

LONDON COMMUNITY SERVICES DISTRICT

REPORT ON AUDIT OF FINANCIAL STATEMENTS

FOR THE YEAR ENDED

June 30, 2020

Draft

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Draft



INDEPENDENT AUDITOR'S REPORT

Board of Directors
London Community Services District
Dinuba, California

We have audited the accompanying financial statements of London Community Services District (the District) as of and for the year ended June 30, 2020 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

Our responsibility is to express an opinion 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. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2020 and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted 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 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. Our opinion on the basic financial statements is not affected by this missing information.

Fresno, California

June XX, 2022

Draft

LONDON COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2020
(With Summarized Comparative Information for June, 30 2019)

	2020			2019
	Sewer	Water	Total	Total
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 629,073	\$ 3,018,275	\$ 3,647,348	\$ 1,245,073
Receivables:				
Accounts	14,128	13,278	27,406	13,896
Grant	-	61,554	61,554	54,582
Prepaid expenses	<u>3,190</u>	<u>2,840</u>	<u>6,030</u>	<u>6,172</u>
Total Current Assets	<u>646,391</u>	<u>3,095,947</u>	<u>3,742,338</u>	<u>1,319,723</u>
Non-Current Assets:				
Restricted cash	13,126	45,616	58,742	58,086
Capital assets, net of accumulated depreciation	<u>1,632,596</u>	<u>2,774,763</u>	<u>4,407,359</u>	<u>4,460,266</u>
Total Non-Current Assets	<u>1,645,722</u>	<u>2,820,379</u>	<u>4,466,101</u>	<u>4,518,352</u>
 Total Assets	 <u>\$ 2,292,113</u>	 <u>\$ 5,916,326</u>	 <u>\$ 8,208,439</u>	 <u>\$ 5,838,075</u>
<u>LIABILITIES</u>				
Current Liabilities:				
Accounts payable	\$ 21,077	\$ 17,062	\$ 38,139	\$ 38,960
Compensated absences payable	355	355	710	892
Payroll taxes	482	482	964	630
Interest payable	1,092	-	1,092	1,125
Current portion of long-term debt	<u>3,200</u>	<u>41,467</u>	<u>44,667</u>	<u>44,567</u>
Total Current Liabilities	<u>26,206</u>	<u>59,366</u>	<u>85,572</u>	<u>86,174</u>
Non-Current Liabilities:				
Long-term debt, net of current portion	<u>97,300</u>	<u>953,732</u>	<u>1,051,032</u>	<u>1,095,699</u>
 Total Liabilities	 <u>123,506</u>	 <u>1,013,098</u>	 <u>1,136,604</u>	 <u>1,181,873</u>
<u>NET POSITION</u>				
Restricted for debt service	13,126	45,616	58,742	58,086
Net investment in capital assets	1,532,096	1,779,564	3,311,660	3,320,000
Unrestricted funds	<u>623,385</u>	<u>3,078,048</u>	<u>3,701,433</u>	<u>1,278,116</u>
Total Net Position	<u>2,168,607</u>	<u>4,903,228</u>	<u>7,071,835</u>	<u>4,656,202</u>
 Total Liabilities and Net Position	 <u>\$ 2,292,113</u>	 <u>\$ 5,916,326</u>	 <u>\$ 8,208,439</u>	 <u>\$ 5,838,075</u>

See accompanying notes to financial statements.

LONDON COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUE, EXPENSE AND CHANGES IN NET POSITION
For the Year Ended June 30, 2020
(With Summarized Comparative Information for June, 30 2019)

