

South Bay Water

Chula Vista, California

Basic Financial Statements and Independent Auditor's Reports

For the Years Ended June 30, 2025 and 2024

South Bay Water
For the Years Ended June 30, 2025 and 2024
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of South Bay Water
Chula Vista, California

Opinion

We have audited the accompanying financial statements of South Bay Water, which comprise the statements of net position as of June 30, 2025 and 2024, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise South Bay Water's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of South Bay Water, as of June 30, 2025 and 2024, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"). 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 South Bay Water, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 South Bay Water'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 GAAS 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 GAAS 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 South Bay Water’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 South Bay Water’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 is the responsibility of management and, 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.

To the Board of Directors
of South Bay Water
Chula Vista, California
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2025, on our consideration of South Bay Water’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 South Bay Water’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 South Bay Water’s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "The Per Group, LLP". The signature is written in a cursive, flowing style.

San Diego, California
September 23, 2025

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South Bay Water Management's Discussion and Analysis

This section of South Bay Water's annual financial report presents management's analysis of South Bay Water's financial performance during the year ended June 30, 2025. Please read in conjunction with the financial statements, which follow this section.

Financial Highlights

- South Bay Water's net position increased in fiscal year 2024-25 by \$512 due to interest earnings.
- South Bay Water's costs of operations increased by \$16,864 primarily due to a biennial election expense and expenses relating to a rebranding initiative.
- Operating revenues increased by \$16,847 due to an increase in contributions from other agency revenue, see note 3 in the Notes to Basic Financial Statements section.

Overview of The Financial Statements

The annual financial report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Notes to the Basic Financial Statements.

This discussion and analysis is intended to serve as an introduction to South Bay Water's basic financial statements, which are comprised of the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Basic Financial Statements.

The *Statement of Net Position* presents information on all of South Bay Water's assets and liabilities with the difference between 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 South Bay Water is improving or weakening.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the South Bay Water'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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* presents information on cash receipts and payments for the fiscal year. The *Notes to Basic Financial Statements* provide additional information that is essential to a full understanding of the data supplied in each of the specific financial statements listed above.

South Bay Water
Management's Discussion and Analysis (Continued)

Financial Analysis and Condensed Financial Information

Condensed Statements of Net Position

	June 30, 2025	June 30, 2024	\$ Change	% Change	June 30, 2023	\$ Change	% Change
Assets							
Current assets	\$ 105,124	\$ 107,850	\$ (2,726)	-2.5%	\$ 107,721	\$ 129	0.1%
Total assets	105,124	107,850	(2,726)	-2.5%	107,721	129	0.1%
Liabilities							
Current liabilities	4,055	7,293	(3,238)	-44.4%	7,164	129	1.8%
Total liabilities	4,055	7,293	(3,238)	-44.4%	7,164	129	1.8%
Net position							
Unrestricted	101,069	100,557	512	0.5%	100,557	-	0.0%
Total net position	\$ 101,069	\$ 100,557	\$ 512	0.5%	\$ 100,557	\$ -	0.0%

Overall, net position did not change significantly for fiscal year 2024-25. South Bay Water's operating revenues are derived from cash reserves, interest income, with the majority of operating revenues coming from reimbursement funding from the Sweetwater Authority for South Bay Water's operating expenses. Financial transactions tend to vary from year to year and are typically insignificant.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30, 2025	June 30, 2024	\$ Change	% Change	June 30, 2023	\$ Change	% Change
Operating revenues	\$ 44,123	\$ 27,276	\$ 16,847	61.8%	\$ 28,362	\$ (1,086)	-3.8%
Nonoperating revenues	2,936	2,407	529	22.0%	854	1,553	181.9%
Total revenues	47,059	29,683	17,376	58.5%	29,216	467	1.6%
Operating expenses	46,547	29,683	16,864	56.8%	29,217	466	1.6%
Total expenses	46,547	29,683	16,864	56.8%	29,217	466	1.6%
Changes in net position	512	-	512	0.0%	(1)	1	0.0%
Net position, beginning of year	100,557	100,557	-	0.0%	100,558	(1)	0.0%
Net position, end of year	\$ 101,069	\$ 100,557	\$ 512	0.5%	\$ 100,557	\$ -	0.0%

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers to the nature and source of these changes.

