CROPPER ROWE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

WESTERN HILLS WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019

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CROPPER ROWE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Western Hills Water District
Patterson, California

We have audited the accompanying financial statements of the business-type activities of Western Hills Water 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.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities Western Hills Water District, as of June 30, 2020, and the respective changes in financial position and, where applicable, 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 the management's discussion and analysis on pages 3–7 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.

Cropper Rowe, LLP

CROPPER ROWE, LLP
Walnut Creek, California
October 30, 2020

Western Hills Water District
Management's Discussion and Analysis
For the year ended June 30, 2020

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the Basic Financial Statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total assets decreased by $3,422,262, or 7.5%, to $41.95 million.
- During the year the District's operating revenue decreased by 14.3% to $2.45 million, while operating expenses increased by 4.0% to $4.79 million.
- Net position decreased by $2.10 million to $(20.53) million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to Western Hills Water District's basic financial statements. The District's MD&A is comprised of five components: Net Position, Revenues & Expenses, Capital Assets, Long-Term Debt and Future Challenges.

BASIC FINANCIAL STATEMENTS

The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Financial Statements of the District report information about the District using accounting methods similar to those used by private section companies. These statements offer short and long-term financial information about its activities.

Capital assets, shown in Table 3, inform our bondholders that Western Hills Water District is spending their bond money in a manner that is consistent with increasing the assets that will ensure the District's overall future health.

Long-term debt has been secured by the special assessment on all property owned in this phase. These assessments will be charged through the year 2031. Even though the bonds are not the obligation of Western Hills Water District, the District has agreed to assume the accounting responsibility for these bonds.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is, "Is the District, as a whole better off or worse off as a result of the year's activities?" You can think of the District's net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, until a new entity has stabilized, there may be mitigating factors on why net position tends to fluctuate up and down as shown in Table 1 below.

NET POSITION

To begin our analysis, a summary of the District's Statement of Net Position is presented in Table 1. As can be seen from the table below, net position decreased by $2.10 million to $(20.53) million in fiscal year 2020. This decrease is a result of the following:

1. Assets decreased by $3.42 million, due to $2.33 million decrease in current and restricted assets. The decrease includes a $1.4 million decrease in bond reserves and $0.8 million in cash related to bond payments. Balance of capital assets change is mostly due to $1.4 million in depreciation.

2. Liabilities decreased by $1.32 million, mostly due to a net decrease in long-term debt.

TABLE 1
Condensed Statements of Net Position
(in thousands)

	2020	2019
Current Assets	$ 3,461	$ 4,383
Restricted Assets	739	2,146
Fixed Assets	37,751	38,844
Total Assets	**41,951**	**45,373**
Current Liabilities	25,782	24,601
Long-Term Debt	36,698	39,202
Total Liabilities	**62,480**	**63,803**
Net Position	**$ (20,529)**	**$ (18,430)**

REVENUE & EXPENSES

Western Hill's financial statements are extremely lopsided on the expense side. This is due to the fact that Western Hills is a very new district and has very few customers. This will be the norm until residential and commercial projects are started and completed for this district. Please see 2020's challenges at the end of this report.

TABLE 2
Statement of Revenues and Expenses
For the Years ended June 30, 2020 and 2019
(in thousands)

	2020	2019	Total % Change Fav/(Unfav)
Total Operating Revenues	$ 2,450	$ 2,801	(12.5)%
Total Operating Expenses (less depreciation)	3,375	3,242	4.10%
Net Operating Loss Before Depreciation	**$ (925)**	**$ (441)**	**109.8%**

CAPITAL ASSETS

During 2020, the District made a $187 thousand purchase of a water tank truck.

TABLE 3
Capital Assets
(in thousands)

	2020	2019	Dollar Change	Total % Change
Land	$ 782	$ 782	$ -	0.00%
Water Treatment Facilities/Equipt	12,437	12,235	14	0.11%
Pump Station & Well	4,104	4,104	-	0.00%
Aqueduct Turnout	746	746	-	0.00%
Wastewater Treatment Facility	28,104	28,104	-	0.00%
Back-up Generators	1,193	1,193	-	0.00%
Construction in Progress	10,820	10,726	94	0.87%
Vehicles	150	150	188	125.33%
Other	80	54	26	0.00%
Subtotal	**58,416**	**58,094**	**322**	**0.55%**
Less Accumulated Depreciation	20,665	19,205	1,415	7.37%
Net Book Value	**$ 37,751**	**$ 38,844**	**$ (1,093)**	**(2.81)%**

LONG TERM DEBT

At year-end, the District had $39.6 million in long-term debt (including the current portion). This is a net decrease of $2.38 million from 2019, due to bond and note payments made during the year.

