

KANAWHA WATER DISTRICT

**REPORT ON ACCOUNTING CONTROLS
AND PROCEDURES**

December 31, 2025

ROBERT W. JOHNSON
Certified Public Accountant



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March 16, 2026

To the Board of Directors
Kanawha Water District
Willows, California

In planning and performing our audit of the financial statements of the business-type activities of Kanawha Water District as of and for the year ended December 31, 2025, in accordance with auditing standards generally accepted in the United States of America, we considered Kanawha Water District's system of internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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 may exist that have not been identified. We have enclosed other recommendations for your consideration.

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

Sincerely,

Robert W. Johnson, An Accountancy Corporation

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Citrus Heights, California
March 16, 2026

1. Operating Results:

	<u>Year Ended</u>		<u>Favorable/ (Unfavorable)</u>
	<u>December 31, 2025</u>	<u>December 31, 2024</u>	
Operating revenues	\$ 1,802,867	\$ 1,984,730	\$(181,863)
Operating expenses	<u>2,358,825</u>	<u>2,286,181</u>	<u>(72,644)</u>
Operating income (loss)	(555,958)	(301,451)	(254,507)
Other revenue (expense)	732,108	511,745	220,363
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ 176,150</u>	<u>\$ 210,294</u>	<u>\$(34,144)</u>
Cash	<u>\$ 2,289,684</u>	<u>\$ 2,261,036</u>	<u>\$ 28,648</u>

Observations:

- 10% decrease in water sales in 2025.
- 2025 “other revenue” includes a \$224,159 refund from U.S.B.R. for 2023 water surplus.
- 2025 net income decreased by 16%.
- Cash decreased slightly.

2. Prior Year Recommendation:

Long Range Planning:

Recommendation:

We recommended that the District develop a Capital Improvement Plan (CIP) budget for long range planning, capital budgeting and target goal setting. Ultimate goal is to plan for and ultimately boost financial reserves.

Follow up:

In 2025 the District established a five (5) year CIP budget for 2026-2030 aimed at enhancing the District's distribution, storage, technology and accounting systems. The CIP budget provides project details, timelines, cost and ranks projects by priority level.

3. Water Prepayments:

Observation:

Customers must pay a 25% water prepayment at the beginning of the water season. After the prepayment is used up, District accounting office bills the customer for monthly water use.

Recommendation:

To improve the District's cash flow and to simplify its accounting and workflow processes, consider increasing the prepayment requirement, perhaps to 50%.