total Other Financing Sources (Uses)	<u>109,360</u>	<u>(109,360)</u>	
Net Change in Fund Balances	153,977	4,301	158,278
Fund Balances, Beginning of Fiscal Year	<u>2,758,640</u>	<u>285,002</u>	<u>3,043,642</u>
Fund Balances, End of Fiscal Year	<u>\$ 2,912,617</u>	<u>\$ 289,303</u>	<u>\$ 3,201,920</u>

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, 2010

Net Change in Fund Balances of Governmental Funds \$ 158,278

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:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay.

Capital outlay	\$	62,767	
Depreciation		<u>(67,206)</u>	(4,439)

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.

(1,197)

Change in Net Assets of Governmental Activities \$ 152,642

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

NOTES TO FINANCIAL STATEMENTS

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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.

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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.

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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. Open encumbrances are recorded as reservations of fund balance since the commitments will be paid by subsequent fiscal years' budget appropriations. 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

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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. 45, No. 51, No. 53, No. 57, and No. 58 during the fiscal year ended June 30, 2010.

GASB Statement No. 45 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

This Statement is effective for periods beginning after December 15, 2008 for governments with total annual revenues of less than \$10 million. The Statement establishes standards for measurement, recognition, and display of other postemployment benefit expense/expenditures, related liabilities and assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Implementation of GASB Statement No. 45 did not have an effect on these financial statements.

GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets

For the fiscal year ended June 30, 2010, the WWTP implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This Statement is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments

For the fiscal year ended June 30, 2010, the WWTP implemented GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This Statement is effective for financial statements for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 57 – OPEB Measurements by Agent Employers and Agent Multiple employer Plans

For the fiscal year ended June 30, 2010, the WWTP implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of this Statement did not have an effect on these financial statements.

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. New Accounting Pronouncements (Continued)

GASB Statement No. 58 – Accounting and Financial Reporting for Chapter 9 Bankruptcies

For the fiscal year ended June 30, 2010, the WWTP implemented GASB Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”. This Statement is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. 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, 2010. The WWTP’s cash and investments balance at June 30, 2010 is \$2,911,210.

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, 2010, the following changes in capital assets occurred:

	Beginning Balance July 1, 2009	Additions	Deletions	Ending Balance June 30, 2010
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 18,750	\$ -	\$ -	\$ 18,750
Total capital assets not being depreciated	18,750			18,750
Capital Assets, Being Depreciated:				
Machinery and equipment	309,053	62,767		371,820
Structures and improvements	2,696,723			2,696,723
Total Capital Assets Being Depreciated	3,005,776	62,767		3,068,543
Less Accumulated Depreciation For:				
Machinery and equipment	(269,215)	(21,705)		(290,920)
Structures and improvements	(1,680,944)	(45,501)		(1,726,445)
Total Accumulated Depreciation	(1,950,159)	(67,206)		(2,017,365)
 Total Capital Assets, Being Depreciated, Net	 1,055,617	 (4,439)		 1,051,178
Governmental Activities Capital Assets, Net	<u>\$ 1,074,367</u>	<u>\$ (4,439)</u>	<u>\$ -</u>	<u>\$ 1,069,928</u>

Depreciation expense of \$67,206 was charged to general government on the Statement of Activities for the fiscal year ended June 30, 2010.

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 – INTERFUND TRANSFERS

Interfund Transfers as of June 30, 2010 were as the following:

<u>Fund</u>	<u>Transfers in</u>	<u>Transfers out</u>
WWTP Capital Projects	\$ 109,360	\$ -
WWTP Special Revenue		109,360
Total	<u>\$ 109,360</u>	<u>\$ 109,360</u>

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

NOTE 5 – LONG TERM DEBT

During the fiscal year ended June 30, 2010, the following changes occurred to the governmental activities long-term liabilities:

<u>Governmental Activities</u>	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>	<u>Due in One Year</u>
Compensated Absences	\$ 6,798	\$ 1,197	\$ -	\$ 7,995	\$ 1,999
Total governmental activities long-term debt	<u>\$ 6,798</u>	<u>\$ 1,197</u>	<u>\$ -</u>	<u>\$ 7,995</u>	<u>\$ 1,999</u>

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

A. In the Statement of Net Assets, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt

This category groups all capital assets into one component of net assets. Accumulated depreciation reduces this category.

