

KANAWHA WATER DISTRICT

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
for the year ended December 31, 2025**

ROBERT W. JOHNSON
Certified Public Accountant

KANAWHA WATER DISTRICT
PRINCIPAL OFFICIALS
for the year ended December 31, 2025

Board of Directors:

Lance Boyd

President

Wade Danley

Vice President

Rick Lederer

Randy Hansen

Peter Ceccon, Jr.

Management:

Vince Laufer

Manager/Secretary/Treasurer

Debbie Scritchfield

Assistant Secretary

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kanawha Water District
Willows, California

Qualified Opinion

We have audited the accompanying financial statements of the business-type activities of Kanawha Water District, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Kanawha Water District as of December 31, 2025, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's Office and State Regulations governing Special Districts.

Basis for Qualified Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the State Controller's Minimum Audit Requirements for California Special Districts. 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 Kanawha Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Matter Giving Rise to Qualified Opinion

As stated in Note 11, the District did not implement GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* (OPEB) at December 31, 2025. This Statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, assets, deferred outflows, deferred inflows, note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local government employers.

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 Kanawha Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgement 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 Kanawha Water District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kanawha Water District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Kanawha Water District's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Robert W. Johnson, An Accountancy Corporation

Citrus Heights, California

March 16, 2026

KANAWHA WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2025

ASSETS

Current assets:		
Cash and investments (Note 3)		\$ 2,010,276
Accounts receivable - trade		-
Inventory		132,126
Prepaid expenses		<u>84,266</u>
Total current assets		2,226,668
Non-current assets:		
Restricted cash		279,408
Capital assets (Note 4):	\$ 8,951,125	
Less, accumulated depreciation	<u>5,886,493</u>	
		<u>3,064,632</u>
		<u>\$ 5,570,708</u>

See notes to financial statements

LIABILITIES AND NET POSITION

Current liabilities:

Current portion of long-term debt (Note 6)	\$ 253,659
Accounts payable and accrued expenses	1,273
Customer prepayments	<u>616</u>

Total current liabilities 255,548

Long-term debt, net of current portion (Note 6) 2,526,361

Total liabilities 2,781,909

Net position (Note 7):

Net investment in capital assets	\$ 3,064,632
Restricted	279,408
Unrestricted (deficit)	<u>(555,241)</u>
	<u>2,788,799</u>

\$ 5,570,708

KANAWHA WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2025

Operating revenues:		
Water sales		\$ 1,567,274
Assessments – District		228,830
Penalties and interest		4,263
Other		<u>2,500</u>
Total operating revenues		1,802,867
Operating expenses:		
Source of supply	\$ 1,548,630	
Transmission and distribution	328,805	
Administrative	347,408	
Depreciation	<u>133,982</u>	
Total operating expenses		<u>2,358,825</u>
Operating income (loss)		(555,958)
Non-operating revenue (expense):		
Interest income	85,451	
Service contract	125,214	
Interest expense	(61,206)	
Land based charge	358,490	
Other	<u>224,159</u>	
		<u>732,108</u>
Change in net position		176,150
Total net position:		
Beginning		<u>2,612,649</u>
Ending		<u>\$ 2,788,799</u>

See notes to financial statements

KANAWHA WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended December 31, 2025

Cash flows from operating activities:		
Receipts from customers		\$ 1,802,867
Payments to suppliers		(1,939,916)
Payments to employees		<u>(317,761)</u>
Net cash provided to operating activities		(454,810)
Cash flows from noncapital financing activities:		
Service contract	\$ 125,214	
Land based charge	358,490	
Other	<u>224,159</u>	
		707,863
Cash flows from capital and related financing activities:		
Purchase of capital assets	-	
Principal reduction on capital debt	(248,650)	
Interest expense	<u>(61,206)</u>	
		(309,856)
Cash flows from investing activities:		
Interest income		<u>85,451</u>
Net increase in cash and cash equivalents		28,648
Cash and cash equivalents:		
Beginning of year		<u>2,261,036</u>
End of year		<u>\$ 2,289,684</u>

