

WESTERN HILLS WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2022 and 2021

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1 – 2
Statements of Net Position	3
Statements of Revenues, Expenses and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 24

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, 2022 and 2021, 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 2022 and 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, 2022 and 2021, 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 2022 and 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, 2022, 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 \$1,415,000, and net loss would increase by \$1,415,000 for the years 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 2022 financial statements and for our opinion on the 2021 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 \$30,249,901 and \$25,529,901. 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

Management has omitted the required supplementary information, such as management discussion & analysis, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.



CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
March 23, 2026

WESTERN HILLS WATER DISTRICT

Statements of Net Position

June 30, 2022 and 2021

	2022	2021
<u>ASSETS</u>		
Current Assets		
Cash (Note 2)	\$ 399,176	\$ 21,829
Restricted cash (Note 2)	722,477	1,334,676
Accounts receivable (Note 3)	1,700,930	1,602,484
Meter inventory	4,151	4,150
Total current assets	2,826,734	2,963,139
Assets restricted for debt service, at current values		
Federated money market trust		
U.S. Treasury Obligations (Note 2)	185,840	1,352,259
Total restricted assets	185,840	1,352,259
Fixed Assets, net of accumulated depreciation of \$23,488,789 and \$22,092,968 for 2022 and 2021, respectively (Note 4)	24,183,884	25,576,646
Construction in progress (Note 4)	10,828,724	10,828,724
Total assets	38,025,182	40,720,768
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable (Note 9)	10,040,706	7,585,421
Advances payable to the developer (Note 8)	16,896,995	16,896,995
Accrued interest payable	2,528,293	2,528,293
Customer deposits	136,415	143,806
Other current liabilities	8,592	8,405
Current portion of notes payable (Note 6)	4,082	422,855
Current portion of bonds payable (Note 5)	8,075,000	5,410,000
Total current liabilities	37,690,083	32,995,775
Notes payable, net of current portion (Note 6)	-	4,894
Bonds payable, net of current portion (Note 5)	30,585,000	33,250,000
Total liabilities	68,275,083	66,250,669
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	(3,651,474)	(2,682,379)
Restricted for bond reserve funds (Note 5)	4,369,291	4,369,291
Unrestricted	(30,967,718)	(27,216,813)
Total net position (Note 7)	\$ (30,249,901)	\$ (25,529,901)

WESTERN HILLS WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenue		
Water revenue		
Residential	\$ 838,571	\$ 870,371
Commercial	91,533	122,964
Golf course	-	317,123
Sewer and storm drain	431,414	436,753
Winery	-	76
Other	(2,160)	94,271
Total operating revenues	<u>1,359,358</u>	<u>1,841,558</u>
Operating Expenses		
Labor and related expenses	560,879	581,499
Purchased water	1,874,618	1,539,052
Waste water hauling and disposal	549,641	537,834
Water treatment	242,314	324,971
Utilities/fuel for pump	257,627	151,059
Maintenance	212,195	89,895
Contractual services	253,701	225,315
Insurance	49,135	727
Licenses and fees	9,008	2,505
General and administrative	300,159	181,465
Depreciation	1,395,821	1,428,049
Total operating expenses	<u>5,705,098</u>	<u>5,062,371</u>
Operating loss	<u>(4,345,740)</u>	<u>(3,220,813)</u>
Non-Operating Revenue (Expenses)		
Special secured Mello-Roos taxes	1,431,077	1,385,968
Investment income	844	2,456
Other income	27,038	(2,073)
Interest on bonded indebtedness	(1,896,220)	(2,846,363)
Other interest expense	(14,918)	(46,034)
Bond related expense	77,919	(25,225)
Total non-operating revenues (expenses)	<u>(374,260)</u>	<u>(1,531,271)</u>
Change in net position	<u>(4,720,000)</u>	<u>(4,752,084)</u>
Net position at beginning of year, as restated (see Note 10)	<u>(25,529,901)</u>	<u>(20,777,817)</u>
Total net position at end of year	<u><u>\$ (30,249,901)</u></u>	<u><u>\$ (25,529,901)</u></u>

