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# WESTERN HILLS WATER DISTRICT

# FINANCIAL STATEMENTS

# JUNE 30, 2023 and 2022

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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, 2023 and 2022, 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 2023 and 2022 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, 2023 and 2022, 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, 2023 and 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 $1,508,000 and $1,415,000, respectively, at June 30, 2023 and 2022, and net loss would increase by $1,508,000 and $1,415,000, respectively, 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 2023 financial statements and for our opinion on the 2022 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 $34,742,683 and $30,249,901. 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

CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
July 22, 2026

# WESTERN HILLS WATER DISTRICT
## Statements of Net Position
## June 30, 2023 and 2022

| | | 2023 | | 2022 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash (Note 2) | $ | 344,684 | $ | 399,176 |
| Restricted cash (Note 2) | | 1,270,750 | | 722,477 |
| Accounts receivable (Note 3) | | 1,907,597 | | 1,700,930 |
| Meter inventory | | 9,102 | | 4,151 |
| Total current assets | | 3,532,133 | | 2,826,734 |
| Assets restricted for debt service, at current values | | | | |
| Federated money market trust | | | | |
| U.S. Treasury Obligations (Note 2) | | 2,332 | | 185,840 |
| Total restricted assets | | 2,332 | | 185,840 |
| Fixed Assets, net of accumulated depreciation of $24,794,514 and $23,488,789 for 2023 and 2022, respectively (Note 4) | | 22,902,587 | | 24,183,884 |
| Construction in progress (Note 4) | | 10,828,724 | | 10,828,724 |
| Total capital assets | | 33,731,311 | | 35,012,608 |
| Total assets | | 37,265,776 | | 38,025,182 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable (Note 9) | | 12,830,656 | | 10,040,706 |
| Advances payable to the developer (Note 8) | | 16,896,995 | | 16,896,995 |
| Accrued interest payable (Note 5) | | 3,476,403 | | 2,528,293 |
| Customer deposits | | 134,958 | | 136,415 |
| Other current liabilities | | 9,447 | | 8,592 |
| Current portion of notes payable (Note 6) | | - | | 4,082 |
| Current portion of bonds payable (Note 5) | | 10,855,000 | | 8,075,000 |
| Total current liabilities | | 44,203,459 | | 37,690,083 |
| Bonds payable, net of current portion (Note 5) | | 27,805,000 | | 30,585,000 |
| Total liabilities | | 72,008,459 | | 68,275,083 |
| NET POSITION | | | | |
| Invested in capital assets, net of related debt | | (4,928,689) | | (3,651,474) |
| Restricted for bond reserve funds (Note 5) | | 4,366,660 | | 4,369,291 |
| Unrestricted | | (34,180,654) | | (30,967,718) |
| Total net position (Note 7) | $ | (34,742,683) | $ | (30,249,901) |

WESTERN HILLS WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| Operating Revenue | | |
| Water revenue | | |
| Residential | $ 1,285,810 | $ 838,571 |
| Commercial | 38,854 | 91,533 |
| Sewer and storm drain | 434,430 | 431,414 |
| Other | 2,160 | (2,160) |
| Total operating revenues | 1,761,254 | 1,359,358 |
| Operating Expenses | | |
| Labor and related expenses | 581,459 | 560,879 |
| Purchased water | 2,224,321 | 1,874,618 |
| Waste water hauling and disposal | 612,993 | 549,641 |
| Water treatment | 203,008 | 242,314 |
| Utilities/fuel for pump | 68,733 | 257,627 |
| Maintenance | 184,702 | 212,195 |
| Contractual services | 326,623 | 253,701 |
| Insurance | 53,718 | 49,135 |
| Licenses and fees | 4,500 | 9,008 |
| General and administrative | 297,575 | 300,159 |
| Depreciation | 1,305,725 | 1,395,821 |
| Total operating expenses | 5,863,357 | 5,705,098 |
| Operating loss | (4,102,103) | (4,345,740) |
| Non-Operating Revenue (Expenses) | | |
| Special secured Mello-Roos taxes | 1,408,542 | 1,431,077 |
| Investment income | 5,276 | 844 |
| Other income | 15,515 | 27,038 |
| Interest on bonded indebtedness | (1,896,220) | (1,896,220) |
| Other interest expense | (72) | (14,918) |
| Bond related expense | 76,280 | 77,919 |
| Total non-operating revenues (expenses) | (390,679) | (374,260) |
| Change in net position | (4,492,782) | (4,720,000) |
| Net position at beginning of year, as restated (see Note 10) | (30,249,901) | (25,529,901) |
| Total net position at end of year | $ (34,742,683) | $ (30,249,901) |

