

***LATHROP IRRIGATION DISTRICT***

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Report on Audits  
Years Ended June 30, 2020 and 2019

# ***LATHROP IRRIGATION DISTRICT***

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**June 30, 2020 and 2019**

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## Independent Auditor's Report

To the Board of Trustees  
Lathrop Irrigation District  
Lathrop, California

We have audited the accompanying financial statements of the business-type activities of Lathrop Irrigation District as of and for the years ended June 30, 2020 and 2019, 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 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. 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 involves evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement 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.

To the Board of Trustees  
Lathrop Irrigation District  
Lathrop, California

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lathrop Irrigation District as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years 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 the management's discussion and analysis on pages 3 through 7 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 the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the budgetary comparison schedule 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.

*Perry, Bunch & Johnston, Inc.*

Woodland, California  
June 28, 2021

**LATHROP IRRIGATION DISTRICT**  
**P.O. Box 1397**  
**Lathrop, California 95330**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS:**

Management of the Lathrop Irrigation District (the District) provides this Management's Discussion and Analysis of its financial performance for the readers of the District's financial statements. This narrative provides an overview of the District's financial activity for the years ended June 30, 2020 and 2019. To provide an objective analysis of the District's financial activities, the information presented herein should be read in conjunction with the accompanying financial statements and notes to the financial statements.

**FINANCIAL HIGHLIGHTS:**

- The District's net position increased by \$370,922 as a result of this year's operations. This increase is attributable to the transfer of assets from related parties and the associated debt and interest expense accrual.
- Overall revenues for the year ending June 30, 2020 went up \$551,113, an increase of 18.2% from the prior fiscal year. With accrued interest expense not included, net income decreased \$1,202 from the prior fiscal year.
- The district cash position increased for the positive. Cash balances increased to \$1,850,671 from \$665,525 in the prior fiscal period, an increase of 178.1%.
- Long-term debt outstanding at June 30, 2020 increased to \$26,852,892. \$26,742,473 of the total amount is due to related parties associated with the transfer of fixed assets.

**USING THIS ANNUAL REPORT:**

Lathrop Irrigation District began the formation process in 2001, and through a special election held in May of 2002, the District was approved by the voters living within the proposed sphere of influence. The approval for annexation by LAFCO was given in 2005 and a Certificate of Completion was recorded on March 30, 2006. Lathrop Irrigation District was formed for the purpose of providing electric service to the residents of the planned community of River Islands Development, a unique picturesque community with an estimated final buildout of 11,000-14,000 residential services and structured commercial areas. There is no industrial manufacturing planned for within the community itself, although there is a tremendous amount of manufacturing and large commercial building being performed in the immediate area which is currently served by Pacific Gas and Electric (PG&E).

When the District first began serving customers it relied on the services of South San Joaquin Irrigation District to perform billing, collection, and meter reading functions. In 2017, LID created a new financial general ledger system in compliance with FERC accounting principles and implemented a new CIS software system (Professional Computer Systems) for customer meter reading, billing, and receivables. In January of 2018 the District also implemented a new financial system using the Professional Computing System (PCS) for managing revenue allocation and accounts payable. Future modules within PCS for payroll, inventory, meter data management, work orders, staking, and transportation are available for use as needed.

As of the end of the fiscal year ending June 30, 2020, the District served approximately 2000 customers and continues to add approximately 30-40 new homes (meters) per month. All revenue is derived from rates established by the District, which are set through analysis of the cost of services provided. Since the inception of LID, rates have been modified slightly to meet revenue needs, with a target of keeping energy rates at a minimum of 5% below those charged by PG&E. Direct costs, such as Renewable Energy Charges, Resource Adequacy Fees, and state and local taxes are examples of "rates" (revenue sources derived through analysis of cost of service) that are consistently monitored to ensure the amounts collected are adequate and consistent to meet the obligations of the District with respect to acquisition of Renewable Energy Credits and Resource Adequacy needs.