The District has outstanding general obligation debt stemming from Mello-Roos bonds issued in 2014 and 2015. The District's current average cost of capital is shown on Table 4.

TABLE 4

Outstanding Debt

	Debt Balance	Average Rate
General Obligation Bonds	$ 38,740,000	51.39%
Notes Payable	$ 865,835	6.90%

2020 CHALLENGES AND A LOOK AT THE FUTURE:

Western Hills Water District's assets are notably in place as of June 30, 2020.

Western Hill's ongoing projects include the WTP SWPPP Implementation and Pump Station 2.

Upgrades: Capital upgrades for 2019 – 2020 will be limited to specific equipment needed.

Purchases: Capital expenditures for 2018 – 2019 were limited to $187 thousand for new water tank truck.

Financial: Operations are limited due to a small customer base. At this time, the water company receives its income from one golf course, forty acres of vineyards, residential housing, and a water banking program.

Setback: Water revenues have been held to a minor CIP increase per year. The water rate study that was performed in 2014 was defeated. A new water rate study has begun in March of 2020 and is still pending.

The District has the opportunity to sell excess water to five water districts but is limited to an allocation based on rain and snowfall. For 2019-2020 the District received $385 thousand in excess water revenue as the water allocation was 25%. Water expense for same time period was approximately $1.29 million.

Along with the water rate increase setback the district also incurred a rate increase setback for sewer expenses. The City of Patterson (COP) receives the District's sewer from a pipeline directly to their treatment facility. COP charges the district a rate that is 1.5 times the cities residential rate. In 2015 COP proposed a sewer service rate increase for the upcoming five years with increases each year. The first price increase took affect December 2, 2015. As the District is a customer of COP they are charged the rates approved/non- contested by city residents. Diablo Grande is considered rural.

The District proposed the new rates to the residents, of Diablo Grande, as a pass through and it was voted down. As of the year ended June 30, 2020 the District receives $55.97/household per month and is charged $74.91/household per month. The District is subsidizing the sewer at a cost of $11.3 thousand/month to cover the COP monthly invoice.

The District is planning on meeting with COP for better rates, but it is not looking favorable.

Additionally, the Developer has expressed reluctance to continue funding the District's losses.

Construction in progress (CIP): The District has $10.730 thousand in CIP that relates to a plant upgrade that is 85% completed. The District has put the final phase on hold until development of Diablo Grande continues. Therefor CIP has carried a higher than average balance over the last five years.

Developer Relationship: In May 2020, a new Developer acquired the master agreement of the development from the prior developer. To date the new developer has not fulfilled its obligation to the District for current short-falls, inherited liabilities from the prior developer, and payments for services provided.

Going Concern: There will be a lot of hurdles in 2020 – 2021 fiscal year. Rising water treatment, sewer, and personnel cost without revenue to cover will put an even more substantial burden on the developer, resulting in cash flow obstacles for the District.

As of June 30, 2020, the District owes the current developer $16.897 million. Until the District has enough housing and is self-sufficient there will not be any payments to the developer.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

If you have questions about this report or need additional financial information, please contact Western Hills Water District.

Western Hills Water District
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Phone: (209) 895-9493 Fax: (209) 892-7845

WESTERN HILLS WATER DISTRICT
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current Assets		
Cash (Note 2)	$ 627,430	$ 910,799
Restricted cash (Note 2)	1,605,259	2,365,252
Accounts receivable	1,226,553	491,273
Prepaid water charges	-	616,122
Meter inventory	2,136	-
Total current assets	3,461,378	4,383,446
Assets restricted for debt service, at current values		
Federated money market trust		
U.S. Treasury Obligations (Note 2)	738,730	2,146,068
Total restricted assets	738,730	2,146,068
Fixed Assets, net of accumulated depreciation of $20,664,919 and $19,250,204 for 2019 and 2018, respectively (Note 3)	26,930,582	28,117,596
Construction in progress (Note 3)	10,819,966	10,725,808
Total assets	41,950,656	45,372,918
LIABILITIES		
Current Liabilities		
Accounts payable (Note 8)	5,190,564	4,107,048
Advances payable to the developer (Note 7)	16,896,995	16,896,995
Accrued interest payable	630,886	662,054
Customer deposits	146,650	141,400
Other current liabilities	8,751	8,790
Current portion of notes payable (Note 5)	438,270	409,821
Current portion of bonds payable (Note 4)	2,470,000	2,375,000
Total current liabilities	25,782,116	24,601,108
Notes payable, net of current portion (Note 5)	427,565	866,953
Bonds payable, net of current portion (Note 4)	36,270,000	38,335,000
Total liabilities	62,479,681	63,803,061
NET POSITION		
Invested in capital assets, net of related debt	(1,855,287)	(3,143,370)
Restricted for bond reserve funds (Note 4)	4,370,666	4,370,666
Unrestricted	(23,044,404)	(19,657,439)
Total net position (Note 6)	$ (20,529,025)	$ (18,430,143)

The accompanying notes are an integral part of these financial statements.