	2020			2019
	Sewer	Water	Total	Total
<u>OPERATING REVENUES</u>				
Charges for services	\$ 208,067	\$ 211,608	\$ 419,675	\$ 421,029
Late fees and penalties	<u>3,526</u>	<u>3,526</u>	<u>7,052</u>	<u>6,866</u>
Total Operating Revenues	<u>211,593</u>	<u>215,134</u>	<u>426,727</u>	<u>427,895</u>
<u>OPERATING EXPENSES</u>				
Salaries and wages	28,523	28,523	57,046	62,205
Employee benefits	12,557	12,557	25,114	27,020
Director fees	2,900	2,900	5,800	6,000
Contract services	67,334	28,078	95,412	72,232
Engineer	17,831	7,601	25,432	30,809
Legal and professional services	7,279	12,124	19,403	27,997
Insurance	3,858	3,958	7,816	7,400
Office expense	2,673	3,041	5,714	3,789
Repairs and maintenance	15,147	11,055	26,202	43,350
Utilities	58,452	45,857	104,309	87,410
Travel	631	734	1,365	2,549
Depreciation	67,016	111,952	178,968	178,969
Other	<u>19,863</u>	<u>4,418</u>	<u>24,281</u>	<u>21,793</u>
Total Operating Expenses	<u>304,064</u>	<u>272,798</u>	<u>576,862</u>	<u>571,523</u>
(Loss) from Operations	<u>(92,471)</u>	<u>(57,664)</u>	<u>(150,135)</u>	<u>(143,628)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>				
Interest income	36,775	36,320	73,095	25,421
Property tax revenue	-	15,745	15,745	15,450
Litigation settlement	-	3,750,000	3,750,000	1,368
Litigation fees	-	(1,276,761)	(1,276,761)	-
Interest expense	(3,283)	-	(3,283)	(3,382)
Impairment loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43,443)</u>
Total Non-Operating Revenues (Expenses)	<u>33,492</u>	<u>2,525,304</u>	<u>2,558,796</u>	<u>(4,586)</u>
CONTRIBUTED CAPITAL	<u>-</u>	<u>6,972</u>	<u>6,972</u>	<u>4,952</u>
CHANGE IN NET POSITION	<u>(58,979)</u>	<u>2,474,612</u>	<u>2,415,633</u>	<u>(143,262)</u>
NET POSITION, BEGINNING OF THE YEAR, AS PREVIOUSLY STATED	2,227,586	2,428,616	4,656,202	4,630,137
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,327</u>
NET POSITION, BEGINNING OF THE YEAR, AS RESTATED	<u>2,227,586</u>	<u>2,428,616</u>	<u>4,656,202</u>	<u>4,799,464</u>
NET POSITION, END OF THE YEAR	<u>\$ 2,168,607</u>	<u>\$ 4,903,228</u>	<u>\$ 7,071,835</u>	<u>\$ 4,656,202</u>

See accompanying notes to financial statements.

LONDON COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOW
For the Year Ended June 30, 2020
(With Summarized Comparative Information for June, 30 2019)

	2020			2019
	Sewer	Water	Total	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash receipts from customers and users	\$ 203,242	\$ 209,975	\$ 413,217	\$ 424,650
Cash paid for goods and services	(194,700)	(114,214)	(308,914)	(268,724)
Cash paid for employees, taxes, and related benefits	(44,702)	(44,805)	(89,507)	(98,048)
Cash paid for litigation fees	-	(1,276,761)	(1,276,761)	-
Litigation proceeds received	-	<u>3,750,000</u>	<u>3,750,000</u>	<u>1,368</u>
Net cash provided (used) by operating activities	<u>(36,160)</u>	<u>2,524,195</u>	<u>2,488,035</u>	<u>59,246</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Purchase of capital assets	-	(126,061)	(126,061)	(4,952)
Principal payment of long-term debt	(3,100)	(41,467)	(44,567)	(44,367)
Interest paid on long-term debt	<u>(3,316)</u>	<u>-</u>	<u>(3,316)</u>	<u>(3,414)</u>
Net cash (used) by capital and related financing activities	<u>(6,416)</u>	<u>(167,528)</u>	<u>(173,944)</u>	<u>(52,733)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>				
Cash received from property taxes	-	<u>15,745</u>	<u>15,745</u>	<u>15,450</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>15,745</u>	<u>15,745</u>	<u>15,450</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Interest received	<u>36,775</u>	<u>36,320</u>	<u>73,095</u>	<u>25,421</u>
Net cash provided by investing activities	<u>36,775</u>	<u>36,320</u>	<u>73,095</u>	<u>25,421</u>
Increase (decrease) in cash and cash equivalents	(5,801)	2,408,732	2,402,931	47,384
Cash and cash equivalents, beginning of year	<u>648,000</u>	<u>655,159</u>	<u>1,303,159</u>	<u>1,255,775</u>
Cash and cash equivalents, end of year	<u>\$ 642,199</u>	<u>\$3,063,891</u>	<u>\$3,706,090</u>	<u>\$1,303,159</u>
Reconciliation of (Loss) from Operations to Net Cash Provided (Used) by Operating Activities				
(Loss) from operations	\$ (92,471)	\$ (57,664)	\$ (150,135)	\$ (143,628)
Adjustments to reconcile (loss) from operations to net cash provided by operating activities:				
Depreciation and amortization	67,016	111,952	178,968	178,969
Litigation settlement	-	3,750,000	3,750,000	1,368
Litigation fees	-	(1,276,761)	(1,276,761)	-
(Increase) decrease in:				
Assessments receivable	(8,351)	(5,159)	(13,510)	(3,245)
Prepaid expense	(104)	246	142	2,072
Increase (decrease) in:				
Accounts payable	(2,326)	1,505	(821)	24,398
Compensated absences payable	(91)	(91)	(182)	(274)
Payroll taxes	<u>167</u>	<u>167</u>	<u>334</u>	<u>(414)</u>
Net cash provided (used) by operating activities	<u>\$ (36,160)</u>	<u>\$ 2,524,195</u>	<u>\$ 2,488,035</u>	<u>\$ 59,246</u>

