

LONDON COMMUNITY SERVICES DISTRICT
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

June 3, 2020

Board of Directors
London Community Services District
Dinuba, California

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of London Community Services District, State of California, as of and for the two years ended June 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable in financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of London Community Services District, State of California, as of June 30, 2019 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages three through six be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated June 3, 2020 on my consideration of London Community Services District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Sanborn and Sanborn
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS

**LONDON COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

As management of London Community Services District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with information that is included within the financial statements.

Financial Highlights

- Assets of the District exceeded its liabilities as of June 30, 2019 by \$4,551,789. Of this amount, unrestricted net position of \$1,284,355 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2018, assets exceeded liabilities by \$4,630,137 with unrestricted net position equaling \$1,257,898.
- Total net position decreased by \$78,348 for the year ended June 30, 2019. For the year ended June 30, 2018, total net position decreased by \$16,522.
- During the current year, the District's fixed assets decreased by a net of \$148,845. This decrease was entirely attributable to depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$148,845 for the current year. Prior year depreciation was \$148,845.
- Total debt decreased by a net of \$21,777 during the current year. The decrease was attributable to repayment of long-term debt in the amount of \$44,067 and an increase in accounts payable and accrued expense of \$22,290. During the prior year, total debt decreased by a net of \$42,237. This was mostly due to a decrease in long-term debt of \$44,067.
- **Overview of the Financial Statements**

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

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

The statement of net position presents information on all of the District's assets and liabilities, with the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expense are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally proprietary in nature (business-type activities) which are functions that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no governmental activities.

The government-wide financial statements include only the District itself. The District has no component units.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds. The District has no governmental funds and only one proprietary fund, the Enterprise Fund.

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2019, the District's assets exceeded liabilities by \$4,551,789. A significant portion of the District's net position (72 percent) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to customers and they are not available for future spending.

The following represent summaries of the District's net position and changes in net position for the current and prior years:

London Community Services District's Net Position

	Business-Type Activities	Current Year Total	Prior Year Total
Current assets	\$ 1,323,390	\$ 1,323,390	\$ 1,274,670
Other assets	<u>4,409,185</u>	<u>4,409,185</u>	<u>4,558,030</u>
Total assets	<u>5,732,575</u>	<u>5,732,575</u>	<u>5,832,700</u>
Current liabilities	84,186	84,186	62,196
Noncurrent liabilities	<u>1,096,600</u>	<u>1,096,600</u>	<u>1,140,367</u>
Total liabilities and deferred inflows	<u>1,180,786</u>	<u>1,180,786</u>	<u>1,202,563</u>
Net position:			
Invested in capital assets, net of related debt	3,267,434	3,267,434	3,372,239
Unrestricted	<u>1,284,355</u>	<u>1,284,355</u>	<u>1,257,898</u>
Total net position	<u>\$ 4,551,789</u>	<u>\$ 4,551,789</u>	<u>\$ 4,630,137</u>

London Community Services District's Changes in Net Position

	Business-Type Activities	Current Year Total	Prior Year Total
Program revenue			
Charges for services	\$ 428,187	\$ 428,187	\$ 428,285
Total revenue	<u>428,187</u>	<u>428,187</u>	<u>428,285</u>
Operating expense			
Water utility activities	295,989	295,989	242,210
Sewer utility activities	<u>248,820</u>	<u>248,820</u>	<u>229,393</u>
Total operating expense	<u>544,809</u>	<u>544,809</u>	<u>471,603</u>
Net operating income/(loss)	(116,622)	(116,622)	(43,318)
Net nonoperating revenue/(expense)	<u>38,274</u>	<u>38,274</u>	<u>26,796</u>
Increase/(decrease) in net position	(78,348)	(78,348)	(16,522)
Net position, beginning of year	<u>4,630,137</u>	<u>4,630,137</u>	<u>4,646,659</u>
Net position, end of year	<u>\$ 4,551,789</u>	<u>\$ 4,551,789</u>	<u>\$ 4,630,137</u>

Business-type activities. Business-type activities decreased the District's net position by \$78,348, accounting for 100 percent of the total increase in net position.

Financial Analysis of the District's Funds

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

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

As of June 30, 2019, the District's proprietary funds reported a combined ending fund balance of \$4,551,789, a decrease of \$78,348 in comparison to the prior year. Of the entire ending fund balance, \$1,284,355 is unrestricted and is available for spending at the District's discretion.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2019 amounted to \$4,409,185 (net of allowance for depreciation). This investment in capital assets includes land, building, improvements, construction in progress and equipment.