**USING THIS ANNUAL REPORT: (Continued)**

During this fiscal year, LID Management dedicated itself to seeking long term, favorable financing to satisfy obligations with respect to the MIRA, the financing document created to allow LID to set up operations. As of the end of the 2019-20 FY, the District is in the final stages of securing a Bond to refinance the debt and has been implementing processes to track funds from the proceeds of the Bond and other restricted funds. Upon finalization of the Bond process, the District expects sufficient revenues to fund the various Bond restricted fund categories as well as continue to set aside the Board restricted reserve funds. As the cash position of the District continues to improve, an investment policy will be created and implemented to protect the assets and offer additional revenue growth through approved public investment options.

Many entities (particularly governmental entities) have struggled during the COVID pandemic due to staffing constraints, losses in revenues, and resource shortages. LID was prepared for the pandemic from a staffing and service standpoint through immediate implementation of complete online and/or telephonic access for customers to apply for service, make payments, communicate with staff, and transact all other business with the District. Staff worked remotely as necessary to mitigate the potential spread of COVID 19 and for the most part, there was minimal impact on the routine of the District. The Board of Directors directed staff to work with customers who needed assistance with payment of bills, however, there have not been a significant number of customers requiring assistance, as many customers in the development were either retired or have been allowed to continue to work from home or were assigned to work from home and did not experience significant financial struggles requiring major payment arrangements.

While there is no absolute way to predict the future, growth in the River Islands Development is anticipated to continue and has out-paced the estimates for the 5-year plan. Because of the short history of the District and the rapid growth the District is experiencing, it is often a complicated process to develop a budget. Conservative revenue estimates together with slightly inflated expense estimates are used for budgeting purposes. With the exception of purchased power, the Budget is generally well within acceptable range at FY end. Although purchased power costs often exceed the predictions, revenues from the additional homes more than adequately offsets the additional costs. The added component of rooftop solar creates a need each year to perform an analysis of usage patterns to estimate the District's power purchase needs. While the District's solar policies are designed to require solar producers to size systems within 125% of the home's annual usage, often there is additional solar available which the District purchases at the most recent year's average market value and this energy is then sold at retail to the surrounding customers. This reduces the quantity of energy the District purchases on the open market, often protecting the District from higher spot market pricing.

**STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES:**

The Statement of Net Position and Statement of Activities include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. The District's net position, the difference between assets and liabilities, present a way to measure the District's financial position.

**Lathrop Irrigation District**

**Statements of Net Position**

	<b>2020</b>	<b>2019</b>
Assets:		
Current and other assets	\$ 2,305,447	\$ 976,284
Capital assets	21,444,311	21,719,133
<b>Total Assets</b>	<b>23,749,758</b>	<b>22,695,417</b>
Liabilities:		
Current liabilities	267,766	322,140
Long-term liabilities outstanding, Net	26,830,447	26,092,654
<b>Total Liabilities</b>	<b>27,098,213</b>	<b>26,414,794</b>
Net position:		
Net investment in capital assets	21,333,892	21,690,033
Unrestricted	(24,682,347)	(25,409,410)
<b>Total Net Position</b>	<b>\$ (3,348,455)</b>	<b>\$ (3,719,377)</b>

**Statements of Activities**

	<b>2020</b>	<b>2019</b>
Revenues:		
Electric charges	\$ 3,578,018	\$ 3,026,885
<b>Total Revenues</b>	<b>3,578,018</b>	<b>3,026,885</b>
Expenses:		
Accounting	6,750	6,250
Bank service charges	6,549	5,158
Billing service fees	172,102	142,471
Depreciation	572,980	38,095
Director fees	21,600	23,177
Dues and subscriptions	3,946	4,067
Education and training	1,527	3,430
Insurance	30,067	24,322
Interest expense	2,152	946
Interest expense - Related parties	592,660	4,918,370
Legal	16,931	18,215
Maintenance	562,432	492,339
Miscellaneous	8,151	8,250
Office expense	52,907	5,661
Power purchased	800,544	863,619
Rent	22,764	83,933
Salaries	309,478	327,860
Taxes	5,674	2,083
Travel	7,174	1,915
Utilities	10,708	12,157
<b>Total Expenses</b>	<b>3,207,096</b>	<b>6,982,318</b>
<b>Increase (Decrease) in Net Position</b>	370,922	(3,955,433)
<b>Net Position, Beginning of Year</b>	<b>(3,719,377)</b>	<b>236,056</b>
<b>Net Position, End of Year</b>	<b>\$ (3,348,455)</b>	<b>\$ (3,719,377)</b>

