MALAGA COUNTY WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2025

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Board of Directors

Charles E. Garabedian Jr.	President
Salvador Cerrillo Jr.	Vice-President
Irma Castaneda	Director
Frank A. Cerrillo, Jr.	Director
Carlos Tovar, Jr.	Director

Administration

Norma Melendez	Clerk

Jaribu W. Nelson, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Malaga County Water District

Qualified Opinion

We have audited the accompanying financial statements of the business-type activities and each major fund of the Malaga County Water District (District) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

In our opinion, except for the possible effects of the matter 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 and each major fund of the District as of June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

The beginning balance of the Recreation Fund as of July 1, 2020 was audited by a predecessor auditor whose license to practice as a Certified Public Accountant was subsequently suspended by the California State Board of Accountancy. As a result, we were unable to obtain sufficient appropriate audit evidence regarding the accuracy and completeness of the Recreation Fund's beginning balance.

Additionally, we were unable to satisfy ourselves by alternative auditing procedures concerning the carrying amounts of the Recreation Fund's beginning balance. Because the beginning fund balance affects the determination of changes in fund balance for the year ended June 30, 2025, we were unable to determine whether adjustments might be necessary to the fund balance revenues, expenditures, and related disclosures for the Recreation Fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Malaga County 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 opinions.

Responsibilities of Management 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 Malaga County Water District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 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 generally accepted auditing standards and *Government 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 and *Government 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 Malaga County 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 Malaga County Water District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 5-8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Malaga County Water District's basic financial statements. The accompanying supplementary information on page 23 and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on page 23 and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2026, on our consideration of Malaga County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Malaga County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Malaga County Water District's internal control over financial reporting and compliance.

Jaribu W. Nelson, CPA

Clovis, California
May 29, 2026

As management of Malaga County Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2025. We encourage readers to consider the information presented here in conjunction with information that is included within the financial statements.

Financial Highlights

- Assets of the District exceeded its liabilities as of June 30, 2025, by $8,746,352. Of this amount, an unrestricted net position of $440,476 may be used to meet the District's ongoing obligations to customers and creditors. As of June 30, 2024, assets exceeded liabilities by $6,991,268 with unrestricted net position equaling a deficit of ($38,332).

- Total net position increased by $1,755,084 for the year ended June 30, 2025. For the year ended June 30, 2024, total net position increased by $326,331.

- During the current year, the District's fixed assets increased by a net of $1,167,087. This increase was mostly attributable to the purchase of improvements to the water, sewer system and parks and recreation assets less depreciation. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to $495,261 for the current year. Prior year depreciation was $495,261.

- Total debt increased by a net of $260,863 during the current year. The increase was mostly attributable to the acquisition of a loan to refinance existing debt. During the prior year, total debt increased by a net of $512,779. This was mostly attributable to the of the RCAC anticipation grant loan to finance Wells 3 and 5.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Malaga County Water District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Financial Highlights (continued)

Both of the government-wide financial statements distinguish functions of the District that are principally proprietary in nature (business-type activities) which are functions that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no governmental activities.

The government-wide financial statements include only the District itself. The District has no component units.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds. The District has no governmental funds and four proprietary funds, the Water Fund, the Waste Disposal Fund, the Recreation Fund, and the Solid Waste.

Proprietary funds. Proprietary funds are used to account for essentially the same functions reported as business-type activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2025, the District's assets exceeded liabilities by $8,746,352. A significant portion of the District's net position (90 percent) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to customers and they are not available for future spending.

In addition, the District has $437,399 in net position (5 percent) that is restricted to make improvements to water facilities and parks and recreation assets.

The following represent summaries of the District's net position and changes in net position for the current and prior years:

Malaga County Water District's Net Position

	Business-Type Activities	Total	Prior Year Total
ASSETS			
Current assets	$ 2,380,839	$ 2,380,839	$ 1,915,972
Other assets	11,703,305	11,703,305	10,177,682
Total assets	14,084,144	14,084,144	12,093,654
LIABILITIES			
Current liabilities	2,055,036	2,055,036	2,606,598
Deferred liabilities	3,282,756	3,282,756	2,495,788
Total liabilities	5,337,792	5,337,792	5,102,386
NET POSITION			
Net investment in capital assets, net of related debt	7,868,477	7,868,477	6,966,415
Restricted	437,399	437,399	63,185
Unrestricted	440,476	440,476	(38,332)
Total net position	$ 8,746,352	$ 8,746,352	$ 6,991,268