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

Debt administration. The District's long-term debt totaled \$1,140,567 as of June 30, 2019. Of this total amount, \$43,967 is due and payable during the year ending June 30, 2020. The remainder, referred to as noncurrent liabilities, is due and payable over the next 25 years.

Additional information on the District's long-term debt can be found in notes four, five and six.

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2020 projects a deficit of \$167,165. Revenue is anticipated to decrease by \$50,414 compared to 2018/2019, while expenditures are expected to increase by \$38,403. Capital expenditures are expected to exceed capital grants and contributions by \$130,556. No interest or property tax revenue is anticipated, operating revenue is estimated to decrease by \$8,174 and no operating grants and contributions are expected. Capital outlay is expected to increase by, \$130,556, while salaries, wages and employee benefits are expected to increase by \$8,885 and service and supply expenditures are expected to decrease by \$44,564 compared to 2018/2019.

User rates are not expected to increase during the year ending June 30, 2020.

Requests for Information

This financial report is designed to provide a general overview of London Community Services District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the District Manager, London Community Services District, 37835 Kate Road, Dinuba, California 93618.

LONDON COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

Assets	
Current assets	
Cash and cash equivalents	\$ 1,303,159
Accounts receivable	14,189
Prepaid expense	<u>6,042</u>
Total current assets	1,323,390
Other assets	
Capital assets (net of allowance for depreciation)	<u>4,409,185</u>
Total assets	<u>5,732,575</u>
Liabilities	
Current liabilities	
Accounts payable and accrued expense	40,219
Current portion of noncurrent liabilities	<u>43,967</u>
Total current liabilities	<u>84,186</u>
Noncurrent liabilities	
Note payable	995,200
Bonds payable	<u>101,400</u>
Total noncurrent liabilities	<u>1,096,600</u>
Total liabilities	<u>1,180,786</u>
Net Position	
Invested in capital assets, net of related debt	3,267,434
Unrestricted	<u>1,284,355</u>
Total net position	<u>\$ 4,551,789</u>

See accompanying notes to financial statements.

LONDON COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Business-type activities		
Operating revenue		
Charges for services		\$ 428,187
Operating expense		
Water utility activities	\$ 295,989	
Sewer utility activities	<u>248,820</u>	
Total operating expense		<u>544,809</u>
Net operating income/(loss)		(116,622)
Net nonoperating revenue/(expense)		<u>38,274</u>
Change in net position		(78,348)
Net position, beginning of year		<u>4,630,137</u>
Net position, end of year		<u>\$ 4,551,789</u>

See accompanying notes to financial statements.

LONDON COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUND
 COMPARATIVE STATEMENT OF NET POSITION
 JUNE 30, 2019 AND 2018

	Business-Type Activities – Enterprise Fund			2018 Total
	2019		Total	
	Sewer	Water		
Assets				
Current assets				
Cash and cash equivalents	\$ 736,535	\$ 566,624	\$ 1,303,159	\$ 1,255,775
Accounts receivable	5,540	8,649	14,189	10,651
Prepaid expense	<u>3,021</u>	<u>3,021</u>	<u>6,042</u>	<u>8,244</u>
Total current assets	745,096	578,294	1,323,390	1,274,670
Other assets				
Capital assets (net of allowance for depreciation)	<u>1,585,748</u>	<u>2,823,437</u>	<u>4,409,185</u>	<u>4,558,030</u>
Total assets	<u>2,330,844</u>	<u>3,401,731</u>	<u>5,732,575</u>	<u>5,832,700</u>
Liabilities				
Current liabilities				
Accounts payable and accrued expense	24,750	15,469	40,219	17,929
Current portion of noncurrent liabilities	<u>2,500</u>	<u>41,467</u>	<u>43,967</u>	<u>44,267</u>
Total current liabilities	<u>27,250</u>	<u>56,936</u>	<u>84,186</u>	<u>62,196</u>
Noncurrent liabilities				
Note payable		995,200	995,200	1,036,667
Bonds payable	<u>101,400</u>		<u>101,400</u>	<u>103,700</u>
Total noncurrent liabilities	<u>101,400</u>	<u>995,200</u>	<u>1,096,600</u>	<u>1,140,367</u>
Total liabilities	<u>128,650</u>	<u>1,052,136</u>	<u>1,180,786</u>	<u>1,202,563</u>
Net Position				
Invested in capital assets, net of related debt	1,480,664	1,786,770	3,267,434	3,372,239
Unrestricted	<u>721,530</u>	<u>562,825</u>	<u>1,284,355</u>	<u>1,257,898</u>
Total net position	<u>\$ 2,202,194</u>	<u>\$ 2,349,595</u>	<u>\$ 4,551,789</u>	<u>\$ 4,630,137</u>

See accompanying notes to financial statements.