WESTERN HILLS WATER DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
June 30, 2020 and 2019

	2020	2019
Operating Revenue		
Water revenue		
Residential	$ 858,564	$ 813,955
Commercial	97,255	75,307
Golf course	605,764	700,291
Water banking program	384,611	753,248
Sewer and stormdrain	433,149	429,457
Winery	5,196	4,411
Other	65,178	24,380
Total operating revenues	2,449,717	2,801,049
Operating Expenses		
Labor and related expenses	600,160	587,910
Purchased water	1,285,715	1,069,695
Waste water hauling and disposal	537,944	502,982
Water treatment	294,725	397,155
Utilities/fuel for pump	192,041	186,528
Maintenance	131,408	177,325
Contractual services	101,562	93,363
Insurance	40,436	55,667
Licenses and fees	7,005	4,300
General and administrative	183,989	156,112
Depreciation	1,414,715	1,364,483
Other	-	10,586
Total operating expenses	4,789,700	4,606,106
Operating loss	(2,339,983)	(1,805,057)
Non-Operating Revenue (Expenses)		
Property taxes	1,372,783	1,781,291
Investment income	17,229	65,747
Other income	202	82,608
Interest on bonded indebtedness	(955,593)	(1,965,734)
Other interest expense	(73,982)	(99,782)
Bond related expense	(119,538)	(120,289)
Total non-operating revenues (expenses)	241,101	(256,159)
Change in net position	(2,098,882)	(2,061,216)
Net position at beginning of year	(18,430,143)	(16,368,927)
Total net position at end of year	$ (20,529,025)	$ (18,430,143)

The accompanying notes are an integral part of these financial statements.

WESTERN HILLS WATER DISTRICT
Statements of Cash Flows
June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Receipts from customers and users	$ 1,719,687	$ 2,971,724
Payments to suppliers of goods and services	(1,075,226)	(2,872,720)
Payments to employees and related benefits	(600,160)	(587,910)
Net cash provided (used) in operating activities	44,301	(488,906)
Cash flows from capital and related financing activities		
Bond indebtedness retired	(1,970,000)	(2,445,000)
Payments on Caterpillar loan	(410,939)	(383,348)
Fixed asset additions, including construction in progress	(321,859)	(145,663)
Interest paid on bonded indebtedness	(986,761)	(2,016,335)
Other interest paid	(73,982)	(99,782)
Bond related expenses	(119,538)	(120,289)
Advances received from developer	-	1,137,000
Property taxes collected for debt	1,372,783	1,781,291
Recovery of bond costs	202	82,608
Net provided (used) in capital and financing activities	(2,510,094)	(2,209,518)
Cash flows from investing activities		
Proceeds from sales of investments	1,407,338	2,298,310
Investment income received	17,229	65,747
Sale of meter inventory	(2,136)	9,393
Net cash provided (used) in investing activities	1,422,431	2,373,450
Net increase (decrease) in cash	(1,043,362)	(324,974)
Cash at beginning of year	3,276,051	3,601,025
Cash at end of year	$ 2,232,689	$ 3,276,051
Presentation on Statement of Net Position		
Cash	$ 627,430	$ 910,799
Restricted Cash	1,605,259	2,365,252
Total Cash	$ 2,232,689	$ 3,276,051
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Net operating loss	$ (2,339,983)	$ (1,805,057)
Adjustments to cash used in operating activities:		
Depreciation expense	1,414,715	1,364,483
(Increase) decrease in Accounts receivable	(735,280)	163,575
(Increase) decrease in Prepaid water charges	616,122	(150,414)
Increase (decrease) in Accounts payable	1,083,516	(69,194)
Increase (decrease) in Meter set deposits	5,250	7,100
Increase (decrease) in Taxes and insurance	(39)	601
Net cash provided (used) in operating activities	$ 44,301	$ (488,906)

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

The accounting policies of the Western Hills Water District (the "District") conform to accounting principles as applicable to governmental entities, which are classified as proprietary funds – business type, in the United States of America. The following is a summary of the more significant policies:

Reporting entity

For financial reporting purposes, in conformity with the Governmental Accounting Standards Board ("GASB") Codification Section 2100, defining the governmental reporting entity, the District includes all funds that are controlled by or dependent on the Board of Directors of the District. Since no other entities are controlled by or rely upon the District, the reporting entity consists solely of the District.