WESTERN HILLS WATER DISTRICT
Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| Cash flows from operating activities | | |
| Receipts from customers and users | $ 1,553,130 | $ 1,253,521 |
| Payments to suppliers of goods and services | (1,185,368) | (1,292,926) |
| Payments to employees and related benefits | (581,459) | (560,879) |
| Net cash provided by (used in) operating activities | (213,697) | (600,284) |
| | | |
| Cash flows from capital and related financing activities | | |
| Payments on Caterpillar loan | (4,082) | (423,667) |
| Fixed asset additions, including construction in progress | (24,428) | (3,059) |
| Interest paid on bonded indebtedness | (948,110) | (1,896,220) |
| Other interest paid | (72) | (14,918) |
| Bond related expenses | 76,280 | 77,919 |
| Property taxes collected for debt | 1,408,542 | 1,431,077 |
| Recovery of bond costs | 15,515 | 27,038 |
| Net provided by (used in) capital and financing activities | 523,645 | (801,830) |
| | | |
| Cash flows from investing activities | | |
| Proceeds from sales of investments | 183,508 | 1,166,419 |
| Investment income received | 5,276 | 844 |
| Sale of meter inventory | (4,951) | (1) |
| Net cash provided by (used in) investing activities | 183,833 | 1,167,262 |
| | | |
| Net increase (decrease) in cash | 493,781 | (234,852) |
| Cash at beginning of year | 1,121,653 | 1,356,505 |
| Cash at end of year | $ 1,615,434 | $ 1,121,653 |
| | | |
| Presentation on Statement of Net Position | | |
| Cash | $ 344,684 | $ 399,176 |
| Restricted Cash | 1,270,750 | 722,477 |
| Total Cash | $ 1,615,434 | $ 1,121,653 |
| | | |
| Reconciliation of Operating Loss to Net Cash | | |
| Provided by Operating Activities: | | |
| Net operating loss | $ (4,102,103) | $ (4,345,740) |
| Adjustments to cash used in operating activities: | | |
| Depreciation expense | 1,305,725 | 1,395,821 |
| (Increase) decrease in Accounts receivable | (206,667) | (98,446) |
| Increase (decrease) in Accounts payable | 2,789,950 | 2,455,285 |
| Increase (decrease) in accrued comp | 855 | 187 |
| Increase (decrease) in Meter set deposits | (1,457) | (7,391) |
| Net cash provided (used) in operating activities | $ (213,697) | $ (600,284) |

## 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 5)

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

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

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

1. Summary of Significant Accounting Policies (continued)

Fund accounting classification

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

Basis of accounting

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

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

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

Cash and cash equivalents

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

Investments

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

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

1. Summary of Significant Accounting Policies (continued)

Investments (continued)

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

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

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

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

Meter inventory

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

Fixed assets

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

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

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

Vacation accrual

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

Net position

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

1. Summary of Significant Accounting Policies (continued)

Operating vs. non-operating revenues

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

Property Taxes

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

Estimates in accounting

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

For the year ended June 30, 2023, the District implemented the following GASB pronouncements.

**GASB Statement No. 91** – In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The objectives of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, or FY 2022/2023. The District does not have conduit debt obligations.

1. Summary of Significant Accounting Policies (continued)

Implemented New GASB Pronouncements (continued)

**GASB Statement No. 93** – In May 2020, GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The objectives of this Statement is to address those and other accounting and reporting implications resulting from the replacement of an IBOR by providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced and providing clarification to the hedge accounting termination provisions, removing LIBOR as a 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 and providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, or FY 2021/2022, except the removal of LIBOR as a benchmark interest rate which is effective for periods beginning after December 31, 2022, or FY 2022/2023. The implementation of this Statement did not have a material impact on the District's financial statements.