Malaga County Water District's Changes in Net Position

	Business-Type Activities	Current Year Total	Prior Year Total (as restated)
REVENUE			
Program revenue			
Charges for services	$ 2,821,905	$ 2,821,905	$ 3,553,761
Other	814,298	814,298	1,450,195
Total Revenues	3,636,203	3,636,203	5,003,956
EXPENSE			
Waste disposal utility activities	1,714,472	1,714,472	1,449,601
Water utility activities	2,208,515	2,208,515	2,514,814
Solid waste activities	332,849	332,849	838,072
Community recreation activities	738,195	738,195	850,818
Total Expenses	4,994,031	4,994,031	5,653,305
Net operating income/(loss)	(1,357,828)	(1,357,828)	(649,349)
Net nonoperating revenue/(expense)	3,112,912	3,112,912	975,680
Increase/(decrease) in net position	1,755,084	1,755,084	326,331
Net position, beginning of year	6,991,268	6,991,268	6,664,937
Net position, end of year	$ 8,746,352	$ 8,746,352	$ 6,991,268

Business-type activities. Business-type activities increased the District's net position by $1,755,084, accounting for 100 percent of the total increase in net position.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Proprietary Funds. The purpose of the District's proprietary fund financial statements is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2025, the District's proprietary funds reported a combined ending fund balance of $8,746,352, an increase of $1,755,084. Of the entire ending fund balance, $440,476 is unrestricted and is available for spending at the District's discretion.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its business-type activities as of June 30, 2025, amounted to $11,265,906 (net of allowance for depreciation). This investment in capital assets includes land, building, improvements, construction in progress and equipment.

Additional information on the District's capital assets can be found in note three.

Debt administration. The District's long-term debt totaled $3,748,893 as of June 30, 2025. Of this total amount, $466,137 is due and payable during the year ending June 30, 2026. The remainder, referred to as deferred liabilities, is due and payable over the next 20 years.

Additional information on the District's long-term debt can be found in notes four and five.

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2026, remains unchanged from June 30, 2025.

User rates are not expected to increase during the year ending June 30, 2026.

Requests for Information

This financial report is designed to provide a general overview of Malaga County Water District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the President, Malaga County Water District, 3580 South Frank Street, Fresno, California 93725.

MALAGA COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2025

ASSETS	
Cash and investments	$ 1,935,089
Accounts receivable	441,288
Prepaids	4,462
Total current assets	2,380,839
OTHER ASSETS	
Restricted assets - cash	437,399
Capital assets, net of allowance for depreciation	11,265,906
Total other assets	11,703,305
Total assets	14,084,144
LIABILITIES	
Accounts payable and accrued expense	1,548,068
Customer deposits payable	40,831
Due within one year	466,137
Total current liabilities	2,055,036
NONCURRENT LIABILITIES	
Due in more than one year	3,282,756
Total liabilities	5,337,792
NET POSITION	
Net investment in capital assets, net of related debt	7,868,477
Restricted	437,399
Unrestricted	440,476
Total net position	8,746,352
Total liabilities and net position	$ 14,084,144

MALAGA COUNTY WATER DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2025

BUSINESS-TYPE ACTIVTIES	
Operating revenue	
Charges for services	$ 2,821,905
Other	814,298
Total operating revenues	3,636,203
Operating expense	
Waste disposal utility activities	1,714,472
Water utility activities	2,208,515
Solid waste activities	332,849
Community recreation activities	738,195
Total operating expense	4,994,031
Net operating income/(loss)	(1,357,828)
Net nonoperating revenue/(expense)	3,112,912
Change in net position	1,755,084
Net position, beginning of year	6,991,268
Net position, end of year	$ 8,746,352

