

ICR SANITARY DISTRICT
AUDIT REPORT
YEARS ENDED JUNE 30, 2023 AND 2022

**ICR Sanitary District
Financial Statements
Years Ended June 30, 2023 and 2022**

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ICR SANITARY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the ICR Sanitary District's (the "District") Annual Financial Report presents an analysis of the District's financial performance during the fiscal years ended June 30, 2023 and 2022. This information is presented in conjunction with the reviewed basic financial statements that follow this section.

HISTORY AND BACKGROUND

The District was established December 11, 1995, as a special district under provisions of Arizona Revised Statutes Title 48. The District operates and maintains the wastewater treatment plant for the Inscription Canyon Ranch, Whispering Canyon, Preserve at the Ranch, and Talking Rock Ranch developments in Yavapai County, Arizona, under the direction of an elected three-member board of directors.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2023

- The District's net position increased by 10.75 %
- Operating revenues increased by 3.31 %
- Operating expenses decreased by 12.15 %

The District uses fund accounting to record operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Therefore, its financial statements are designed to provide the reader with a broad overview of the District's finances in a manner similar to a private-sector business.

The primary source of revenue for the District is the ad valorem tax on property owners of the District, as well as quarterly billed user fees.

During the year ending June 30, 2020, the District completed construction of an expansion to the wastewater treatment plant. The plant capacity was increased from a rated 62,500 gallons per day to approximately 90,000 gallons per day. The construction was performed by Santec Corporation, the company that constructed the initial plant of 62,500 gallon per day capacity. The total cost of the project exceeded \$850,000.

The lawsuits filed by Talking Rock Land, LLC in 2018 and 2019 were settled September 15, 2021. Talking Rock Land was awarded settlement fees of \$325,000, of which \$250,000 was paid by insurance, and the remaining \$75,000 was paid by the District in October 2021.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following two parts: Management's Discussion and Analysis and Basic Financial Statements.

USING THE BASIC FINANCIAL STATEMENTS

The financial statements of the District report information utilizing the full accrual basis of accounting. The financial statements conform to the accounting principles that are generally accepted in the United States of America.

The statement of net position reports the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities).

The statement of revenues, expenses, and changes in net position identifies the District's revenues and expenses for the fiscal years ended June 30, 2023 and 2022. This statement informs the reader of the District's operations over the past years and can be used to determine whether the District has recovered all of its actual and projected costs through fees and other revenue sources.

The statement of net position and statement of revenues, expenses, and changes in net position provide an indication of the District's financial condition and also identifies if the financial condition of the District has improved during the last two fiscal years. An increase in the District's net position over time typically indicates an improvement in financial condition.

The statement of cash flows provides information on the District's cash receipts, cash payments, and changes in cash resulting from operations, investments, and financing activities. The statement of cash flows informs the reader of sources and uses of cash and changes in cash and cash equivalent balances for the past year.

The notes to financial statements provide additional information that is essential to a full understanding of the information provided in the financial statements.

NET POSITION COMPARISON OF JUNE 30, 2023 and 2022

A summary of the District's statements of net position is presented below in Table 1:

	6.30.23	6.30.22	\$ Change	% Change
Total Current and other assets	\$ 1,331,676	\$ 1,131,508	\$ 200,168	17.69%
Capital Assets, net	5,684,647	4,986,925	697,722	13.99%
Total Assets	<u>7,016,323</u>	<u>6,118,433</u>	<u>897,890</u>	<u>14.68%</u>
Long-term debt outstanding	\$ 3,619,411	\$ 2,955,068	\$ 664,343	22.48%
Other Liabilities	97,381	149,706	(52,325)	-34.95%
Total Liabilities	<u>3,716,792</u>	<u>3,104,774</u>	<u>612,018</u>	<u>19.71%</u>
Capital Assets, net of related debt	2,003,834	1,956,246	47,588	2.43%
Restricted	545,410	478,057	67,353	14.09%
Unrestricted	788,277	579,356	208,921	36.06%
Total net position	<u>\$ 3,337,521</u>	<u>\$ 3,013,659</u>	<u>\$ 323,862</u>	<u>10.75%</u>

Total assets increased to \$7,016,323 or 14.68% during the fiscal year ended June 30, 2023. The increase is attributed to an increase in revenue and cash reserves from expansion of the plant.