See accompanying notes to financial statements.

**LONDON COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 1: ORGANIZATION AND DESCRIPTION OF BUSINESS

London Community Services District (The 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 an elected five-member board of directors.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity: In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Government Accounting Standards Board (GASB)*, there are no potential component units that should be included with the accompanying financial statements of the District.

Measurement Focus, Basis of Accounting: The District is considered a special-purpose government engaged only in business-type activities and uses enterprise fund accounting and reporting. Enterprise fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the government body is that the cost and expenses of providing goods or services to its customers be financed or recovered primarily through users charges; or where the governing body has decided that periodic determination of revenue earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Enterprise funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The significant accounting policies followed are described below. The assets, liabilities, and net position of the District are reported in two funds: the Sewer Fund and the Water Fund. The Sewer and Water Funds account for the sewer and water systems operation in the community of London.

Cash and Equivalents: Cash and cash equivalents, for the purposes of the statement of cash flows, includes cash on hand or deposit, and short-term investments with an original maturity of less than three (3) months.

Accounts Receivable: Account receivable arise from billings to customers and other agencies for sales of water and other services. The District does not provide an allowance for uncollectible accounts. Historically such write offs have been minimal and are not considered a factor in financial statement presentations.

Capital Assets: Capital assets are recorded at cost less accumulated depreciation and updated for additions and retirements during the year. Repairs and maintenance and minor alterations are charged to expense as incurred. Costs which are considered improvements are added to the appropriate capital asset account. Gains and losses on disposition of capital assets are reported and recognized in the year of disposition. The District recognizes depreciation using the straight-line method over the estimated useful lives as follows:

Sewer Plant	10 - 40 years
Water Plant	10 - 40 years
Building and Improvements	20 years
Equipment	10 years
Vehicles	5 years

**LONDON COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Impairment of Long Lived Assets: Long lived assets consist primarily of capital assets and other intangible assets. The District reviews long-lived assets for impairment whenever significant events or changes in the business environment indicate that the asset's carrying amount may not be recoverable. If impairment exists, the carrying amount of the long-lived assets is reduced to its estimated fair value, less any costs associated with the final settlement. There was no impairment of the District's long-lived assets for the year ending June 30, 2020. As of June 30, 2019, the District determined that the well that was placed into service in 1991 with an original cost of \$17,473 was fully impaired and was therefore written off for the year ended June 30, 2019. Since the well was fully depreciated, there was no impairment charge and no effect to net position as of June 30, 2019. The District also determined that the 2001 wastewater facility with an original cost of \$591,982 was 15% impaired. Therefore, 15% of the original cost and accumulated depreciation were written off, and an impairment loss of \$43,443 was recorded for the year ended June 30, 2019.

Net Position: Net position comprises the various net earnings from operating income, nonoperating revenue and expense and capital contributions. Net position is categorized in the following three components:

Net investment in capital assets — 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 improvement of those assets.