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	Business-Type Activities - Enterprise Funds					
	2025					2024
	Water	Waste Disposal	Recreation	Solid Waste	Total	Total
ASSETS						
Current assets						
Cash and cash equivalents	$ 23,242	$ 1,038,037	$ 290,121	$ 583,689	$ 1,935,089	$ 1,492,836
Accounts receivable	231,647	95,080	77,520	37,041	441,288	400,109
Prepaid expense	2,231	2,231	-	-	4,462	23,027
Total current assets	257,120	1,135,348	367,641	620,730	2,380,839	1,915,972
Other assets						
Restricted cash and investments	218,677	218,722	-	-	437,399	78,863
Advances to other activities	3,876,808	-	-	-	3,876,808	3,224,262
Capital assets, net of accumulated depreciation	6,935,271	2,988,428	1,342,207	-	11,265,906	10,098,819
Total non-current assets	11,030,756	3,207,150	1,342,207	-	15,580,113	13,401,944
Total assets	11,287,876	4,342,498	1,709,848	620,730	17,960,952	15,317,916
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	950,730	476,554	105,032	15,752	1,548,068	1,573,265
Customer deposits payable	3,714	20,127	16,990	-	40,831	41,091
Current portion of long-term debt	323,389	104,000	19,374	19,374	466,137	992,242
Total current liabilities	1,277,833	600,681	141,396	35,126	2,055,036	2,606,598
Other liabilities						
Advances from other activities	-	1,169,663	2,631,919	75,226	3,876,808	3,224,262
Non-current liabilities						
Notes payable, less current portion	951,382	1,255,678	743,606	332,090	3,282,756	2,495,788
Total liabilities	2,229,215	3,026,022	3,516,921	442,442	9,214,600	8,326,648
NET POSITION						
Net investment in capital assets	5,660,500	1,628,750	579,227	-	7,868,477	6,966,415
Nonspendable	10,273	12,755	-	-	23,028	2,141,207
Restricted	218,677	218,722	-	-	437,399	63,185
Unrestricted / (deficit)	3,169,211	(543,751)	(2,386,300)	178,288	417,448	(2,179,539)
Total net position	$ 9,058,661	$ 1,316,476	$ (1,807,073)	$ 178,288	$ 8,746,352	$ 6,991,268

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	Business-Type Activities - Enterprise Funds					
	2025					2024
	Water	Waste Disposal	Recreation	Solid Waste	Total	Total
Operating Revenue						
Charges for services	$ 1,193,365	$ 1,600,789	$ 27,456	$ 295	$ 2,821,905	$ 3,553,761
Other	11,140	-	347,402	455,756	814,298	1,450,195
Total operating revenue	1,204,505	1,600,789	374,858	456,051	3,636,203	5,003,956
Operating Expense						
Salaries and wages	359,921	306,889	206,440	-	873,250	1,011,525
Employee benefits	248,519	368,412	244,664	-	861,595	328,987
Refuse collection and disposal	604	2,874	790	328,791	333,059	889,566
Depreciation	225,813	207,268	62,180	-	495,261	495,261
Utilities	246,148	298,205	76,413	2,837	623,603	731,402
Professional services	424,500	72,725	1,738	-	498,963	418,667
Repairs and maintenance	207,050	153,979	61,069	-	422,098	243,521
Board of directors	200,427	20,423	-	-	220,850	228,173
Contract services	70,564	33,960	37,442	1,179	143,145	139,074
Insurance	110,974	63,949	-	-	174,923	232,711
Supplies and small tools	12,266	68,699	3,432	-	84,397	180,524
Dues and memberships	33,120	21,334	52	-	54,506	47,293
Other	42,482	45,018	38,838	42	126,380	503,290
Telephone	2,101	6,390	1,716	-	10,207	7,199
Testing	6,861	29,470	-	-	36,331	34,441
Travel, meetings and education	-	-	-	-	-	750
Fuel and oil	2,614	13,132	2,475	-	18,221	31,324
Bank charges	5,740	-	25	-	5,765	111,745
Office supplies and postage	7,928	580	-	-	8,508	530
Rents and leases	849	1,102	921	-	2,872	15,829
Education and training	34	63	-	-	97	1,493
Total operating expense	2,208,515	1,714,472	738,195	332,849	4,994,031	5,653,305
Net operating income/(loss)	(1,004,010)	(113,683)	(363,337)	123,202	(1,357,828)	(649,349)
Nonoperating Revenues/(Expenses)						
Grant revenue	2,542,496	384,954	218,264	-	3,145,714	1,100,070
Grant expenses	(20,431)	(1,488)	(392)	-	(22,311)	(108,164)
Taxes and assessments	(22,755)	(998)	(833)	-	(24,586)	-
Other	23,233	5,400	-	39,709	68,342	24,168
Interest and use of property	2,385	2,316	3	-	4,704	5,121
Interest expense	(26,581)	(27,531)	(4,510)	(329)	(58,951)	(45,515)
Net nonoperating revenues/(expenses)	2,498,347	362,653	212,532	39,380	3,112,912	975,680
Change in net position	1,494,337	248,970	(150,805)	162,582	1,755,084	326,331
Net Position - beginning of year	7,530,370	1,101,460	(1,656,268)	15,706	6,991,268	6,664,937
Prior period adjustment	33,954	(33,954)	-	-	-	-
Net Position - beginning of year (restated)	7,564,324	1,067,506	(1,656,268)	15,706	6,991,268	6,664,937
Net Position - end of year	$ 9,058,661	$ 1,316,476	$(1,807,073)	$ 178,288	$ 8,746,352	$ 6,991,268

