

ATWELL ISLAND WATER DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended May 31, 2023

ATWELL ISLAND WATER DISTRICT

MAY 31, 2023

BOARD OF DIRECTORS

Cory VanderHam	President
Doug Jackson	Vice-President
Deanna Jackson	Secretary
Craig Andrew	Director
Carlo Wilcox	Director

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Independent Auditors' Report

Board of Directors
Atwell Island Water District

Opinion

We have audited the accompanying statement of net position of the Atwell Island Water District as of May 31, 2023, and we were engaged to audit the related statement of revenues, expenses and changes in fund net position and cash flows for the year ended May 31, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the statement of net position referred to above present fairly, in all material respects, the respective financial position of the Atwell Island Water District, as of May 31, 2023, in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Disclaimer of Opinion on Statement of Revenues, Expenses, and Changes in Fund Net Position, Cash Flows and Consistency

We do not express an opinion on the statement of revenues, expenses, and changes in fund net position and cash flows for the year ended May 31, 2023, or on the consistency of application of accounting principles with the preceding year. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion of the statement of revenues, expenses, and changes in fund net position and cash flows for the year ended May 31, 2023, or on the consistency of application of accounting principles with the preceding year.

Basis for Opinion

We conducted our audit in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts. Our responsibility under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Atwell Island 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 audit opinion on the statement of net position.

Basis for Disclosure of Opinion on Statement of Revenues, Expenses, and Changes in Fund Net Position, Cash Flows, and Consistency

Because of the litigation concerning the board, due to a disagreement over the validity of a purported January 17, 2017, election to replace two board members whose terms were ending, was not settled until after May 31, 2022, we were not able to obtain sufficient appropriate audit evidence regarding any of the significant aspects of the statement of net position. The amount of these significant aspects of the statement of net position at that date, including classifications and amounts, materially affect the determination of the statement of revenues, expenses, and changes in fund net position and the cash flows for the year ended May 31, 2023, and consistency of application of accounting principles between 2022 and 2023.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' report that includes our opinion. 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 auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America, we:

- 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 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 management's discussion and analysis section that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



Tulare, California
April 13, 2025

ATWELL ISLAND WATER DISTRICT

**STATEMENT OF NET POSITION
MAY 31, 2023**

ATWELL ISLAND WATER DISTRICT

STATEMENT OF NET POSITION MAY 31, 2023

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 3,690,699	
Accounts receivable	26,423	
Current portion of leases receivable	<u>52,273</u>	
Total current assets		\$ 3,769,395

NONCURRENT ASSETS:

Lease receivable		2,890,582
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CAPITAL ASSETS:

Capital assets not being depreciated	219,683	
Other capital assets, net of depreciation	<u>31,065</u>	
Total capital assets		<u>250,748</u>
Total assets		<u>\$ 6,910,725</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts payable		\$ 4,391
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DEFERRED INFLOWS OF RESOURCES:

Deferred inflows of resources, leases		2,942,855
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NET POSITION:

Net investment in capital assets	\$ 250,748	
Unrestricted	<u>3,712,731</u>	
Total net position		<u>3,963,479</u>
Total liabilities, deferred inflows and net position		<u>\$ 6,910,725</u>

See notes to financial statements.

ATWELL ISLAND WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION YEAR ENDED MAY 31, 2023

OPERATING REVENUES:

Water sales and charges	\$	55,630
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OPERATING EXPENSES:

Utilities	\$	56,750
Legal and professional		30,394
Outside services		5,143
Repairs and maintenance		5,060
Insurance		2,250
Rent		18,000
Miscellaneous		3,665
Depreciation		<u>1,827</u>

Total operating expenses		<u>123,089</u>
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Operating loss		(67,459)
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NONOPERATING REVENUES:

Lease income	50,389
Settlement revenue	172,697
Interest income	157,153
Finance charges	<u>572</u>

Total nonoperating revenues	<u>380,811</u>
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Increase in net position	313,352
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Net position, June 1, 2022	<u>3,650,127</u>
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Net position, May 31, 2023	<u><u>\$ 3,963,479</u></u>
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See notes to financial statements.

