

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

FINANCIAL STATEMENTS

JUNE 30, 2017

THIS PAGE INTENTIONALLY LEFT BLANK

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY-TAFT HEIGHTS
SANITATION DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2017**

Table of Contents

INDEPENDENT AUDITOR’S REPORT	1
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements	
Statement of Net Position.....	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 Position.....	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



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES

433 N. CAMDEN DRIVE, SUITE 730
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES

5800 HANNUM AVENUE, SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2017, which collectively comprise the WWTP'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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 and each major fund of the Wastewater Treatment Plant of the City of Taft / Ford City-Taft Heights Sanitation District, California, as of June 30, 2017, and the respective changes in financial position, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 budgetary comparison information 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 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 inquiries of management about 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 Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2018, 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* in considering the WWTP's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
July 18, 2018

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017**

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and investments	\$ 2,339,875
Accounts receivable	308,739
Interest receivable	3,031
Prepaid expenses	512
Total Current Assets	<u>2,652,157</u>
Noncurrent Assets:	
Capital assets:	
Non-depreciable:	
Land	32,519
Construction-in-progress	3,948,117
Depreciable, net of accumulated depreciation:	
Machinery and equipment	
Structures and improvements	626,553
Total Noncurrent Assets	<u>4,607,189</u>
Total Assets	<u>7,259,346</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	38,077
Accrued payroll	2,185
Interest payable	5,186
Compensated absences	9,228
Certificates of participation (COP) payable	64,000
Total Current Liabilities	<u>118,676</u>
Certificates of participation (COP) payable	2,135,568
Total Noncurrent Liabilities	<u>2,135,568</u>
Total Liabilities	<u>2,254,244</u>
NET POSITION	
Net investment in capital assets	2,407,621
Restricted	2,597,481
Total Net Position	<u>\$ 5,005,102</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, 2017**

Function/Program	Expenses	Program Revenues			Net (Expense)/Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 1,095,068	\$ 31,587	\$ 713,997	\$ -	\$ (349,484)
Interest and fiscal charges	30,648				(30,648)
Total Governmental Activities	<u>\$ 1,125,716</u>	<u>\$ 31,587</u>	<u>\$ 713,997</u>	<u>\$ -</u>	<u>(380,132)</u>
General Revenues:					
Investment earnings					33,350
Total General Revenues					<u>33,350</u>
Change in Net Position					(346,782)
Net Position, Beginning of Fiscal Year					<u>5,351,884</u>
Net Position, End of Fiscal Year					<u>\$ 5,005,102</u>

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

FUND FINANCIAL STATEMENTS

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY - TAFT HEIGHTS SANITATION DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	WWTP Capital Projects	WWTP Special Revenue	Total Governmental Funds
ASSETS			
Cash and investments	\$ 2,339,875	\$ -	\$ 2,339,875
Accounts receivable		308,739	308,739
Interest receivable	3,031		3,031
Due from other funds	1,414,013		1,414,013
Prepaid items		512	512
Total Assets	<u>\$ 3,756,919</u>	<u>\$ 309,251</u>	<u>\$ 4,066,170</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ 38,077	\$ 38,077
Accrued payroll		2,185	2,185
Due to other funds		1,414,013	1,414,013
Total Liabilities		<u>1,454,275</u>	<u>1,454,275</u>
FUND BALANCES			
Nonspendable		512	512
Restricted	3,756,919		3,756,919
Unassigned		(1,145,536)	(1,145,536)
Total Fund Balances	<u>3,756,919</u>	<u>(1,145,024)</u>	<u>2,611,895</u>
Total Liabilities and Fund Balances	<u>\$ 3,756,919</u>	<u>\$ 309,251</u>	<u>\$ 4,066,170</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 BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Fund Balances of Governmental Funds	\$	2,611,895
Amounts reported for governmental activities in the statement of net position 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.		(9,228)
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 certificates of participation (COP) payable.		(2,199,568)
Interest payable are not due and payable in the current period and, therefore, are not reported in the governmental funds. This balance reflects WWTP's interest payable on the COP payable.		(5,186)
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		4,607,189
Net Position of Governmental Activities	\$	5,005,102

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, 2017**

	WWTP Capital Projects	WWTP Special Revenue	Total Governmental Funds
REVENUES			
Intergovernmental	\$ -	\$ 713,997	\$ 713,997
Use of money and property	33,350		33,350
Charges for services		31,587	31,587
Total Revenues	<u>33,350</u>	<u>745,584</u>	<u>778,934</u>
EXPENDITURES			
Current:			
General government		1,039,572	1,039,572
Capital outlay		2,273,246	2,273,246
Debt Service:			
Principal retirement		63,000	63,000
Interest and fiscal charges		30,648	30,648
Total Expenditures		<u>3,406,466</u>	<u>3,406,466</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>33,350</u>	<u>(2,660,882)</u>	<u>(2,627,532)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of debt		1,895,222	1,895,222
Transfers in	131,200	113,077	244,277
Transfers out	(113,077)	(131,200)	(244,277)
Total Other Financing Sources (Uses)	<u>18,123</u>	<u>1,877,099</u>	<u>1,895,222</u>
Net Change in Fund Balances	51,473	(783,783)	(732,310)
Fund Balances (Deficit), Beginning of Fiscal Year	<u>3,705,446</u>	<u>(361,241)</u>	<u>3,344,205</u>
Fund Balances (Deficit), End of Fiscal Year	<u>\$ 3,756,919</u>	<u>\$ (1,145,024)</u>	<u>\$ 2,611,895</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, 2017**