Total liabilities reflect an overall increase of \$612,018 or 19.71%. The increase is reflective of debt and decrease of accounts payable and accrued liability in the fiscal year June 30, 2023.

Table 1 also indicates that total net position increased by \$323,862 or 10.75%, attributable to the increase in revenue and cash reserves as described above.

**REVENUES, EXPENSES, AND CHANGES IN NET POSITION COMPARISON OF
JUNE 30, 2023 and 2022**

A summary of the District's statement of revenues, expense, and changes in net position is presented in Table 2:

**Table 2
Condensed Statement of Revenues,
Expenses and Changes in Net Position
As of June 30, 2023 and 2022**

	6.30.23	6.30.22	\$ Change	% Change
Operating Revenues	\$ 848,951	\$ 821,729	\$ 27,222	3.31%
Non-Operating Revenues	26,994	16,068	10,926	68.00%
Total Revenues	875,945	837,797	38,148	4.55%
Depreciation Expense	\$ 145,251	\$ 121,646	\$ 23,605	19.40%
Other Operating Expenses	406,832	506,796	(99,964)	-19.72%
Total Expenses	552,083	628,442	(76,359)	-12.15%
Changes in Net Position	323,862	209,355	114,507	54.70%
Net Position Beginning	3,013,659	2,804,304	209,355	7.47%
Net Position Ending	\$ 3,337,521	\$ 3,013,659	\$ 323,862	10.75%

The statement of revenues, expenses, and changes in net position identifies the various revenue and expense items that affect the change in the District's net position. As the information in Table 2 indicates, total net position at June 30, 2023, was \$3,337,521.

Total revenues increased by \$38,148 in 2023. Operating revenues increased by \$27,222 or 3.31%. This was due to a decrease in ad valorem taxes. Non-operating revenues increased by \$10,926 as plant reimbursements increased.

Total expenses decreased by \$76,359 or 12.15% in the current fiscal year ended June 30, 2023. The decrease is attributed to an decrease in sewer system operations.

CAPITAL ASSETS

Capital assets of the District are those assets that are used in the performance of the District's functions including infrastructure assets. At June 30, 2023, the District's investment in capital assets totaled \$5,692,328, which is a increase of \$705,404 from the prior year, which is attributable to depreciation of \$145,251 and capital asset additions of \$850,655.

See independent accountant's audit report

LONG-TERM DEBT

At June 30, 2023, the District had a total of \$3,688,495 in long-term debt. The debt is reflective of the District's required repayment of up to 50% of the total cost of the transferred infrastructure and plant assets as part of a prior year settlement agreement with Developers.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Legal fees have been a major element in the District's budget since 2018, however, upon the settlement of the lawsuit which occurred in 2021, the District anticipates a significant decrease in legal fees in the 2022 budget.

The District approved billing User Fees in the fiscal year ending June 30, 2021, for the first time since August, 2011. The District billed \$159,315 in User Fees in fiscal year ending June 30, 2023.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the ICR Sanitary District, PO Box 1963, Prescott, AZ 86302; telephone 928-445-5606.

See independent accountant's audit report

DAVID A SNYDER CPA, PLLC
325 South Montezuma Street
Prescott, AZ 86303

INDEPENDENT ACCOUNTANT'S AUDIT REPORT

To the Board of Directors
ICR Sanitary District
Prescott, Arizona

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the ICR Sanitary District, as of and for the year ended June 30, 2023, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate remaining fund information of the ICR Sanitary District, as of June 30, 2023, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022 on our consideration of the District's internal control over financial reporting and on our tests of the District's 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through xi be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