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	Business-Type Activities - Enterprise Funds					
	2025					2024
	Water	Waste Disposal	Recreation	Solid Waste	Total	Total
Operating Activities						
Received from customers	$ 1,188,485	$ 1,628,846	$ 303,073	$ 474,620	$ 3,595,024	$ 4,896,429
Payments to suppliers	(1,258,147)	(692,519)	(236,230)	(583,921)	(2,770,817)	(3,712,272)
Payments to employees	(608,440)	(675,301)	(451,104)	-	(1,734,845)	(1,340,512)
Net cash provided/(used) by operating activities	(678,102)	261,026	(384,261)	(109,301)	(910,638)	(156,355)
Non-capital Financing Activities						
Advances (to)/from other funds	(652,546)	(15,692)	674,830	(6,592)	-	-
Property taxes and other nonoperating revenue	478	4,402	(833)	39,709	43,756	24,168
Net cash provided/(used) by noncapital financing activities	(652,068)	(11,290)	673,997	33,117	43,756	24,168
Capital and Related Financing Activities						
Grant revenue	2,542,496	384,954	218,264	-	3,145,714	1,100,070
Grant expenses	(20,431)	(1,488)	(392)	-	(22,311)	(108,164)
Proceeds from construction loan	-	-	-	-	-	750,000
Principal paid on notes payable	(72,052)	640,223	(303,146)	(4,162)	260,863	(237,221)
Interest paid on notes payable	(26,581)	(27,531)	(4,510)	(329)	(58,951)	(45,515)
Disposition of capital assets	-	-	-	-	-	-
Transfers in/(out)	33,954	(33,954)	-	-	-	-
Purchase of capital assets	(1,387,634)	(74,427)	(200,287)	-	(1,662,348)	(1,917,935)
Net cash provided/(used) by capital and related financing activities	1,069,752	887,777	(290,071)	(4,491)	1,662,967	(458,765)
Investing Activities						
Interest and use of property	2,385	2,316	3	-	4,704	5,121
Net Change in Cash	(258,033)	1,139,829	(332)	(80,675)	800,789	(585,831)
Cash and Investments						
Beginning of year	499,952	116,930	290,453	664,364	1,571,699	2,157,530
End of year	$ 241,919	$ 1,256,759	$ 290,121	$ 583,689	$ 2,372,488	$ 1,571,699

MALAGA COUNTY WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	Business-Type Activities - Enterprise Funds					
	2025					2024
	Water	Waste Disposal	Recreation	Solid Waste	Total	Total
Reconciliation of Operating Income (Loss)						
to Net Cash Provided/(Used) By Operating Activities						
Operating income (loss)	$ (1,004,010)	$ (113,683)	$ (363,337)	$ 123,202	$ (1,357,828)	$ (649,349)
Adjustments to reconcile operating income (loss)						
to net cash provided/(used) by operating activities:						
Depreciation	225,813	207,268	62,180	-	495,261	495,261
Changes in assets and liabilities:						
(Increase) Decrease in accounts receivable	(16,020)	28,057	(71,785)	18,569	(41,179)	(107,527)
(Increase) Decrease in prepaid expense	8,040	10,525	-	-	18,565	11,689
Increase (Decrease) in accounts payable and accrued expense	108,075	128,859	(11,059)	(251,072)	(25,197)	73,514
(Increase) Decrease in deposits	-	-	(260)	-	(260)	20,057
Net Cash Provided/(Used) By Operating Activities	$ (678,102)	$ 261,026	$ (384,261)	$ (109,301)	$ (910,638)	$ (156,355)
Summary of cash balances, end of year						
Cash and cash equivalents	23,242	1,038,037	290,121	583,689	1,935,089	1,492,836
Restricted cash	218,677	218,722	-	-	437,399	78,863
	$ 241,919	$ 1,256,759	$ 290,121	$ 583,689	$ 2,372,488	$ 1,571,699

Note 1: Summary of Significant Accounting Policies

Malaga County Water District is a California special district that was created as a result of a State of California statute. The District was organized to provide and maintain sewer and water operations in the community of Malaga, County of Fresno, State of California. The District is governed by a board of directors. As the District is a governmental unit, it is exempt from federal and California taxes on income.

The accounting and reporting policies of the District conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Government Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (when applicable).

Financial Reporting Entity

As required by generally accepted accounting principles, these general purpose financial statements present the District in conformance with GASB Statement No. 14, "The Financial Reporting Entity." Under Statement No. 14, component units are organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. The District has no component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements, which are the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue include charges to customers, grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The financial statements of the District are prepared in accordance with generally accepted accounting principles. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with the GASB pronouncements. The District's reporting entity does not apply FASB pronouncements of APB opinions issued after November 30, 1989.

Proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flow.

The District reports the following major proprietary funds:

> The Sewer, Water and Recreation Funds are the District's only operating funds. The Recreation Fund accounts for community recreation activities and the Sewer and Water Funds account for the sewer and water systems operations in the community of Malaga, County of Fresno, State of California. The District also provides solid waste disposal services to residential housing within the immediate residential area of the community of Malaga by contracting with a third party vendor for the provision of that service.

Amounts reported as program revenue include charges to customers for goods and services, operating grants and contributions and capital grants and contributions.

Assets, Liabilities and Net Position or Equity

1. Cash and Investments

Investments are reported at fair value. Cash represents cash on hand, in banks and on deposit in the treasury of the County of Fresno and the State of California Local Agency Investment Fund. Investments made from pooled cash consist primarily of short-term investments.

2. Property, Plant and Equipment

Capital assets, which include property, plant and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of three years. All material fixed assets are valued at historical cost. Donated fixed assets are valued at their estimated fair value on the date donated. When an asset is disposed of, cost and related accumulated depreciation is removed and any gain or loss arising from its disposal is credited or charged to operations.

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

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position or Equity (continued)

Depreciation is recorded by using the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

	Estimated Useful Life in Years
Buildings and improvements	20 – 40
Equipment	10 – 20

3. Net Position

Net position comprise the various net earnings from operating income, nonoperating revenue and expense and capital contributions. Net position is classified in the following three components:

Nonspendable – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested capital assets, net of related debt.

Invested in capital assets, net of related debt – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of restricted or invested in capital assets, net of related debt.

Budgets and Budgetary Accounting

The District established a budget for its governmental fund for the years ended June 30, 2025 and 2024. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Statement Reclassifications

Certain reclassifications may have been made in the prior year's amounts to conform with current year financial statement presentation.

Note 2: Cash and Investments

The District's deposits as of June 30, 2025, were entirely covered by federal depository insurance or otherwise collateralized. The Government Code of the State of California requires California financial institutions to secure District deposits by pledging government securities as collateral.

The following is an analysis of cash as of June 30, 2025:

	Bank Balance Category *			Carrying
	1	2	3	Amount
Cash on hand	$ 68,926	$ -	$ -	$ 68,926
Cash in bank	2,173,983	-	-	2,173,983
Fresno County Treasury	-	25,521	-	25,521
Local Agency Investment Fund	-	104,058	-	104,058
Total cash and investments	$2,242,909	$ 129,579	$ -	$2,372,488

* These categories are as follows:

Category 1: Cash on hand or insured by the Federal Deposit Insurance Corporation or collateralized with securities held by the District or by its agents in the District’s name.

Category 2: Collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.

Category 3: Uncollateralized.

Restricted assets consists of cash deposits from loan proceeds to be used only for capital asset acquisition.

Note 3: Property, Plant and Equipment

The following is an analysis of the District’s capital assets as of June 30, 2025:

	Beginning Balance	Additions/ Completions	Disposals/ Adjustments	Ending Balance
Land*	$ 299,264	$ -	$ -	$ 299,264
Water system	8,228,829	2,752,010	-	10,980,839
Sewer system	7,388,123	-	-	7,388,123
Buildings	1,169,276	-	-	1,169,276
Construction in progress*	3,438,279	-	(1,089,662)	2,348,617
Park development	1,115,704	-	-	1,115,704
Equipment	663,222	-	-	663,222
Total	22,302,697	2,752,010	(1,089,662)	23,965,045
Allowance for depreciation	(12,203,878)	(495,261)	-	(12,699,139)
	$ 10,098,819	$ 2,256,749	$(1,089,662)	$ 11,265,906

* Not currently being depreciated.

Note 4: Noncurrent Liabilities

The following is a summary of deferred liabilities (long-term debt) for the year ended June 30, 2025:

	Beginning Balance	Additions	Deletions	Ending Balance	Classification Due Within One Year	Classification Due After One Year
Note payable						
Debt Refinance	$ -	$ 2,857,000	$ -	$ 2,857,000	$ 208,000	$ 2,649,000
Water and sewer systems improvements	690,000	-	(690,000)	-	-	-
Parks and recreation improvements	710,500	-	(710,500)	-	-	-
Wastewater treatment plant improvements	275,992	-	(275,992)	-	-	-
Safe drinking water	350,286	-	(350,286)	-	-	-
RCAC grant anticipation	750,000	-	(530,611)	219,389	219,389	-
Solar loan	711,252	-	(38,748)	672,504	38,748	633,756
Total long-term debt	$ 3,488,030	$ 2,857,000	$ (2,596,137)	$ 3,748,893	$ 466,137	$ 3,282,756

Note 5: Note Payables

Debt Refinance

This debt was incurred to consolidate the District's notes payable. The total amount of the debt was $2,857,000 and provides for interest at the rate of 5.67 percent per annum. Semi-annual payments of principal and interest began January 2025 and continue until paid. Full repayment of the loan is scheduled to occur in July 2044. The debt is split between the Water Fund and Waste Disposal Fund according to the tables below. Interest paid on this loan for the year ended June 30, 2025, was $15,432.