Total operating revenues for South Bay Water were \$44,123 or \$16,847 more than the previous year. This change was primarily due to an increase in reimbursements from the Sweetwater Authority for operating costs (see note 3) based on lower operating costs in the prior year. Operating expenses for fiscal year 2024-25 were \$16,864 more primarily due to a biennial election expense and expenses relating to a rebranding initiative.

Capital Asset and Debt Administration

South Bay Water does not have capital assets or debt.

Conditions Affecting Current Financial Position

Management is unaware of any other conditions which could have a significant impact on South Bay Water's current financial position or operating results.

South Bay Water
Management's Discussion and Analysis (Continued)

Contacting South Bay Water's Financial Management

This financial report is designed to provide a general overview of South Bay Water's finances for the Board of Directors, taxpayers, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to South Bay Water's Treasurer, 505 Garrett Ave., Chula Vista, CA 91910 or (619) 420-1413.

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BASIC FINANCIAL STATEMENTS

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South Bay Water
Statements of Net Position
June 30, 2025 and June 30, 2024

ASSETS	2025	2024
Current Assets:		
Cash and cash equivalents	\$ 62,338	\$ 80,045
Intergovernmental receivable	42,249	27,276
Accrued interest receivable	537	529
Total current assets	105,124	107,850
Total assets	105,124	107,850
 LIABILITIES		
Current liabilities:		
Accounts payable	3,719	7,125
Accrued liabilities	336	168
Total current liabilities	4,055	7,293
Total liabilities	4,055	7,293
 NET POSITION		
Unrestricted	101,069	100,557
Total Net Position	\$ 101,069	\$ 100,557

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South Bay Water
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
OPERATING REVENUES:		
Intergovernmental	\$ 44,123	\$ 27,276
Total operating revenues	<u>44,123</u>	<u>27,276</u>
OPERATING EXPENSES:		
Audit and accounting	6,300	4,450
Board secretary and treasurer services	4,080	4,080
Conferences and meetings	375	297
Directors' fees	6,100	7,100
General insurance costs	2,782	2,711
Legal fees and costs	11,140	9,387
License, fees, notices and public information	11,948	-
Membership fees and dues	1,096	1,070
Office supplies and expenses	2,213	-
Payroll expenses	467	543
Workers compensation insurance	46	45
Total operating expenses	<u>46,547</u>	<u>29,683</u>
OPERATING INCOME (LOSS)	<u>(2,424)</u>	<u>(2,407)</u>
NONOPERATING REVENUES:		
Investment income/(loss)	2,936	2,407
Total nonoperating revenues	<u>2,936</u>	<u>2,407</u>
Income (loss)	<u>512</u>	<u>-</u>
CHANGES IN NET POSITION	512	-
NET POSITION:		
Beginning of year	100,557	100,557
End of year	<u>\$ 101,069</u>	<u>\$ 100,557</u>

South Bay Water
Statements of Cash Flows
For the Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from other governments	\$ 29,150	\$ 28,363
Cash payments for operating goods and services	(49,785)	(29,554)
Net cash (used in) operating activities	<u>(20,635)</u>	<u>(1,191)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Gain on investments	2,928	2,233
Net cash provided by investing activities	<u>2,928</u>	<u>2,233</u>
Net change in cash and cash equivalents	(17,707)	1,042
CASH AND CASH EQUIVALENTS:		
Beginning of year	80,045	79,003
End of year	<u>\$ 62,338</u>	<u>\$ 80,045</u>
CASH AND CASH EQUIVALENTS:		
Cash and investments	\$ 62,338	\$ 80,045
Total cash and cash equivalents	<u>\$ 62,338</u>	<u>\$ 80,045</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES:		
Operating (loss)	\$ (2,424)	\$ (2,407)
Adjustments to reconcile operating income (loss) to net cash provided by/(used in) operating activities:		
(Increase) decrease in:		
Intergovernmental receivable	(14,973)	1,087
Increase (decrease) in:		
Accounts payable	(3,406)	52
Accrued liabilities	168	77
Total adjustments	<u>(18,211)</u>	<u>1,216</u>
Net cash (used in) operating activities	<u>\$ (20,635)</u>	<u>\$ (1,191)</u>