DAVID A SNYDER CPA, PLLC

**Prescott Valley, Arizona
November 13, 2023**

**ICR Sanitary District
Statements of Net Position
June 30, 2023 and 2022**

ASSETS	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 786,266	\$ 599,694
Property Tax Receivables	-	2,018
Fee Receivables	21,211	46,166
Other Receivables	9,097	5,573
Total Current Assets	816,574	653,451
Other assets		
Restricted Cash	545,410	478,057
Property Plant and Equipment		
Non depreciable Capital Assets		
Land and Land Rights	56,000	56,000
Decommissioned Plant	877,000	877,000
Construction in Process	262,442	163,372
Depreciable Capital Assets		
Property, Plant, and equipment, at cost, net of accumulated depreciation of \$1,352,385 and \$1,214,816, respectively	4,496,887	3,890,553
Total Property and Equipment	5,692,329	4,986,925
TOTAL ASSETS	\$ 7,054,313	\$ 6,118,433
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 26,691	\$ 40,687
Accrued Expenses	1,606	33,408
Current portion of Santec plant and development infrastructure	69,084	75,611
Total Current Liabilities	97,381	149,706
LONG-TERM LIABILITIES		
Santec plant and development infrastructure repayment	3,619,411	2,955,068
Total Liabilities	\$ 3,716,792	\$ 3,104,774
NET POSITION		
Invested in capital Assets, net of related debt	2,003,834	1,956,246
Restricted-Plant improvements and expansion	545,410	478,057
Unrestricted	788,277	579,356
Total net position	\$ 3,337,521	\$ 3,013,659
TOTAL LIABILITIES AND NET POSITION	\$ 7,054,313	\$ 6,118,433

See accompanying notes and independent accountant's audit report

ICR Sanitary District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022

REVENUES	<u>2023</u>	<u>2022</u>
Ad Valorem tax revenue	\$ 449,400	\$ 407,400
Inspection, transfer, and hook up fees	48,700	50,980
User Fee Income	159,315	142,225
Lot Fees	122,250	155,500
Effluent Income	67,007	64,144
Miscellaneous Other Income	2,279	1,480
	<hr/>	<hr/>
Total operating revenues	848,951	821,729
	<hr/>	<hr/>
OPERATING EXPENSES		
Administration		
Accounting	28,349	27,720
District Insurance	29,136	38,801
District Clerk	1,305	-
District Elections	1,324	-
Litigation and Attorney Fees	35,046	116,694
Meetings	500	435
Office Expense	3,186	2,226
Web Hosting	3,097	4,585
Plant Operations		
Contract Fees	78,374	76,174
Depreciation Expense	145,251	121,646
Electricity	31,578	27,860
Engineering Services	-	22,664
Personnel Expenses	28,240	25,518
Plant supplies and maintenance	165,916	163,064
Trash	240	603
Water	541	452
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	552,083	628,442
	<hr/>	<hr/>
Operating Gains (loss)	296,868	193,287
	<hr/>	<hr/>
Non-operating Revenues		
Interest Income	31,003	2,225
Plant Upgrade reimbursements	(4,009)	13,843
Total other Income	26,994	16,068
	<hr/>	<hr/>
Change in Net Position	323,862	209,355
Beginning Net Position	3,015,643	2,806,288
Ending Net Position	<u>\$ 3,339,505</u>	<u>\$ 3,015,643</u>

See accompanying notes and independent accountant's review report

**ICR Sanitary District
Statements of Cash Flows
Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Property taxes	447,382	404,088
Cash received from other operating Income	418,703	460,000
Cash received from other income	2,279	1,480
Cash payments for Professional Services	(63,395)	(144,414)
Cash payments for Personnel Services	(28,240)	(25,518)
Cash payments for Sewer System Operations	(322,420)	(291,836)
Cash payments for Administrations	(38,548)	(44,066)
Net change in cash from Operatng Activities	<u>415,761</u>	<u>359,734</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid for Capital assets	(850,655)	(118,685)
Receipts of Long Term Debts	657,816	99,070
Net Change in Cash from Capital and related Financing Activities	<u>(192,839)</u>	<u>(19,615)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	31,003	2,225
Net Change in cash from Investing Activities	<u>31,003</u>	<u>2,225</u>
NET INCREASE (DECREASE) IN CASH		
CASH BALANCE, Beginning	253,925	342,344
CASH BALANCE, Ending	<u>1,077,751</u>	<u>735,407</u>
	<u>\$ 1,331,676</u>	<u>\$ 1,077,751</u>
Unrestricted Cash		
Unrestricted Cash	786,266	599,694
Restricted Cash	545,410	478,057
Total Cash and Cash equivalents	<u>\$ 1,331,676</u>	<u>\$ 1,077,751</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating gain (Loss)	\$ 292,859	\$ 207,130
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	145,251	121,646
Changes in Assets and Liabilities		
(Increase) decrease in operating activities	23,449	(778)
Increase (decrease) in operating accounts payable and accruals	(45,798)	31,736
Net Change in Cash from Operating Activities	<u>415,761</u>	<u>359,734</u>

