



DESCANSO COMMUNITY WATER DISTRICT

December 16, 2025



NOTICE

A Regular Meeting of the Board of Directors of the Descanso Community Water District (DCWD) has been called for:

Tuesday, December 16, 2025, 7:00 pm

Descanso Town Hall, Viejas Grade Blvd., Descanso, CA

AGENDA

1. **CALL TO ORDER, PLEDGE OF ALLEGIANCE.**
2. **ROLL CALL.**
3. **APPROVAL OF AGENDA.**
4. **PUBLIC COMMENT:** An opportunity for the public to comment on any topic that is within the jurisdiction of the Board and not on this agenda. No Board action is authorized for items not on this agenda. The total amount of time allocated for public comment may be limited, and each speaker may be limited to no more than 3 minutes (Brown Act, Section 54954.3).
5. **DCWD Financial Audit of 2024-25:** Nigro and Nigro will present the results of and recommendations to the District following the completion of the Audit of the Fiscal Year ending June 30, 2025. Presented via Zoom presentation.
6. **APPROVAL OF THE MINUTES:** The Board will review the draft minutes from the following meetings and take appropriate action:
 - Regular Meeting held on September 16, 2025
 - Special Meeting held on November 25, 2025
7. **FINANCIAL REPORT:** The district's accountant will present the financial report to the Board. The Board will consider its approval and take appropriate action.
8. **MANDATORY ELECTRONIC FILING OF STATEMENTS OF ECONOMIC INTERESTS:** The Board will review, and process Form 700 filings to be submitted electronically via its online filing portal with the County of San Diego.
9. **ENGINEERING STATUS REPORT:** The district's engineer will present a project update to the board.
10. **GENERAL MANAGER'S REPORT:** The GM will provide a report on activities occurring since the last meeting.
 - A. GM Report.
 - B. Q&A.
11. **OTHER ITEMS DIRECTLY RELATED TO THE ABOVE-DESCRIBED MATTERS AS MAY BE BROUGHT BEFORE THE BOARD OF DIRECTORS:**
12. **MOTION TO ADJOURN.**

Board of Directors		
Maureen Phillips President (619) 445-6042	Sheri Minix Director (619) 823-4216	Lee Johnson Financial Officer (619) 445-4122
Vacancy	Vacancy	Dan DeMoss General Manager (916) 616-7761

NOTE: Arrangements will be made for handicapped accessibility as required. Please contact the District by calling (855) 224-6981 (7 days a week-24/7). The next regular meeting of the Descanso Community Water District Board of Directors will be held on December 16, 2025.

Item 1

CALL TO ORDER, PLEDGE OF ALLEGIANCE

Item 2

ROLL CALL:

1. Maureen Phillips
2. Sheri Minix
3. Lee Johnson
4. Dan DeMoss

Item 3

APPROVAL OF AGENDA:

The Board will review and discuss any last-minute revisions to the posted agenda.

Notes:

Item 4

PUBLIC COMMENT:

An opportunity for the public to comment on any topic that is within the jurisdiction of the Board and not on this agenda. No board action is authorized for items not on this agenda. The total amount of time allocated for public comment may be limited and each speaker may be limited to no more than 3 minutes (Brown Act Section 54854.3).

Notes:

Item 5

DCWD FINANCIAL AUDIT OF 2024-25:

Nigro and Nigro will present the results of and recommendations to the District following the completion of the Audit of the Fiscal Year ending June 30, 2025. Presented via Zoom presentation.

Notes:

DESCANSO COMMUNITY WATER DISTRICT
Presentation to the Board of Directors
For the Fiscal Year Ended
June 30, 2025

NIGRO & NIGRO^{PC}



SCOPE OF WORK

Perform Audit Testwork of the Entity's Annual Financial Statements/Report

Report on the Entity's internal control over financial reporting and on compliance in accordance with Government Auditing Standards

OUR RESPONSIBILITY IN ACCORDANCE WITH PROFESSIONAL STANDARDS

1. Form and express an opinion about whether the Annual Financial Statements results, that have been prepared by management, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
2. Our responsibility is to plan and perform the audit to obtain **reasonable assurance (not absolute assurance)** about whether the Annual Financial Statements are free of material misstatements.
3. We are to consider the Entity's internal controls and segregations of duties over accounting procedures and financial reporting as we perform our audit testwork. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

AUDIT RESULTS

An Auditor's **Unmodified Opinion** has been issued on the Annual Financial Statements.

- The Annual Financial Statements are fairly presented in all material respects.
- The adopted significant accounting policies have been consistently applied.
- Estimates are considered reasonable for Depreciation expense.
- New GASB Pronouncements were adopted.
- Required disclosures are properly reflected in the Annual Financial Statements.

AU-C 265 – Communicating Internal Control Related Matters Identified in an Audit

No Material Issues Arose to be Reported to the Governing Board/Management

Any Minor Issues Were Discussed Orally and Corrected by Management

How Do We Make You Better?

Best Practice Solutions Were Conveyed to Management – That's the Audit ROI

Descanso Community Water District
Dashboard – Audited Financial Statements
June 30, 2025 vs 2024

Revenues & Expenses	2025	2024	Variance
Operating Revenues:			
Water service charges	\$ 437,711	\$ 437,568	\$ 143
Water consumption sales	75,785	65,826	9,959
Supplemental debt fees	164,928	164,946	(18)
Other revenue	15,376	13,044	2,332
Non-Operating Revenues:			12,416
Investment earnings	9,589	14,177	(4,588)
Other non-operating revenues	-	78,150	(78,150)
Total Revenues	703,389	773,711	(70,322)
Operating Expenses:			
Transmission and distribution	355,136	328,849	26,287
Pumping	17,456	18,844	(1,388)
Water treatment	50,215	24,613	25,602
Repairs and maintenance	52,380	33,928	18,452
General and administrative	146,539	102,162	44,377
Operating expenses before depr.	621,726	508,396	113,330
Depreciation expense	162,567	162,732	(165)
Total Operating Expenses	784,293	671,128	113,165
Non-Operating Expenses:			
Interest expense	45,242	46,794	(1,552)
Total Expenses	829,535	717,922	111,613
Change in Revenues & Expenses	\$ (126,146)	\$ 55,789	\$ (181,935)
Capital Outlay:			
Capital Asset Additions	\$ (105,551)	\$ (25,157)	\$ (80,394)
Depreciation Expense	162,567	162,732	(165)
Change in Capital Expense	\$ 57,016	\$ 137,575	\$ (80,559)
Debt Service:			
Principal Paid	(54,066)	(53,123)	(943)
Change in Debt Service	\$ (54,066)	\$ (53,123)	\$ (943)
Cash & Investments	\$ 914,722	\$ 1,045,908	\$ (131,186)
Quick Summary:			
Change in Revenues & Expenses	\$ (126,146)		
Change in Capital Expense	57,016		
Debt Service – Principal Payments	(54,066)		
Change in Allowance for Bad Debt	35,975		
Change in Accounts Receivable	(38,729)		
Change in Accounts Payable	(3,784)		
Change in Cash & Investments	\$ (129,734)	Approximately	\$ 1,452
Investment Earnings to Portfolio	0.98%		

DESCANSO COMMUNITY WATER DISTRICT
Report to the Board of Directors
For the Fiscal Year Ended
June 30, 2025

NIGRO & NIGRO^{PC}

DESCANSO COMMUNITY WATER DISTRICT

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Board of Directors
Descanso Community Water District
Descanso, California

We are pleased to present this report related to our audit of the financial statements of the Descanso Community Water District (District) as of and for the year ended June 30, 2025. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the District's financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the District.

