

**GRIZZLY RANCH COMMUNITY  
SERVICES DISTRICT**

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**REPORT ON ACCOUNTING CONTROLS  
AND PROCEDURES**

**June 30, 2023**

**ROBERT W. JOHNSON**  
**Certified Public Accountant**



Robert W. Johnson  
*an accountancy corporation*

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October 25, 2023

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

In planning and performing our audit of the financial statements of the business-type activities of Grizzly Ranch Community Services District as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered Grizzly Ranch Community Services 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 preceding 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 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  
October 25, 2023

1. Operating Results:

	June 30, 2023		June 30, 2022	
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
Operating revenues	\$ 356,440	\$ 259,395	\$ 286,982	\$ 260,898
Operating expenses	<u>370,648</u>	<u>220,244</u>	<u>251,439</u>	<u>261,730</u>
Operating income (loss)	( 14,208)	( 39,151)	35,543	( 832)
Other income and expenses	<u>27,674</u>	<u>( 4,185)</u>	<u>17,633</u>	<u>( 6,490)</u>
Net income (loss) before capital contributions	\$ <u>13,466</u>	\$ <u>34,966</u>	\$ <u>53,176</u>	\$ <u>( 7,322)</u>

Observations:

- The District's new revenue stream-water usage volume and base has increased water operating revenues by \$69,000.
- The District's operating expenses increase was primarily due to rate study expenses and personnel costs.

2. Prior Year Recommendations:

A. Investment Accounting:

Recommendation:

We recommended that the District follow generally accepted accounting principles (GAAP), and record unrealized gains and losses of securities on the income statement rather than the balance sheet.

We further recommended that the District consider discontinuing the financial statement reporting of unrealized investment gains and losses (until such gains and/or losses are realized.)

Follow up:

The District decided to continue current methodology of reporting unrealized gains and losses of securities on the balance sheet. At 6/30/23 the unrealized loss on securities reported on the balance sheet was \$5,220, an amount deemed immaterial to the financial statements taken as a whole, and not sufficiently material to represent a reportable GAAP departure.

B. Connection Fee Reserve:

Recommendation:

The District collects \$7,014 for each new water (\$3,437) and sewer (\$3,577) connection. Connection fees collected and expenses chargeable against the fees collected, e.g., meter sets, are tracked by the District's Business Manager on an Excel spreadsheet.

We recommended that the Board of Directors consider establishing an equity reserve account for (net) water and sewer connection fees collected. District's legal counsel can clarify the maximum holding period, if any, and how connection fees can be expended. Our understanding is that such fees can be expended solely for the purposes for which the charges were collected.

The District is not required to hold these fees in a separate bank account since subledger tracking (Excel spreadsheet) is maintained by the District. But Board should consider creating an equity reserve account, similar to the GL Acct. 4000-06 - \$50,000 Debt Service Reserve, for the net balance of unexpected connection fees.

B. Connection Fee Reserve, continued:

Follow up:

General Manager advised that District contacted legal counsel last year and were updated as to any restrictions associated with the spending and holding period of connection fees. At this time, District staff is tracking connection fee receipts and expenses in Excel. The Board of Directors is currently awaiting the results of the rate study before formally establishing a connection fee reserve.

C. Budget (for Depreciation:)

Observation:

The District's annual operating budget excludes depreciation. Although depreciation is a non-cash expense, it is still a material and significant expense line item as it represents the estimate of annual wear and tear on the District's Property, Plant and Equipment. Annual depreciation for water and sewer totaled \$176,301 in 2022-23.

Recommendation:

We recommend that the District's budget include depreciation to improve the accuracy of both the budget and the budget-to-actual financial statements.