Diablo Grande Community Facilities District No.1 – Bond Issues (see Note 4)

In August 2001, the Western Hills Water District - Diablo Grande Community Facilities District No. 1 issued $21,000,000; in December 2002, issued $6,650,000; in May 2004 issued $20,000,000; and in January 2005 issued $9,350,000 in bonds pursuant to the Mello-Roos Community Facilities Act of 1982. In August 2014, the 2001, 2002, and 2004 bonds, which had a remaining principal balance of $38,710,000, were refunded by the 2014 Refunding Bond, with a principal balance of $38,505,000. In July 2015 the 2005 bonds, with a balance of $7,320,000, was refunded by the refunding of the 2015 Refunding Bond, $7,260,000. The bonds are secured by and payable from a pledge of special taxes to be levied on approximately 5,070 acres of real property within the boundaries of the District. The Bond provisions indicate that:

> *"Neither the faith and credit nor the taxing power of the water district, the County of Stanislaus, the State of California or any political subdivision thereof is pledged to the payment of the bonds. The bonds do not constitute a debt of the water district within the meaning of any statutory or constitutional debt limitation."*

Although the provisions indicate the bonds are not an obligation of the Western Hills Water District, the District has assumed the responsibility of accounting for the proceeds and the future debt service. The bond proceeds funded the acquisition of water and wastewater facilities by the District. The costs of water facilities incurred in prior years were contributed to the District by Diablo Grande LP (Diablo Grande), the developer of the Diablo Grande project. The bond proceeds, net of certain costs of issuance and debt reserve requirements, have been used or set aside for current and future facility improvements.

1. Summary of Significant Accounting Policies (continued)

Fund accounting classification

The financial statements of the District are presented as those of an enterprise fund under the broad category of funds called proprietary funds, which also includes internal service funds. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises – where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered substantially through user charges. The acquisition of the physical plant facilities required to provide these goods and services, as indicated above, were initially financed by the developer, for the District, in anticipation of proceeds from the bond issue, which will further fund the additions to plant and equipment.

Basis of accounting

Enterprise funds are accounted for on the flow of economic measurement focus using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The GASB is the designated standard-setting body establishing governmental accounting and financial reporting principles.

The District follows alternative 1 of GASB 20 regarding the use of the pronouncements of the GASB and Financial Accounting Standards Board ("FASB") in its accounting. That is, the District follows (1) all GASB pronouncements and (2) FASB pronouncements, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARB") issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

Cash and cash equivalents

For the purpose of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, including short-term certificates of deposit. To date, only cash in bank is applicable.

Investments

State statutes authorize the District to invest in obligations of the U.S. Treasury, the Local Agency Investment Fund of the State of California (LAIF), commercial paper, corporate bonds and repurchase agreements.

Investments are carried at fair value. Fair value is based on quoted market price, if applicable, otherwise the fair value hierarchy is as follows.

1. Summary of Significant Accounting Policies (continued)

Investments (continued)

Level 1 – Values are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 –Inputs – other than quoted prices – included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Certain inputs are unobservable inputs (supported by little or no market activity), such as the District's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Additional cash and investment disclosures are presented in Note 2. All of the District's investments are considered Level 1.

Meter inventory

Meter inventory is valued at average cost and recorded on the first in first out (FIFO) basis.

Fixed assets

Fixed assets are carried at historical cost or estimated historical cost if actual cost is not available. Contributed assets will be recorded at cost or estimated fair value on the date contributed.

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

Depreciation expense is provided on a straight-line basis over 3 to 40 years depending on the category.

Vacation accrual

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. Full-time, exempt and non-exempt employees will normally accrue vacation time at the 5 days for first year of employment (after a 90 day introductory period), 10 days per year for the 2nd through 5th years of employment and 1 additional day per year for each year beyond 5 years, to a maximum of 15 days.

Net position

Net position is classified into three components: invested in capital assets, net of related debt; restricted for bond and reserve funds; and unrestricted. It is the policy of the District to spend funds in order from restricted to unrestricted.