LONDON COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUND
 COMPARATIVE STATEMENT OF REVENUE,
 EXPENSE AND CHANGES IN FUND NET POSITION
 FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

	<u>Business-Type Activities – Enterprise Fund</u>			<u>2018 Total</u>
	<u>2019</u>		<u>Total</u>	
	<u>Sewer</u>	<u>Water</u>		
Operating revenue				
Charges for services	\$ 205,425	\$ 215,897	\$ 421,322	\$ 420,909
Other	<u>3,433</u>	<u>3,432</u>	<u>6,865</u>	<u>7,376</u>
Total operating revenue	<u>208,858</u>	<u>219,329</u>	<u>428,187</u>	<u>428,285</u>
Operating expense				
Depreciation	67,488	81,357	148,845	148,845
Fees, testing and treatment	39,718	45,374	85,092	75,923
Utilities	45,828	33,917	79,745	71,451
Legal and professional	22,574	45,929	68,503	68,537
Salaries and wages	31,103	31,102	62,205	51,717
Repairs and maintenance	13,575	29,775	43,350	4,708
Employee benefits	13,445	13,445	26,890	25,139
Insurance	3,699	3,700	7,399	7,094
Communications	3,505	3,505	7,010	5,813
Director fees	3,000	3,000	6,000	6,000
Miscellaneous	3,000	3,000	6,000	3,748
Office supplies and postage	<u>1,885</u>	<u>1,885</u>	<u>3,770</u>	<u>2,628</u>
Total operating expense	<u>248,820</u>	<u>295,989</u>	<u>544,809</u>	<u>471,603</u>
Net operating income/(loss)	<u>(39,962)</u>	<u>(76,660)</u>	<u>(116,622)</u>	<u>(43,318)</u>
Nonoperating revenue/(expense)				
Interest revenue	12,711	12,712	25,423	16,982
Property taxes		15,449	15,449	14,686
Litigation proceeds		1,368	1,368	
Interest expense	<u>(3,966)</u>		<u>(3,966)</u>	<u>(4,872)</u>
Net nonoperating revenue/(expense)	<u>8,745</u>	<u>29,529</u>	<u>38,274</u>	<u>26,796</u>
Change in net position	(31,217)	(47,131)	(78,348)	(16,522)
Other sources/(uses)-transfers in/(out)	(9,498)	9,498		
Net position, beginning of year	<u>2,242,909</u>	<u>2,387,228</u>	<u>4,630,137</u>	<u>4,646,659</u>
Net position, end of year	<u>\$ 2,202,194</u>	<u>\$ 2,349,595</u>	<u>\$ 4,551,789</u>	<u>\$ 4,630,137</u>

See accompanying notes to financial statements.

LONDON COMMUNITY SERVICES DISTRICT
 PROPRIETARY FUND
 COMPARATIVE STATEMENT OF CASH FLOW
 FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

	Business-Type Activities – Enterprise Fund	
	<u>2019</u>	<u>2018</u>
Cash flow from operating activities		
Receipts from customers and users	\$ 424,649	\$ 432,334
Payments to suppliers	(281,679)	(245,024)
Payments to employees	<u>(89,820)</u>	<u>(75,919)</u>
Net cash provided by/(used for) operating activities	<u>53,150</u>	<u>111,391</u>
Cash flow from noncapital financing activities		
Property taxes and miscellaneous nonoperating revenue	<u>16,817</u>	<u>14,686</u>
Cash flow from capital and related financing activities		
Acquisition of capital assets		(9,699)
Principal paid on debt	(44,067)	(44,266)
Interest paid on financing	<u>(3,939)</u>	<u>(4,902)</u>
Net cash provided by/(used for) capital and related financing activities	<u>(48,006)</u>	<u>(58,867)</u>
Cash flow from investing activities		
Interest on investments	<u>25,423</u>	<u>16,982</u>
Net increase/(decrease) in cash	47,384	84,192
Cash, beginning of year	<u>1,255,775</u>	<u>1,171,583</u>
Cash, end of year	<u>\$ 1,303,159</u>	<u>\$ 1,255,775</u>
Reconciliation of operating income to net cash provided by/(used for) operating activities:		
Operating income/(loss)	\$ (116,622)	\$ (43,318)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used for) operating activities		
Depreciation and amortization expense	148,845	148,845
(Increase)/decrease in accounts receivable	(3,538)	4,049
(Increase)/decrease in prepaid expense	2,202	(244)
Increase/(decrease) in accounts payable and accrued expense	<u>22,263</u>	<u>2,059</u>
Net cash provided by/(used for) operating activities	<u>\$ 53,150</u>	<u>\$ 111,391</u>