Future payments of the bonds are as follows:

Combined Water & Waste Disposal Funds

Year Ending June 30,	Principal	Interest	Total
2026	$ 208,000	$ 246,220	$ 454,220
2027	72,000	165,789	237,789
2028	77,000	160,636	237,636
2029	82,000	155,133	237,133
2030	88,000	149,315	237,315
2031-2035	543,000	642,932	1,185,932
2036-2040	763,000	424,041	1,187,041
2041-2045	1,024,000	163,098	1,187,098
	$ 2,857,000	$ 2,107,164	$ 4,964,164

Note 5: Note Payables (continued)

Water and Sewer Systems Improvements

This debt was incurred to refinance the construction of water well number eight and improvements to the sewer system. The total amount of the debt was $887,000 and provides for interest at the rate of 2 percent per annum. Semi-annual payments of principal and interest began July 2022, and continue until paid. The debt was refinanced and paid in full as of June 30, 2025.

Wastewater Treatment Plant Improvements

This debt was incurred to finance the construction of wastewater treatment plant improvements. The total amount of the debt was $502,500 and provides for interest at the rate of 4.05 percent per annum. Semi-annual payments of principal and interest began December 2018, and continue until paid. The debt was refinanced and paid in full as of June 30, 2025. The Waste Disposal Fund finances this debt to the extent of 100 percent of the payments. Interest paid on this loan for the year ended June 30, 2025, was $15,270.

Safe Drinking Water

This debt was incurred to finance water meters for safe drinking water. The total amount of the debt was $403,417 and provides for interest at the rate of 0 percent per annum. Semi-annual payments of principal began January 2021, and continue until paid. The debt was refinanced and paid in full as of June 30, 2025. The Water Fund finances this debt. Interest paid on this for the year ended June 30, 2025, was $0.

Parks and Recreation Improvements

This debt was incurred to finance improvements to parks and recreation department assets. The total amount of the debt was $1,026,500 and provides for interest at the rate of 3.690 percent per annum. Semi-annual payments of principal and interest began June 2019, and continue until paid. The debt was refinanced and paid in full as of June 30, 2025. The Parks and Recreation Fund finances this debt. Interest paid on this for the year ended June 30, 2025, was $27,924.

Note 5: Note Payables (continued)

Solar Loan

This debt was incurred to finance construction of a solar system. The total amount of the debt was $750,000 and provides for interest at the rate of 0 percent per annum. Monthly payments of principal to begin July 2023 and continue until paid. Full repayment of the loan is scheduled to occur in October 2042. The Recreation Fund and Solid Waste Fund finances this debt. Interest paid on this for the year ended June 30, 2025, was $0.

Future payments of the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2026	$ 38,748	$ -	$ 38,748
2027	38,748	-	38,748
2028	38,748	-	38,748
2029	38,748	-	38,748
2030 - 2034	193,740	-	193,740
2035 - 2039	193,740	-	193,740
Thereafter	130,032	-	130,032
	$ 672,504	$ -	$ 672,504

Note 6: Restricted Assets – Cash

As of June 30, 2025, $437,399 in cash is restricted for the improvements to the wastewater treatment plant and parks and recreation assets. This amount is not available for spending for other purposes. The improvements to the wastewater treatment plant and the parks and recreation assets should be made during the year ending June 30, 2025.

Note 7: Pension Plan

All full-time employees are participants in the District's Money Purchase Retirement Benefit Plan after twelve consecutive months of employment. Total payroll for the year ended June 30, 2025 was $873,250 with covered payroll equaling $703,683 The pensions cost to the District is 10 percent of the participants' compensation. Required and accrued contributions to the plan for the year ended June 30, 2025 were $70,368. The District has a projected unfunded liability of $140,176 included in accounts payable and accrued expenses.