Very truly yours,

Murrieta, California
December 16, 2025

Required Communications

DESCANSO COMMUNITY WATER DISTRICT

Required Communications

For the Fiscal Year Ended June 30, 2025

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities with Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated May 1, 2025. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions and the account-type of areas tested. There were no changes to the planned scope and timing of our audit testwork.
Accounting Policies and Practices	<p>Accounting Policies and Practices Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. During our audit, no such circumstances were noted.</p> <p>Adoption of, or Change in, Significant Accounting Policies or Their Application Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. The District did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.</p> <p>Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Management's Judgments and Accounting Estimates Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgement. No such significant accounting estimates were noted or estimate applications were changed from the previous year.</p>
Audit Adjustments	Audit adjustments are summarized in the attached Summary of Adjusting Journal Entries .
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

DESCANSO COMMUNITY WATER DISTRICT*Required Communications**For the Fiscal Year Ended June 30, 2025*

Area	Comments
Discussions With Management	We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	No significant difficulties were encountered in performing our audit.
Required Supplementary Information	<p>We applied certain limited procedures to the:</p> <ol style="list-style-type: none">1. Management's Discussion and Analysis <p>Which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.</p>

This information is intended solely for the information and use of Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

DESCANSO COMMUNITY WATER DISTRICT

Required Communications

For the Fiscal Year Ended June 30, 2025

Disclosure of Audit Adjustments and Reclassifications

As part of our external audit engagement, we operate under the presumption that the District's books and records are materially accurate and appropriately closed prior to the commencement of audit fieldwork. Nonetheless, audit adjustments and reclassifications are often proposed during the course of the audit to ensure the District's financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), and to enhance comparability with prior-year financial data. In the interest of transparency and governance, we have included, as an attachment to this letter, a summary of audit adjustments and reclassification journal entries identified during the audit.

The existence or absence of such adjustments does not inherently indicate deficiencies, but rather reflects the auditor's role in enhancing the fair presentation of the financial statements. Disclosure of these items provides the Board of Directors with insight into the scope and depth of the audit procedures performed.

To promote timely and accurate financial reporting, we recommend that management strengthen internal controls and oversight over the year-end financial close process. Enhancing these procedures can reduce the volume of post-closing audit adjustments and reclassifications, improve the quality of interim and year-end financial reporting, and support the District's efforts in maintaining compliance with financial reporting requirements and best practices in fiscal governance.

Summary of Adjusting Journal Entries

DESCANSO COMMUNITY WATER DISTRICT

Summary of Adjusting Journal Entries For the Fiscal Year Ended June 30, 2025

Account	Description	Debit	Credit
Adjusting Journal Entries			
Adjusting Journal Entries JE # 1			
To reclass - DO NOT POST			
1023	Other receivables	1,159.70	
1026	Office 28857B Old Hwy 80	2,100.00	
1028	County of San Diego		1,159.70
2000	Accts Pay - General		2,100.00
Total		3,259.70	3,259.70
Adjusting Journal Entries JE # 2			
To adjust allowance for doubtful accounts			
5038	Bad Debt Expense	28,123.37	
1022	Allowance for Doubtful Accounts		28,123.37
Total		28,123.37	28,123.37
	Total Adjusting Journal Entries	31,383.07	31,383.07

**DESCANSO COMMUNITY WATER DISTRICT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Years Ended
June 30, 2025
(With Comparative Amounts for June 30, 2024)**

NIGRO & NIGRO^{PC}

DESCANSO COMMUNITY WATER DISTRICT

For the Fiscal Year Ended June 30, 2025

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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Descanso Community Water District
Descanso, California

Opinion

We have audited the accompanying financial statements of the Descanso Community Water District (District), which comprise the balance sheet as of June 30, 2025 and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2025 and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 the 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.

Change in Accounting Principal

As described in Notes 1 and 9 to the financial statements, as of July 1, 2024, the District adopted new accounting guidance, GASB Statement No. 102, Certain Risk Disclosures. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 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 the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2024, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 16, 2025, on our consideration of the 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 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 the 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 the District's internal control over financial reporting and compliance.

Murrieta, California
December 16, 2025

DESCANSO COMMUNITY WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)

Management's Discussion and Analysis (MD&A) offers readers of Descanso Community Water District's financial statements a narrative overview of the District's financial activities for the year ended June 30, 2025. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In fiscal year 2025, the District's net position decreased 6.49%, or \$126,146 from the prior year's net position of \$1,943,402 to \$1,817,256, as a result of the year's operations.
- In fiscal year 2025, operating revenues increased by 1.82%, or \$12,416 from \$681,384 to \$693,800, from the prior year, primarily due to an increase in water consumption and other revenues.
- In fiscal year 2025, operating expenses before depreciation expense increased by 22.29% or \$113,330 from \$508,396 to \$621,726 from the prior year, primarily due to increases in transmission and distribution, water treatment, repairs and maintenance, and general and administrative costs.

REQUIRED FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Balance Sheet includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

DESCANSO COMMUNITY WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation.

Condensed Balance Sheets

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Change</u>
Assets:			
Current assets	\$ 991,803	\$ 1,116,412	\$ (124,609)
Non-current assets	37,535	40,471	(2,936)
Capital assets, net	<u>2,751,629</u>	<u>2,808,645</u>	<u>(57,016)</u>
Total assets	<u>\$ 3,780,967</u>	<u>\$ 3,965,528</u>	<u>\$ (184,561)</u>
Liabilities:			
Current liabilities	\$ 132,680	\$ 135,081	\$ (2,401)
Non-current liabilities	<u>1,831,031</u>	<u>1,887,045</u>	<u>(56,014)</u>
Total liabilities	<u>1,963,711</u>	<u>2,022,126</u>	<u>(58,415)</u>
Net position:			
Net investment in capital assets	864,585	867,535	(2,950)
Restricted for debt service	37,535	40,471	(2,936)
Unrestricted	<u>915,136</u>	<u>1,035,396</u>	<u>(120,260)</u>
Total net position	<u>1,817,256</u>	<u>1,943,402</u>	<u>(126,146)</u>
Total liabilities and net position	<u>\$ 3,780,967</u>	<u>\$ 3,965,528</u>	<u>\$ (184,561)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$1,817,256 as of June 30, 2025.

DESCANSO COMMUNITY WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Condensed Balance Sheets (continued)

By far the largest portion of the District's net position (47.58% as of June 30, 2025) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

At the end of fiscal year 2025, the District showed a positive balance in its unrestricted net position of \$915,136 which may be utilized in future years.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Change</u>
Operating revenues	\$ 693,800	\$ 681,384	\$ 12,416
Operating expenses	<u>(621,726)</u>	<u>(508,396)</u>	<u>(113,330)</u>
Operating income before depreciation	72,074	172,988	(100,914)
Depreciation expense	<u>(162,567)</u>	<u>(162,732)</u>	<u>165</u>
Operating income	(90,493)	10,256	(100,749)
Non-operating revenues(expenses), net	<u>(35,653)</u>	<u>45,533</u>	<u>(81,186)</u>
Change in net position	(126,146)	55,789	(181,935)
Net position:			
Beginning of year	<u>1,943,402</u>	<u>1,887,613</u>	<u>55,789</u>
End of year	<u><u>\$ 1,817,256</u></u>	<u><u>\$ 1,943,402</u></u>	<u><u>\$ (126,146)</u></u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, net position decreased 6.49%, or \$126,146 from the prior year's net position of \$1,943,402 to \$1,817,256, as a result of the year's operations.

DESCANSO COMMUNITY WATER DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)*

FINANCIAL ANALYSIS OF THE DISTRICT (continued)**Total Revenues**

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Increase (Decrease)</u>
Operating revenues:			
Water service charges	\$ 437,711	\$ 437,568	\$ 143
Water consumption sales	75,785	65,826	9,959
Supplemental debt fees	164,928	164,946	(18)
Other revenue	15,376	13,044	2,332
Total operating revenues	<u>693,800</u>	<u>681,384</u>	<u>12,416</u>
Non-operating revenues:			
Investment earnings	9,589	14,177	(4,588)
Other non-operating revenues	-	78,150	(78,150)
Total non-operating revenues	<u>9,589</u>	<u>92,327</u>	<u>(82,738)</u>
Total revenues	<u>\$ 703,389</u>	<u>\$ 773,711</u>	<u>\$ (70,322)</u>

In fiscal year 2025, operating revenues increased by 1.82%, or \$12,416 from \$681,384 to \$693,800, from the prior year, primarily due to an increase in water consumption and other revenues. Also, non-operating revenues decreased by 89.61%, or \$82,738 from \$92,327 to \$9,589 primarily due to lower returns on the District's investments as a result of decreasing market interest rates and decreasing other non-operating revenues.

