

GRIZZLY RANCH COMMUNITY SERVICES
DISTRICT

PORTOLA, CALIFORNIA

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT

For the Year Ended
June 30, 2017

GRIZZLY RANCH COMMUNITY SERVICES DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Grizzly Ranch Community Services District

Report on the Financial Statements

We have audited the accompanying financial statements of Grizzly Ranch Community Services District, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Modified Opinion

Accounting principles generally accepted in the United States of America require that property such as land be measured at fair value at the time of acquisition and be recorded on the face of the financials. Management has informed us that Grizzly Ranch Community Services District owns five lots within the community that are not recorded in the District's financials. The effect of this departure on the financial statements has not been determined.

Modified Opinion

In our opinion, except for the basis noted in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Grizzly Ranch Community Services District as of June 30, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion, and Analysis 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 26, 2018, on our consideration of the Grizzly Ranch Community Services District'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 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 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 Grizzly Ranch Community Services District's internal control over financial reporting and compliance.

McClintock Accountancy Corporation

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
February 26, 2018

GRIZZLY RANCH COMMUNITY SERVICES DISTRICT

Exhibit A

STATEMENT OF NET POSITION

June 30, 2017

ASSETS

Current Assets:

Cash and cash equivalents	\$	538,970
Accounts receivable, net allowance for doubtful accounts of \$13,687		84,667
Prepaid expenses and other current assets		<u>4,687</u>
Total Current Assets		628,324
Net property, plant, and equipment (Note 3)		<u>3,598,352</u>
Total Assets	\$	<u><u>4,226,676</u></u>

LIABILITIES

Current Liabilities:

Accounts payable	\$	24,437
Accrued liabilities		<u>11,048</u>
Total Liabilities		<u>35,485</u>

NET POSITION

Net investment in capital assets (Note 4)		3,598,352
Unrestricted		<u>592,839</u>
Total Net Position		<u>4,191,191</u>
Total Liabilities and Net Position	\$	<u><u>4,226,676</u></u>

The accompanying notes are an integral part of this statement.

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GRIZZLY RANCH COMMUNITY SERVICES DISTRICT

Exhibit B

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017

OPERATING REVENUES	
Water and sewer service	\$ 410,610
	<u>410,610</u>
Total Operating Revenue	<u>410,610</u>
OPERATING EXPENSES	
Salaries and wages	124,494
Water maintenance	11,576
Sewer maintenance	266,867
General repairs and maintenance	13,548
General and administrative	109,820
Utilities	23,501
Depreciation and amortization	191,455
	<u>741,261</u>
Total Operating Expenses	<u>741,261</u>
Net Operating (Loss)	<u>(330,651)</u>
NON-OPERATING REVENUES AND EXPENSES	
Interest income and penalty fees	20,354
Other revenues	4,763
	<u>25,117</u>
Total Non-Operating Revenues and Expenses	<u>25,117</u>
SPECIAL ITEMS	
Impairment loss (Note 3)	<u>186,667</u>
Decrease in Net Position	(492,201)
Net Position, Beginning of Year	<u>4,683,392</u>
Net Position, End of Year	<u><u>\$ 4,191,191</u></u>

The accompanying notes are an integral part of this statement.

GRIZZLY RANCH COMMUNITY SERVICES DISTRICT

Exhibit C

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017

Cash Flows from Operating Activities:	
Receipts from customers	\$ 377,713
Payments to suppliers	(470,571)
Payments to employees for salaries and benefits	(113,445)
	<u>(206,303)</u>
Net Cash Used by Operating Activities	
	<u>(206,303)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of fixed assets	(100,086)
Other receipts net of refunds	25,117
	<u>(74,969)</u>
Net Cash Used by Capital and Related Financing Activities	
	<u>(74,969)</u>
Net Decrease in Cash and Cash Equivalents	(281,272)
Cash and Cash Equivalents at Beginning of Year	820,242
	<u>820,242</u>
Cash and Cash Equivalents at End of Year	<u>\$ 538,970</u>
Reconciliation of Net Operating Gain to Net Cash Used by Operating Activities:	
Net Operating Loss	\$ (330,651)
Adjustments to Reconcile Net Operating Gain to Net Cash Used by Operating Activities:	
Depreciation	191,455
Change in assets, liabilities and deferred inflows of resources:	
Accounts receivable	(32,898)
Prepaid expenses and deposits	(4,688)
Accounts payable and accrued liabilities	(29,521)
	<u>(29,521)</u>
Net Cash Used by Operating Activities	<u>\$ (206,303)</u>

The accompanying notes are an integral part of this statement.

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GRIZZLY RANCH COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

1. Summary of Significant Accounting Policies

The Grizzly Ranch Community Services District (the "District") was established in 2003 and was managed by Plumas County until August 1, 2016 when the District became an independent District operated under an elected Board of Directors. The District's main purpose is to improve and maintain water quality and reliability to the community.

The District's financial statements include the accounts of all operations. The accounting policies of the District conform to U.S. generally accepted accounting principles, as applicable to governmental type organizations. The following is a summary of such significant accounting policies:

- A. The financial statements of the District consist only of an enterprise fund. The District has no oversight responsibility for any other government entity since no other entities are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing Board.
- B. The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows. The accounting objective of this measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with the District's activities are reported.
- C. Property, plant and equipment, when acquired, is recorded at cost and depreciated using the straight-line method over their estimated useful lives ranging from 5 to 50 years. The District currently owns five lots within the community; however, the valuation of these lots at the time of acquisition has not been determined. Consequently, the lots are not recorded in the District's financials. This is a departure from generally accepted accounting principles.
- D. Net position represents the District's financial and capital resources, and are calculated as the difference between assets and liabilities. Net Position for enterprise funds are presented in three components:

Net investment in capital assets: Capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances on any debt that is attributable to acquisition, construction and improvement of capital assets.

Restricted: Net Position whose use is subject to constraints are imposed externally by creditors, grantors, contributors, or laws and regulations of other governments, or

GRIZZLY RANCH COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

those that are imposed externally by law through constitutional provisions or enabling legislation.

Unrestricted: Net Position that do not meet the definition of “restricted” or “net investment in capital assets.”

- E. For financial statement presentation purposes, transactions deemed by management to be ongoing, major, or central to the operation of the District are reported as operating revenues and expenses. Peripheral or incidental transactions, including investment income, special assessments, and expense reimbursements are reported as non-operating revenues and expenses.
- F. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.
- G. For the Statement of Cash Flows (Exhibit C), the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.
- H. The carrying amounts of financial instruments, including cash, accounts receivable and accounts payable approximate their fair value due to the short term maturities of these instruments.
- I. The District does not have a pension plan for its employees.

2. Cash and Investments

A summary of cash and investments held by the District at June 30, 2017 is as follows:

	2017
Plumas County Cash Pool	\$ 538,691
Petty cash	279
	<u>\$ 538,970</u>

Deposits:

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. All District deposits in excess of insurance from the Federal Deposit Insurance Corporation are collateralized with

GRIZZLY RANCH COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

eligible securities, in amounts equal to at least 110% of the District's carrying value of the deposits. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. Such collateral, as permitted by the State of California, is held in the bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds.

3. Property, Plant and Equipment

A summary of changes in property and equipment during the fiscal year ending June 30, 2017 are as follows:

	June 30, 2016	Additions/ Depreciation	Disposals/ Transfers *	June 30, 2017
Property not depreciated:				
Construction in progress	\$ -0-	\$ 100,086	\$ -0-	\$ 100,086
Total property not depreciated	<u>-0-</u>	<u>100,086</u>	<u>-0-</u>	<u>100,086</u>
Property and equipment being depreciated:				
Water – Plant	330,100	-0-	-0-	330,100
Water – Distribution	3,051,538	-0-	-0-	3,051,538
Sewer – Plant	1,600,000	-0-	(186,667)	1,413,333
Sewer – Distribution	747,000	-0-	-0-	747,000
Total property and equipment being depreciated	<u>5,728,638</u>	<u>-0-</u>	<u>(186,667)</u>	<u>5,541,971</u>
Less accumulated depreciation for:				
Water	(1,129,525)	(82,072)	-0-	(1,211,597)
Sewer	(722,725)	(109,383)	-0-	(832,108)
Total accumulated depreciation	<u>(1,852,250)</u>	<u>(191,455)</u>	<u>-0-</u>	<u>(2,043,705)</u>
Total property and equipment being depreciated, net	3,876,388	-0-	(378,122)	3,498,266
Property and equipment, net	<u>\$ 3,876,388</u>	<u>\$ 100,086</u>	<u>\$ (378,122)</u>	<u>\$ 3,598,352</u>

*Includes impairment loss of \$186,667 due to an unused sewer treatment facility.

GRIZZLY RANCH COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

4. Net Position: Net Investment in Capital Assets

Net investment in capital assets is increased upon acquisition of property and equipment acquired by the District and is decreased by depreciation expense, impairment expense and disposition of assets. Net investment in capital assets for the year ended June 30, 2017 is summarized as follows:

	<u>2017</u>
Net Investment in Capital Assets, Beginning of Year	\$ 3,876,388
Increase in construction in progress	100,086
Impairment loss	(186,667)
Net change in accumulated depreciation	<u>(191,455)</u>
Net Investment in Capital Assets, End of Year	<u>\$ 3,598,352</u>

5. Sources of Revenue

For the fiscal year ended June 30, 2017, the District received approximately 21% or \$86,228 from Grizzly Ranch Investors. All other sources of revenue for the year ended were not considered by management to be individually significant to overall operations.

6. Subsequent Events

Subsequent events have been evaluated by management through February 26, 2018, the date that the statements were available for issuance.

GRIZZLY RANCH COMMUNITY SERVICES
DISTRICT

PORTOLA, CALIFORNIA

INDEPENDENT AUDITORS' 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

June 30, 2017

McCLINTOCK ACCOUNTANCY CORPORATION

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To the Board of Directors
Grizzly Ranch Community Services District

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 Grizzly Ranch Community Services District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 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.

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 deficiencies or material weaknesses. We believe that the following deficiencies constitute control deficiencies.

Segregation of Duties

Segregation of duties is often difficult to accomplish at an organization with a small accounting staff, however, proper segregation of duties is a key control which helps to prevent errors and fraud. The basic premise is that one individual

should not have access to both physical assets and the related accounting records or to all phases of a transaction. Currently, each member of management, the administrative clerk, and the accountant all have access to the QuickBooks file.

We suggest the District limit QuickBooks access only to individuals inputting data.

Financial Statement Disclosures

Generally accepted auditing standards require that auditors report in writing, among other things, certain matters relating to the preparation of full-disclosure financial statements.

As part of the terms of the auditing engagement, the District has relied upon its outside auditing firm to assist with the drafting of the accrual basis financial statements and related note disclosures. As a result of the professional standards noted above, and absent the ability to take responsibility for the financial statements by demonstrating that employees or agents of the District have the skills, knowledge and experience to do so, having the outside auditing firm perform this work is now considered to be a deficiency in the District's control system.

Management Discussion and Analysis

The Management Discussion and Analysis is required to be presented to supplement the basic financial statements. During the prior year, the accounting records were maintained by Plumas County on the cash basis of accounting. Since the Management Discussion and Analysis requires year over year comparisons, the comparison of prior year cash basis to current year accrual basis would be misleading. For this reason, management has decided to omit this required supplementary information in the current year. Meaningful comparative information will be available for the subsequent audit, at which time the Management Discussion and Analysis will be provided.

Recognition of Acquired Lots

Accounting principles generally accepted in the United States of America require that property such as land be measured at fair value at the time of acquisition and be recorded on the face of the financials. The District currently owns five lots within the community; however, management was unable to provide the fair value of the lots at the time of acquisition, resulting in a modified opinion. We suggest management hire an expert to provide a valuation of the lots at the date of acquisition in order to remove the modified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain laws, regulations, and contracts, noncompliance of which could have a direct and material effect on the determination of financial statement amounts. 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McClintock Accountancy Corporation

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
February 26, 2018