Net Change in Fund Balances of Governmental Funds \$ (732,310)

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 activity is reconciled as follows:

Cost of assets capitalized	\$ 2,273,246	
Depreciation	<u>(48,817)</u>	2,224,429

In governmental funds, proceeds from debt issuance are recognized as other financing sources.

In the government-wide statements, proceeds from debt are reported as increases of liabilities. (1,895,222)

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 principal paid on the Certificates of Participation for the period. 63,000

Governmental funds report interest in the fiscal year it is paid; however, in the statement of activities interest is recorded in the fiscal year it is incurred. (5,186)

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. (1,493)

Change in Net Position of Governmental Activities \$ (346,782)

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, Taft Heights, and Ford City Sanitation District dated May 29, 1950, amended 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, 2017**

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 Position and the Statement of Activities

The Statement of Net Position 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 Position. The Statement of Activities presents changes in net position. 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 position presented in the Statement of Net Position. 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 position. 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, 2017**

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 Position. 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

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

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2017. The WWTP’s cash and investments balance at June 30, 2017 is \$2,339,875.

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.

The WWTP categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The WWTP had investments in the City of Taft’s investment pool (amortized cost), however, the external pool is not measured under Level 1, 2 or 3.

NOTE 3 – CAPITAL ASSETS

During the fiscal year ended June 30, 2017, the following changes in capital assets occurred:

	Beginning Balance July 1, 2016	Additions	Deletions	Ending Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 32,519	\$ -	\$ -	\$ 32,519
Construction in Progress	1,674,871	2,273,246		3,948,117
Total Capital Assets Not Being Depreciated	<u>1,707,390</u>	<u>2,273,246</u>		<u>3,980,636</u>
Capital Assets, Being Depreciated:				
Machinery and equipment	284,425			284,425
Structures and improvements	2,696,723			2,696,723
Total Capital Assets Being Depreciated	<u>2,981,148</u>			<u>2,981,148</u>
Less Accumulated Depreciation For:				
Machinery and equipment	(281,625)	(2,800)		(284,425)
Structures and improvements	(2,024,153)	(46,017)		(2,070,170)
Total Accumulated Depreciation	<u>(2,305,778)</u>	<u>(48,817)</u>		<u>(2,354,595)</u>
Total Capital Assets, Being Depreciated, Net	<u>675,370</u>	<u>(48,817)</u>		<u>626,553</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,382,760</u>	<u>\$ 2,224,429</u>	\$ -	<u>\$ 4,607,189</u>

Depreciation expense of \$48,817 was charged to general government on the Statement of Activities for the fiscal year ended June 30, 2017.

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 – INTERFUND TRANSFERS

Interfund transfers as of June 30, 2017 were as follows:

Fund	Transfers in	Transfers out
WWTP Capital Projects	\$ 131,200	\$ 113,077
WWTP Special Revenue	113,077	131,200
Total	<u>\$ 244,277</u>	<u>\$ 244,277</u>

The transfer into the Capital Project Fund is for building a reserve that will be used at a future date for large maintenance projects and/or reconstruction of the facility. This is an agreed upon amount between all District members.

NOTE 5 – COMPENSATED ABSENCES

During the fiscal year ended June 30, 2017, the following changes occurred in the governmental activities compensated absences:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due in One Year
<u>Governmental Activities</u>					
Compensated Absences	\$ 7,735	\$ 9,228	\$ (7,735)	\$ 9,228	\$ 9,228
Total governmental activities long-term debt	<u>\$ 7,735</u>	<u>\$ 9,228</u>	<u>\$ (7,735)</u>	<u>\$ 9,228</u>	<u>\$ 9,228</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 Position. As of June 30, 2017, all compensated absences are current.

NOTE 6 – CERTIFICATES OF PARTICIPATION PAYABLE

Certificates of Participation (COP) are long-term instruments which are tax exempt and therefore, issued at interest rates below current market levels for taxable investments.

On June 15, 2015, the WWTP has entered into a loan financing program with the United States Department of Agriculture, acting through its agency the USDA Rural Development, to finance a portion of the cost and expense of the acquisition and construction of certain improvements to the wastewater treatment system of the City of Taft, and in connection with the loan financing program, the City intends to cause the execution and delivery to USDA Rural Development of certificates of participation.

In support of the proposed Certificates of Participation, the City proposes to enter into a financing program with the Taft Public Improvement Corporation, a California nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), for the purchase by the Corporation of the real property on which the wastewater system is situated (the "Site"), together with the existing wastewater treatment system improvements (the "Existing Facilities") situated thereon, and the purchase by the City from the Corporation of the completed Project.