**GASB Statement No. 94** – In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The objectives of this Statement improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022, or FY 2022/2023. The implementation of this Statement did not have a material impact on the District's financial statements.

**GASB Statement No. 96** – In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. The objective of this Statement is to provide 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. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022, or FY 2022/2023. See Note 9 for additional information on the impact of this Statement on the financial statements.

Future Accounting Pronouncements

**GASB Statement No. 99** – In April 2022, GASB Issued Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

Certain requirements of this statement have been implemented as of June 30, 2022. 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, or FY 2023/2024, and all reporting periods thereafter. The District is evaluating the impact of this Statement on the financial statements.

**GASB Statement No. 100** – In June 2022, GASB Issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The 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. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 or FY 2023/2024 and all reporting periods thereafter. The District is evaluating the impact of this Statement on the financial statements.

**GASB Statement No. 101** – In June 2022, GASB Issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of the 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. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, or FY 2024/2025 and all reporting periods thereafter. The District is evaluating the impact of this Statement on the financial statements.

**GASB Statement No. 102, *Certain Risk Disclosures.*** - The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making District. Concentrations and constraints may limit a government's ability to acquire resources or control spending

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition. The District is evaluating the impact of this Statement on the financial statements.

**GASB Statement No. 103, *Financial Reporting Model Improvement*** - The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

This Statement addresses the following components of the financial reporting model: (1) Management's Discussion and Analysis, (2) Unusual or Infrequent Items, (3) Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position, (4) major Component Unit Information, and (5) Budgetary Comparison Information.

The Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units. These requirements for MD&A will improve the quality of the analysis of changes from the prior year, which will enhance the relevance of that information. They also will provide clarity regarding what information should be presented in MD&A.

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. The requirements for the separate presentation of unusual or infrequent items will provide clarity regarding which items should be reported separately from other inflows and outflows of resources.

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. The definitions of operating revenues and expenses and of nonoperating revenues and expenses will replace accounting policies that vary from government to government, thereby improving comparability. The addition of a subtotal for operating income (loss) and noncapital subsidies will improve the relevance of information provided in the proprietary fund statement of revenues, expenses, and changes in fund net position.

This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements. The requirement for presentation of major component unit information will improve comparability.

The requirement that budgetary comparison information be presented as RSI will improve comparability, and the inclusion of the specified variances and the explanations of significant variances will provide more useful information for making decisions and assessing accountability.
The requirements of this Statement are effective for fiscal years beginning after June 15, 2025 (fiscal year 2026), and all reporting periods thereafter. Earlier application is encouraged. The District is evaluating the impact of this Statement on the financial statements.

**GASB Statement No. 104, *Disclosure of Certain Capital Assets* -** The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

1. Summary of Significant Accounting Policies (continued)

Future Accounting Pronouncements (continued)

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025 (fiscal year 2026), and all reporting periods thereafter. Earlier application is encouraged.

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, 2023 and 2022, and exceeded the FDIC insured amount of $250,000 by $1,378,109 and $1,168,898, respectively.

Cash and cash equivalents consist of the following:

| | June 30, 2023 | June 30, 2022 |
|---|---|---|
| Cash | $ 344,684 | $ 399,176 |
| Restricted cash | 1,270,750 | 722,477 |
| Total cash | $ 1,615,434 | $ 1,121,653 |

The June 30, 2023 and 2022, investments in the US Treasury Money Market Trust of $2,332 and $185,840, 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, 2023 and 2022, was $1,371,920 and $809,625. In 2026 the District has paid back $450,000 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 Legal Rating | Not Required To Be Rated | Rating as of Year End AAA | A | Unrated |
|---|---|---|---|---|---|---|
| US Treasury Money Market | $ 2,332 | N/A | $ 2,332 | $ - | $ - | $ - |

