

**GRIZZLY RANCH COMMUNITY
SERVICES DISTRICT**

**REPORT ON ACCOUNTING CONTROLS
AND PROCEDURES**

June 30, 2020



Robert W. Johnson
an accountancy corporation

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October 26, 2020

To the Board of Directors
Grizzly Ranch Community Services District
Portola, California

We have audited the financial statements of Grizzly Ranch Community Services District as of and for the year ended June 30, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirements for California Special Districts.

In planning and performing our audit of the financial statements of Grizzly Ranch Community Services District as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Grizzly Ranch Community Services District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the effectiveness of the District's internal controls. Accordingly, we do not express an opinion on the effectiveness of the District's internal controls.

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 entity'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 second 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 and Board of Directors 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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1. Operating Results:

	June 30, 2020		June 30, 2019	
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
Operating revenues	\$ 270,946	\$ 282,001	\$ 214,279	\$ 222,110
Operating expenses	<u>286,702</u>	<u>345,920</u>	<u>233,694</u>	<u>337,545</u>
Operating income (loss)	(15,756)	(63,919)	(19,415)	(115,435)
Other income and expenses	<u>2,156</u>	<u>2,166</u>	<u>275</u>	<u>286</u>
Net income (loss) before capital contributions	<u>\$(13,600)</u>	<u>\$(61,753)</u>	<u>\$(19,140)</u>	<u>\$(115,149)</u>

Observations:

- District had \$75,353 loss in 2019-20 which was improvement from \$134,289 loss in 2018-19 fiscal year. District realized \$100,000 recovery income in 2019-20 from legal settlement.

60+ lots in default (assessment revenue) still plagues the District. Accounts receivable increased by \$125,000 in 2019-20 which harms cash flow.

2. Prior Year Recommendation:

Investments:

Recommendation:

We recommended that the District investigate investment options such as the California State Treasurer's Local Agency Investment Fund (LAIF).

Follow-up:

The District's Treasurer researched investment options for excess (non-operating) cash. The Board ultimately decided to invest non-operating and Wastewater Project loan proceeds in bank Certificates of Deposit and two brokerage accounts (one for District; other for Wastewater Project). The brokerage accounts are invested in Money Market funds.

The District has recently established a working advisory group to address any real time investment needs that may arise. This group includes a member of the community, finance committee chair and the General Manager.

A Finance Committee was also recently formed. The Finance Committee reports to the Board of Directors at large.

3. Capital Assets Policy:

Observation:

The District does not have a fixed assets capitalization policy in its Policy Series. Such a policy would establish uniform guidelines for the accounting and reporting of capital assets.

Recommendation:

To be considered for capitalization, and thus subject to depreciation, an asset must fulfill several characteristics, such as the ones given below:

- the asset must be acquired (purchased, constructed or donated) for use in operations and not for investment or sale
- the asset must have a useful life of more than one year
- the asset must meet the capitalization thresholds, amounts vary by District, sometimes set at \$5,000

General Manager and the Board can decide what policy is appropriate. Goal is for consistency and accuracy of capital assets in future.

4. Depreciation Provision:

Observation:

The annual (water and sewer) depreciation provision for the District is about \$172,000. Currently, depreciation expense is recorded annually, at year end, by the auditors.

Recommendation:

Record a monthly depreciation provision on the District's statement of income. Estimate can be 1/12 of annual provision; and will be "trued-up" at year end. This will result in more accurate monthly reporting of expenses.

5. Debt Service Reserve (Equity):

Observation:

The District has a \$50,000 debt service reserve requirement – backed by a bank certificate of deposit. No matching debt equity reserve has yet been formally established by the Board.

Recommendation:

Establish (memorialize) a \$50,000 debt service (equity) reserve for the twelve-year term of the Wastewater Project loan. Reserves the District does have are:

1. Working Capital Reserve Fund
2. Emergency Reserve Fund
3. Capital Replacement / System Improvement Reserve Fund, and
4. Rate Stabilization Reserve Fund