**FINANCIAL POSITION:**

The District had an increase in net position of \$370,922 compared to a prior year decrease of \$3,955,433. The District had an increase in revenue of \$551,133 and expenses decreased \$3,775,222. \$592,660 of the decrease in expenses was attributed to the interest expense accrual of \$5,511,030 associated with the transfer of assets from related parties.

The following is a breakdown of the previous six-years of District operations and the end of each Fiscal Year's Net Position and the percentage of change over the year:

FISCAL YEAR	Beg Net Pos	Ending Net Pos	Change in Net Pos	% Change
2013/14	\$ 84,190.00	\$ 309,943.00	\$ 225,753.00	268%
2014/15	\$ 309,943.00	\$ 314,403.00	\$ 4,460.00	1%
2015/16	\$ 314,403.00	\$ 118,310.00	\$ (196,093.00)	-62%
2016/17	\$ 118,310.00	\$ 137,025.00	\$ 18,715.00	16%
2017/18	\$ 137,025.00	\$ 236,056.00	\$ 99,031.00	72%
2018/19	\$ 236,056.00	\$ (3,719,377.00)	\$ (3,955,433.00)	-1676%
2019/20 without Assets/Debts	\$ 1,198,993.00	\$ 2,162,575.00	\$ 963,582.00	80%
2019/20 with Assets/Debts	\$ (3,719,377.00)	\$ (3,348,455.00)	\$ 370,922.00	-10%

**CAPITAL ASSETS, CONSTRUCTION IN PROGRESS AND DEBT ADMINISTRATION:**

The District's capital assets at June 30, 2020 totaled \$21,444,311, as compared to the prior year amount of \$21,719,133. Total capital transfers from related parties for the year ended June 30, 2020 were \$0.

At June 30, 2020 the district had total outstanding related party notes payable of \$26,742,473. This amount is made of \$21,231,443 of principal and \$5,511,030, of accrued interest expense associated with the above capital assets.

Addition of Debt included in the 2019-20 Financial Statement to the Respective Agencies and the Allocation of Assets secured thereby:

Due to River Islands Development	\$ 78,353
Due to River Islands Public Financing Authority	-
Due to Reclamation District 2062	-
	\$ 78,353

**Associated Fixed Assets Transferred**

Transmission Plant	\$ -
Distribution Plant Land and Land Rights	33,000
Distribution Structure and Improvements	40,526
Distribution Station Equipment	4,827
Distribution Poles, Towers and Fixtures	-
Accrued Interest Expense	-
	\$ 78,353

The MIRA provides for a repayment mechanism to begin after acceptance of each addition (Amendment) to the MIRA as accepted by the Board of Directors. Each additional amendment begins a new timeline of 10 years for repayment. The above does not reflect the repayment schedule, only the accrual for long-term debt and accumulated interest at a certain point in time. Due to ongoing efforts to obtain more favorable options for repayment, this document will not contain a detailed outline of when the ten-year repayment triggers began.



**REQUESTS FOR INFORMATION:**

This financial report is designed to provide citizens, taxpayers, creditors and government regulators with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Below is the contact address for questions about this report or requests for additional financial information:

Lathrop Irrigation District  
Attention: Curtis Bryant - Public Agency Liaison  
P.O. Box 1397  
Lathrop, CA 95330  
209-888-4799