ATWELL ISLAND WATER DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED MAY 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from landowners	\$ 53,707	
Cash payments for water and operations	<u>(127,339)</u>	
Net cash used for operating activities		\$ (73,632)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Cash received from settlement	172,697	
Cash received from finance charges	<u>572</u>	
Net cash provided by operating activities		173,269

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Cash payments for asset acquisitions	(32,892)	
Cash received as lessor - principal portion	50,389	
Cash received as lessor - interest portion	<u>109,611</u>	
Net cash provided by capital and related financing activities		127,108

CASH FLOWS FROM INVESTING ACTIVITIES:

Cash received from interest income	<u>47,542</u>	
Increase in cash and cash equivalents		274,287
Cash and cash equivalents, June 1, 2022	<u>3,416,412</u>	
Cash and cash equivalents, May 31, 2023	<u>\$ 3,690,699</u>	

(continued)

ATWELL ISLAND WATER DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED MAY 31, 2023

RECONCILIATION OF OPERATING

LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Operating loss	\$	(67,459)	
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation		1,827	
Increase in accounts receivable		(1,923)	
Decrease in accounts payable		<u>(6,077)</u>	
Net cash used by operating activities			<u>\$ (73,632)</u>

See notes to financial statements.

ATWELL ISLAND WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS MAY 31, 2023

NOTE 1 – Summary of Significant Accounting Policies

Organization

Atwell Island Water District (the District) was organized in 1978 and operates under the provision of the California Water Code. The District supplies water to the District's landowners. The purpose of the District is to acquire and provide water supplies for the irrigation of crops. The District is governed by an elected five-member board of directors.

The District's revenue is derived from sale of water pumped from the single active well to farmers in the District's boundaries.

Reporting Entity

The District's basic financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity includes whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- exclusion of the organization would render the financial statements incomplete or misleading

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statements.

Fund Accounting – Basis of Presentation

The operations of the District are accounted for in an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where costs (expenses, including depreciation) of providing services to the general public on a continuing basis are financed through user charges.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts of the District and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accrual basis of accounting is required for enterprise funds and is utilized by the District. Under this method, revenues are recorded when earned and expenditures or expenses are recorded when incurred.

Operating and Nonoperating Revenues

Operating revenues result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues result from nonexchange transactions or ancillary activities.

ATWELL ISLAND WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS MAY 31, 2023

NOTE 1 – Summary of Significant Accounting Policies (continued)

Budgetary Procedures

The District operates under a budget prepared and approved annually by the Board of Directors. The budget is prepared on a detailed line item basis. Revenue is budgeted by use (services and supplies, other charges, water supply and contingencies). Once approved, the Board of Directors may amend the adopted budget when unexpected modifications are required in estimated revenue and expenditures or expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Allowance for Doubtful Accounts

The District considers all accounts receivable to be fully collectible. Therefore, an allowance for doubtful accounts is not reflected in these financial statements.

Lease Receivable

The District is a lessor for noncancellable leases. At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgements include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses the Applicable Federal Rate (AFR) as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Capital Assets

All capital assets are recorded at historical cost. Depreciation is charged as an expense against operations, and accumulated depreciation is reported on the District's balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The estimated useful life for pumping assets have an estimated useful life of 15 years.

ATWELL ISLAND WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS MAY 31, 2023

NOTE 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

Lease-related amounts are recognized at the inception of leases in which the District is the lessor. The deferred inflow of resources is recorded in an amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before the commencement of the lease term that relate to future periods, less any incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The inflow of resources is recognized in a systematic and rational manner over the term of the lease.