1. Summary of Significant Accounting Policies (continued)

Operating vs. non-operating revenues

Revenues related to providing water supply to customers and users are classified as operating revenue in the Statement of Revenues, Expenses and Changes in Net Position. All other revenues, including property taxes, are classified as non-operating revenue.

Property Taxes

Property tax revenue is recognized in the fiscal year for which the tax is levied. The County of Stanislaus levies, bills and collects property taxes for the District; all material amounts are collected by June 30.

Estimates in accounting

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and consequently, the reported amounts of revenues and expenses in the financial statements. The District's estimates relate primarily to estimates of useful lives of fixed assets and the determination of an allowance for uncollectible receivables (for which there are none for June 30, 2020 or 2019). Actual results could differ from these estimates.

Reclassifications

To conform to the presentation in the current year financial statements, certain items in the comparative prior year financial statements have been reclassified.

Implemented New GASB Pronouncements

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.* – The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- *Statement No. 83, Certain Asset Retirement Obligations* (implemented in FY 2019)
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (implemented in FY 2019)
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*

1. Summary of Significant Accounting Policies (continued)

Upcoming New GASB Pronouncements

GASB Statement No. 84, *Fiduciary Activities.* - The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for the financial statements for periods beginning after December 15, 2019 (fiscal 2021). Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 87, *Leases.* - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model.

This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (fiscal 2023). Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* - The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (fiscal 2022). Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

1. Summary of Significant Accounting Policies (continued)

Upcoming New GASB Pronouncements (continued)

GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61.* - The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.
The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations that previously was reported inconsistently. In addition, requiring reporting of information about component units if the government acquires a 100 percent equity interest provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (fiscal 2021). Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

GASB Statement No. 91, *Conduit Debt Obligations.* - The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2021 (fiscal 2023). Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

1. Summary of Significant Accounting Policies (continued)

Upcoming New GASB Pronouncements (continued)

GASB Statement No. 92, *Omnibus 2020.* - The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions. The topics include but are not limited to leases, intra-entity transfers between a primary government and a post-employment benefit plan component unit, accounting for pensions and OPEB related assets, measurement of liabilities related to asset retirement obligations, and nonrecurring fair value measurements of assets or liabilities.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (fiscal 2022).

GASB Statement No. 93, *Replacement of Interbank Offered Rates.* - The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offer Rate (IBOR). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal FUnds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of *reference rate,* as it is used in Statement 53, as amended.

The removal of London IBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021 (fiscal year 2022-23). All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020 (fiscal year 2020-21). The District does not believe that the implementation of this Pronouncement will have an impact on the financial statements.

1. Summary of Significant Accounting Policies (continued)

Upcoming New GASB Pronouncements (continued)

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* - The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement will improve financial reporting by establishing the definitions of PPPs and APAs and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPP.

PPPs should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or if applicable to earlier periods, the beginning of the earliest period restated).

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (fiscal year 2022-23), and all reporting periods thereafter. The District has not yet determined whether the implementation of this Pronouncement will have a material impact on the financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements.* - This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

1. Summary of Significant Accounting Policies (continued)

Upcoming New GASB Pronouncements (continued)

The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (fiscal year 2022-23), and all reporting periods thereafter. The District has not yet determined whether the implementation of this Pronouncement will have a material impact on the financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* - The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021 (fiscal year 2021-22). For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021 (fiscal year 2021-22).

2. Cash and Investments

The California Government Code requires California banks and savings and loan associations to secure a Public Agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of deposits. California law also allows financial institutions to secure Public Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the Public Agency's total deposits.

The cash balance (before outstanding checks) was held in one institution at June 30, 2020 and 2019, and exceeded the FDIC insured amount of $250,000 by $2,001,583 and $3,477,947, respectively.

Cash and cash equivalents consist of the following:

	June 30, 2020	June 30, 2019
Cash	$ 627,430	$ 910,799
Restricted cash	1,605,259	2,365,252
Total cash	$ 2,232,689	$ 3,276,051

The June 30, 2020 and 2019, investments in the US Treasury Money Market Trust of $738,730 and $2,146,068, respectively, were reflected on the balance sheet as assets restricted for debt services.

2. Cash and Investments (continued)

Credit Risk

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. Presented below is the minimum rating by the California Government Code and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Not Required To Be Rated	Rating as of Year End AAA	A	Unrated
US Treasury Money Market	$ 738,730	N/A	$ 738,730	$ -	$ -	$ -

Restricted Cash

Cash in the amount $1,605,259 has been restricted by loan agreements for the payment of loan debt service. At June 30, 2020 and 2019, the District was required to reserve $4,369,291 and $4,370,666, respectively, of funds for debt service.