# LATHROP IRRIGATION DISTRICT

## STATEMENTS OF NET POSITION

June 30,	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 1,850,671	\$ 665,525
Accounts receivable	394,968	309,577
Other receivable	11,875	-
Prepaid expenses	47,933	1,182
<b>Total Current Assets</b>	<b>2,305,447</b>	<b>976,284</b>
<b>CAPITAL ASSETS:</b>		
Non-Depreciable	787,156	754,156
Depreciable, net of accumulated depreciation	20,657,155	20,964,977
<b>Total Capital Assets - Net</b>	<b>21,444,311</b>	<b>21,719,133</b>
<b>Total Assets</b>	<b>\$ 23,749,758</b>	<b>\$ 22,695,417</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 194,918	\$ 287,230
Customer deposits	50,403	27,004
Note payable - Current portion	22,445	7,906
<b>Total Current Liabilities</b>	<b>267,766</b>	<b>322,140</b>
<b>LONG-TERM LIABILITIES:</b>		
Due to related parties	26,742,473	26,071,460
Note payable - Long-term portion	87,974	21,194
<b>Total Long-Term Liabilities</b>	<b>26,830,447</b>	<b>26,092,654</b>
<b>Total Liabilities</b>	<b>27,098,213</b>	<b>26,414,794</b>
<b>NET POSITION:</b>		
Net investment in capital assets	21,333,892	21,690,033
Unrestricted	(24,682,347)	(25,409,410)
<b>Total Net Position</b>	<b>(3,348,455)</b>	<b>(3,719,377)</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 23,749,758</b>	<b>\$ 22,695,417</b>

# LATHROP IRRIGATION DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

<b>Years Ended June 30,</b>	<b>2020</b>	<b>2019</b>
<b>OPERATING REVENUES:</b>		
Electric charges	<u>\$ 3,578,018</u>	<u>\$ 3,026,885</u>
<b>Total Operating Revenues</b>	<u>3,578,018</u>	<u>3,026,885</u>
<b>OPERATING EXPENSES:</b>		
Accounting	6,750	6,250
Bank service charges	6,549	5,158
Billing service fees	172,102	142,471
Depreciation	572,980	38,095
Director fees	21,600	23,177
Dues and subscriptions	3,946	4,067
Education and training	1,527	3,430
Insurance	30,067	24,322
Interest expense	2,152	946
Interest expense - Related parties	592,660	4,918,370
Legal	16,931	18,215
Maintenance	562,432	492,339
Miscellaneous	8,151	8,250
Office expense	52,907	5,661
Power purchased	800,544	863,619
Rent	22,764	83,933
Salaries	309,478	327,860
Taxes	5,674	2,083
Travel	7,174	1,915
Utilities	10,708	12,157
<b>Total Operating Expenses</b>	<u>3,207,096</u>	<u>6,982,318</u>
<b>Operating Income (Loss)</b>	<u>370,922</u>	<u>(3,955,433)</u>
<b>Change in Net Position</b>	370,922	(3,955,433)
Net Position, Beginning of Year	<u>(3,719,377)</u>	<u>236,056</u>
<b>Net Position, End of Year</b>	<u>\$ (3,348,455)</u>	<u>\$ (3,719,377)</u>

# LATHROP IRRIGATION DISTRICT

## STATEMENTS OF CASH FLOWS

<b>Years Ended June 30,</b>	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 3,516,026	\$ 2,991,234
Payments to suppliers	<u>(2,192,394)</u>	<u>(2,054,103)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>1,323,632</u>	<u>937,131</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from River Island Developments	78,353	-
Principal payments to River Island Developments	<u>-</u>	<u>(219,205)</u>
<b>Net Cash Provided by (Used in) Non-Capital Financing Activities</b>	<u>78,353</u>	<u>(219,205)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from notes payable	94,825	33,665
Principal payments on notes payable	(13,506)	(4,565)
Acquisition of property, plant and equipment	<u>(298,158)</u>	<u>(191,443)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(216,839)</u>	<u>(162,343)</u>
Increase in cash	1,185,146	555,583
Cash at Beginning of Year	<u>665,525</u>	<u>109,942</u>
<b>Cash at End of Year</b>	<u>\$ 1,850,671</u>	<u>\$ 665,525</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ 370,922	\$ (3,955,433)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	572,980	38,095
Accrued interest expense	592,660	4,918,370
Decrease (increase) in assets:		
Accounts receivable	(85,391)	(58,455)
Other receivable	(11,875)	-
Prepaid expenses	(46,751)	(1,182)
Increase (decrease) in liabilities:		
Accounts payable	(92,312)	(27,068)
Customer deposits	<u>23,399</u>	<u>22,804</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 1,323,632</u>	<u>\$ 937,131</u>