Note 8: Restatement

The following prior period adjustments were made to correct the beginning net position balances:

	Water	Waste Disposal	Recreation	Solid Waste	Total
Beginning net position	$7,530,370	$1,101,460	$(1,656,268)	$ 15,706	$6,991,268
Prior period adjustment - to reclass pretreatment to waste disposal	33,954	(33,954)	-	-	-
Beginning net position, as restated	$7,564,324	$1,067,506	$(1,656,268)	$ 15,706	$6,991,268

Note 9: Subsequent Events

In compliance with accounting standards, subsequent events were evaluated through May 29, 2026, which is the date the financial statements were available to be issued. Management has determined that no events require disclosure in accordance with the accounting standards subsequent to June 30, 2025.

MALAGA COUNTY WATER DISTRICT
COMBINING STATEMENT OF REVENUE AND EXPENSE
WASTE DISPOSAL FUND
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	Business-Type Activities - Waste Disposal Fund				
	2025				2024
	Sewer	Pretreatment	Solid Waste	Total	Total
OPERATING REVENUE					
Charges for services	$ 1,600,789	$ -	$ 295	$ 1,601,084	$ 2,150,496
Other	-	-	455,756	455,756	-
Total operating revenue	1,600,789	-	456,051	2,056,840	2,150,496
OPERATING EXPENSE					
Salaries and wages	254,855	52,034	-	306,889	310,270
Employee benefits	298,121	70,291	-	368,412	112,313
Refuse collection and disposal	2,874	-	328,791	331,665	847,827
Depreciation	207,268	-	-	207,268	207,268
Utilities	298,205	-	2,837	301,042	281,975
Professional services	70,185	2,540	-	72,725	116,666
Repairs and maintenance	152,751	1,228	-	153,979	125,653
Board of directors	20,423	-	-	20,423	65,740
Contract services	31,815	2,145	1,179	35,139	37,991
Insurance	63,949	-	-	63,949	36,086
Supplies and small tools	68,583	116	-	68,699	71,123
Dues and memberships	20,989	345	-	21,334	17,113
Other	43,717	1,301	42	45,060	58,161
Telephone	6,340	50	-	6,390	3,366
Testing	21,790	7,680	-	29,470	30,932
Travel, meetings and education	-	-	-	-	375
Fuel and oil	10,644	2,488	-	13,132	13,883
Bank charges	-	-	-	-	40,821
Office supplies and postage	580	-	-	580	298
Rents and leases	1,102	-	-	1,102	14,950
Education and training	63	-	-	63	863
Total operating expense	1,574,254	140,218	332,849	2,047,321	2,393,674
Net operating income	26,535	(140,218)	123,202	9,519	(243,178)
Nonoperating revenue/(expense)					
Grant revenue	384,954	-	-	384,954	45,981
Grant expense	(1,488)	-	-	(1,488)	(51,315)
Taxes and assessments	(998)	-	-	(998)	-
Other	5,400	-	39,709	45,109	-
Interest and use of property	2,316	-	-	2,316	1,335
Interest expense	(27,531)	-	(329)	(27,860)	(7,390)
Net nonoperating revenue/(expense)	362,653	-	39,380	402,033	(11,389)
Change in net position	$ 389,188	$ (140,218)	$ 162,582	$ 411,552	$ (254,567)

MALAGA COUNTY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2025

Federal Grantor/ Program Title	Assistance Listing Number	Program/ Contract Number	Federal Expenditures
MAJOR AWARDS:			
U.S. Environmental Protection Agency			
Pass-through			
State Water Resources Control Board			
Capitalization Grants for State Revolving Funds	66.458	D200100	$ 2,542,496
Total Expenditures of Federal Awards			$ 2,542,496

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the Malaga County Water District Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies are included in the schedule. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

NOTE 2 – BASIS OF ACCOUNTING

The accompanying SEFA is presented using the accrual basis of accounting.

NOTE 3 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal award expenditures agree or can be reconciled with the amounts reported in the District’s financial statements.

NOTE 4 – INDIRECT COST RATE

The District does not elect to use the 10% de minimis cost rate.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Malaga County Water District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Malaga County Water District (District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, and have issued our report thereon dated May 29, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did identify certain deficiencies in internal control that we consider to be material weaknesses. These items can be referred to in the schedule of findings and questioned costs as item 2025-01.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as finding 2025-01.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jaribu W. Nelson, CPA

Clovis, California
May 29, 2026

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Malaga County Water District

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Malaga County Water District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Malaga County Water District's major federal programs for the year ended June 30, 2025. Malaga County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Malaga County Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Malaga County Water District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Malaga County Water District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Malaga County Water District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Malaga County Water District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Malaga County Water District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 Malaga County Water District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Malaga County Water District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Malaga County Water District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jaribu W. Nelson, CPA