DESCANSO COMMUNITY WATER DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)***FINANCIAL ANALYSIS OF THE DISTRICT (continued)****Total Expenses**

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Increase (Decrease)</u>
Operating expenses:			
Transmission and distribution	\$ 355,136	\$ 328,849	\$ 26,287
Pumping	17,456	18,844	(1,388)
Water treatment	50,215	24,613	25,602
Repairs and maintenance	52,380	33,928	18,452
General and administrative	146,539	102,162	44,377
Total operating expenses	<u>621,726</u>	<u>508,396</u>	<u>113,330</u>
Depreciation expense	<u>162,567</u>	<u>162,732</u>	<u>(165)</u>
Non-operating expenses:			
Interest expense	<u>45,242</u>	<u>46,794</u>	<u>(1,552)</u>
Total non-operating expenses	<u>45,242</u>	<u>46,794</u>	<u>(1,552)</u>
Total expenses	<u>\$ 829,535</u>	<u>\$ 717,922</u>	<u>\$ 111,613</u>

In fiscal year 2025, operating expenses before depreciation expense increased by 22.29% or \$113,330 from \$508,396 to \$621,726 from the prior year, primarily due to increases in transmission and distribution, water treatment, repairs and maintenance, and general and administrative costs.

Capital Assets

	<u>Balance June 30, 2025</u>	<u>Balance June 30, 2024</u>
Capital assets:		
Non-depreciable assets	\$ 291,037	\$ 185,486
Depreciable assets	3,892,434	3,892,434
Accumulated depreciation	<u>(1,431,842)</u>	<u>(1,269,275)</u>
Total capital assets, net	<u>\$ 2,751,629</u>	<u>\$ 2,808,645</u>

At the end of fiscal year 2025, the District's investment in capital assets amounted to \$2,751,629 (net of accumulated depreciation), respectively. There were no capital asset additions during the year. See Note 5 for further information.

DESCANSO COMMUNITY WATER DISTRICT
Management’s Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2025 (With Comparative Amounts for June 30, 2024)

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Debt Administration

The long-term debt of the District is summarized below:

	Balance	Balance
Long-term debt:	June 30, 2025	June 30, 2024
Long-term debt payable	<u>\$ 1,887,044</u>	<u>\$ 1,941,110</u>

Long-term debt decreased by a total of \$54,066 for the year ended June 30, 2025. Principal payments were \$54,066. See Note 6 for further information.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

CONDITIONS AFFECTING CURRENT AND FUTURE FINANCIAL POSITION

Management is unaware of any item that would affect the District’s current financial position.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide the District’s funding sources, customers, stakeholders and other interested parties with an overview of the District’s financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the General Manager, P.O. Box 610, Descanso, CA 91916.

DESCANSO COMMUNITY WATER DISTRICT*Balance Sheets**June 30, 2025 (With Comparative Amounts as of June 30, 2024)*

<u>ASSETS</u>	<u>2025</u>	<u>2024</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 877,187	\$ 1,005,437
Accounts receivable – water service, net (Note 4)	79,022	76,268
Other receivables	1,160	-
Materials and supplies inventory	29,771	31,011
Prepaid expenses and deposits	4,663	3,696
Total current assets	991,803	1,116,412
Non-current assets:		
Restricted – cash and cash equivalents (Note 3)	37,535	40,471
Capital assets – not being depreciated (Note 5)	291,037	185,486
Capital assets – being depreciated, net (Note 5)	2,460,592	2,623,159
Total non-current assets	2,789,164	2,849,116
Total assets	\$ 3,780,967	\$ 3,965,528
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities		
Accounts payable and accrued expenses	\$ 55,211	\$ 58,995
Accrued interest payable	21,456	22,021
Long-term liabilities – due within one year:		
Long-term debt payable (Note 6)	56,013	54,065
Total current liabilities	132,680	135,081
Non-current liabilities		
Long-term liabilities – due in more than one year:		
Long-term debt payable (Note 6)	1,831,031	1,887,045
Total non-current liabilities	1,831,031	1,887,045
Total liabilities	1,963,711	2,022,126
NET POSITION		
Net investment in capital assets (Note 7)	864,585	867,535
Restricted for debt service (Note 3)	37,535	40,471
Unrestricted	915,136	1,035,396
Total net position	1,817,256	1,943,402
Total liabilities and net position	\$ 3,780,967	\$ 3,965,528

DESCANSO COMMUNITY WATER DISTRICT*Statements of Revenues, Expenses and Changes in Net Position**For the Fiscal Years Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)*

	2025	2024
Operating revenues:		
Water service charges	\$ 437,711	\$ 437,568
Water consumption sales	75,785	65,826
Supplemental debt fees	164,928	164,946
Other revenue	15,376	13,044
Total operating revenues	693,800	681,384
Operating expenses:		
Transmission and distribution	355,136	328,849
Pumping	17,456	18,844
Water treatment	50,215	24,613
Repairs and maintenance	52,380	33,928
General and administrative	146,539	102,162
Total operating expenses	621,726	508,396
Operating income before depreciation	72,074	172,988
Depreciation expense	(162,567)	(162,732)
Operating income(loss)	(90,493)	10,256
Non-operating revenues(expenses):		
Investment earnings	9,589	14,177
Interest expense	(45,242)	(46,794)
Other non-operating revenues	-	78,150
Total non-operating revenues(expenses), net	(35,653)	45,533
Change in net position	(126,146)	55,789
Net position		
Beginning of year	1,943,402	1,887,613
End of year	<u>\$ 1,817,256</u>	<u>\$ 1,943,402</u>

DESCANSO COMMUNITY WATER DISTRICT*Statements of Cash Flows**For the Fiscal Years Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)*

	2025	2024
Cash flows from operating activities:		
Cash received from customers and others	\$ 655,071	\$ 854,361
Cash payments for operating expenses	(590,422)	(563,095)
Net cash provided by operating activities	64,649	291,266
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(105,551)	(25,157)
Principal paid on long-term debt	(54,066)	(53,123)
Interest paid on long-term debt	(45,807)	(47,349)
Net cash used in capital and related financing activities	(205,424)	(125,629)
Cash flows from investing activities:		
Investment earnings	9,589	14,177
Net cash provided by investing activities	9,589	14,177
Net increase(decrease) in cash and cash equivalents	(131,186)	179,814
Cash and cash equivalents:		
Beginning of year	1,045,908	866,094
End of year	<u>\$ 914,722</u>	<u>\$ 1,045,908</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents	\$ 877,187	\$ 1,005,437
Restricted – cash and cash equivalents	37,535	40,471
Total cash and cash equivalents	<u><u>\$ 914,722</u></u>	<u><u>\$ 1,045,908</u></u>

DESCANSO COMMUNITY WATER DISTRICT*Statements of Cash Flows(continued)**For the Fiscal Years Ended June 30, 2025 (With Comparative Amounts as of June 30, 2024)*

	<u>2025</u>	<u>2024</u>
Reconciliation of operating income(loss) to net cash provided by operating activities:		
Operating income(loss)	\$ (90,493)	\$ 10,256
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Depreciation	162,567	162,732
Allowance for doubtful accounts	35,975	(63,490)
Other non-operating revenues	-	78,150
Change in assets – (increase)decrease:		
Accounts receivable – water service charges	(38,729)	94,827
Other receivables	(1,160)	-
Materials and supplies inventory	1,240	(1,780)
Prepaid expenses and deposits	(967)	438
Change in liabilities – increase(decrease):		
Accounts payable and accrued expenses	(3,784)	10,133
Total adjustments	<u>155,142</u>	<u>281,010</u>
Net cash provided by operating activities	<u>\$ 64,649</u>	<u>\$ 291,266</u>

DESCANSO COMMUNITY WATER DISTRICT

Notes to Financial Statements

June 30, 2025 (With Comparative Amounts as of June 30, 2024)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The Descanso Community Water District (District) was formed in 1983 under the provisions of the California Government Code, Section 61000 et. seq., the Community Services District Law. The district was formed for the purpose of acquiring the Descanso Park Water Company and its operations in Descanso, California. The District provides its services through approximately 310 water connections. The Descanso Community Water District includes the accounts of the District and the Descanso Community Services District Facilities Corporation as blended component units.

The Descanso Community Services District Facilities Corporation (Corporation) was organized on March 6, 1998, as a nonprofit public benefit corporation, solely for the purpose of providing financial assistance to the District.

B. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, The Financial Reporting Entity. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no component units as of year-end.

C. Basis of Presentation, Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as operating income in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

DESCANSO COMMUNITY WATER DISTRICT

Notes to Financial Statements

June 30, 2025 (With Comparative Amounts as of June 30, 2024)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, and Net Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

2. Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indentures, external constraints, or laws and regulations of other governments.

3. Receivables and Allowance for Doubtful Accounts

Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management's assessment of the collectability of existing accounts.