WESTERN HILLS WATER DISTRICT
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Receipts from customers and users	\$ 1,253,521	\$ 1,462,783
Payments to suppliers of goods and services	(1,292,926)	(987,104)
Payments to employees and related benefits	(560,879)	(581,499)
Net cash provided by (used in) operating activities	(600,284)	(105,820)
Cash flows from capital and related financing activities		
Bond indebtedness retired	-	-
Payments on Caterpillar loan	(423,667)	(438,086)
Fixed asset additions, including construction in progress	(3,059)	(82,871)
Interest paid on bonded indebtedness	(1,896,220)	(948,956)
Other interest paid	(14,918)	(46,034)
Bond related expenses	77,919	(25,225)
Property taxes collected for debt	1,431,077	1,385,968
Recovery of bond costs	27,038	(2,073)
Net provided by (used in) capital and financing activities	(801,830)	(157,277)
Cash flows from investing activities		
Proceeds from sales of investments	1,166,419	(613,529)
Investment income received	844	2,456
Sale of meter inventory	(1)	(2,014)
Net cash provided by (used in) investing activities	1,167,262	(613,087)
Net increase (decrease) in cash	(234,852)	(876,184)
Cash at beginning of year	1,356,505	2,232,689
Cash at end of year	\$ 1,121,653	\$ 1,356,505
Presentation on Statement of Net Position		
Cash	\$ 399,176	\$ 21,829
Restricted Cash	722,477	1,334,676
Total Cash	\$ 1,121,653	\$ 1,356,505
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities:		
Net operating loss	\$ (4,345,740)	\$ (3,220,813)
Adjustments to cash used in operating activities:		
Depreciation expense	1,395,821	1,428,049
(Increase) decrease in Accounts receivable	(98,446)	(375,931)
(Increase) decrease in prepaid water charges	-	-
Increase (decrease) in Accounts payable	2,455,285	2,066,065
Increase (decrease) in accrued comp	187	(346)
Increase (decrease) in Meter set deposits	(7,391)	(2,844)
Increase (decrease) in Taxes and insurance	-	-
Net cash provided (used) in operating activities	\$ (600,284)	\$ (105,820)

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021

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, 2022 or 2021). 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. 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 2022). 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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies (continued)

Implemented New GASB Pronouncements (continued)

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. 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. 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, 2022 and 2021

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.

GASB Statement No. 98, “*The Annual Comprehensive Report*” – This Statement establishes the term annual comprehensive financial report, with the acronym ACFR as a replacement for the comprehensive annual financial report, whose acronym, when using the common pronunciation, was that of a “profoundly objectionable racial slur.” This did not have a material effect on the financial statements of the District.

Future Accounting Pronouncements

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

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies (continued)

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

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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies (continued)

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

GASB Statement No. 99, *Omnibus 2022*. - The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to more easily locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of state and local government financial statements.

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The District has not yet determined whether the implementation of this Pronouncement will have material impact on the financial statements.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

GASB Statement No. 100, *Accounting Changes and Error Corrections-An Amendment of GASB Statement No. 62.* - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 (fiscal year 2024). The District has not yet determined whether the implementation of this Pronouncement will have a material impact on the financial statements.

GASB Statement No. 101, *Compensated Absences.* - The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (fiscal year 2025), 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.

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, 2022</u>	<u>June 30, 2021</u>
Cash	\$ 399,176	\$ 21,829
Restricted cash	<u>722,477</u>	<u>1,334,676</u>
Total cash	<u>\$ 1,121,653</u>	<u>\$ 1,356,505</u>

The June 30, 2022 and 2021, investments in the US Treasury Money Market Trust of \$185,840 and \$1,352,259, respectively, were reflected on the balance sheet as assets restricted for debt services.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

2. Cash and Investments (continued)

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, 2022, was \$809,625 and as of 2026 the District will begin paying back from the operations account to the 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.

Investment Type	Fair Value	Minimum Not Required		Rating as of Year End		
		Legal Rating	To Be Rated	AAA	A	Unrated
US Treasury Money Market	\$ 185,840	N/A	\$ 185,840	\$ -	\$ -	\$ -

Restricted Cash

Cash in the amount \$722,477 has been restricted by loan agreements for the payment of loan debt service. At June 30, 2022 and 2021, 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, 2022 and 2021, the District had \$1,700,930 and \$1,602,484, respectively, in accounts receivable.

<u>Name/Description</u>	<u>2022</u>	<u>2021</u>
Customer water fees	\$ 285,691	\$ 286,785
Angel's Crossing, LLC	399,549	399,549
Diablo Grande ROA	1,600	1,600
World International	568,601	568,601
Bond administration recovery	443,240	343,099
Other	2,249	2,850
Total accounts receivable	<u>\$ 1,700,930</u>	<u>\$ 1,602,484</u>

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

3. Accounts Receivable (continued)

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.

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, 2022:

	Balance <u>June 30, 2021</u>	Reclassifications & Additions	Deletions	<u>June 30, 2022</u>	Depreciable <u>Life in Years</u>
Land	\$ 782,393	\$ -	\$ -	\$ 782,393	n/a
Water treatment facilities	11,953,989	-	-	11,953,989	40
Water treatment equipment	302,916	3,059	-	305,975	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	403,994	-	-	403,994	5
Other	69,016	-	-	69,016	3 to 40
Total	<u>47,669,614</u>	<u>3,059</u>	<u>-</u>	<u>47,672,673</u>	
Accumulated depreciation	<u>(22,092,968)</u>	<u>(1,395,821)</u>	<u>-</u>	<u>(23,488,789)</u>	
Net book value	<u>\$ 25,576,646</u>	<u>\$ (1,392,762)</u>	<u>\$ -</u>	<u>\$ 24,183,884</u>	
Construction in progress	<u>\$ 10,828,724</u>	<u>\$ -</u>	<u>\$ -</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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

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

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.