See accompanying notes to financial statements.

LONDON COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 1: Summary of Significant Accounting Policies

London Community Services District is a California special district that was created on March 28, 1952, upon the approval of the Board of Supervisors of Tulare County. The District was organized to provide and maintain sewer and water operations in the community of London, County of Tulare, State of California. The District is governed by a board of directors. As the District is a governmental unit, it is exempt from federal and California taxes on income.

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

A. Financial Reporting Entity

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements, which are the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue include charges to customers and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

LONDON COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 1: Summary of Significant Accounting Policies (continued)

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

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

Proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flow.

The District reports the following major proprietary fund:

The Sewer and Water Fund is the District's only operating fund. The Sewer and Water Fund accounts for the sewer and water systems operation in the community of London.

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

D. Assets, Liabilities and Net Position or Equity

1. Cash and Investments

Investments are reported at fair value. Cash represents cash on hand, in banks and on deposit in the treasury of the County of Tulare. Investments made from pooled cash consist primarily of short-term investments.

2. Property, Plant and Equipment

Capital assets, which include property, plant and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. All material fixed assets are valued at historical cost. Donated fixed assets are valued at their estimated fair value on the date donated. When an asset is disposed of, cost and related accumulated depreciation is removed and any gain or loss arising from its disposal is credited or charged to operations.

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

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

LONDON COMMUNITY SERVICES DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position or Equity (continued)

	Estimated Useful Life in Years
Buildings and improvements	20 – 40
Equipment	10 – 20

3. Net Position

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

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

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

E. Operating and Nonoperating Revenue

Operating revenue is defined as receipts from customers and users. Nonoperating revenue are other types of revenue; property taxes, grants and interest.

F. Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the year ended June 30, 2019. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

LONDON COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 2: Cash

The District's deposits as of June 30, 2019, were entirely covered by federal depository insurance or otherwise collateralized. The Government Code of the State of California requires California financial institutions to secure District deposits by pledging government securities as collateral.

The following is an analysis of cash as of June 30, 2019:

	<u>Bank Balance Category*</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash on hand	\$ 300	\$	\$	\$ 300
Cash in bank	1,500			1,500
County of Tulare	<u> </u>	<u>1,301,359</u>	<u> </u>	<u>1,301,359</u>
	<u>\$ 1,800</u>	<u>\$1,301,359</u>	<u>\$</u>	<u>\$1,303,159</u>

* These categories are as follows:

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

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

Category 3: Uncollateralized.

Note 3: Property, Plant and Equipment

The following is an analysis of the District's capital assets as of June 30, 2019:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
Land*	\$ 17,000			\$ 17,000
Sewer plant	2,578,191			2,578,191
Buildings and improvements	3,094,768			3,094,768
Construction in progress*	9,699			9,699
Equipment	<u>60,745</u>	<u> </u>	<u> </u>	<u>60,745</u>
Total	5,760,403			5,760,403
Allowance for depreciation	<u>(1,202,373)</u>	<u>(148,845)</u>	<u> </u>	<u>(1,351,218)</u>
	<u>\$4,558,030</u>	<u>\$ (148,845)</u>	<u>\$</u>	<u>\$4,409,185</u>

* Not currently being depreciated.