The restricted cash balance is related to the reserve fund requirements. During the current year the District used nearly half of the reserve fund requirement to pay the debt service due in September 2018. See additional information in Note 4.

3. Fixed Assets

All purchased assets are valued at cost. In accordance with generally accepted accounting principles for proprietary entities, depreciation has been provided on the straight-line method over estimated useful lives of three to forty years.

The following reflects the changes in fixed assets for the year ended June 30, 2020:

	Balance June 30, 2019	Reclassifications & Additions	Balance June 30, 2020	Depreciable Life in Years
Land	$ 782,393	$ -	$ 782,393	n/a
Water treatment facilities	11,953,988	-	11,953,988	40
Water treatment equipment	281,319	14,158	295,477	3 to 5
Pump station & well	4,104,182	-	4,104,182	30
Aqueduct turnout	745,802	-	745,802	40
Wastewater treatment facility	28,103,909	-	28,103,909	40
Back-up generators	1,192,610	-	1,192,610	15
Frog pond	10,803	-	10,803	30
Vehicles	149,667	187,653	337,320	5
Other	43,127	25,890	69,017	3 to 40
	47,367,800	227,701	47,595,501	
Accumulated depreciation	19,250,204	1,414,715	20,664,919	
Net book value	$28,117,596	$ (1,187,014)	$26,930,582	
Construction in progress	$10,725,808	$ 94,158	$10,819,966	n/a

4. "Mello-Roos" Assessment District – Western Hills Water District - Diablo Grande Community Facilities District No. 1

Refunding Revenue Bonds - 2015

In August 2015, the District issued $7,260,000 of Refunding Revenue Bonds with interest rates ranging from 2.250% to 4.750%. The Bonds are secured by a pledge of special tax revenue. Principle payments are due annually on September 1, and interest is payable semi-annually on September 1 and March 1.

The District issued the 2015 Refunding Revenue Bonds to advance refund the 2005 Revenue Installment Certificates, which had interest rates of 4.650% to 5.800%. The net proceeds were deposited in an escrow fund to service and redeem the debt. As a result, the advance refunding met the requirements of an in-substance debt defeasance, and the outstanding balance of the 2005 debt was removed from the District's accounts. The 2005 debt issues no longer have any outstanding balance.

Total costs of the 2015 Refunding Revenue Bonds recognized as non-operating expense for the fiscal year ended June 30, 2016 was $421,409, including an original issue discount of $105,540.

4. "Mello-Roos" Assessment District – Western Hills Water District - Diablo Grande Community Facilities District No. 1 (continued)

Refunding Revenue Bonds – 2015 (continued)

The District completed the 2015 refunding of the 2005 special tax bonds to reduce its total debt service (net of the costs of the refunding) over 16 years by $550,121 and to obtain and economic gain of $511,370. The economic gain is the difference between the present values of the old and new debt service payments, based on the effective interest rate on the 2015 Refunding Revenue Bonds of 4.46%.

Refunding Revenue Bonds – 2014

In August 2014, the District issued $38,505,000 of Refunding Revenue Bonds with interest rates ranging from 2.0% to 5.3%. The Bonds are secured by a pledge of special tax revenue. Principal payments are due annually on September 1, and interest is payable semi-annually on September 1 and March 1.

The District issued the 2014 Refunding Revenue Bonds to advance refund the 2001, 2002, and 2004 Revenue Installment Certificates, which had interest rates of 4.65 to 6.875%. The net proceeds were deposited in an escrow fund to service and redeem the debt. As a result, the advance refunding met the requirements of an in-substance debt defeasance, and the outstanding balance of the 2001, 2002, and 2004 debt was removed from the District's accounts. The 2001, 2002, and 2004 debt issues no longer have any outstanding balance.

Total costs of the 2014 Refunding Revenue Bonds recognized as non-operating expense for the fiscal year ended June 30, 2015 was $1,310,601, including an original issue discount of $592,787.

The District completed the 2014 refunding of the 2001, 2002 and 2004 special tax bonds to reduce its total debt service (net of the costs of the refunding) over the next 17 years by $3,050,334 and to obtain and economic gain of $2,771,279. The economic gain is the difference between the present values of the old and new debt service payments, based on the effective interest rate on the 2014 Refunding Revenue Bonds of 5.2%.