Net Position Classifications

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The District reports three categories of net position as follows:

Net investment in capital assets – consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities related to the restricted assets. The District did not have any restricted net position as of May 31, 2023.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The District's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expense.

Income Taxes

The District is a governmental agency and is not subject to federal or state income taxes.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Accordingly, actual results could differ from those estimates.

ATWELL ISLAND WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS MAY 31, 2023

NOTE 1 – Summary of Significant Accounting Policies (continued)

New Accounting Principle

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Any contract that meets this definition should be accounted for under that lease's guidance, unless specifically excluded in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The District calculated and recognized a lease receivable and deferred inflow of resources of \$2,993,244 as of May 31, 2022. The provisions of this statement have been implemented in the financial statements for the year ended May 31, 2023.

NOTE 2 – Cash and Cash Equivalents

Statutes authorize districts to invest cash in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, banker's acceptances, repurchase agreements, insured money market accounts, commercial paper, county investment pools and the State Treasurer's Local Agency Investment Fund.

Cash and cash equivalents at May 31, 2023, were as follows:

Cash on hand	\$ 52
Cash in bank	309,914
Cash in local agency investment funds	<u>3,380,733</u>
Total	<u>\$ 3,690,699</u>

The California Government Code requires California banks and savings and loan associations to collateralize a district's deposits by pledging government securities. The market value of the pledged securities must equal at least 110 percent of a district's deposits. California law also allows financial institutions to collateralize a district's deposits by pledging first trust deed mortgage notes having a value of 150 percent of a district's total deposits. The district may waive collateral requirements for deposits which are fully insured up to \$250,000 by Federal Deposit insurance. Of the bank balance, \$250,000 was covered by Federal Deposit Insurance and \$59,914 was uninsured but collateralized (i.e. collateralized with securities held by the pledging financial institution at 110 percent of the deposits, in accordance with the State of California Government code, deemed to be held in the District's name.

The District's cash and cash equivalents held in the Local Agency Investment Fund are held in pools managed by other governmental agencies, are not required to be collateralized, and are carried at cost which approximates fair market value. All pooled funds are regulated by the California Government Code.

ATWELL ISLAND WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS MAY 31, 2023

NOTE 3 – Credit Risk

The District's accounts receivable are all concentrated from water users within the District primarily for purchase of irrigation water used in their farming activities. The District has significant recourse if accounts are not paid timely, including refusal of further water delivery. Under the California Water Code, the District has other available methods to pursue collection. If the delinquent charges remains unpaid, the District may opt to file a lawsuit

NOTE 4 – Capital Assets

The following is a summary of changes in capital assets:

	Balance 06/01/2022	Additions	Deletions	Balance 05/31/2023
<u>Capital assets not being depreciated:</u>				
Land	\$ 219,683	\$ -	\$ -	\$ 219,683
<u>Other capital assets:</u>				
Wells and pumps, at historical cost	68,589	32,892	-	101,481
Accumulated depreciation	(68,589)	(1,827)	-	(70,416)
Other capital assets, net	-	31,065	-	31,065
Capital assets, net	<u>\$ 219,683</u>	<u>\$ 31,065</u>	<u>\$ -</u>	<u>\$ 250,748</u>

NOTE 5 – Lease Income

The District has entered into two solar land lease agreements:

Solar Lease #1

The first agreement is with TerraForm Power Operating, LLC (TFP) (formerly known as SPS Atwell, LLC), whereby TFP will have the exclusive right for solar energy conversion, for the collection and transmission of electric power, and for related and incidental purposes and activities on approximately 160.15 acres of land owned by the District. The term of the lease began on the effective date of May 14, 2014, and terminates upon the earlier of 40 years from the effective date or the date the lease is terminated by operation of law.