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%.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

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

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

	<u>Year Ended June 30, 2022</u>	<u>Year Ended June 30, 2021</u>
Balance at beginning of year	\$ 38,660,000	\$ 38,660,000
New issuance- bond refunding	-	-
Bond retirements	-	-
Principal payments	-	-
Balance at end of year	<u>\$ 38,660,000</u>	<u>\$ 38,660,000</u>
Due in one year	<u>\$ 8,075,000</u>	<u>\$ 5,410,000</u>

At June 30, 2022 and 2021, the District owed \$2,528,293 in accrued interest payable.

Debt Schedules

The following are debt service schedules to maturity:

<u>2014 Bond</u>			
<u>Fiscal Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2023	\$ 3,266,140	\$ 6,765,000	\$ 10,031,140
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	900,338	2,675,000	3,575,338
2028-2032	2,159,220	15,650,000	17,809,220
	<u>\$ 9,950,562</u>	<u>\$ 32,380,000</u>	<u>\$ 42,330,562</u>

The following are debt service schedules to maturity:

<u>2015 Bond</u>			
<u>Fiscal Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2023	\$ 526,300	\$ 1,310,000	\$ 1,836,300
2024	229,731	470,000	699,731
2025	186,916	485,000	671,916
2026	167,734	505,000	672,734
2027	146,138	525,000	671,138
2028-2032	347,738	2,985,000	3,332,738
	<u>\$ 1,604,557</u>	<u>\$ 6,280,000</u>	<u>\$ 7,884,557</u>

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

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

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>All Bonds</u>		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2023	\$ 3,792,440	\$ 8,075,000	\$ 11,867,440
2024	1,657,624	2,780,000	4,437,624
2025	1,348,274	2,915,000	4,263,274
2026	1,203,347	3,055,000	4,258,347
2027	1,046,476	3,200,000	4,246,476
2028-2032	2,506,958	18,635,000	21,141,958
	<u>\$ 11,555,119</u>	<u>\$ 38,660,000</u>	<u>\$ 50,215,119</u>

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, 2022:

- (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: \$5,429,132

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 years ended June 30, 2022 and 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.

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

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

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, 2022, the reserve requirements were as follows:

Reserve Fund - 2014 Bond	\$ 3,682,135
Reserve Fund - 2015 Bond	<u>687,156</u>
Total reserve requirement	<u>\$ 4,369,291</u>
Funds set aside for debt service at June 30, 2022	<u>\$ -</u>

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 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>
2023	<u>\$ 1,709</u>	<u>\$ 4,082</u>	<u>\$ 5,791</u>
	<u>\$ 1,709</u>	<u>\$ 4,082</u>	<u>\$ 5,791</u>

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

7. Going Concern

The District incurred decreases in net position of \$4,720,000 in 2022 and \$4,752,084 in 2021. At June 30, 2022 and 2021, the District's deficit net position was \$(30,249,901) and \$(25,529,901), 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 \$(3,651,474) and \$(2,682,379) at June 30, 2022 and 2021, 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, 2022 and 2021. However, the operations including water revenue will not be fully realized until the development is completed. At June 30, 2022 and 2021, 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 June 30, 2021, 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, 2022 and 2021, 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, 2022 and 2021

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

At June 30, 2022 and 2021, the District had \$10,040,706 and \$7,585,421, respectively, in accounts payable. The accounts payable balances were concentrated among three vendors.

<u>Vendor</u>	<u>2022</u>	<u>2021</u>
Veolia Water	\$ 4,000,626	\$ 4,000,626
Kern County Water Agency	4,412,052	2,537,435
City of Patterson	1,485,206	937,260
Other	142,822	110,100
Total accounts payable	<u>\$ 10,040,706</u>	<u>\$ 7,585,421</u>

As of the date of this report, Veolia Water has not pursued any litigation to collect the delinquent balance due from the District. See Note 11 – Potential Litigation for additional information on amounts due to the Kern County Water Agency.

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 June 30, 2020, net position.

<u>Account</u>	<u>June 30, 2020</u>		
	<u>Original</u>	<u>Change</u>	<u>As Restated</u>
Liabilities			
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>
Net Position			
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>

WESTERN HILLS WATER DISTRICT
Notes to Financial Statements
June 30, 2022 and 2021

11. Potential litigation

The District has been invoiced \$168,668 in overhead charges by the Kern County Water Agency, who sells water to the District. There has been no overt threat of litigation made against the District. This amount has been recognized as payable at June 30, 2022.

Additionally, the District received a notice of default from the same water authority in the amount of \$1,170,513, and a formal notification of its intent to terminate water services by May 31, 2026. The amount owed to the District at June 30, 2022 and 2021, was \$4,412,052 and \$2,537,435, respectively. 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. Management is currently negotiating a payment plan and exploring alternative funding sources to mitigate the risk of litigation and ensure the continuity of essential services.

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, 2022.

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.

The Kern County Water District issued a formal notification of its intent to terminate water services by May 31, 2026, due to these sustained liquidity challenges and the resulting non-payment of arrears dating back to the 2022 fiscal year. See Note 11 for additional information.

The District plans on paying back \$809,625 from the operations account to the District refinance/holding account (restricted cash).