The changes in the District's long-term obligations were as follows:

	Year Ended June 30, 2020	Year Ended June 30, 2019
Balance at beginning of year	$ 40,710,000	$ 43,155,000
New issuance- bond refunding	-	-
Bond retirements	(1,970,000)	(2,445,000)
Principal payments	-	-
Balance at end of year	$ 38,740,000	$ 40,710,000
Due in one year	$ 2,470,000	$ 2,375,000

4. "Mello-Roos" Assessment District – Western Hills Water District - Diablo Grande Community Facilities District No. 1 (continued)

Debt Schedules

The following are debt service schedules to maturity:

2014 Bond

Fiscal Year Ending June 30,	Interest	Principal	Total
2021	$ 1,588,510	$ 2,050,000	$ 3,638,510
2022	1,505,010	2,125,000	3,630,010
2023	1,406,708	2,210,000	3,616,708
2024	1,292,199	2,325,000	3,617,199
2025	1,171,756	2,445,000	3,616,756
2026-2030	3,767,075	14,255,000	18,022,075
Thereafter	365,700	7,050,000	7,415,700
	$ 11,096,958	$ 32,460,000	$ 43,556,958

The following are debt service schedules to maturity:

2015 Bond

Fiscal Year Ending June 30,	Interest	Principal	Total
2021	255,538	420,000	675,538
2022	240,041	435,000	675,041
2023	223,341	455,000	678,341
2024	205,419	470,000	675,419
2025	186,916	485,000	671,916
2026-2030	603,673	2,740,000	3,343,673
Thereafter	57,938	1,275,000	1,332,938
	$ 1,772,866	$ 6,280,000	$ 8,052,866

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4. "Mello-Roos" Assessment District – Western Hills Water District - Diablo Grande Community Facilities District No. 1 (continued)

Debt Schedules (continued)

	All Bonds		
Fiscal Year Ending June 30,	Interest	Principal	Total
2021	$ 1,844,048	$ 2,470,000	$ 4,314,048
2022	1,745,051	2,560,000	4,305,051
2023	1,630,049	2,665,000	4,295,049
2024	1,497,618	2,795,000	4,292,618
2025	1,358,672	2,930,000	4,288,672
2026-2030	4,370,748	16,995,000	21,365,748
Thereafter	423,638	8,325,000	8,748,638
	$ 12,869,824	$ 38,740,000	$ 51,609,824

Reserve requirement restrictions

The provisions of the "official statements" of the bond issues require the following restrictions:

Reserve fund

The District is required to maintain an amount equal to the lesser of as of June 30, 2019:

(a) 10% of the original principal: $4,576,500
(b) 100% of the maximum annual debt service on the bonds based on years ended September 1: $4,370,666
(c) 125% of the average annual debt service: $5,359,475

The purpose of this $4,370,666 reserve is to be used for debt service, if needed. Amounts in excess of the requirement, due to interest thereon, can be transferred to the Bond Fund to be used for current debt service. When the Reserve Fund exceeds the requirement to redeem the remaining outstanding bonds such excess shall be transferred to the District to be used for any lawful purpose.

The remaining proceeds of the bond issue after allowing for costs of issuance were set aside to reimburse improvement costs.

During the current year the District spent the remainder of the required reserve fund to pay the debt service due in September 2019. The September 2019 debt service payments paid in full the Series 2015 Bond debt service but was unable to pay in full the Series 2014 Bond debt service.

The September 2020 debt service payments were not made due to insufficient funds. In September 2020 the District completed the 2019 debt service payments.

4. "Mello-Roos" Assessment District – Western Hills Water District - Diablo Grande Community Facilities District No. 1 (continued)

Reserve Fund (continued)

The developer, World International, sold the property to Angel's Crossing in May 2020. The developer is responsible for approximately 98% of the fiscal years 2017-2018 through 2019-2020 special tax delinquencies. See Note 7 for details on the relationship between the District and the developer.

At June 30, 2020, the reserve requirements were as follows:

Reserve Fund- 2014 Bond	$ 3,682,135
Reserve Fund- 2015 Bond	687,156
Total reserve requirement	$ 4,369,291
Funds set aside for debt service at June 30, 2020	$ -

The indebtedness will be retired over a seventeen-year period from assessed parcel taxes on the properties being developed, through the District.

5. Notes Payable

In June of 2007, the District entered into a note agreement with Caterpillar Financial Services Corporation with the proceeds used for the government lease purchase of five Caterpillar generator sets packages with a SCADA system and four automatic transfer switches, all of which securitizes the agreement. The total amount borrowed under this agreement of $4,173,847 was originally payable in 102 equal monthly installments at 5.97% interest. The original agreement was amended on May 28, 2009, and again on June 15, 2012 to revise the payment schedule. The amended interest rate is 6.41%.

