

CROPPER ROWE, LLP

CERTIFIED PUBLIC ACCOUNTANTS

WESTERN HILLS WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

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

Qualified Opinion

We have audited the accompanying financial statements of the business-type activities of the Western Hills Water District, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Western Hills Water District's basic financial statements as listed in the table of contents.

In our opinion, except for the effects on the accompanying 2021 financial statements of not recording an allowance for doubtful accounts as described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Western Hills Water District, as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the 2021 Financial Statements

Western Hills Water District has not recorded an allowance for doubtful accounts related to accounts receivable due to the Western Hills Water District at June 30, 2021, that in our opinion, should have had a reserve recorded in accordance with accounting principles generally accepted in the United States of America. If the reserve was recorded accounts receivable, net of allowance for doubtful accounts the balance would decrease by \$1,260,000, and net loss would increase by \$1,260,000 for the year then ended.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Western Hills Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the 2021 financial statements and for our opinion on the 2020 financial statements.

Substantial Doubt about the District's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Western Hills Water District, will continue as a going concern. As discussed in Note 7 to the financial statements, the Western Hills Water District has a deficit net position of \$25,529,901 and \$20,777,817. Management's evaluation of the events and conditions and management's plans regarding those matters also are described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Western Hills Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Western Hills Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Western Hills Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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
August 5, 2024

**Western Hills Water District
Management's Discussion and Analysis
For the year ended June 30, 2021**

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, 2021. Please read it in conjunction with the Basic Financial Statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total assets decreased by \$1,229,888, or 2.9%, to \$40.72 million.
- During the year the District's operating revenue decreased by 24.8% to \$1.84 million, while operating expenses decreased by 1.1% to \$5.06 million.
- Net position decreased by \$4.75 million to \$(25.53) 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.

**Western Hills Water District
Management’s Discussion and Analysis
For the year ended June 30, 2021**

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 \$4.80 million to \$(25.58) million in fiscal year 2021. This decrease is a result of the following:

1. Assets decreased by \$1.23 million, mainly due to depreciation expense of \$1.43.
2. Liabilities increased by \$3.52 million, mostly due to currently liabilities related to Kern County Water Agency for supply of water and City of Patterson for sewer treatment.

**TABLE 1
Condensed Statements of Net Position
(in thousands)**

	2021	2020
Current Assets	\$ 2,963	\$ 3,461
Restricted Assets	1,353	739
Fixed Assets	36,405	37,751
Total Assets	40,721	41,951
Current Liabilities	32,996	26,031
Long-Term Debt	33,254	36,698
Total Liabilities	66,250	62,729
Net Position	\$ (25,529)	\$ (20,778)

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 2021’s challenges at the end of this report.

**Western Hills Water District
Management's Discussion and Analysis
For the year ended June 30, 2021**

**TABLE 2
Statement of Revenues and Expenses
For the Years ended June 30, 2021 and 2020
(in thousands)**

	<u>2021</u>	<u>2020</u>	Total % Change Fav/(Unfav)
Total Operating Revenues	\$ 1,841	\$ 2,450	(24.8)%
Total Operating Expenses (less depreciation)	3,634	3,703	(1.9)%
Net Operating Loss Before Depreciation	\$ (1,793)	\$ (1,254)	43.0%

CAPITAL ASSETS

During 2021, the District purchased a \$67 thousand truck and \$7 thousand of water treatment equipment.

**TABLE 3
Capital Assets
(in thousands)**

	<u>2021</u>	<u>2020</u>	Dollar Change	Total % Change
Land	\$ 782	\$ 782	\$ -	0.00%
Water Treatment Facilities/Equip	12,257	12,250	7	0.06%
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	10,829	10,820	9	0.08%
Vehicles	403	337	66	19.88%
Other	80	80	-	0.00%
Subtotal	58,498	58,416	82	0.14%
Less Accumulated Depreciation	22,093	20,665	1,428	6.91%
Net Book Value	\$ 36,405	\$ 37,751	\$ (1,346)	(3.56)%

LONG TERM DEBT

At year-end, the District had \$39.1 million in long-term debt (including the current portion). This is a net decrease of \$438 thousand in notes payable payments made during the year.

**Western Hills Water District
Management’s Discussion and Analysis
For the year ended June 30, 2021**

The District has outstanding general obligation debt stemming from Mello-Roos bonds refinanced in 2014 and 2015.

**TABLE 4
Outstanding Debt**

	<u>Debt Balance</u>
General Obligation Bonds	<u>\$ 38,660,000</u>
Notes Payable	<u>\$ 427,749</u>

2021 CHALLENGES AND A LOOK AT THE FUTURE:

Western Hills Water District’s assets are notably in place as of June 30, 2021.