LONDON COMMUNITY SERVICES DISTRICT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2019:

	July 1, 2018		June 30, 2019		Classification	
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>	<u>Due in One Year</u>	<u>Due After One Year</u>
Bonds payable	\$ 106,500	\$	\$ 2,600	\$ 103,900	\$ 2,500	\$ 101,400
Note payable	<u>1,078,134</u>	<u> </u>	<u>41,467</u>	<u>1,036,667</u>	<u>41,467</u>	<u>995,200</u>
	<u>\$1,184,634</u>	<u>\$</u>	<u>\$ 44,067</u>	<u>\$1,140,567</u>	<u>\$ 43,967</u>	<u>\$1,096,600</u>

Note 5: Bonds Payable

Bonds payable as of June 30, 2019 are composed of the following:

United States Department of Agriculture, Rural Development Department includes one bond dated and issued December 13, 1999. The total amount of the bond issued was \$142,000 and provides for interest at the rate of 3.25 percent per annum. Semi-annual payments of principal and interest and interest only, respectively, began September 1, 2000, and continue until fully paid. Full repayment of the bonds is scheduled to occur in March 2039. Interest expense for the year ended June 30, 2019 was \$4,872 and was included as expense.

The District has covenanted that it will establish, maintain and collect charges sufficient, from sewer revenues received, to provide a balance on net revenue equal to or greater than the principal and interest payments due and payable within the next succeeding twelve months. The following is a summary of the bonds:

Issue amount of \$142,000, due in semi-annual payments aggregating \$6,000 per year	\$ 103,900
Current portion	<u>(2,500)</u>
Deferred portion	<u>\$ 101,400</u>

Future payments of the bonds are as follows:

<u>Due during the year ending</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
Year ending June 30, 2020	\$ 3,434	\$ 2,500	\$ 5,934
Year ending June 30, 2021	3,351	2,600	5,951
Year ending June 30, 2022	3,265	2,700	5,965
Year ending June 30, 2023	3,175	2,800	5,975
Year ending June 30, 2024	3,083	2,900	5,983
Five years ending June 30, 2029	13,910	16,000	29,910
Five years ending June 30, 2034	11,105	18,600	29,705
Five years ending June 30, 2039	7,824	21,900	29,724
Five years ending June 30, 2044	<u>3,599</u>	<u>33,900</u>	<u>37,499</u>
	<u>\$ 52,746</u>	<u>\$ 103,900</u>	<u>\$ 156,646</u>

LONDON COMMUNITY SERVICES DISTRICT
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE TWO YEARS ENDED JUNE 30, 2019 AND 2018

Note 6: Note Payable

On September 1, 2010, the District entered into an agreement with the California Department of Public Health (State) to meet the safe drinking water standards for the District’s domestic water supply. The agreement provided for the transfers of \$1,000,000 in grant funds and \$1,244,000 in loan proceeds from the State to the District to finance improvements to the District’s domestic water supply system. Terms of the agreement provide that loan proceeds will be drawn first with grant funds transferred after the loan proceeds have been fully drawn. Through June 30, 2019, loan proceeds received by the District aggregated \$1,244,000.

Terms of the loan provide that the District will repay the loan in \$20,733 semi-annual installments commencing January 1, 2015. The loan will be fully repaid by July 1, 2042. The loan bears no interest. Future payments of the loan are as follows:

<u>Due during the year ending</u>	
June 30, 2020	\$ 41,466
June 30, 2021	41,467
June 30, 2022	41,466
June 30, 2023	41,466
June 30, 2024	41,466
Five years ending June 30, 2029	207,334
Five years ending June 30, 2034	207,334
Five years ending June 30, 2039	207,334
Five years ending June 30, 2044	<u>207,334</u>
	<u>\$1,036,667</u>

Note 7: Operating Transfers

During the year ended June 30, 2019, there were operating transfers from the Sewer Fund to the Water Fund for operating capital purposes that totaled \$9,498.

Note 9: Subsequent Events

Events affecting the District subsequent to June 30, 2019 through June 3, 2020 have been evaluated and included within these financial statements when applicable.

Note 9: Board of Directors

Members of the Board of Directors as of June 30, 2019, were as follows:

Dorothy M. Castro	President
Sue Morgan	Vice President
Tony Brito	Director
Aaron L. Morgan	Director
Virginia Negrete	Director

The Manager of the District and Secretary to the Board of Directors is Carolyn Thomas.

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

INDEPENDENT AUDITOR'S REPORT

June 3, 2020

Board of Directors
London Community Services District
Dinuba, California

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of London Community Services District as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated June 3, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether London Community Services District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Report

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

*Sanborn and Sanborn
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS