



# COMMUNITY SERVICES DISTRICT

## Finance Sub-Committee Special Meeting Minutes

December 8, 2020 / 10:00 a.m.

*On March 4, 2020, Governor Newsome declared a state of emergency due to the threat of COVID -19. In light of the ongoing threat of COVID-19, on March 12, 2020, Governor Newsom issued an Executive Order N-25-20 to temporarily grant state and local agencies certain powers to aid in the implementation of social distancing measures recommended by state and local public health officials. In accordance with Executive Order N-25-20, the Grizzly Ranch Community Services District Finance Sub-Committee Special meeting scheduled on December 8, 2020 will be conducted remotely. Please refer to the call-in availability information for participation access to this meeting.*

Call in is available for this meeting:

User Name	Participant Code	Toll Free Dial-In	Toll/Int Dial-in
Grizzly Ranch CSD	8535951	1-866-906-0040	1-857-288-2640

- A. Roll call:** Chair Stephen Tange, Director John Reynolds, and Director John Saefke established a quorum. GRCS D Treasurer, Bob Coler, Bob Johnson and Mary Cummins from Robert Johnson Accounting, GRCS D General Manager, Aaron Corr and GRCS D Office Administrator Carol Logan also in attendance.
- B. Call to order:** 10:00 a.m.
- C. Public Comments:** None
- D. Special Item: Discuss ownership and accounting treatment of the retrofit STEP tanks for possible recommendation to the CSD Board:**

Discussion was held. GRCS D Treasurer, Bob Coler asked about a comment at a previous meeting relating the cost of the retrofits of the grinder systems to the new dual tank septic systems. He indicated that those costs were going to be expensed. The tanks, the installation of those tanks and the ownership of that investment would revert to the individual property owner and would be expensed and off GRCS D’s books. He asked if GRCS D should be capitalizing this investment and depreciating it over the useful life, effectively retaining ownership of that asset? One of the decisions regarding the ownership issue is being able to depreciate cost of a retrofit unit, approximately \$14-\$15,000 and depreciate over time. This would help GRCS D in subsequent years to justify assessment rates, since GRCS D is looking at modifying our assessment rate configuration in the future. The opportunity is to recognize the expense as part of the justification of assessment levels.

Bob Johnson and Mary Cummins from Johnson Accountancy, indicated that the audit was completed with Aaron Corr, General Manager. The audit followed the basis of accounting to expense the \$55,000.00 which was spent on Phase 2. The auditors feel that the problem is that there isn’t justification for putting it on the Balance Sheet as an asset as it doesn’t appear to be any ownership interest.

Another aspect of this, besides expensing to the Profit and Loss, if we spend the money would we take the full amount of the loan liability and capitalize it of over \$700,000.00 and carry a deferred cost on the Balance Sheet and thus be amortized? Then the expense in 2020 would be greater than \$55,000.00. It would be \$16,000 x 8 retrofits for 2020. This is the auditor's position given the mechanics of the accrual basis of recording the expense. Is there any justification to put this on the Balance Sheet if in fact there is no ownership interest? The expense involved can go one of two different ways; what the audit came up with and General Manager, Aaron Corr is the expense of \$55,000.00 spent and this called a cash basis of recording. The other method would be to set it up on an accrual basis. A solution with the Board and their wisdom could decide that they do want it to go to the Balance Sheet. The auditors prefer that the \$700,000.00 eventual investment would be set up as an estimated liability and it would show up in the Profit and Loss and randomly spread over the cost of the retrofit. The entry would be on one side a deferred cost on the Balance Sheet and there would be a long-term liability of \$700,000.00. Each year when a retrofit was complete, the General Manager, Aaron Corr would book \$16,000.00 for each one of the retrofits and make an offsetting entry to reduce the liability. The Board might take this on and want to book the total. From an accounting point of view, it would be the most accurate certainly, from a Profit and Loss point of view because then you are saying that every one of the retrofits will be costed at the \$16,000.00 on the Profit and Loss Statement.

Comments from Finance Sub-Committee:

Question: How do we treat the meters; do we own them and how are the STEP tanks any different than the water meters.

General Manager, Aaron Corr defined ownership on systems both water and sewer. On the water side, anything from the meter to the residence is the property owners. The meter to the road through the system is GRCS D's. So, in case of the meters, we would and do own the meters. That is part of the connection fee of new builds and the purchase cost and setting of those meters. For the grinder pumps, the vault that the pump sets in is owned by property owner and the pumping system, (the pump and the control panel), is maintained by GRCS D. Anything from the valve to the road, the vault and the piping from the house to the vault are the property owners. What GRCS D currently has set up by definition and resolution was based on other districts. Basically, for the STEP tanks, the homeowner would be the owner of the tank and maintain responsibility of the tank itself and infrastructure from the residence to the tank and then the GRCS D would be in charge of maintenance and repair of the pump system that sits inside the tank and the control panel and anything from the valve to the road. Grinder vaults are the homeowners and the tanks would be the homeowners.

GRCS D by resolution could change the ownership of the tanks. We own the tanks much like we own the pump system and the water meters. The Board could make that change and we could own them and include them on our capital replacement when they need to be replaced.

If the Board determines we have ownership, the auditors would be much more agreeable to going the Balance Sheet approach. As recommended by the auditors, GRCS D need Capital Asset Policies to address capital asset concerns in the future. Would GRCS D agree that there would be capitalization on the retrofits for 2020 and the \$55,000.00 remain as an expense or is it worthwhile to go back and re do the \$55,000.00? GRCS D could capitalize as we move on. The auditors still need an assurance that there is a property interest.

General Manager Aaron Corr discussed intent of Co-bank loan. Our primary concern with the wastewater project was to retrofit the waste water treatment plant to get rid of volume. Our primary goal in the beginning was to take care of the treatment plant. Our second phase was to take the funds and start being proactive in retrofitting grinder pumps to STEP tanks to better the quality coming to the plant to be able to treat it. This benefited the plant, the district and the existing permit we have from the state to treat the water. The goal is to better refine the treatment by replacing the grinder pumps and also

the high expense of replacing grinder pumps. He also asked a question as to what are we going to do about the 4 new constructions we had in the last couple of years. Right now, they are installing STEP tanks at cost and having ownership. How do we stay uniform and/or a divided approach?

The Finance Sub Committee needs to report to the Board whether to say no and leave the audit as is and not restate 2020 and/or put in all the right documentation clearly together for the auditors to make a change. Then would the auditors be willing to wait for that decision then reissue the 2020 Audit statements if that is the decision? Would it be retroactive to July 1, 2020?

Comments from the Finance Sub-Committee: None

**Action to be Taken:** Proposal/ Definitive process from the Finance Sub-Committee to the Board of Directors to keep or change the Audit through new criteria being meet on property ownership to be voted on.

**E. Special Item: Readdressed Approval of Minutes from Finance Sub-Committee Meeting on August 27, 2020.**

Chair Stephen Tange called for a motion to approve the Finance Sub Committee Minutes for August, 27, 2020. Motion was made by Director John Reynolds; it was seconded by Director John Saefke. The Motioned passed unanimously by a roll call vote.

Meeting adjourned at 10:43 a.m.