During the interim term, TFP paid the District base rent of \$1. Beginning on the construction commencement date and continuing until the day before the fifth anniversary of the construction commencement date, the annual base rent for the leased property was \$200 per acre, paid quarterly in four equal installments. Beginning on the fifth anniversary of the construction commencement date, and continuing until the day before the tenth anniversary, annual base rent is \$500 per acre, paid quarterly in four equal installments. On the tenth anniversary of the construction commencement date and on every anniversary thereafter during the initial term (known as adjustment date), base rent shall be increased to an amount equal to the base rent in effect immediately prior to the adjustment date and adjusted for inflation based on CPI.

ATWELL ISLAND WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS MAY 31, 2023

NOTE 5 – Lease Income (continued)

Solar Lease #1 (continued)

An initial lease receivable was recorded in the amount of \$1,496,427 at May 31, 2022. The lease has an imputed interest rate of 3.67 percent. The value of the deferred inflows of resources at May 31, 2023, was \$1,470,999. The lease receivable at May 31, 2023 was \$1,470,999.

Solar Lease #2

The second agreement is with Con Edison (formerly known as SPS Corcoran, LLC), whereby Con Edison will lease approximately 160.30 acres for the purpose of developing, constructing, installing, operating, using, maintaining, and testing solar electric generating facilities, beginning on the effective date of November 29, 2013, and terminating on the fifth anniversary of the delivery energy date (the expiration date), with options to extend the lease term for seven consecutive periods of five years each.

During the interim term, TFP paid the District base rent of \$1. Beginning on the construction commencement date and continuing until the day before the fifth anniversary of the construction commencement date, the annual base rent for the leased property was \$200 per acre, paid quarterly in four equal installments. Beginning on the fifth anniversary of the construction commencement date, and continuing until the day before the tenth anniversary, annual base rent is \$500 per acre, paid quarterly in four equal installments. On the tenth anniversary of the construction commencement date and on every anniversary thereafter during the initial term (known as adjustment date), base rent shall be increased to an amount equal to the base rent in effect immediately prior to the adjustment date and adjusted for inflation based on CPI.

An initial lease receivable was recorded in the amount of \$1,496,817 at May 31, 2022. The lease has an imputed interest rate of 3.67 percent. The value of the deferred inflows of resources at May 31, 2023, was \$1,471,855. The lease receivable at May 31, 2023 was \$1,471,855.

Total All Leases

Lease income for the year ended May 31, 2023, was \$50,389. For the year ended May 31, 2023, the District recognized \$109,611 of interest revenue under these leases. As of May 31, 2023, the balance of the deferred inflow of resources was \$2,942,855, which will be recognized as revenue over the lease term. The lease receivable at May 31, 2023 was \$2,942,855.

ATWELL ISLAND WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS MAY 31, 2023

NOTE 5 – Lease Income (continued)

Total All Leases (continued)

Future minimum lease payments and net present value of these minimum lease payments included in the measurement of the lease receivable as of May 31, 2023, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 52,273	\$ 107,727	\$ 160,000
2025	54,226	105,774	160,000
2026	56,252	103,748	160,000
2027	58,352	101,648	160,000
2028	60,534	99,466	160,000
2029-2033	338,327	461,673	800,000
2034-2038	406,431	393,569	800,000
2039-2043	488,244	311,756	800,000
2044-2048	586,526	213,474	800,000
2049-2053	704,590	95,407	799,997
2054	<u>137,100</u>	<u>2,900</u>	<u>140,000</u>
Total payments	<u>\$ 2,942,855</u>	<u>\$ 1,997,142</u>	<u>\$ 4,939,997</u>

NOTE 6 – Concentrations

Water sales of the District are limited to people or entities owning and farming land within the District boundaries. During the year ended May 31, 2023, all water sales were to a single entity. At May 31, 2023, all accounts receivables were related to this entity. It is unlikely that the District would experience a significant decrease in revenue due to a loss of a water user unless the land was not farmed, resulting in a decreased demand for pumped water.

NOTE 7 – Subsequent Events

Management has evaluated subsequent events through April 13, 2025, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.