NOTES TO THE FINANCIAL STATEMENTS

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South Bay Water
Notes to the Financial Statements
For the Years Ended June 30, 2025 and 2024

Note 1 – Summary of Significant Accounting Policies

South Bay Water is located in the southwestern portion of San Diego County, south of the main portion of the City of San Diego and east of San Diego Bay. It includes the western portion of the City of Chula Vista and an adjacent unincorporated territory. South Bay Water was formed in 1951. In 1952, it became a member agency of the San Diego County Water Authority which, in turn, is a member of the Metropolitan Water District of Southern California (MWD). In 1972, South Bay Water and the City of National City created Sweetwater Authority (“Authority”) under a “Joint Powers Agreement” for the purpose of owning, operating, managing, maintaining and improving the water system serving the City of National City, the City of Chula Vista and certain adjacent unincorporated portions of San Diego County. All of South Bay Water water board members are also board members of the Authority. The purpose of is for its elected board members to act as representatives of the local residents, within South Bay Water’s jurisdiction, on the Authority’s Governing Board and to also maintain the status of a member agency to the San Diego County Water Authority.

South Bay Water’s significant accounting policies are described below:

A. Description of the Reporting Entity

South Bay Water has defined its reporting entity in accordance with the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards. These standards provide guidance for determining which governmental activities; organizations and functions should be included in the reporting entity and how information about them should be presented. The basic criterion for inclusion of a governmental unit in a governmental reporting entity are: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

The scope of this report extends exclusively to the financial information of South Bay Water. The Governing Board’s oversight responsibility for the Sweetwater Authority does not include the basic criterion for inclusion of Sweetwater Authority as a governmental unit. As such, the Board's governing authority related to financial reporting extends only to the affairs of South Bay Water.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

The basic financial statements of South Bay Water have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for governmental accounting financial reporting purposes.

South Bay Water
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2025 and 2024

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, South Bay Water considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

D. Investment in State Investment Pool

South Bay Water is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. As of June 30, 2025, South Bay Water had \$49,115 invested in LAIF compared to \$46,700 at June 30, 2024. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. LAIF is reported at amortized cost, which approximates fair value.

E. Revenue

South Bay Water distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and the producing and delivering of goods in connection with South Bay Water’s principal ongoing operations. The principal operating revenues of South Bay Water are from participation in the Sweetwater Joint Power Authority. Operating expenses for South Bay Water include administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Cash and Investments

Cash and investments are classified in the accompanying financial statements as of June 30, 2025 and 2024 as follows:

	2025	2024
Statement of Net Position:		
Current assets:		
Cash and cash equivalents	\$ 62,338	\$ 80,045
Total cash and cash equivalents	\$ 62,338	\$ 80,045

Cash and investments consisted of the following as of June 30, 2025 and 2024:

	2025	2024
Deposits with financial institutions	\$ 13,223	\$ 33,345
Investments	49,115	46,700
Total cash and cash equivalents	\$ 62,338	\$ 80,045

South Bay Water
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2025 and 2024

Note 2 – Cash and Investments (Continued)

Investments Authorized by South Bay Water’s Investment Policy

The table below identifies the investment types that are authorized by South Bay Water’s investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. and Local Agency Securities	5 years	70%	None
U.S. Treasury Obligations	5 years	None	None
Banker's Acceptances	180 days	20%	None
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	2 years	30%	None
Bank Demands	N/A	5%	None
Repurchase Agreements	1 year	20%	None
Money Market Mutual Funds	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	**	None
Managed Pools	N/A	None	20%

** Maximum investment in LAIF is \$65 million per California Government Code

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that South Bay Water manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of South Bay Water’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of South Bay Water’s investments by remaining maturity as of June 30, 2025.

<u>Investment Type</u>	<u>12 Months or Less</u>
Local Agency Investment Fund (LAIF)	\$ 49,115

Information about the sensitivity of the fair values of South Bay Water’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of South Bay Water’s investments by remaining maturity as of June 30, 2024.

<u>Investment Type</u>	<u>12 Months or Less</u>
Local Agency Investment Fund (LAIF)	\$ 46,700

South Bay Water
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2025 and 2024

Note 2 – Cash and Cash Equivalents (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or South Bay Water’s Investment Policy, and the actual rating as of June 30 for each investment type.

South Bay Water's investments and the actual rating as of the year ended June 30, 2025 for each investment type are as follows:

Investment Type	Minimum Legal Rating	Not Rated
Local Agency Investment Fund (LAIF)	N/A	\$ 49,115

South Bay Water's investments and the actual rating as of the year ended June 30, 2024 for each investment type are as follows:

Investment Type	Minimum Legal Rating	Not Rated
Local Agency Investment Fund (LAIF)	N/A	\$ 46,700

Concentration of Credit Risk

South Bay Water’s investment policy contains certain limitations on the amount that can be invested in any one issuer and as stipulated by the California Government Code. At June 30, 2025 and June 30, 2024 there were no investments in any one issuer that represented 5% or more of South Bay Water's total investments that were subject to these disclosure requirements.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, South Bay Water will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of South Bay Water and are held by either the counter-party or the counter-party’s trust department or agent but not in South Bay Water’s name.

All cash is entirely insured or collateralized. The California Government Code requires California banks and savings and loans associations to secure District’s deposits by pledging government securities, which equal at least 110% of South Bay Water’s deposits. California law also permits financial institutions to secure South Bay Water’s deposits by the pledging of first trust deed mortgage notes in excess of 150% of South Bay Water’s deposits. South Bay Water may waive collateral requirements for deposits that are fully insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000.

All of South Bay Water’s investments are held in the name of South Bay Water with South Bay Water’s custodial bank or in South Bay Water’s Local Agency Investment Fund account.

South Bay Water
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2025

Note 3 – Other Related Financing Activity

Funds transfer agreement with the Authority

South Bay Water currently has an agreement with the Authority to pay South Bay Water's operating costs in perpetuity. The agreement provides long-term fiscal stability for South Bay Water and Authority because the Authority's Joint Powers Agreement depends on the existence of both of its member agencies (South Bay Water and the City of National City). South Bay Water invoices the Authority an amount equal to South Bay Water's operating cost each fiscal year. The agreement allows South Bay Water to continue to exist and advocate on behalf of District ratepayers within the Authority's boundaries, as both a water rights holder, and as a member of the San Diego County Water Authority. Additionally, the continued existence of South Bay Water permits the customers within South Bay Water's boundaries to have its elected representatives serve on the Authority's Governing Board. The Authority's total payments to South Bay Water during the fiscal years ended June 30, 2025 and 2024 were \$44,123 and \$27,276, respectively.

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**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***

Independent Auditor's Report

To the Board of Directors
of South Bay Water
Chula Vista, 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 South Bay Water, which comprise the statement of net position as of June 30, 2025, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes, which collectively comprise South Bay Water's basic financial statements and have issued our report thereon dated September 23, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Bay Water'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Bay Water's internal control. Accordingly, we do not express an opinion on the effectiveness of South Bay Water'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 not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Board of Directors
of South Bay Water
Chula Vista, California
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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of 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 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 South Bay Water's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Bay Water's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The PwC Group, LLP

San Diego, California
September 23, 2025