**NOTES TO THE FINANCIAL STATEMENTS**

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**Years Ended June 30, 2020 and 2019**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**FINANCIAL REPORTING ENTITY:**

Lathrop Irrigation District (District) was formed in 2005 and was approved for the annexation of 4,751 acres on January 20, 2006. The District is located in San Joaquin County approximately 60 miles east of San Francisco. The purpose of the District is to provide future water and electricity services to the landowners within the District.

The accompanying statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all activities and functions that comprise the District. The District has no component units. Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the component unit. There are no organizations that fit these criteria. The District is therefore financially accountable solely for its own activities.

**BASIS OF PRESENTATION:**

The District maintains a single general fund. The general fund is used to account for all operations of the District. The fund is comprised of three net asset components: net investment in capital assets, unrestricted, and restricted. There were no restricted net assets at year end. When both restricted and unrestricted resources are available for use, it is the District's policy to use unrestricted resources first, then restricted resources as needed.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:**

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods and services be financed or recovered primarily through user charges. District transactions are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The District is considered to be a special-purpose government engaged only in business-type activities. It therefore presents only those financial statements required for enterprise funds, which includes the statement of net position, statement of revenues, expenses, and changes in fund net position, and statement of cash flows.

Equity is classified as net position and displayed in three components:

- Net investment in capital assets - Consists of capital assets including restricted 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, if any.
- Restricted - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

# LATHROP IRRIGATION DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

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Years Ended June 30, 2020 and 2019

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The District had no restricted net position at June 30, 2020 and 2019.

#### **CASH:**

The District classifies as cash all highly liquid investments with original maturities of three months or less. At June 30, 2020 and 2019, cash was limited to checking and savings account balances only.

#### **ACCOUNTS RECEIVABLE:**

The District utilizes the allowance method for bad debts. Accounts receivable at June 30, 2020 and 2019 of \$394,968 and \$309,577 were all determined by management to be collectible. Therefore, no reserve for bad debts is reflected on the financial statements. The amounts of accounts receivable past due ninety days or more at June 30, 2020 and 2019 were \$11,883 and \$2,875, respectively.

#### **REVENUES:**

Revenues generated from electric sales are considered program revenues and are reported as operating revenues. All other revenues are reported as non-operating revenues.

#### **USE OF ESTIMATES:**

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

#### **INCOME TAX:**

The District is exempt from federal and state income taxes.

#### **CAPITAL ASSETS:**

Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000. Such capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. The District depreciates capital assets over the estimated useful lives of the assets utilizing the straight-line method of depreciation as follows:

<u>Description</u>	<u>Estimated Useful Life</u>
Electrical	39 years
Meters	25 years
Misc. equipment	5 years

Total depreciation expense for the years ended June 30, 2020 and 2019 was \$572,423 and \$38,095, respectively.

### NOTE 2 - CASH:

#### **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 custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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.

# LATHROP IRRIGATION DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

### NOTE 2 - CASH: (Continued)

The District maintains cash balances with financial institutions in accordance with California Government Code. The District has not formally adopted its own deposit and investment policies that limit the District's allowable investments or deposits and that address custodial credit risk. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

Custodial credit risk is the risk that, in the event of the failure of the depository financial institution, the District will not be able to recover its deposits that are in the possession of the outside party. At June 30, 2020 and 2019 the carrying amount of the District's book balance was \$1,850,671 and \$665,525 and the bank balance was \$1,877,584 and \$674,360. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. \$1,627,584 of the bank balance was not covered by the Federal Deposit Insurance Corporation as of June 30, 2020.