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

Upgrades: Capital upgrades for future years will be limited to specific equipment needs.

Purchases: Capital expenditures will be limited for specific equipment needs.

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 had begun in March of 2020 and a new water rate increase occurred in February 2022.

Previously, the District had the opportunity to sell excess water to five water districts, but this is no longer in effect. The District’s outstanding debt to Kern County Water Agency (KCWA) is overdue and KCWA has temporarily invalidated the District’s water contract and is only allocating 250 acre feet per year.

The District is planning on meeting with City of Patterson (COP) for better rates, but it is not looking favorable.

Additionally, the Project Owner 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.

Project Owner Relationship: In May 2020, a new Project Owner acquired the master agreement of the development from the prior developer. To date the new developer has not fulfilled its obligation to the

**Western Hills Water District
Management's Discussion and Analysis
For the year ended June 30, 2021**

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 future fiscal years. 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.

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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Diablo Grande, CA 95363-8610
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WESTERN HILLS WATER DISTRICT
Statements of Net Position
June 30, 2021 and 2020

	2021	2020
<u>ASSETS</u>		
Current Assets		
Cash (Note 2)	\$ 21,829	\$ 627,430
Restricted cash (Note 2)	1,334,676	1,605,259
Accounts receivable (Note 3)	1,602,484	1,226,553
Prepaid water charges	-	-
Meter inventory	4,150	2,136
Total current assets	2,963,139	3,461,378
Assets restricted for debt service, at current values		
Federated money market trust		
U.S. Treasury Obligations (Note 2)	1,352,259	738,730
Total restricted assets	1,352,259	738,730
Fixed Assets, net of accumulated depreciation of \$22,092,968 and \$20,664,919 for 2021 and 2020, respectively (Note 4)		
Construction in progress (Note 4)	25,576,646	26,930,582
Total assets	40,720,768	41,950,656
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable (Note 9)	7,585,421	5,519,356
Advances payable to the developer (Note 8)	16,896,995	16,896,995
Accrued interest payable	2,528,293	630,886
Customer deposits	143,806	146,650
Other current liabilities	8,405	8,751
Current portion of notes payable (Note 6)	422,855	438,270
Current portion of bonds payable (Note 5)	5,410,000	2,390,000
Total current liabilities	32,995,775	26,030,908
Notes payable, net of current portion (Note 6)	4,894	427,565
Bonds payable, net of current portion (Note 5)	33,250,000	36,270,000
Total liabilities	66,250,669	62,728,473
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	(2,682,379)	(1,775,287)
Restricted for bond reserve funds (Note 5)	4,369,291	4,369,291
Unrestricted	(27,216,813)	(23,371,821)
Total net position (Note 7)	\$ (25,529,901)	\$ (20,777,817)

WESTERN HILLS WATER DISTRICT
 Statements of Revenues, Expenses, and Changes in Net Position
 For the Years Ended June 30, 2021 and 2020

	2021	2020
Operating Revenue		
Water revenue		
Residential	\$ 870,371	\$ 858,564
Commercial	122,964	97,255
Golf course	317,123	605,764
Water banking program	-	384,611
Sewer and stormdrain	436,753	433,149
Winery	76	5,196
Other	94,271	65,178
Total operating revenues	1,841,558	2,449,717
Operating Expenses		
Labor and related expenses	581,499	600,160
Purchased water	1,539,052	1,285,715
Waste water hauling and disposal	537,834	866,736
Water treatment	324,971	294,725
Utilities/fuel for pump	151,059	192,041
Maintenance	89,895	131,408
Contractual services	225,315	101,562
Insurance	727	40,436
Licenses and fees	2,505	7,005
General and administrative	181,465	183,989
Depreciation	1,428,049	1,414,715
Total operating expenses	5,062,371	5,118,492
Operating loss	(3,220,813)	(2,668,775)
Non-Operating Revenue (Expenses)		
Property taxes	1,385,968	1,372,783
Investment income	2,456	17,229
Other income	(2,073)	202
Interest on bonded indebtedness	(2,846,363)	(955,593)
Other interest expense	(46,034)	(73,982)
Bond related expense	(25,225)	(39,538)
Total non-operating revenues (expenses)	(1,531,271)	321,101
Change in net position	(4,752,084)	(2,347,674)
Net position at beginning of year, as restated (see Note 10)	(20,777,817)	(18,430,143)
Total net position at end of year	\$ (25,529,901)	\$ (20,777,817)