Restricted net position — This component of net position consists of constraints imposed by creditors (such as through debt covenant), 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 "net investment in capital assets."

Operating revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services in the form providing sewer and water services to customers. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property Taxes: Secured property taxes attach as an enforceable lien on property as of January 1. These taxes are levied from July 1 through June 30. Taxes are payable in two installments on November 1 and February 1 and are collected December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of Tulare bills and collects the taxes for the District.

Income Taxes: The District qualifies for tax-exempt status as an integral part of the State of California or a political subdivision in accordance with Internal Revenue Code (IRC) Section 115. As a result, no tax provisions apply to the District's income.

Subsequent Events: Subsequent events have been evaluated as of **June XX, 2022** which is the date the financial statements were available to be released.

**LONDON COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 3: CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents at June 30, 2020 is as follows:

Union Bank of California	\$ 342,214
Cash on hand	400
Tulare County Investment Pool (TCIP)	<u>3,363,476</u>
	3,706,090
Less: Restricted cash	<u>58,742</u>
Total cash and cash equivalents, unrestricted	<u>\$ 3,647,348</u>

Investments Authorized by the California Government Code: The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that would further limit investment maturities as a means of managing its exposure to fair value losses arising from increasing rates.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization; however, the Tulare County Investment Pool is not rated.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The District does not have an investment policy that contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

**LONDON COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 3: CASH AND CASH EQUIVALENTS, continued

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposit made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. At June 30, 2020, the bank balance with Union Bank was \$323,260, of which \$250,000 was covered by the federal depository insurance and \$73,260 was uninsured but collateralized.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of government investment pools such as the Tulare County Investment Pool (TCIP).

Investment in Tulare County Investment Pool: The District is considered to be a voluntary participant in the Tulare County Investment Pool (TCIP) which is a government investment pool managed and directed by the Tulare County Treasury Oversight Committee. The balance available for withdrawal is based on the accounting records maintained by TCIP, which are recorded on an amortized cost basis. The District may withdrawal monies upon one-day-notice. The average monthly effective yield for June 30, 2020 was 2.97%. The District's investment in the Tulare County Investment Pool was not subject to credit risk categorization and is carried at amortized cost which approximates fair value.

NOTE 4: CAPITAL ASSETS

The following is a summary of changes in the capital assets during the year.

	<u>Balance</u> <u>6/30/19</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/20</u>
Capital Assets Not Being Depreciated:				
Land	\$ 17,000	\$ 119,089	\$ -	\$ 136,089
Construction in progress	54,582	6,972	-	61,554
Total	<u>71,582</u>	<u>126,061</u>	<u>-</u>	<u>197,643</u>
Capital Assets Being Depreciated:				
Sewer plant	2,384,178	-	-	2,384,178
Water plant	3,289,080	-	-	3,289,080
Building and improvements	85,061	-	-	85,061
Equipment	2,262	-	-	2,262
Vehicles	23,168	-	-	23,168
Total	5,783,749	-	-	5,783,749
Less Accumulated depreciation	(1,395,065)	\$(178,968)	\$ -	(1,574,033)
Net Capital Assets Being Depreciated	<u>4,388,684</u>			<u>4,209,716</u>
Net Book Value	<u>\$ 4,460,266</u>			<u>\$ 4,407,359</u>

**LONDON COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 5: LONG-TERM LIABILITIES

A summary of the District's long-term liabilities is as follows:

	June 30, 2019			June 30, 2020	Current	Long-Term
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>	<u>Debt</u>
United States Department of Agriculture Loan	\$ 103,600	\$ -	\$ 3,100	\$ 100,500	\$ 3,200	\$ 97,300
Safe Water Drinking Loan	<u>1,036,666</u>	<u>-</u>	<u>41,467</u>	<u>995,199</u>	<u>41,467</u>	<u>953,732</u>
Total	<u>\$1,140,266</u>	<u>\$ -</u>	<u>\$ 44,567</u>	<u>\$ 1,095,699</u>	<u>\$ 44,667</u>	<u>\$ 1,051,032</u>

United States Department of Agriculture (USDA) Loan: In 1999, the District board voted to authorize the issuance of Sewer Revenue Bond of 1999 with the USDA through the Rural Utilities Service to help finance improvements related to the Wastewater Treatment and Disposal Plant. The total amount of the bond issued was \$142,000 with an interest rate of 3.25% per annum. Payments are made semi-annual on September 1 and March 1, and will continue until the principal is fully paid. 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.