See notes to financial statements

KANAWHA WATER DISTRICT
STATEMENT OF CASH FLOWS, continued
for the year ended December 31, 2025

Reconciliation of operating income (loss) by
net cash provided by operating activities:

Operating income (loss) \$(555,958)

Adjustments to reconcile operating income
to net cash provided by operating activities:

Depreciation \$ 133,982

Changes in operating assets and liabilities:

Receivables

-

Inventory

(13,773)

Prepays

(3,432)

Accounts payable and accrued expenses

(3,959)

Customer prepayments

(11,670)

Total adjustments

101,148

Net cash provided to operating activities

\$(454,810)

See notes to financial statements

KANAWHA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
for the year ended December 31, 2025

1. Organization:

Kanawha Water District (the “District”) was established in June, 1955 and consists of 16,056 acres in Glenn County. The District is governed by a five member Board of Directors elected to four year terms by landowners of the District.

2. Summary of Significant Accounting Policies:

The basic financial statements of Kanawha Water District have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

Fund Accounting

The District reports the following proprietary fund. All operations are accounted for in this enterprise fund.

Enterprise Fund – The enterprise fund is used to account for water operations that are financed and operated in a manner similar to private business enterprises. The intent of the District is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of this fund are included on the balance sheet. Net position is segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

KANAWHA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2025

2. Summary of Significant Accounting Policies, continued:

Basis of Accounting, continued

The records are maintained and the accompanying financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal operations. The principal operating revenues of the District are charges to customers for water sales and services. Operating revenues also include fee charged for transfer of landowner water. Operating expenses for enterprise funds include source of supply, transmission and distribution, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Proprietary are reported using the economic resources measurement focus.

Depreciation

Capital assets are recorded on the basis of purchase cost. Assets acquired by contribution are recorded at estimated cost or fair market value at the date of acquisition.

Depreciation is calculated by the straight-line method over the estimated useful lives of the respective assets which range from three to seventy-five years.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including restricted assets. Cash in banks, deposits in the State of California Local Agency Investment Fund (LAIF) and deposits with fiscal agents are considered to be cash and cash equivalents.

KANAWHA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2025

2. Summary of Significant Accounting Policies, continued:

Compensated Absences

It is the policy of the District that vacation be taken annually as earned. Upon termination of employment, the employee will be paid for his accumulated vacation pro rata from the beginning of the year to the date of termination. Sick pay does not vest.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or net realizable value.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 may differ from those estimates.

Budget and Budgetary Accounting

The Board of Directors annually adopts an operating budget. The operating budgets are prepared on the accrual basis to match the operating statements.

Investments

Investments consist of LAIF (State of California pooled investment fund) and savings accounts. Investments are stated at fair value. Such investments are within the State statutes and the District's investment policy.

KANAWHA WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 for the year ended December 31, 2025

2. Summary of Significant Accounting Policies, continued:

Net Position

Net position is classified in the following categories:

Net Investment in capital assets – groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted – presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted – represents the net position of the District, which are not restricted or invested in capital assets net of related debt.

3. Cash and Investments:

Cash and investments as of December 31, 2025 consisted of the following:

Petty cash	\$ 150
Deposits with financial institutions:	
Checking	107,426
Money Market	<u>1,522,970</u>
Total cash	<u>1,630,546</u>
Investments in Local Agency	
Investment Fund (LAIF)	<u>659,138</u>
Total investments	<u>659,138</u>
Total cash and investments	<u>\$2,289,684</u>

KANAWHA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2025

3. Cash and Investments, continued:

Cash and cash equivalents are classified in the accompanying financial statements as follows:

Cash and investments	\$2,010,276
Restricted cash and cash investments	<u>279,408</u>
Total cash and cash equivalents	<u>\$2,289,684</u>

Deposits:

At December 31, 2025, the carrying amount of the District's deposits was \$1,630,396 and the balance in financial institutions was \$1,649,002. Of the balance in the financial institutions, \$250,000 was covered by federal depository insurance and \$1,399,002 was collateralized as required by State Law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other agencies, but not in the name of the District.

Restricted cash:

The District had \$279,408 in cash at December 31, 2025 established for the PNC Bank loan reserve. The funds are held at the bank.

KANAWHA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2025

3. Cash and Investments, continued:

Investments:

California statutes authorize the District to invest in a variety of credit instruments as provided for in the California Government Code Section 53600, Chapter 4 – Financial Affairs. The Government Code allows investments in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor’s or P-1 by Moody’s Commercial Paper Record, bankers’ acceptances, repurchase agreements, medium-term corporate notes, mutual funds and the State Treasurer’s Local Agency Investment Fund (LAIF).

	<u>Carrying Amount</u>	<u>Maturity – 12 Months or Less</u>
Balance, December 31, 2025		
Local Agency Investment Fund (LAIF)	\$ <u>659,138</u>	\$ <u>659,138</u>

Pursuant to Government Accounting Standards Board Statement 3, the investment in LAIF is not classified in categories of credit risk. The District’s funds in LAIF are invested in a diversified portfolio (of underlying investments e.g. U.S. Treasury obligations) such that it considers the risk of material loss to be minimal. The funds held in LAIF can be withdrawn on demand. The District reports its investments in LAIF at fair value.

KANAWHA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2025

4. Capital Assets:

Changes in capital assets for the year ended December 31, 2025 are as follows:

	<u>Balance</u> <u>1/1/25</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/25</u>
Land	\$ 42,856	\$ -	\$ -	\$ 42,856
Distribution system	8,244,001	-	1,350	8,242,651
General plant	276,850	-	-	276,850
Field equipment	235,205	-	-	235,205
Office furniture & eq.	38,419	-	15,142	23,277
Vehicles	<u>131,583</u>	<u>-</u>	<u>1,297</u>	<u>130,286</u>
	<u>\$8,968,914</u>	<u>\$ -</u>	<u>\$ 17,789</u>	<u>\$8,951,125</u>

5. Retirement Plans:

The District has two separate retirement plans. For the first plan the District contributes to an investment plan at the rate of 7% of each employee's salary plus 6.2% in lieu of Social Security. In 2025 the District's contributions amounted to \$21,630.

For the second plan, each employee contributes to a non-contributory deferred compensation plan in lieu of Social Security at the rate of 7.65%.

Ineligible employees (temporary or part-time) will have contributions made on their behalf for the employer's share of Social Security and will pay into Social Security at the rate set by law. All employees will receive Retirement or Social Security benefits effective upon their first day of employment.

KANAWHA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2025

6. Long-term Debt:

The following is a summary of changes in long-term debt for the year ended December 31, 2025:

	<u>2024</u>	<u>New Debt</u>	<u>Debt Retired</u>	<u>2025</u>	<u>Current Portion</u>
PNC Bank	\$ <u>3,028,670</u>	\$ <u>-</u>	\$ <u>248,650</u>	\$ <u>2,780,020</u>	\$ <u>253,659</u>

PNC Bank Loan

On November 25, 2020 the District entered into a \$3,969,493 loan with BBVA Bank (later converted to PNC Bank) to refinance the CVP Construction loan for Water Services Contractors. This loan requires an annual payment (December 15) of \$309,816 including 2.02% interest for 15 years, through 2035.

A loan reserve of \$46,472 is required on the loan per the loan covenant. At December 31, 2025, the District has reserved \$279,408 in restricted cash to meet loan requirement.