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 – CERTIFICATES OF PARTICIPATION PAYABLE (Continued)

The City is in receipt of a Letter of Conditions, originally dated November 8, 2012 and extended through April 10, 2017 (the "Letter of Conditions"), from USDA Rural Development, setting forth certain conditions to be satisfied by the City with respect to receipt from USDA Rural Development of funding for the Project, comprised of a loan in the amount of not-to-exceed \$3,619,000 to be represented by the Certificates of Participation. The Installment payments shall be payable during a period of not more than 40 years and the interest rate shall not exceed 1.75% per annum.

During the fiscal year 2016-17, the City spent \$3,251,654 for the project which was completed in May 2017 but not put into service until after June 30, 2017. The City received loan funds of \$1,895,222 during the fiscal year 2016-17 with the remaining certificates of participation issued of \$1,356,432 disbursed to the City during FY 2017-18.

During the fiscal year ended June 30, 2017, the following changes occurred in the governmental activities Certificates of Participation Payable:

<u>Governmental Activities</u>	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due in One Year
Certificates of Participation Payable	\$ 367,346	\$ 1,895,222	\$ (63,000)	\$ 2,199,568	\$ 64,000
Total governmental activities long-term debt	<u>\$ 367,346</u>	<u>\$ 1,895,222</u>	<u>\$ (63,000)</u>	<u>\$ 2,199,568</u>	<u>\$ 64,000</u>

Certificates of Participation maturity schedule:

Fiscal year ending June 30,	Certificates of Participation	
	Principal	Interest
2018	\$ 64,000	\$ 38,492
2019	65,000	37,373
2020	67,000	36,235
2021	68,000	35,062
2022	69,000	33,872
2023-2027	363,000	150,847
2028-2032	397,000	117,895
2033-2037	431,000	82,002
2038-2042	472,000	42,890
2043-2045	203,568	5,455
Totals	<u>\$ 2,199,568</u>	<u>\$ 580,123</u>

NOTE 7 – NET POSITION/FUND BALANCES

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

Net Investment in Capital Asset describes the portion of net position 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.

**WASTEWATER TREATMENT PLANT
CITY OF TAFT / FORD CITY – TAFT HEIGHTS SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 – NET POSITION/FUND BALANCES (Continued)

Restricted describes the portion of net position 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.

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

Fund balances are divided into five classifications based primarily on the extent to which the WWTP is bound to observe constraints imposed upon the use of 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.

2. Restricted Fund Balance

That portion of a fund balance that reflects constraints placed on 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.

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.

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 nor committed. Such intent needs to be established at either the highest level of decision making, or by an official designated for that purpose.

Enabling legislation authorizes the WWTP to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes 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. A General Fund is the only fund that should report this category of fund balance.

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, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 4,202,081	\$ 2,976,565	\$ 713,997	\$ (2,262,568)
Charges for services	70,000		31,587	31,587
Total Revenues	<u>4,272,081</u>	<u>2,976,565</u>	<u>745,584</u>	<u>(2,230,981)</u>
EXPENDITURES				
Current:				
General government	887,826	1,020,491	1,019,743	748
Capital outlay	3,410,000	2,273,246	2,273,246	
Debt service:				
Principal retirement			63,000	(63,000)
Interest and fiscal charges		5,349	30,648	(25,299)
Total Expenditures	<u>4,297,826</u>	<u>3,299,086</u>	<u>3,386,637</u>	<u>(87,551)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(25,745)</u>	<u>(322,521)</u>	<u>(2,641,053)</u>	<u>(2,318,532)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt			1,895,222	1,895,222
Transfers in	195,000	438,189	113,077	(325,112)
Transfers out	(169,255)	(147,255)	(151,029)	(3,774)
Total other financing sources (uses)	<u>25,745</u>	<u>290,934</u>	<u>1,857,270</u>	<u>1,566,336</u>
Net Change in Fund Balance		(31,587)	(783,783)	(752,196)
Fund Balance (Deficit), Beginning of Fiscal year	<u>(361,241)</u>	<u>(361,241)</u>	<u>(361,241)</u>	
Fund Balance (Deficit), End of the Fiscal Year	<u>\$ (361,241)</u>	<u>\$ (392,828)</u>	<u>\$ (1,145,024)</u>	<u>\$ (752,196)</u>

OTHER 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 - CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Use of money and property	\$ 19,953	\$ 33,350	\$ 13,397
Total Revenues	<u>19,953</u>	<u>33,350</u>	<u>13,397</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	147,255	131,200	(16,055)
Transfers out	<u>(167,208)</u>	<u>(113,077)</u>	<u>54,131</u>
Total other financing sources (uses)	<u>(19,953)</u>	<u>18,123</u>	<u>38,076</u>
Net Change in Fund Balance		51,473	51,473
Fund Balance, Beginning of Fiscal Year	<u>3,705,446</u>	<u>3,705,446</u>	
Fund Balance, End of the Fiscal Year	<u><u>\$ 3,705,446</u></u>	<u><u>\$ 3,756,919</u></u>	<u><u>\$ 51,473</u></u>