WESTERN HILLS WATER DISTRICT
Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Receipts from customers and users	\$ 1,462,783	\$ 1,719,687
Payments to suppliers of goods and services	(987,104)	(1,075,226)
Payments to employees and related benefits	(581,499)	(600,160)
Net cash provided (used) in operating activities	(105,820)	44,301
Cash flows from capital and related financing activities		
Bond indebtedness retired	-	(1,970,000)
Payments on Caterpillar loan	(438,086)	(410,939)
Fixed asset additions, including construction in progress	(82,871)	(321,859)
Interest paid on bonded indebtedness	(948,956)	(986,761)
Other interest paid	(46,034)	(73,982)
Bond related expenses	(25,225)	(119,538)
Property taxes collected for debt	1,385,968	1,372,783
Recovery of bond costs	(2,073)	202
Net provided (used) in capital and financing activities	(157,277)	(2,510,094)
Cash flows from investing activities		
Proceeds from sales of investments	(613,529)	1,407,338
Investment income received	2,456	17,229
Sale of meter inventory	(2,014)	(2,136)
Net cash provided (used) in investing activities	(613,087)	1,422,431
Net increase (decrease) in cash	(876,184)	(1,043,362)
Cash at beginning of year	2,232,689	3,276,051
Cash at end of year	\$ 1,356,505	\$ 2,232,689
Presentation on Statement of Net Position		
Cash	\$ 21,829	\$ 627,430
Restricted Cash	1,334,676	1,605,259
Total Cash	\$ 1,356,505	\$ 2,232,689
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities:		
Net operating loss	\$ (3,220,813)	\$ (2,339,983)
Adjustments to cash used in operating activities:		
Depreciation expense	1,428,049	1,414,715
(Increase) decrease in Accounts receivable	(375,931)	(735,280)
(Increase) decrease in prepaid water charges	-	616,122
Increase (decrease) in Accounts payable	2,066,065	1,083,516
Increase (decrease) in accrued comp	(346)	-
Increase (decrease) in Meter set deposits	(2,844)	5,250
Increase (decrease) in Taxes and insurance	-	(39)
Net cash provided (used) in operating activities	\$ (105,820)	\$ 44,301

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

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, 2021 or 2020). 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. 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 implementation of this pronouncement did not have a material impact on the District's financials.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

1. Summary of Significant Accounting Policies (continued)

Implemented New GASB Pronouncements

GASB Statement No. 90 “Majority Equity Interests – an amendment of GASB Statements No. 14 and 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 implementation of this pronouncement did not have a material impact on the District’s financials.

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 2023). All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020 (fiscal year 2021). The implementation of this pronouncement did not have a material impact on the District’s financials.

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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (Continued)

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. The District is currently evaluating the potential impact on the District's financials.

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. The District is currently evaluating the potential impact on the District's financials.

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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (Continued)

The requirements of this Statement are effective for reporting periods beginning after December 15, 2021 (fiscal 2023). Earlier application is encouraged. The District is currently evaluating the potential impact on the District's financials.

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). The District is currently evaluating the potential impact on the District's financials.

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 2023), and all reporting periods thereafter. The District is currently evaluating the potential impact on the District's financials.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (Continued)

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.

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 2023), and all reporting periods thereafter. The District is currently evaluating the potential impact on the District’s financials.

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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (Continued)

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 2022). 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 2022). The District is currently evaluating the potential impact on the District's financials.

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, 2021 and 2020, and exceeded the FDIC insured amount of \$250,000 by \$1,168,898 and \$2,001,583, respectively.

Cash and cash equivalents consist of the following:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Cash	\$ 21,829	\$ 627,430
Restricted cash	1,334,676	1,605,259
Total cash	<u>\$ 1,356,505</u>	<u>\$ 2,232,689</u>

The June 30, 2021 and 2020, investments in the US Treasury Money Market Trust of \$1,352,259 and \$738,730, respectively, were reflected on the balance sheet as assets restricted for debt services.

When World International stopped providing loan subsidies to WHWD the District was short of funding for its operations. When Angels Crossing acquired title to the development and properties, despite their assumption of these financial obligations, they also did not provide the loan subsidy. As a result, the Board voted per Resolutions to borrow funds from the finance/holding account (restricted cash) which was designated for infrastructure repair and maintenance. The total amount borrowed as of June 30, 2021, was \$809,625 and should be paid back from District operations to District refinance/holding account (restricted cash).

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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

Investment Type	Fair Value	Minimum Legal Rating	Not Required To Be Rated	Rating as of Year End		
				AAA	A	Unrated
US Treasury Money Market	\$ 1,352,259	N/A	\$ 1,352,259	\$ -	\$ -	\$ -

Restricted Cash

Cash in the amount \$1,334,676 has been restricted by loan agreements for the payment of loan debt service. At June 30, 2021 and 2020, the District was required to reserve \$4,369,291 and \$4,369,291, 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 5.