The future annual maturities of long-term borrowings as of December 31, 2025 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 253,659	\$ 56,157	\$ 309,816
2027	258,783	51,033	309,816
2028	264,010	45,805	309,815
2029	269,343	40,472	309,815
2030	274,784	35,032	309,816
2031-2035	<u>1,459,441</u>	<u>89,621</u>	<u>1,549,062</u>
	<u>\$2,780,020</u>	<u>\$ 318,120</u>	<u>\$ 3,098,140</u>

KANAWHA WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 for the year ended December 31, 2025

7. Net Position:

Net investment in capital assets		\$ 3,064,632
Restricted:		
Loan reserve		279,408
Unrestricted:		
Board designated:		
Operation and mtce	\$ 87,000	
Water service contract	13,000	
O&M Def. Res.	<u>196,206</u>	
	296,206	
Undesignated - deficit	(<u>851,447</u>)	(<u>555,241</u>)
		<u>\$ 2,788,799</u>

KANAWHA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2025

8. 2026 Water Supply Outlook:

On February 26th, 2026, Reclamation issued its initial official allocation announcement at *100% supply for North Of Delta Water Service Contractors*, and allocations may be adjusted as additional hydrologic data becomes available through the season. At present, the District does not anticipate the need to pursue supplemental water transfers outside of our contract to meet anticipated demands, which helps support rate stability for District landowners and water users. As always, the District will continue to provide timely updates regarding water supply conditions and allocation announcements as the season progresses. With Sac River Settlement Contractors receiving full allocations, this may also result in additional flexibility and availability of transfer water through existing programs, if such water is needed later in the season.

The District continues to closely monitor hydrologic conditions and announcements from the Bureau of Reclamation (Reclamation) and the California Department of Water Resources (DWR) as we enter the 2026 irrigation season. Early indicators for the 2026 Shasta Reservoir water year are generally favorable, with reservoir storage and watershed conditions tracking at or near seasonal averages at this time. Based on current information, Shasta Lake storage is in a stable position relative to historical averages, and snowpack conditions within the Sacramento River watershed are providing a reasonable level of supply assurance for the upcoming irrigation season.

9. Risk of Loss:

Kanawha Water District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. During the 2025 fiscal year, the District purchased certain commercial insurance coverages to provide for these risks.

10. Subsequent Events:

Management has evaluated subsequent events through March 16, 2026, the date these December 31, 2025 financial statements were available to be issued.

KANAWHA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2025

11. Post-employment Benefits Other Than Pensions (OPEB):

District policy states PERS health insurance plan is available to retired exempt employees who have been exempt District employees for a minimum of 20 years and have reached the age of 70 years old at retirement.

The District did not implement GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* (OPEB) – which establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, assets, deferred outflows and deferred inflows for retirement health benefits.

As of December 31, 2025, no OPEB liability and related accounts for retiree health care insurance are shown on the financial statement since the District has not obtained an actuarial valuation.

SUPPLEMENTAL INFORMATION

KANAWHA WATER DISTRICT
OPERATING EXPENSES
for the year ended December 31, 2025

Source of Supply:		
Bureau costs	\$1,075,798	
TCCA conveyance	405,359	
Fees	67,473	
Other	<u> -</u>	
		\$1,548,630
Transmission and distribution:		
Salaries	127,281	
Employee benefits	42,873	
Vehicle operation & mtce.	12,335	
Repairs & maintenance	8,239	
Shop supplies	1,364	
Insurance	19,490	
Telephone	5,302	
Herbicide	2,771	
Lateral improvement	93,457	
Other	<u>15,693</u>	
		328,805
Administrative:		
Salaries	190,480	
Employee benefits	83,223	
Directors' compensation	5,400	
Bonds	257	
Dues and memberships	5,865	
Accounting	10,125	
Legal	13,253	
Postage	1,268	
Office	19,699	
Travel and education	1,255	
Telephone	5,302	
Utilities	<u>11,281</u>	
		347,408
Depreciation		<u>133,982</u>
		<u>\$2,358,825</u>