4. Materials and Supplies Inventory

Materials and supplies inventory is maintained by the District and consist primarily of parts retained for use in the District's equipment. The inventory is valued at cost using the first-in, first-out method.

5. Prepaid Expenses and Deposits

Certain payments of vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses or deposits on account.

6. Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of contribution. It is the District's policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. The estimated service lives of the capital assets range from 3 to 40 years.

7. Net Position

Net position is classified into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted net position** – This component of net position consists of items that do not meet the definition of "investment in capital assets" that are reserved for a specific purpose by covenants, grants, contracts or regulatory requirements.

DESCANSO COMMUNITY WATER DISTRICT

Notes to Financial Statements

June 30, 2025 (With Comparative Amounts as of June 30, 2024)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Net Position (continued)

- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "investment in capital assets".

8. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 during the reported period. Actual results could differ from those estimates.

E. New Pronouncements – Governmental Accounting Standards Board (GASB)

During the fiscal year ended June 30, 2025, the District has implemented a new GASB pronouncement as follows:

GASB Statement No. 102 – Certain Risk Disclosures

This GASB Statement requires state and local governments to disclose vulnerabilities due to certain concentrations and constraints that could significantly impact their financial health. A concentration refers to a dependency on a specific source—such as a major revenue stream, customer, supplier, or workforce—while a constraint involves legal, regulatory, contractual, or other external limitations that restrict an entity's ability to respond to those risks. If these factors make the government vulnerable to a near-term severe impact, disclosure is required in the notes to the financial statements. The goal of Statement No. 102 is to improve transparency and provide users with better insight into potential risks that could affect a government's financial condition. The District adopted the Statement as of July 1, 2024. See Note 9 for the effect of this Statement.

DESCANSO COMMUNITY WATER DISTRICT

Notes to Financial Statements

June 30, 2025 (With Comparative Amounts as of June 30, 2024)

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents were classified in the accompanying financial statement as follows:

Description	2025	2024
Cash and cash equivalents	\$ 877,187	\$ 1,005,437
Restricted – cash and cash equivalents	37,535	40,471
Total cash and cash equivalents	\$ 914,722	\$ 1,045,908

Cash and cash equivalents consisted of the following as of June 30:

Description	2025	2024
Demand deposits with financial institutions	\$ 9,705	\$ 20,852
Money market mutual funds	905,017	1,025,056
Total cash and cash equivalents	\$ 914,722	\$ 1,045,908

Demand Deposits with Financial Institutions

At June 30 2025, the carrying amount of the District's demand deposits was \$9,705 and the financial institution's balances was \$10,231. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depositary Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

DESCANSO COMMUNITY WATER DISTRICT

Notes to Financial Statements

June 30, 2025 (With Comparative Amounts as of June 30, 2024)

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Money-Market Funds

Money-market funds are an investment whose objective is to earn modest investment earnings while maintaining a net asset value (NAV) of \$1 per share (which is the funds main goal – preservation of principal). A money-market fund's portfolio is typically comprised of short-term, or less than one year, securities representing high-quality, liquid debt and monetary instruments with minimal credit risk. Money-market funds are Level 1 investments (with quoted prices in active markets for identical assets) that are Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers money market funds a cash equivalent due to their highly liquid nature and NAV of \$1 per share. As of June 30, 2025, the District held \$905,017 in money market funds.

NOTE 3 – RESTRICTED ASSETS AND NET ASSETS

The balance at June 30, 2025 consists of the following:

Description	2025	2024
Restricted – cash and cash equivalents	\$ 37,535	\$ 40,471
Restricted net position for debt service	\$ 37,535	\$ 40,471

Restricted cash consists of related debt service reserve funds. The debt service funds are invested in money market mutual funds with US Bank.

NOTE 4 – ACCOUNTS RECEIVABLE, NET

The balance at June 30, 2025 consists of the following:

Description	2025	2024
Water service fees	\$ 210,997	\$ 172,268
Allowance for doubtful accounts	(131,975)	(96,000)
Accounts receivable, net	\$ 79,022	\$ 76,268

DESCANSO COMMUNITY WATER DISTRICT
Notes to Financial Statements
June 30, 2025 (With Comparative Amounts as of June 30, 2024)

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the fiscal year ended June 30, 2025, were as follows:

Description	Balance July 1, 2024	Additions	Deletions/ Transfers	Balance June 30, 2025
Non-depreciable assets:				
Land	\$ 152,779	\$ -	\$ -	\$ 152,779
Easements	7,550	-	-	7,550
Construction-in-process	25,157	105,551	-	130,708
Total non-depreciable assets	185,486	105,551	-	291,037
Depreciable assets:				
Transmission and distribution mains	2,512,404	-	-	2,512,404
Treatment facility	926,933	-	-	926,933
Reservoirs and tanks	294,879	-	-	294,879
Wells	135,345	-	-	135,345
Tools and equipment	22,873	-	-	22,873
Total depreciable assets	3,892,434	-	-	3,892,434
Accumulated depreciation:				
Transmission and distribution mains	(762,105)	(58,067)	-	(820,172)
Treatment facility	(185,386)	(92,693)	-	(278,079)
Reservoirs and tanks	(186,484)	(6,995)	-	(193,479)
Wells	(112,427)	(4,812)	-	(117,239)
Tools and equipment	(22,873)	-	-	(22,873)
Total accumulated depreciation	(1,269,275)	(162,567)	-	(1,431,842)
Total depreciable assets, net	2,623,159	(162,567)	-	2,460,592
Total capital assets, net	\$ 2,808,645	\$ (57,016)	\$ -	\$ 2,751,629

NOTE 6 – LONG-TERM DEBT PAYABLE

Changes in long-term debt payable for the year ended June 30, 2025, were as follows:

Description	Balance July 1, 2024	Additions	Payments	Balance June 30, 2025	Current Portion	Long-term Portion
Loan payable – County of San Diego	\$ 99,674	\$ -	\$ (4,466)	\$ 95,208	\$ 4,613	\$ 90,595
Loan payable – Rural development agency	359,436	-	(18,600)	340,836	19,400	321,436
USDA Series 2021A	1,445,000	-	(24,000)	1,421,000	25,000	1,396,000
USDA Series 2021B	37,000	-	(7,000)	30,000	7,000	23,000
Total	\$ 1,941,110	\$ -	\$ (54,066)	\$ 1,887,044	\$ 56,013	\$ 1,831,031

DESCANSO COMMUNITY WATER DISTRICT

Notes to Financial Statements

June 30, 2025 (With Comparative Amounts as of June 30, 2024)

NOTE 6 – LONG-TERM DEBT PAYABLE (continued)

Loan Payable – County of San Diego

The District entered into a utility construction agreement with the County of San Diego on April 28, 2008 for \$146,264. The loan was to fund the Viejas Boulevard waterline removal and replacement that was necessary in order to replace the Viejas Boulevard Bridge. The project was completed in January 2010. The loan bears interest at 3.30% and annual principal and interest payments of \$7,754 beginning January 22, 2012 through January 22, 2041. Annual debt service requirements for the loan payable are as follows:

Fiscal Year	Principal	Interest	Total
2026	\$ 4,613	\$ 3,141	\$ 7,754
2027	4,765	2,989	7,754
2028	4,922	2,832	7,754
2029	5,085	2,670	7,755
2030	5,252	2,502	7,754
2031-2035	28,979	9,794	38,773
2036-2040	34,087	4,686	38,773
2041	7,505	248	7,753
Total	95,208	\$ 28,862	\$ 124,070
Current	(4,613)		
Long-term	\$ 90,595		

Loan Payable – Rural Development Agency

The District entered into an installment sale agreement with the Descanso Community Services District Facilities Corporation for \$650,000. The loan bears interest at 4.75%, and semi-annual principal and interest payments beginning October 1, 1998 through April 1, 2038. Annual debt service requirements for the loan payable are as follows:

Fiscal Year	Principal	Interest	Total
2026	\$ 19,400	\$ 15,962	\$ 35,362
2027	20,400	15,028	35,428
2028	21,400	14,047	35,447
2029	22,300	13,021	35,321
2030	23,500	11,948	35,448
2031-2035	135,700	41,675	177,375
2036-2038	98,136	8,115	106,251
Total	340,836	\$ 119,796	\$ 460,632
Current	(19,400)		
Long-term	\$ 321,436		

DESCANSO COMMUNITY WATER DISTRICT

Notes to Financial Statements

June 30, 2025 (With Comparative Amounts as of June 30, 2024)

NOTE 6 – LONG-TERM DEBT PAYABLE (continued)

Loan Payable – USDA Series 2021A

On July 27, 2021, the District obtained \$1,492,000 Certificates of Participation from the Rural Utilities Service. The Certificates of Participation bear interest at a rate of 1.75%, requires a reserve fund equal to one year's debt service, and matures on July 1, 2061. Semi-annual payments are due on January 1 and July 1 of each year. This financing was used to pay off a bridge loan the District had previously maintained. Annual debt service requirements for the loan payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 25,000	\$ 24,649	\$ 49,649
2027	26,000	24,203	50,203
2028	26,000	23,747	49,747
2029	27,000	23,283	50,283
2030	27,000	22,811	49,811
2031-2035	147,000	106,566	253,566
2036-2040	163,000	93,004	256,004
2041-2045	182,000	77,910	259,910
2046-2050	205,000	61,031	266,031
2051-2055	230,000	42,000	272,000
2056-2060	255,000	20,781	275,781
2061-2062	108,000	1,890	109,890
Total	1,421,000	\$ 521,875	\$ 1,942,875
Current	(25,000)		
Long-term	\$ 1,396,000		

Loan Payable – USDA Series 2021B

On July 27, 2021, the District obtained \$409,000 Certificates of Participation from the Rural Utilities Service. The Certificates of Participation bear interest at a rate of 1.75% and mature on July 1, 2061. Semi-annual payments are due on January 1 and July 1 of each year. As of June 30, 2025 the District has only drawn down \$50,000 out of the \$409,000 of this loan. An updated payment schedule has not been provided.

NOTE 7 – NET INVESTMENT IN CAPITAL ASSETS

<u>Description</u>	<u>June 30, 2025</u>
Net investment in capital assets:	
Capital assets - not being depreciated	\$ 291,037
Capital assets, net - being depreciated	2,460,592
Long-term debt payable – current portion	(56,013)
Long-term debt payable – non-current portion	(1,831,031)
Total net investment in capital assets	\$ 864,585

DESCANSO COMMUNITY WATER DISTRICT

Notes to Financial Statements

June 30, 2025 (With Comparative Amounts as of June 30, 2024)

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District has purchased commercial insurance products to guard against the various risks of loss noted above. The District maintains workers' compensation coverage and employer's liability coverage in accordance with the statutory requirements of the State of California.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2025, 2024, and 2023. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2025, 2024, and 2023.

NOTE 9 – RISK DISCLOSURE: CONCENTRATION OF REVENUE SOURCE (GASB STATEMENT No. 102)

The District is subject to concentration risk due to its reliance on a single groundwater source, which supplies all of the District's potable water. This dependence exposes the District to potential service interruptions or financial impacts in the event of drought conditions, regulatory restrictions, extended electrical or mechanical failure, or contamination of the source. Although the District has contingency plans and infrastructure in place to supplement supply in emergencies, such alternatives may not fully meet demand or could result in significant additional costs.

In addition, the District's operating revenues are mostly derived from residential and small commercial customers in a concentrated rural area that is exposed to wildfire risks. If wildfire were to impact the District's service area, it could render several dwellings uninhabitable and business unoccupiable, which would reduce water purchases and could thus materially affect the District's financial position.

The District continues to evaluate and implement diversification strategies, including the current development of an additional groundwater source to mitigate concentration risks.

In accordance with GASB Statement No. 102, Risk Disclosures, this note serves to disclose the concentration of revenue and associated water supply risks that could significantly impact the District's financial position and results of operations.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Construction Contracts

The District has incurred costs relating to the design and development of the water treatment plant facility. The financing of such construction contracts is being provided primarily from debt proceeds and District's replacement reserves. The District has committed to \$521,865 of open construction contracts as of June 30, 2025.

Excluded Leases – Short-Term Leases and De Minimis Leases

The District does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

DESCANSO COMMUNITY WATER DISTRICT

Notes to Financial Statements

June 30, 2025 (With Comparative Amounts as of June 30, 2024)

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Also, *de minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition

NOTE 11 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 16, 2025, the date which the financial statements were available to be issued.

Other Independent Auditors' Reports



**INDEPENDENT AUDITORS' 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**

Board of Directors
Descanso Community Water District
Descanso, California

We have audited, in accordance with the 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 Descanso Community Water District (District) which comprise the balance sheet as of June 30, 2025, and the related statements of revenues, expenses and changes in net position and cash flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2025.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 District'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 not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Murrieta, California
December 16, 2025

Item 6

APPROVAL OF THE MINUTES:

The Board will review the draft minutes from the following meetings and take appropriate action:

- Regular Meeting held on September 16, 2025
- Special Meeting held on November 25, 2025

Notes:

Minutes

A Meeting of the Board of Directors of the Descanso Community Water District (DCWD) has been called for:

***Tuesday, September 16th, 2025, 7:00 pm
Descanso Town Hall, Viejas Grade Blvd., Descanso, CA***

1. **CALL TO ORDER, PLEDGE OF ALLEGIANCE:** The meeting was called to order by President Phillips at 7:03 PM.
2. **ROLL CALL:** Members present were Phillips, Johnson, and Minix. SUSP/DCWD Administrative Assistant Cierra Creamer and SUSP/DCWD Supervisor Cameron West. SUSP/JCSD Area Manager Emilio Gonzalez. Jason Kaminsky with HNK CPAs.
3. **APPROVAL OF AGENDA:** The agenda was missing the notice about the Zoom meeting, so it was requested that that be corrected. A motion to approve the agenda with the one adjustment was given by Johnson and a second by Minix. A vote was taken, 3 approved and 0 opposed.
4. **PUBLIC COMMENT:** One customer who was in attendance had a question about the “bad debt” on the financial report. Phillips told the customer that the accountant will be able to go over that with him during his report. No action needed.
5. **APPROVAL OF THE MINUTES OF THE JUNE 2025 MEETING:** The board reviewed the minutes and had no changes. A motion to approve the minutes with no changes was made by Minix and a second by Johnson. A vote was taken, 3 approved and 0 opposed.
6. **FINANCIAL REPORT:** Kaminsky went over the financial report and answered all questions. He explained what the bad debt on the report means to the customer who had questions about it. A motion to accept the financial report was made by Johnson and a second by Minix. A vote was taken, 3 approved and 0 opposed.
7. **ENGINEERING STATUS REPORT:** Phillips went over the engineering status report provided by NV5. No action needed.
8. **MHI STUDY:** Phillips went over the update provided by Dan DeMoss. Phillips expressed the importance of the MHI study to the customers in attendance and explained what it’s for and how it will benefit the district. No action needed.

9. **ACCESS TO WELL 7 DURING EMERGENCIES:** The board asked West for an update on the possibility of access to Well 7 in case of emergencies. West gave them an update and let them know he's waiting for Stehly to come up to speak with them. Johnson wants West to create the plan if possible and then let Dan know of the created plan. We would also need to get permission from Merigan for fire trucks to come through to Well 7 during emergencies. No action needed.

10. **GENERAL MANAGER'S REPORT:** Creamer went over the collections report with the board and answered all questions. They asked that she send the admin code to Jim for further advice on going forward with liens. West went over the remainder of the GM report with the board and answered all questions. Phillips then went over Emilio Gonzalez's role with Descanso/SUSP as well as brought up the idea of getting cameras at both the library and school to look over the general area of Well 5. No action needed.

11. **DCWD BOARD OF DIRECTOR'S NEWSLETTER:** A letter is not needed at this time.

12. **OTHER ITEMS DIRECTLY RELATED TO THE ABOVE-DESCRIBED MATTERS AS MAY BE BROUGHT BEFORE THE BOARD OF DIRECTORS:** The board spoke with West about the old pipe coming out from the asphalt on Lilac and discussed whether it will be removed. Phillips asked West to find out if it is our pipe and if so, then to possibly remove it ourselves. No action needed.

13. **MOTION TO ADJOURN:** A motion was given by Minix and a second by Johnson to adjourn the meeting at 8:19 PM.

Board of Directors		
Maureen Phillips President (619) 445-6042	Sheri Minix Director (619) 823-4216	Lee Johnson Finance Officer (619) 445-4122
Vacancy	Vacancy	Dan DeMoss General Manager (916) 616-7761

Minutes

An Emergency Meeting of the Board of Directors of the Descanso Community Water District (DCWD) has been called for:

***Tuesday, November 25th, 2025, 10:00 am
Descanso Town Hall, Viejas Grade Blvd., Descanso, CA***

1. **CALL TO ORDER, PLEDGE OF ALLEGIANCE:** The meeting was called to order by President Phillips at 10:00 AM.
2. **ROLL CALL:** Members present were Phillips, Johnson, and Minix. SUSP/DCWD Administrative Assistant Cierra Creamer, SUSP/DCWD Field Technicians Cameron West and Anthony Santare.
3. **APPROVAL OF AGENDA:** The agenda was approved with no changes. A motion to approve the agenda as is was given by Minix and a second by Johnson. A vote was taken, 3 approved and 0 opposed.
4. **PUBLIC COMMENT:** N/A
5. **RESOLUTION TO APPROVE APPLICATION FOR FUNDING BY THE STATE WATER CONTROL RESOURCES BOARD (SWRCB) FOR THE WATER TREATMENT PROJECT:** Phillips went over the resolution with the rest of the board and answered any questions. Johnson requested that legal counsel take a look at the resolution. A motion to approve the ordinance/resolution so long as legal counsel looks it over was made by Minix and a second by Johnson. A vote was taken, 3 approved and 0 opposed.
6. **UPDATE OF DCWD CONFLICT OF INTEREST POLICY:** Phillips went over the updates needing to be made to the Conflict of Interest Policy with the rest of the board and answered any questions. The two updates needing to be made are changing the date of amendment to November 25th, 2025, and adding the word “ALL” for the Consultant line under Disclosure Categories Assigned on page 2 of the policy. A motion to approve the two updates on the Conflict of Interest Policy was made by Minix and a second by Johnson. A vote was taken, 3 approved and 0 opposed.
7. **MOTION TO ADJOURN:** A motion was given by Minix and a second by Johnson to adjourn the meeting at 10:09 AM.

Board of Directors		
Maureen Phillips President (619) 445-6042	Sheri Minix Director (619) 823-4216	Lee Johnson Finance Officer (619) 445-4122
Vacancy	Vacancy	Dan DeMoss General Manager (916) 616-7761

Item 7

FINANCIAL REPORT:

The district’s accountant will present the financial report to the Board. The Board will consider its approval and take appropriate action.

Notes:

Descanso Community Water District
Statement of Net Position
As of September 30, 2025

Sep 30, 25

ASSETS

Current Assets

Checking/Savings

Cash and Cash Equivalents

Cash

General Fund7573-Cal Bank 192,698

Checking7680-Cal Bank 8,564

Emgncy/Cap ImproveFund-Cal Bank 664,618

Installment Fund - US Bank 17,697

Reserve Fund - US Bank 37,120

Deposits In Transit 4,414

Total Cash 925,111

Total Cash and Cash Equivalents 925,111

Total Checking/Savings 925,111

Accounts Receivable

Customer Accounts Receivable

Customer Accounts Receivable 212,063

Total Customer Accounts Receivable 212,063

Allowance for Doubtful Accounts -140,975

Total Accounts Receivable 71,088

Other Current Assets 41,613

Total Current Assets 1,037,812

Fixed Assets

Utility Plant-At Original Cost 4,052,764

Accumulated Depreciation -1,472,470

Total Fixed Assets 2,580,294

Other Assets

Uncapitalized Fixed Assets -WIP 130,708

Total Other Assets 130,708

TOTAL ASSETS 3,748,814

Descanso Community Water District
Statement of Net Position
As of September 30, 2025

	<u>Sep 30, 25</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	46,113
Other Current Liabilities	
Current Portion of LTD	
Loan Payable - US Bank	19,400
Loan Payable - SD County	4,613
USDA Series 2021A Short Term	26,000
USDA Series 2021B Short Term	<u>7,000</u>
Total Current Portion of LTD	57,013
Interest Accrued	<u>18,230</u>
Total Other Current Liabilities	<u>75,243</u>
Total Current Liabilities	121,356
Long Term Liabilities	
Long-Term Debt	
Loan Payable - US Bank 4/2038	321,436
Loan Payable-SD County 1/2041	90,596
USDA Series 2021A Long Term	1,370,000
USDA Series 2021B Long Term	<u>51,435</u>
Total Long-Term Debt	<u>1,833,467</u>
Total Long Term Liabilities	<u>1,833,467</u>
Total Liabilities	1,954,823
Equity	<u>1,793,992</u>
TOTAL LIABILITIES & EQUITY	<u>3,748,815</u>

Descanso Community Water District

Statement of Revenues, Expenses, & Change in Net Position

July through September 2025

Ordinary Income/Expense	Jul 25	Budget	\$ Over Budget	% of Budget	Aug 25	Budget	\$ Over Budget	% of Budget
Income								
Operating Revenues	44,783	46,608	-1,825	96%	47,750	46,236	1,514	103%
Total Income	44,783	46,608	-1,825	96%	47,750	46,236	1,514	103%
Gross Profit	44,783	46,608	-1,825	96%	47,750	46,236	1,514	103%
Expense								
Operating Expenses	2,150	2,449	-299	88%	2,198	2,442	-244	90%
Water Treatment	350	20,493	-20,143	2%	300	925	-625	32%
Repairs and Maintenance	1,213	3,369	-2,156	36%	14,004	3,369	10,635	416%
Transmission & Distribution	32,678	29,610	3,068	110%	30,631	29,610	1,021	103%
Depreciation	13,543	13,543	0	100%	13,543	13,543	0	100%
General & Administrative	11,403	9,357	2,046	122%	11,172	9,293	1,879	120%
Total Expense	61,337	78,821	-17,484	78%	71,848	59,182	12,666	121%
Net Ordinary Income	-16,554	-32,213	15,659	51%	-24,098	-12,946	-11,152	186%
Other Income/Expense								
Other Income								
Treatment Plant Project Charge	7,615	7,687	-72	99%	7,615	7,687	-72	99%
Viejas Grade Project Charge	1,576	1,591	-15	99%	1,576	1,591	-15	99%
Supp Debt Charge	4,490	4,534	-44	99%	4,490	4,533	-43	99%
Interest Income	623	600	23	104%	591	600	-9	99%
Total Other Income	14,304	14,412	-108	99%	14,272	14,411	-139	99%
Other Expense								
Interest Expense	1,063	4,204	-3,141	25%	4,204	4,204	0	100%
Total Other Expense	1,063	4,204	-3,141	25%	4,204	4,204	0	100%
Net Other Income	13,241	10,208	3,033	130%	10,068	10,207	-139	99%
Net Income	-3,313	-22,005	18,692	15%	-14,030	-2,739	-11,291	512%