### NOTE 3 - CAPITAL ASSETS:

	<b>Balance at June 30, 2019</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2020</b>
Capital assets being depreciated:				
Substation	\$ 4,415,275	\$ 4,828	\$ -	\$ 4,420,103
Transmission	1,838,274	-	-	1,838,274
Switchyard	6,436,062	40,527	-	6,476,589
Distribution	7,709,323	-	-	7,709,323
Autos	38,665	94,825	-	133,490
Electrical systems	254,885	-	-	254,885
Meters	269,032	124,978	-	394,010
Miscellaneous equipment	82,901	-	-	82,901
<b>Total Capital Assets Being Depreciated</b>	<b>21,044,417</b>	<b>265,158</b>	<b>-</b>	<b>21,309,575</b>
Capital assets not being depreciated:				
Land easement	754,156	33,000	-	787,156
<b>Total Capital Assets Not Being Depreciated</b>	<b>754,156</b>	<b>33,000</b>	<b>-</b>	<b>787,156</b>
Less accumulated depreciation for:				
Substation	-	113,336	-	113,336
Transmission	-	47,135	-	47,135
Switchyard	-	165,460	-	165,460
Distribution	-	197,675	-	197,675
Autos	4,510	10,104	-	14,614
Electrical systems	37,236	8,616	-	45,852
Meters	12,040	13,823	-	25,863
Miscellaneous equipment	25,654	16,831	-	42,485
<b>Total Accumulated Depreciation</b>	<b>79,440</b>	<b>572,980</b>	<b>-</b>	<b>652,420</b>
<b>Total Capital Assets Being Depreciated - Net</b>	<b>20,964,977</b>			<b>20,657,155</b>
<b>Total Capital Assets - Net</b>	<b>\$ 21,719,133</b>			<b>\$ 21,444,311</b>

# LATHROP IRRIGATION DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

### NOTE 3 - CAPITAL ASSETS: (Continued)

	<b>Balance at June 30, 2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2019</b>
Capital assets being depreciated:				
Substation	\$ -	\$ 4,415,275	\$ -	\$ 4,415,275
Transmission	-	1,838,274	-	1,838,274
Switchyard	-	6,436,062	-	6,436,062
Distribution	-	7,709,323	-	7,709,323
Autos	-	38,665	-	38,665
Electrical systems	254,885	-	-	254,885
Meters	118,139	150,893	-	269,032
Miscellaneous equipment	81,016	1,885	-	82,901
<b>Total Capital Assets Being Depreciated</b>	<b>454,040</b>	<b>20,590,377</b>	<b>-</b>	<b>21,044,417</b>
Capital assets not being depreciated:				
Land easement	-	754,156	-	754,156
<b>Total Capital Assets Not Being Depreciated</b>	<b>-</b>	<b>754,156</b>	<b>-</b>	<b>754,156</b>
Less accumulated depreciation for:				
Autos	-	4,510	-	4,510
Electrical systems	28,620	8,616	-	37,236
Meters	3,746	8,294	-	12,040
Miscellaneous equipment	8,979	16,675	-	25,654
<b>Total Accumulated Depreciation</b>	<b>41,345</b>	<b>38,095</b>	<b>-</b>	<b>79,440</b>
<b>Total Capital Assets Being Depreciated - Net</b>	<b>412,695</b>			<b>20,964,977</b>
<b>Total Capital Assets - Net</b>	<b>\$ 412,695</b>			<b>\$ 21,719,133</b>

### NOTE 4 - LONG-TERM LIABILITIES:

Long-term liability activity for the fiscal year ended June 30, 2020, was as follows:

	<b>Balance at 6/30/2019</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance at 6/30/2020</b>	<b>Due Within One Year</b>
Note payable - Ally Financial	\$ 29,100	\$ -	\$ 8,587	\$ 20,513	\$ 8,437
Note payable - Altec Capital Services	-	94,825	4,919	89,906	14,008
<b>Total</b>	<b>\$ 29,100</b>	<b>\$ 94,825</b>	<b>\$ 13,506</b>	<b>\$ 110,419</b>	<b>\$ 22,445</b>

In December 2018, the District entered into a note agreement with Ally Financial for the purchase of a new truck. Beginning December 2018 and ending November 2022, the note is payable in monthly payments of \$787, which includes interest at the rate of 6.04 percent.