2. Cash and Investments (continued)

Restricted Cash

Cash in the amount $1,270,750 has been restricted by loan agreements for the payment of loan debt service. At June 30, 2023 and 2022, the District was required to reserve $4,366,660 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, 2023 and 2022, the District had $1,907,597 and $1,700,930, respectively, in accounts receivable.

| Name/Description | 2023 | 2022 |
|---|---|---|
| Customer water fees | $ 399,398 | $ 285,691 |
| Angel’s Crossing, LLC | 399,549 | 399,549 |
| Diablo Grande ROA | 1,600 | 1,600 |
| World International | 568,601 | 568,601 |
| Bond administration recovery | 536,198 | 443,240 |
| Other | 2,251 | 2,249 |
| Total accounts receivable | $ 1,907,597 | $ 1,700,930 |

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 from the bond holders that will be received upon receipt of outstanding homeowner taxes. This fee has been accumulating since 2018 and at June 30, 2023 and 2022, totaled $536,198 and $443,240, respectively.

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.

4. Fixed Assets (continued)

The following reflects the changes in fixed assets for the year ended June 30, 2023:

| | Balance June 30, 2022 | Reclassifications & Additions | Deletions | June 30, 2023 | Depreciable Life in Years |
|---|---|---|---|---|---|
| Land | 782,393 | $ - | $ - | $ 782,393 | n/a |
| Water treatment facilities | 11,953,989 | - | - | 11,953,989 | 40 |
| Water treatment equipment | 305,975 | 24,428 | - | 330,403 | 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 | 47,672,673 | 24,428 | - | 47,697,101 | |
| Accumulated depreciation | (23,488,789) | (1,305,725) | - | (24,794,514) | |
| Net book value | $ 24,183,884 | $ (1,281,297) | $ - | $ 22,902,587 | |
| Construction in progress | $ 10,828,724 | $ - | $ - | $ 10,828,724 | 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.

Refunding Revenue Bonds – 2015 (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.

The District completed the 2015 refunding of the 2005 special tax bonds to reduce its total debt service (net of the costs of the refunding) over 16 years by $550,121 and to obtain and economic gain of $511,370. The economic gain is the difference between the present values of the old and new debt service payments, based on the effective interest rate on the 2015 Refunding Revenue Bonds of 4.50%.

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

Refunding Revenue Bonds – 2014

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

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

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

The District completed the 2014 refunding of the 2001, 2002 and 2004 special tax bonds to reduce its total debt service (net of the costs of the refunding) over the next 17 years by $3,050,334 and to obtain and economic gain of $2,771,279. The economic gain is the difference between the present values of the old and new debt service payments, based on the effective interest rate on the 2014 Refunding Revenue Bonds of 5.30%.

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

| | Year Ended June 30, 2023 | Year Ended June 30, 2022 |
|---|---|---|
| Balance at beginning of year | $ 38,660,000 | $ 38,660,000 |
| New issuance- bond refunding | - | - |
| Bond retirements | - | |
| Principal payments | - | - |
| Balance at end of year | $ 38,660,000 | $ 38,660,000 |
| Due in one year | $ 10,855,000 | $ 8,075,000 |

At June 30, 2023 and 2022, the District owed $3,476,403 and $2,528,293, respectively, in accrued interest payable.

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:

2014 Bond

| Fiscal Year Ending June 30, | Interest | Principal | Total |
|---|---|---|---|
| 2024 | $ 3,877,498 | $ 9,075,000 | $ 12,952,498 |
| 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 | 754,720 | 2,820,000 | 3,574,720 |
| 2029-2032 | 1,404,500 | 12,830,000 | 14,234,500 |
| Total | $ 9,134,027 | $ 32,380,000 | $ 41,514,027 |

2015 Bond

| Fiscal Year Ending June 30, | Interest | Principal | Total |
|---|---|---|---|
| 2024 | $ 624,456 | $ 1,780,000 | $ 2,404,456 |
| 2025 | 186,916 | 485,000 | 671,916 |
| 2026 | 167,734 | 505,000 | 672,734 |
| 2027 | 146,138 | 525,000 | 671,138 |
| 2028 | 122,063 | 545,000 | 667,063 |
| 2029-2032 | 225,675 | 2,440,000 | 2,665,675 |
| Total | $ 1,472,982 | $ 6,280,000 | $ 7,752,982 |