Descanso Community Water District

Statement of Revenues, Expenses, & Change in Net Position

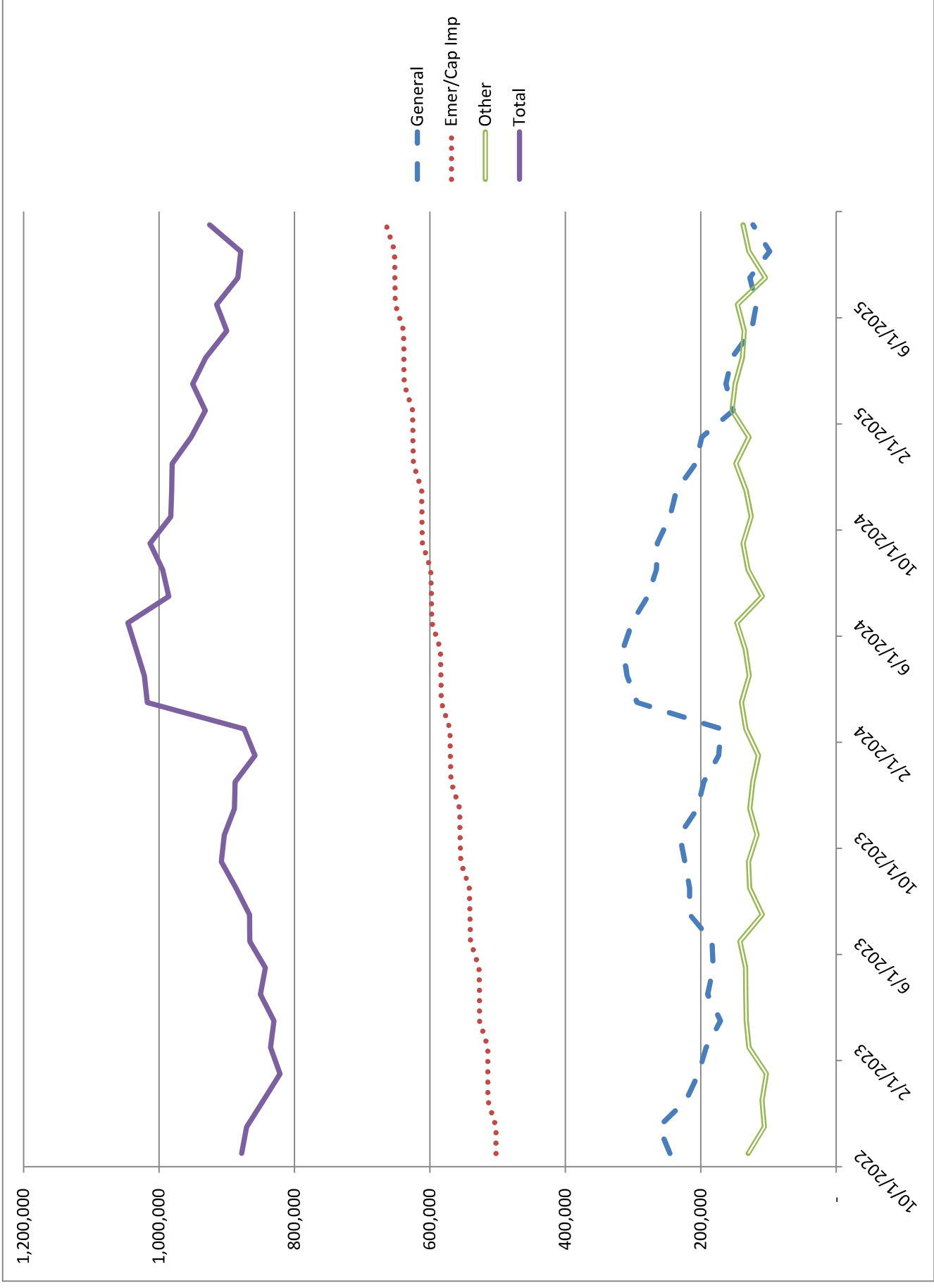
July through September 2025

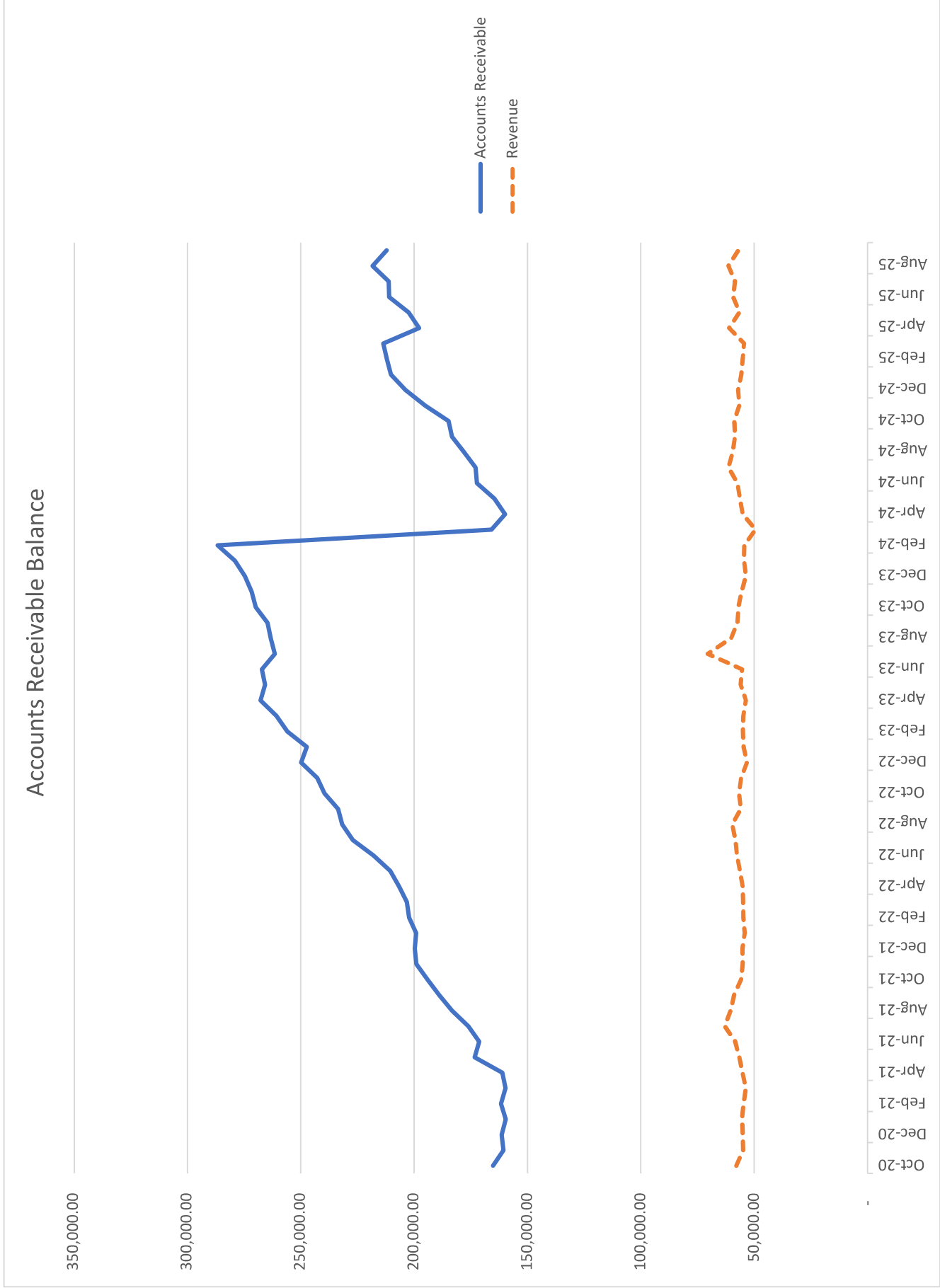
	TOTAL			
	Sep 25	Budget	\$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
Operating Revenues	43,438	45,394	-1,956	96%
Total Income	43,438	45,394	-1,956	96%
Gross Profit	43,438	45,394	-1,956	96%
Expense				
Operating Expenses	1,620	2,302	-682	70%
Water Treatment	160	925	-765	17%
Repairs and Maintenance	1,725	3,369	-1,644	51%
Transmission & Distribution	29,900	29,610	290	101%
Depreciation	13,543	13,543	0	100%
General & Administrative	12,529	9,394	3,135	133%
Total Expense	59,477	59,143	334	101%
Net Ordinary Income	-16,039	-13,749	-2,290	117%
Other Income/Expense				
Other Income				
Treatment Plant Project Charge	7,615	7,687	-72	99%
Viejas Grade Project Charge	1,576	1,592	-16	99%
Supp Debt Charge	4,490	4,533	-43	99%
Interest Income	642	600	42	107%
Total Other Income	14,323	14,412	-89	99%
Other Expense				
Interest Expense	4,204	4,204	0	100%
Total Other Expense	4,204	4,204	0	100%
Net Other Income	10,119	10,208	-89	99%
Net Income	-5,920	-3,541	-2,379	167%

Descanso Community Water District
Statement of Cash Flows
July through September 2025

	<u>Jul - Sep 25</u>
OPERATING ACTIVITIES	
Net Income	-23,264
Adjustments to reconcile Net Income	
to net cash provided by operations:	
Customer Accounts Receivable:Customer Accounts Receivable	-1,267
Customer Accounts Receivable:Customer Accounts Receivable:Customer Prepayments	201
Allowance for Doubtful Accounts	9,000
Security Deposits:County of San Diego	1,160
Prepayments:G&A	-9,280
Prepayments:Taxes/Fees	1
Accts Pay - General	-7,346
Accts Pay - Accrued	347
Interest Accrued:Int Accr-LTD-Outside	-3,226
Current Portion of LTD:USDA Series 2021A Short Term	1,000
Net cash provided by Operating Activities	-32,674
INVESTING ACTIVITIES	
Accumulated Depreciation:Utility Plant-Acc Depr	40,628
Net cash provided by Investing Activities	40,628
FINANCING ACTIVITIES	
Long-Term Debt:USDA Series 2021A Long Term	-26,000
Long-Term Debt:USDA Series 2021B Long Term	28,435
Net cash provided by Financing Activities	2,435
Net cash increase for period	10,389
Cash at beginning of period	914,722
Cash at end of period	<u><u>925,111</u></u>

DCWD Cash Flow Balances





Item 8

MANDATORY ELECTRONIC FILING OF STATEMENTS OF ECONOMIC INTERESTS:

The Board will review, and process Form 700 filings to be submitted electronically via its online filing portal with the County of San Diego.