Restricted Net Assets

This category presents restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The WWTP did not have any assets restricted by enabling legislation for the fiscal year ended June 30, 2010.

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 – NET ASSETS/FUND BALANCES (Continued)

Unrestricted Net Assets

This represents the net assets of the WWTP, not restricted for any project or other purpose.

B. In the Governmental Fund Balance Sheet, fund balances are classified in the following categories:

Reserved

Reserves of the governmental funds are limited to the portions of the fund balance which are either appropriated for expenditures or are legally segregated for a specific use.

Unreserved – Undesignated

Fund balance designations are established to reflect management's plans for financial resource allocation in a future period. Such plans or intentions are subject to change and may never result in expenditures.

NOTE 7– DUE TO THE CITY OF TAFT

As of June 30, 2010, the WWTP has \$5,957 due to the City of Taft. This is expected to be repaid shortly after the end of the fiscal year.

REQUIRED 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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ 500	\$ 500	\$ 381	\$ (119)
Intergovernmental	697,954	697,954	719,775	21,821
Charges for services	16,661	16,661	16,366	(295)
Total Revenues	<u>715,115</u>	<u>715,115</u>	<u>736,522</u>	<u>21,407</u>
EXPENDITURES				
Current:				
General government	566,965	566,965	560,094	6,871
Capital outlay	63,389	63,389	62,767	622
Debt service:				
Interest expense	289	289		289
Total Expenditures	<u>630,643</u>	<u>630,643</u>	<u>560,094</u>	<u>7,782</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>84,472</u>	<u>84,472</u>	<u>176,428</u>	<u>29,189</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(131,200)	(131,200)	(109,360)	21,840
Total other financing sources (uses)	<u>(131,200)</u>	<u>(131,200)</u>	<u>(109,360)</u>	<u>21,840</u>
Net Change in Fund Balance	(46,728)	(46,728)	67,068	51,029
Fund Balance, Beginning of Fiscal year	<u>285,002</u>	<u>285,002</u>	<u>285,002</u>	
Fund Balance, End of the Fiscal Year	<u>\$ 238,274</u>	<u>\$ 238,274</u>	<u>\$ 352,070</u>	<u>\$ 51,029</u>

**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, 2010**

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Use of money and property	\$ 45,157	\$ 44,617	\$ (540)
Total Revenues	<u>45,157</u>	<u>44,617</u>	<u>(540)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	131,200	109,360	(21,840)
Transfers out	<u>(63,389)</u>	<u></u>	<u>63,389</u>
Total other financing sources (uses)	<u>67,811</u>	<u>109,360</u>	<u>41,549</u>
Net Change in Fund Balance	112,968	153,977	41,009
Fund Balance, Beginning of Fiscal Year	<u>2,758,640</u>	<u>2,758,640</u>	<u></u>
Fund Balance, End of the Fiscal Year	<u><u>\$ 2,871,608</u></u>	<u><u>\$ 2,912,617</u></u>	<u><u>\$ 41,009</u></u>



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

RONALD A. LEVY, C.P.A.
CRAIG A. HARTZHEIM, C.P.A.
HADLEY Y. HUI, C.P.A.

9107 WILSHIRE BLVD., STE 400
BEVERLY HILLS, CA 90210
PHONE: (310) 273-2745
FAX: (310) 273-1689
EMAIL: mlhbh@mlhcpcas.com

**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, 2010, which collectively comprise the WWTP's basic financial statements and have issued our report thereon dated March 21, 2011. 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

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

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
March 21, 2011