In April 2020, the District entered into a note agreement with Altec Capital Services, L.L.C. for a the purchase of a new truck. Beginning April 2020 and ending March 2026, the note is payable in monthly payments of \$1,529.32, which includes interest at a rate of 5.2 percent.



# LATHROP IRRIGATION DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

### NOTE 4 - LONG-TERM LIABILITIES: (Continued)

The debt service requirements for the debt are summarized as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 22,445	\$ 5,352	\$ 27,797
2022	23,757	4,082	27,839
2023	18,612	2,852	21,464
2024	16,367	1,985	18,352
2025	17,239	1,113	18,352
2026	11,999	235	12,234
	<u>\$ 110,419</u>	<u>\$ 15,619</u>	<u>\$ 126,038</u>

### NOTE 5 - RELATED PARTY TRANSACTIONS:

At end of the fiscal year, capital assets were transferred to the District from related parties. Those related parties are River Islands Public Financing Authority, River Islands Developments and Reclamation District No. 2062. The District is related to these other entities through similar management. The value of the assets transferred were capitalized at the original costs initially paid by the related parties. The District also took on the equivalent loans payable to these related parties for the additional assets transferred. The terms of the loans call for interest at prime plus three payable as funds are available by LID.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
River Islands Development	\$ 13,165,439	\$ 5,017,766	\$ 18,183,205
River Islands Public Financing Authority	1,599,042	491,421	2,090,463
Reclamation District No. 2062	6,000	1,844	7,844
			<u>\$ 20,281,512</u>

The District entered into an agreement with River Islands Development, LLC (RID) for shortfall funding. See Note 6 - RID Shortfall Funding.

### NOTE 6 - RID SHORTFALL FUNDING:

During previous fiscal years, River Islands Development, LLC (RID) had made payments on behalf of the District for District operating expenditures. The District was in the process of negotiating terms to reimburse RID for these expenditures as well as any future advances by RID. During fiscal year June 30, 2016 a final agreement was reached. The balance of prior advances and current advances at the end of fiscal year June 30, 2020 and 2019 totaled \$0 and \$0, respectively. According to the terms of the agreement, within 30 days after each new annual budget is approved, the District shall reimburse RID for any interim funding advanced plus all accrued interest at a rate of Prime Rate plus 3%. Reimbursement by the District is subject to the District's reasonable determination that the District has sufficient revenue to reimburse RID. This is defined as an annual net cash flow surplus exceeding 12.5% of the District's total expenses. The applicable interest expense accrued in the fiscal year ending June 30, 2020 and 2019 was \$0 and \$0, respectfully. The District required no additional funding from RID for the year ending June 30, 2020, and was able to repay all prior advances.

# ***LATHROP IRRIGATION DISTRICT***

## **NOTES TO THE FINANCIAL STATEMENTS**

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**Years Ended June 30, 2020 and 2019**

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### **NOTE 7 - RISK MANAGEMENT:**

The District is exposed to various risks of loss related to damage and destruction of property; errors and omissions; natural disasters; and injuries to personnel. These risks are provided for through the purchase of insurance. The District is a member of the Special District Risk Management Authority (SDRMA) and is insured under a property policy, general liability policy, auto liability policy and an auto physical damage policy.

The District has had no significant reduction in insurance coverage from prior years. The District has had no settlements that exceeded insurance coverage for the past three years.

### **NOTE 8 - SUBSEQUENT EVENTS:**

On September 1, 2020, the District entered into an Installment Sale Agreement with River Islands Public Financing Authority (Authority) in the amount of \$26,325,000 to pay off debt. Principal payments are due annually in September, beginning September 2022. Interest payments are due semi annually in March and September, beginning March 2021 at a rate of 4.0 percent.

Management has considered subsequent events for disclosure in the financial statements through June 28, 2021, which represents the date the financial statements were available to be issued.