Notes:

Item 9

ENGINEERING STATUS REPORT:

The district’s engineer will present a project update to the board.

Notes:

MEMORANDUM

To:	Maureen Phillips, Board President Descanso Community Water District	Date:	12 December 2025
From:	NV5, Inc. James F. Owens, PE; Ivana Halim	Subject:	2017 Water System Improvements
Subject:	Update to Board of Directors		

Purpose of Memorandum

This memorandum provides updates on the status of the 2017 Water System Improvements Project (Project). Specifically, this memorandum provides an update on the status of construction and funding of the Well Drilling and Destruction Project and the Iron and Manganese Treatment Facility Project.

Well Drilling and Destruction Project

Stehly Brothers Drilling, Inc. (Stehly Brothers) completed the drilling and reaming of the new well (Well No. 7) and the placement of the well casing in February 2025. Following the step pump testing conducted on March 18, 2025 by Stehly Brothers, NV5 met with the State Water Resources Control Board, Department of Drinking Water (DDW) to review the well's initial production capacity and water quality, and to confirm DDW's required pump testing duration for determining the well's pumping capacity. DDW shared that they would not be able to accept constant rate pump test results prior to the dry season (August, September, October).

From September 30, 2025 to October 4, 2025, Stehly conducted the constant rate pump test at Well No. 7 at approximately 300 gallons per minute. On October 3, 2025, NV5 and DCWD's General Manager (Dan DeMoss) had a call with DDW to discuss the length of pump testing required. Initially, the constant rate pump test was planned for 72 hours (as contracted with Stehly). Due to the encountered hard rock geology during drilling, it was anticipated that the length of pump testing may be required to be extended up to 10 days. Based on conversations with DDW and a review of the California Waterworks Standards, it was decided that the pump test would be extended by an additional day (to 96 hours) to allow for the water levels in Well No. 7 to further demonstrate a stabilized state. A 10-day pump test was not conducted due to foreseeable cost increase greater than \$60,000. After the constant rate pump test was concluded at a sustained rate of 290 gpm, the water levels were monitored for their recovery to initial static water levels. Stehly Brothers provided NV5 the water level data from handwritten records and the transducers within both Well Nos. 6 and 7.

On October 1, 2025, DCWD also acquired samples from Well No. 7 during pump testing for Title 22 water quality analysis by DCWD's laboratory. Partial results from this testing has been received. Key contaminants of concern are noted below.

	Well No. 5	Well No. 6	Well No. 7 (October 1, 2025)	Secondary Maximum Contaminant Level (SMCL)
Iron (mg/L)	710 – 960*	2,430 - 2880	1,300	300
Manganese (mg/L)	180 - 220	231-246	180	50

*Measurements ~2013 and 2014 were considerably higher, greater than 2,500 mg/L.

As suspected and previously tested, iron and manganese exceed the secondary maximum contaminant concentrations. However, the measured iron concentrations in Well No. 7 were significantly lower than at Well No. 6. The iron concentrations were higher than recent measurements at Well No. 5, but were lower than iron measurements at Well No. 5 in 2013-2014.

The measured manganese concentrations were lower than historic concentrations at Well No. 6, and measured equal to the lower end of the range of recent measurements at No. 5.

The principal remaining work items are the following:

- Destruction of Well No. 6 and its building, following analysis of pump testing results.
- General site restoration to pre-construction conditions.

NV5 is in progress of scheduling these final work items with Stehly Brothers.

DCWD submitted the Partial Payment Request No. 1 for USDA's review on April 1, 2025. The processing and payment of the request took longer than expected from USDA. USDA approved DCWD's Partial Payment Request No. 1 on September 3, 2025. USDA suspected delays were caused by confusion with DCWD's bank account for the disbursement. If these details are now clarified, it is expected that future payment request will be processed in a shorter timeline.

Future Partial Payment Requests and Change Orders are expected to be completed as construction efforts for the project resume. As a result of the well construction revisions, at least two contract change orders with Stehly Brothers will be required. Change Order No. 1 will be a decrease in Stehly Brothers' contract amount. Change Order No. 2 will be an increase in Stehly Brothers' contract amount. USDA has reviewed drafts of Change Order No. 1 and given preliminary approval of several bid item changes. Change Order No. 1 is routed for signatures from DCWD and Stehly Brothers and will be submitted to USDA after signatures are received. The decrease and increase in the contract amount between Change Orders No. 1 and 2 are anticipated to offset each other.

At an upcoming Board Meeting, Final Acceptance of the well's construction and authorization to file a Notice of Completion should be considered for an agenda item.

Iron and Manganese Treatment Facility

DCWD previously completed two public solicitations for bids for the construction of the iron and manganese treatment facility. A third public solicitation for bids was completed in January 2025. Two bids were received and opened on January 22, 2025. At its March board meeting, DCWD authorized issuing a Notice of Award to the low bidder, Jennette Company, Inc. (JCI), whose base bid price was \$3,199,379 with an additive bid item price of \$75,000 (solar panel).

Following issuance of the Notice of Award, JCI provided its bonds and certificate of insurance to DCWD for review. These should be reviewed by DCWD's legal counsel. The unexecuted construction contract has been prepared and is ready for circulation. Progress on this project has been paused pending the procurement of additional funds. In April 2025, NV5 prepared an update to the overall USDA project budget, and presented details on the remaining budget to DCWD staff throughout 2025. NV5 has reviewed this budget and potential capital sources for the additional funding required.

The proposed treatment facility would commence field construction after Well No. 7's pump testing, site restoration, and Well No. 6 destruction. This would prevent two contractors working at the site simultaneously.

NV5 is currently assisting DCWD with applying for funding from the State Water Resources Control Board's Expedited Drinking Water Grant (EDWG) program. On December 4, 2025, NV5 submitted the required General Information Package documents to the State's FFAST portal. These documents will allow the State to assign a Division of Financial Assistance (DFA) Project Manager to DCWD. It is anticipated that a DFA Project Manager will extend an invitation to the EDWG program to DCWD in early 2026. NV5 has begun work on the EDWG application documents to assist DCWD with meeting the 30-day deadline following the receipt of the invitation from DFA.

* * * *

Item 10

GENERAL MANAGER'S REPORT:

The GM will provide a report on activities occurring since the last meeting.

- A. GM Report.
- B. Q&A.

Notes:

DCWD OPERATIONS REPORT

December 16th, 2025

SUMMARY

- Normal day-to-day operations of the district
- Removed abandon 1" steel line surfacing in middle of road on lilac.
- Talked and went over plans with Cal-Fire about emergency fill port at well 7.
- Updated SOP for daily rounds.
- Vehicle maintenance.
- San Diego County inspector had come out for Hazmat inspection of well 5.
- Potential new service install on Central Ave for Forestry wildland firefighters.
- Meter change outs at services with dead meters.
- Replaced/ repaired standpipes on Oak Lane and in front of post office on Oak Grove DR.
- Took samples for well #7.
- Repaired 4" main break on Cypress/ Pila wee wee.
- Repaired curb stop break at 9800-2 Oak Grove Dr.

3 MONTHS LOOK AHEAD

- Continue the monthly past due process for customers with outstanding balances.
- Continue dead meter replacements.
- Restocking used materials.
- Continue to replace unusable standpipes throughout the system.
- Flushing throughout the system.
- Cleaning and maintenance of well yards and office.
- Replacement of main/ injectors off of the well head at well 5.
- Continue vehicle maintenance.
- Reroof well house at well 5.
- Install chemical draw down system at well 5 to dose chemicals more accurately.
- Wood chip brush pile at well 6/7.

Item 11

OTHER ITEMS DIRECTLY RELATED TO THE ABOVE-DESCRIBED MATTERS AS MAY BE BROUGHT BEFORE THE BOARD OF DIRECTORS:

Notes:

[illegible]

Item 12

MOTION TO ADJOURN.

Notes:

[illegible]