Safe Water Drinking Loan: In 2010, the District entered into an agreement with the California Department of Water Resources to meet the safe drinking water standards for the District's domestic water supply. The agreement provided for a total of \$1,244,000 in loan proceeds to the District to help finance improvements to the District's domestic water supply system. The loan is non-interest bearing. Payments are made semi-annually on July 1 and January 1, and will continue until the principal is fully paid.

The debt service requirements on the long-term debt are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 44,667	\$ 3,266	\$ 47,933
2022	44,767	3,162	47,929
2023	44,967	3,055	48,022
2024	45,067	2,941	48,008
2025	45,267	2,824	48,091
2026-2030	229,235	12,142	241,377
2031-2035	234,535	8,252	242,787
2036-2040	241,330	3,413	244,743
2041-2044	<u>165,864</u>	<u>-</u>	<u>165,864</u>
	<u>\$ 1,095,699</u>	<u>\$ 39,055</u>	<u>\$ 1,134,754</u>

NOTE 6: RESTRICTED ASSETS

Under the terms of the USDA loan, a separate debt service reserve was required to ensure sufficient funds were available for semiannual payments according to the terms of the loan. The debt service reserve is to be accumulated at the rate of at least one-tenth of the average installment each year until the required level is reached. Once the required level is reached in the debt service reserve, the District is required to continue to deposit one-tenth of the average annual installment per year into a Renewal and Extension Fund. These transfers will continue for the life of the loan.

Under the terms of the Safe Water Drinking Loan, the District was required to establish a reserve fund comprised of \$41,468 for the final two payments of the loan in addition to two semi-annual transfers of \$2,074.

**LONDON COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 6: RESTRICTED ASSETS, continued:

Restricted assets are comprised of the following at June 30, 2020:

USDA loan reserve fund / renewal and extension fund	\$ 13,126
Safe Water Drinking loan reserve fund	<u>45,616</u>
Total	<u>\$ 58,742</u>

NOTE 7: PRIOR PERIOD ADJUSTMENT

A misstatement in the District's previously issued financial statements, was corrected in the prior year. This resulted in the following changes in net position as of June 30, 2018.

	<u>Restricted for Debt Service</u>	<u>Net Investment in Capital Assets</u>	<u>Unrestricted Net Position</u>	<u>Total</u>
As previously reported, June 30, 2018	\$ _____ -	\$ <u>3,373,396</u>	\$ <u>1,256,741</u>	\$ <u>4,630,137</u>
Understatement of Capital Assets		479,400	-	479,400
Understatement of Accumulated Depreciation		(359,703)	-	(359,703)
Understatement of Grant Receivable	-		49,630	49,630
Understatement of Restricted Debt Service	<u>57,430</u>	-	<u>(57,430)</u>	<u>-</u>
Total Adjustment	<u>57,430</u>	<u>119,697</u>	<u>(7,800)</u>	<u>169,327</u>
As restated, June 30, 2018	<u>\$ 57,430</u>	<u>\$ 3,493,093</u>	<u>\$ 1,248,941</u>	<u>\$ 4,799,464</u>

The effect of the corrections on changes in net position for the year ended June 30, 2019 has not been determined.

Additional information regarding the errors identified are as follows:

Capital assets were understated by \$479,400 primarily due to the capitalized costs for the water plant being understated, and accumulated depreciation was understated by \$359,703.

Grant receivable from the State Water Resources Board was understated as grant revenue earned was not recorded in the financial statements.

Net position restricted for debt service was not recorded as of June 30, 2018.

NOTE 8: LITIGATION

After many years of litigation to recover the costs of treating or otherwise remediating trichloroporane (“TCP”) contamination in their groundwater supplies, the District reached a settlement with The Dow Chemical Company. Dow Chemical agreed to pay the District a total of \$3,750,000. After deducting attorney fees and advanced case costs totaling \$1,276,761, the net settlement payment was \$2,473,239 and was received by the District on October 21, 2019.