3. Accounts Receivable

At June 30, 2021, the District had \$1,550,484 in accounts receivable.

<u>Name/Description</u>	<u>Amount</u>
Customer water fees	\$ 286,785
Angel's Crossing, LLC	399,549
Diablo Grande ROA	1,600
World International	568,601
Bond administration recovery	343,099
Other	2,850
Total accounts receivable	<u>\$ 1,602,484</u>

The District is owed a total of \$968,150 from World International and Angel's Crossing for water sales during the year ended June 30, 2021, and prior years. The District has deemed the receivable collectible and has filed a claim against the two developers for collection of the outstanding receivable.

The District is due an administration fee due from the bond holders that will be received upon receipt of outstanding homeowner taxes.

Customer water fees for monthly water services are paid in the month after they are billed.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

4. 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, 2021:

	Balance <u>June 30, 2020</u>	Reclassifications & Additions	Balance <u>June 30, 2021</u>	Depreciable <u>Life in Years</u>
Land	\$ 782,393	\$ -	\$ 782,393	n/a
Water treatment facilities	11,953,988	-	11,953,988	40
Water treatment equipment	295,477	7,439	302,916	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	337,320	66,674	403,994	5
Other	69,017	-	69,017	3 to 40
	<u>47,595,501</u>	<u>74,113</u>	<u>47,669,614</u>	
Accumulated depreciation	<u>20,664,919</u>	<u>1,428,049</u>	<u>22,092,968</u>	
Net book value	<u>\$26,930,582</u>	<u>\$ (1,353,936)</u>	<u>\$25,576,646</u>	
Construction in progress	<u>\$10,819,966</u>	<u>\$ 8,758</u>	<u>\$10,828,724</u>	n/a

5. “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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

5. “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 an 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 an 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 <u>June 30, 2021</u>	Year Ended <u>June 30, 2020</u>
Balance at beginning of year	\$ 38,660,000	\$ 40,710,000
New issuance- bond refunding	-	-
Bond retirements	-	(2,050,000)
Principal payments	-	-
Balance at end of year	<u>\$ 38,660,000</u>	<u>\$ 38,660,000</u>
Due in one year	<u>\$ 5,410,000</u>	<u>\$ 2,390,000</u>

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

5. “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:

<u>2014 Bond</u>			
<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2022	\$ 3,266,140	\$ 4,555,000	\$ 7,821,140
2023	1,633,070	2,210,000	3,843,070
2024	1,427,893	2,310,000	3,737,893
2025	1,161,358	2,430,000	3,591,358
2026	1,035,613	2,550,000	3,585,613
2027-2031	2,967,735	14,860,000	17,827,735
Thereafter	91,823	3,465,000	3,556,823
	<u>\$ 11,583,630</u>	<u>\$ 32,380,000</u>	<u>\$ 43,963,630</u>

The following are debt service schedules to maturity:

<u>2015 Bond</u>			
<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2022	\$ 526,300	\$ 855,000	\$ 1,381,300
2023	263,150	455,000	718,150
2024	229,731	470,000	699,731
2025	186,916	485,000	671,916
2026	167,734	505,000	672,734
2027-2031	479,250	2,860,000	3,339,250
Thereafter	14,625	650,000	664,625
	<u>\$ 1,867,706</u>	<u>\$ 6,280,000</u>	<u>\$ 8,147,706</u>

<u>All Bonds</u>			
<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2021	\$ 3,792,440	\$ 5,410,000	\$ 9,202,440
2022	1,896,220	2,665,000	4,561,220
2023	1,657,624	2,780,000	4,437,624
2024	1,348,273	2,915,000	4,263,273
2025	1,203,347	3,055,000	4,258,347
2026-2030	3,446,985	17,720,000	21,166,985
Thereafter	106,448	4,115,000	4,221,448
	<u>\$ 13,451,336</u>	<u>\$ 38,660,000</u>	<u>\$ 52,111,336</u>

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

5. “Mello-Roos” Assessment District – Western Hills Water District - Diablo Grande Community Facilities District No. 1 (continued)

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, 2021:

- (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: \$4,369,291
- (c) 125% of the average annual debt service: \$5,430,510

The purpose of this \$4,369,291 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 ended June 30, 2021, the District was unable to pay the Series 2014 bond or the Series 2015 bond interest and principal.

During the year ended June 30, 2020, 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 annual Series 2015 Bond debt service but was unable to pay in full the annual 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.