The following is the debt service schedule to maturity for the Caterpillar note payable, including the effect of both amendments:

Fiscal Year Ending June 30,	Interest	Principal	Total
2021	$ 40,638	$ 410,494	$ 451,132
2022	13,151	400,388	413,539
	$ 53,789	$ 810,882	$ 864,671

In October 2016, the District entered into three note agreements for the purchase of three Dodge Ram 1500 trucks. The total amount borrowed under these agreements of $138,997 is payable in sixty to seventy-two equal monthly installments at annual interest rates ranging from 8.72% to 10.42%.

5. Notes Payable (continued)

The following is the debt service schedule to maturity for the three Dodge Ram notes payable:

Fiscal Year Ending June 30,	Interest	Principal	Total
2021	$ 4,219	$ 27,776	$ 31,995
2022	1,669	22,468	24,137
2023	89	4,709	4,798
	$ 5,977	$ 54,953	$ 60,930

All Notes

Fiscal Year Ending June 30,	Interest	Principal	Total
2021	$ 44,857	$ 438,270	$ 483,127
2022	14,820	422,856	437,676
2023	89	4,709	4,798
	$ 59,766	$ 865,835	$ 925,601

6. Going Concern

The District incurred decreases in net position of $2,098,882 in 2020 and $2,061,216 in 2019. At June 30, 2020 and 2019, the District's deficit net position was $(20,529,025) and $(18,430,143), respectively, which indicates that the District is theoretically insolvent. The net investments in capital assets, which is the value of those assets less the outstanding amount owed on the debt used to acquire them was $(1,855,287) and $(3,143,370) at June 30, 2020 and 2019, respectively.

The District's negative net position as described above raises substantial doubt about the District's ability to continue as a going concern within one year after the issuance date of the financial statements. District management is working with the owner of the development to promote the completion of the community, which may result in more home sales. More home sales would also result in more sewer service charges and more property tax revenues, which are necessary to repay the outstanding obligations of the District and cover its operating costs.

The District's assets are substantially in place as of June 30, 2020 and 2019. However, the operations including water revenue will not be fully realized until the development is completed. At June 30, 2020 and 2019, the primary customers are the Developer (golf course, clubhouse/restaurant, and vineyard) and the first phase of residential development homeowners. The development plan includes a hotel, single family homes, condos and public facilities. Until it comes to fruition, the water revenue will not cover expenses. The Development Master Agreement states that the Developer is obligated to fulfill the District's operational shortfalls.

6. Going Concern (continued)

The accompanying financial statements have been prepared assuming that the District will continue as a going concern; however, the above conditions raise substantial doubt about the District's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the District be able to continue as a going concern.

7. Related Parties

World International LLC, acquired the property contained in the District through the bankruptcy proceedings of the initial developer, Diablo Grande LP. World International LLC sold the property contained in the District to Angel's Crossing, the Developer, in April 2020. As part of the purchase Angel's Crossing assumed the responsibilities to the community and to the District and also assumed the obligations of World International LLC.

During the year the District requested loans from the developers totaling $1,180,000 in order to pay District obligations (see Note 9). The developers did not fulfill the Districts requests during the year.

As of June 30, 2020 and 2019, advances payable to the developer were $16,896,995 for both years.

The Developer is delinquent in payments of the special tax levy for fiscal years 2017-2018 and 2018-2019. See Note 4 for additional information.

8. Payables Concentration

Of the total accounts payable balance of $5,190,564 and $4,107,048 at June 30, 2020 and 2019, respectively, $4,000,626 was a delinquent account payable to Veolia Water in both years. As of the date of this report, Veolia Water has not pursued any litigation to collect the delinquent balance due from the District.

9. Potential litigation

The District has been invoiced $168,668 in overhead charges by the water authority that sells water to the District. The District considers these charges to be baseless and has been fighting the charge. There has been no overt threat of litigation made against the District This amount has been recognized as payable at June 30, 2020.

Additionally, the District received a notice of default from the same water authority in the amount of $1,170,513. The District has corresponded with the water authority and related to the water authority that the District does not have the funds to pay this amount due to the outstanding amounts ($1,696,000) due from the new developer, the District's largest customer. There has been no overt threat of litigation made against the District. One half of this amount ($500,923) was accrued at June 30, 2020, the remaining half will be recognized in fiscal year 2021.

10. Subsequent Events

Management has evaluated subsequent events through the date of the audit opinion letter, which is the date the financial statements were available to be issued.