Clovis, California
May 29, 2026

MALAGA COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2025

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*Unmodified*			
Internal control over financial reporting:				
• *Material weaknesses identified?*	☒	*Yes*	☐	*No*
• *Significant deficiency(ies) identified?*	☐	*Yes*	☒	*None reported*
Non-compliance material to financial statements noted?	☐	*Yes*	☒	*No*

Federal Awards

Internal control over major programs:				
• *Material weaknesses identified?*	☐	*Yes*	☒	*No*
• *Significant deficiency(ies) identified?*	☐	*Yes*	☒	*None reported*
Type of auditor's report issued on compliance for major programs:	*Unmodified*			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	☐	*Yes*	☒	*No*

Identification of Major Programs

CFDA Number	***Name of Federal Program or Cluster***
66.458	*Capitalization Grants for State Revolving Funds*

Dollar threshold used to distinguish between Type A and Type B programs:	*$750,000*			
Auditee qualified as low-risk auditee?	☐	*Yes*	☒	*No*

B. Financial Statement Findings

No matters were reported

C. Findings and Questioned Costs for Federal Awards

No matters were reported

FINANCIAL STATEMENT FINDINGS

Finding 2025-01

Accounting for Debt Refinancing Transactions

Criteria:

Management is responsible for establishing and maintaining effective internal controls over financial reporting to ensure that debt transactions, including refinancing activities, are accurately recorded in accordance with generally accepted accounting principles (GAAP). Debt refinancing transactions should be timely evaluated and recorded to properly reflect the extinguishment of existing debt and recognition of new debt obligations.

Condition:

During the course of performing our audit procedures, we noted that the District refinanced certain outstanding debt obligations during the fiscal year. However, the District did not properly account for the refinancing transaction in its financial records. Specifically, the proceeds received from the new debt issuance were not properly allocated to extinguish the related existing notes payable that were refinanced. As a result, the District's debt balances were not accurately reflected, and the accounting records required significant audit adjustments to properly record the debt refinancing and related payoff of the existing obligations.

Cause:

The District lacks sufficient procedures and technical review controls over complex debt transactions. Management did not adequately analyze the refinancing transaction or ensure that the proceeds from the new debt issuance were properly applied to the corresponding outstanding debt balances in the accounting records.

Effect:

Failure to properly account for debt refinancing transactions resulted in material misstatement of notes payable and related debt activity within the District's financial statements. The deficiency required material audit adjustments to correctly present the outstanding debt obligations and related financing activities. Without such adjustments, the financial statements would not have been fairly stated in accordance with GAAP.

Recommendation:

We recommend that the District strengthen its internal controls over debt accounting by implementing procedures requiring the review and documentation of all debt issuances, refinancing transactions, and debt extinguishments. Management should ensure that personnel responsible for accounting for debt transactions possess sufficient technical expertise or consult with qualified external advisors when complex financing transactions occur. Additionally, all debt-related entries should be independently reviewed and reconciled to supporting debt agreements and closing documents prior to the financial statement preparation.

District Response:

Management agrees with the finding and will implement enhanced procedures to review and account for future debt refinancing transactions. The District will develop a formal review process for debt-related transactions and obtain technical assistance when necessary to ensure compliance with applicable accounting standards.

Finding 2024-01

Inadequate Recording and Reconciliation of Recreation Fund Transactions

Recommendation:

We recommend that management implement and enforce procedures to ensure that all Recreation Fund transactions are accurately recorded in the proper period and account classification. This should include:

- Timely preparation and review of account reconciliations
- Supervisory review of journal entries and financial reports
- Adequate documentation supporting all recorded transactions
- Additional training for personnel responsible for financial reporting

Status:

Partially implemented, at the time of the completion of the prior audit report the recommendations did not allow enough time for full implementation. The District has replaced the individuals that were responsible for the prior finding and have utilized the services of an independent certified public accountant.

Finding 2024-02

Inadequate Controls Over Accounts Receivable Recording and Monitoring

Recommendation:

We recommend that management strengthen controls over accounts receivable by:

- Implementing monthly reconciliations between the accounts receivable subsidiary ledger and the general ledger
- Preparing and reviewing accounts receivable aging reports on a timely basis
- Establishing formal review procedures to ensure transactions are recorded in the proper period
- Maintaining adequate supporting documentation for all receivable balances
- Assigning clear responsibility for monitoring receivable activity and follow-up on outstanding balances

Status:

Partially implemented, at the time of the completion of the prior audit report the recommendations did not allow enough time for full implementation. The District has replaced the individuals that were responsible for the prior audit finding.