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 ending June 30, 2018, through June 30, 2021, special tax delinquencies. As a result, the bond reserve was depleted in prior years for payment of principal and interest to bondholders. See Note 8 for details on the relationship between the District and the developer.

At June 30, 2021, the reserve requirements were as follows:

Reserve Fund - 2014 Bond	\$ 3,682,135
Reserve Fund - 2015 Bond	687,156
Total reserve requirement	<u>\$ 4,369,291</u>
Funds set aside for debt service at June 30, 2021	<u>\$ -</u>

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

5. “Mello-Roos” Assessment District – Western Hills Water District - Diablo Grande Community Facilities District No. 1 (continued)

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

6. 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:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2022	\$ 13,151	\$ 400,388	\$ 413,539
	<u>\$ 13,151</u>	<u>\$ 400,388</u>	<u>\$ 413,539</u>

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%.

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

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2022	\$ 1,669	\$ 22,467	\$ 24,136
2023	89	4,894	4,983
	<u>\$ 1,758</u>	<u>\$ 27,361</u>	<u>\$ 29,119</u>

The following is a combined debt service schedule for all of the District’s notes payable.

All Notes Payable

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2022	\$ 14,820	\$ 422,855	\$ 437,675
2023	89	4,894	4,983
	<u>\$ 14,909</u>	<u>\$ 427,749</u>	<u>\$ 442,658</u>

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

7. Going Concern

The District incurred decreases in net position of \$4,752,084 in 2021 and \$2,347,674 in 2020. At June 30, 2021 and 2020, the District's deficit net position was \$(25,529,901) and \$(20,777,871), 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 \$(2,682,379) and \$(1,775,287) at June 30, 2021 and 2020, 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 prospective development partners 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, 2021 and 2020. However, the operations including water revenue will not be fully realized until the development is completed. At June 30, 2021 and 2020, the primary customers are the first phase of residential development homeowners. The revised development plan approved by the County in 2017 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.

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.

8. 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 Project Owner, 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 Project Owner totaling \$1,180,000 in order to pay District obligations (see Note 10). The Project Owner did not fulfill the District's requests during the year.

As of June 30, 2021 and 2020, advances payable to the Project Owner were \$16,896,995 for both years. See Note 12 – Subsequent Events for additional information on proceedings between the District and the Project Owner.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

8. Related Parties (Continued)

The Developer is delinquent in payments of the special tax levy for fiscal years 2017-2018 through the present. See Note 5 for additional information.

9. Payables Concentration

Of the total accounts payable balance of \$7,585,421 and \$5,190,564 at June 30, 2021 and 2020, 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.

10. Prior Period Adjustment

During the year ended June 30, 2021, corrections were made to payables to another water district and to bond payables that affected prior period balances. These corrections resulted in a \$248,792 decrease to the District's net position.

<u>Account</u>	<u>June 30, 2021</u>		
	<u>Original</u>	<u>Change</u>	<u>As Restated</u>
<u>Liabilities</u>			
Accounts Payable	<u>\$ 5,190,564</u>	<u>\$ 328,792</u>	<u>\$ 5,519,356</u>
Current portion of bonds payable	2,470,000	(80,000)	2,390,000
Bonds payable, net of current portion	<u>36,270,000</u>	<u>-</u>	<u>36,270,000</u>
Total bonds payable	<u>38,740,000</u>	<u>(80,000)</u>	<u>38,660,000</u>
<u>Net Position</u>			
Net invested in capital assets, net of related debt	(1,855,287)	80,000	(1,775,287)
Restricted for bond reserve	4,370,666	(1,375)	4,369,291
Unrestricted	<u>(23,044,404)</u>	<u>(327,417)</u>	<u>(23,371,821)</u>
Total net position	<u>\$ (20,529,025)</u>	<u>\$(248,792)</u>	<u>\$ (20,777,817)</u>

11. 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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2021 and 2020

11. Potential litigation (Continued)

Additionally, the District received a notice of default from the same water authority in the amount of \$1,170,513. The amount owed to the District at June 30, 2021, was around \$2.5 million. 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 previous and the new developer, the District's largest customers. There has been no overt threat of litigation made against the District.

In April 2024 the District filed a claim against the current and previous developer. The filed claim is seeking payment for outstanding fees and for damages from the developers which have not paid any of their financial obligations to the District for the year ended June 30, 2021.

12. 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. As a part of the foreclosure lawsuit filed against World International LLC & Angels Crossing LLC, the District has taken ownership of the lots available for development. In April 2024, the District filed a claim against the current and previous developer. The filed claim is seeking payment for outstanding fees as well as damages.