All Bonds

| Fiscal Year Ending June 30, | Interest | Principal | Total |
|---|---|---|---|
| 2024 | $ 4,501,954 | $ 10,855,000 | $ 15,356,954 |
| 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 | 876,783 | 3,365,000 | 4,241,783 |
| 2029-2032 | 1,630,175 | 15,270,000 | 16,900,175 |
| | $ 10,607,009 | $ 38,660,000 | $ 49,267,009 |

Reserve requirement restrictions

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

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

Reserve fund

The District is required to maintain an amount equal to the lesser of as of June 30, 2023:

(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: $4,366,660
(c) 125% of the average annual debt service: $5,426,860

The purpose of this $4,366,660 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, 2023 and 2022, 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, 2022, 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, 2023, the reserve requirements were as follows:

| | |
|---|---|
| Reserve Fund - 2014 Bond | $ 3,682,135 |
| Reserve Fund - 2015 Bond | 684,525 |
| Total reserve requirement | $ 4,366,660 |
| Funds set aside for debt service at June 30, 2023 | $ - |

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, which was paid-in-full during the year ended June 30, 2023.

| Fiscal Year Ending June 30, | Interest | Principal | Total |
|---|---|---|---|
| 2023 | $ 1,709 | $ 4,082 | $ 5,791 |
| | $ 1,709 | $ 4,082 | $ 5,791 |

## 7. Going Concern

The District incurred decreases in net position of $4,492,782 in 2023 and $4,720,000 in 2022. At June 30, 2023 and 2022, the District's deficit net position was $(34,742,683) and $(30,249,901), 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 $(4,928,689) and $(3,651,474) at June 30, 2023 and 2022, 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, 2023 and 2022. However, the operations including water revenue will not be fully realized until the development is completed. At June 30, 2023 and 2022, 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.

As of June 30, 2023 and 2022, advances payable to the Project Owner were $16,896,995 for both years. See Note 11 – Subsequent Events for additional information on proceedings between the District and the Project Owner.

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, 2023 and 2022, the District had $12,830,656 and $10,040,706, respectively, in accounts payable. The accounts payable balances were concentrated among three vendors.

| Vendor | 2023 | 2022 |
|---|---|---|
| Veolia Water | $ 4,000,626 | $ 4,000,626 |
| Kern County Water Agency | 6,636,374 | 4,412,052 |
| City of Patterson | 2,092,907 | 1,485,206 |
| Other | 100,749 | 142,822 |
| Total accounts payable | $ 12,830,656 | $ 10,040,706 |

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. 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, 2026.

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 by the District at June 30, 2023 and 2022, was $6,636,374 and $4,412,052, 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.

10. Potential litigation (continued)

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, 2023.

11. 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.

Foreclosure and Bankruptcy Proceedings

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.

During fiscal years 2024 and 2025, the District acquired title to 103 parcels via judicial foreclosure to satisfy delinquent Mello-Roos special taxes, subsequently inheriting approximately $2.1 million in delinquent ad valorem property taxes and disputed post-foreclosure homeowner association assessments. In response to collection actions by Stanislaus County and the threat of involuntary tax sales, the District filed for Chapter 9 municipal bankruptcy in late 2025 to stay creditor enforcement. The District is currently utilizing the bankruptcy process to restructure these obligations and facilitate the sale of the foreclosed real property assets to a third-party developer. Management is actively negotiating with claimants to resolve these liabilities, though the ultimate financial impact remains subject to the final terms of the court-approved plan of adjustment. The County expects to make a decision on the District's payment proposal in August 2026.

Kern County Water Agency

The Kern County Water Agency 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. In July 2026 the two entities reached an agreement in which Kern County Water Agency has forgiven Western Hills Water District of the liability due. The agreement also shifts water purchases to actual demand rather than large fixed amounts. See Note 11 for additional information.

Restricted Cash

The District has paid back $450,000 in 2026 of the $1,371,920 due from the operations account to the District refinance/holding account (restricted cash). The District anticipates additional repayments in August 2026.