See accompanying notes and independent accountant's audit report

ICR Sanitary District
Notes to Financial Statements
June 30, 2023 and 2022

Note 1 – Description of the District

Description of Operations

ICR Sanitary District (the “District”) was established December 11, 1995 as a special district under the provisions of Arizona Revised Statutes Title 48. The District operates and maintains the collection system and wastewater treatment plant for the Inscription Canyon Ranch, Whispering Canyon, Preserve at the Ranch, and Talking Rock Ranch developments in Yavapai County, Arizona. The District is governed by a board of directors elected from within the District.

Reporting Entity

In accordance with the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District’s financial statements include only the funds of those entities for which its elected governing board is financially accountable.

Note 2 – Summary of Significant Accounting Policies

The significant accounting policies followed by the District, as summarized below, are in conformity with generally accepted accounting principles applicable to governmental units as promulgated by the GASB.

Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared in accordance with the reporting model defined by GASB Statement No. 34, *Basic Financial Statements*. The reporting model requires supplementary information in the form of Management’s Discussion and Analysis and makes other changes in the presentation of the financial statements.

The District is a proprietary-fund type, specifically an enterprise fund, and is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned, and expenses are recognized when the related liability is incurred. With this measurement focus, all assets and all liabilities associated with the operation of the District are included in the statement of net position.

Net Position Balance

The District’s net position (total assets net of total liabilities) is segregated into invested in capital assets net of related debt, restricted, and unrestricted components. Proprietary-fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The District’s net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. The District’s net position is classified in the following three components:

ICR Sanitary District
Notes to Financial Statements
June 30, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Net Position Balance (continued)

Invested capital assets, net of related debt: This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested net assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted: This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, development agreements, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When expenditures are incurred for purposes for which both restricted and unrestricted balances are available, the District considers restricted funds to have been spent first.

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The District submits to the Board of Supervisors and the County Treasurer a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- B. Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.
- C. Arizona statutes require that on or before the third Monday in July of each fiscal year, the District Board must adopt a tentative budget. Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption; however, they may be decreased. The tentative budget must be published once per week for two consecutive weeks prior to final adoption. Final adoption must take place on or before the second Monday in August.
- D. The level of control for each legally adopted annual budget is at the total budget level.
- E. Unused budget appropriations lapse as of June 30. The District does not use encumbrance accounting.
- F. The budget amounts shown in the financial statements are the final authorized amounts as amended by the District Board during the year.

Cash and Cash Equivalents

For purposes of the financial statements, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

ICR Sanitary District
Notes to Financial Statements
June 30, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Receivables

The District's receivables consist of amounts due from individual and commercial property owners within the Inscription Canyon Ranch, Whispering Canyon, Preserve at the Ranch, and Talking Rock Ranch developments in Yavapai County, Arizona. All receivables are considered due within one year and are therefore considered current. Receivable balances are tied to specific properties rather than specific customers. This process ensures that all outstanding balances are paid by current property holders. No allowance for doubtful accounts has been established by District management for customer receivables.

Property, Plant, Equipment and Depreciation

Management of the District has established a capitalization policy for capital assets with costs in excess of \$1,000 and estimated useful lives in excess of one year. Property, plant, and equipment are stated at cost as purchased or constructed or estimated historical cost. Expenditures for maintenance and repairs that do not add to the value of capital assets or materially extend the life of a capital asset are charged to operations as incurred.

Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of depreciable assets range from five to fifty years.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues consist of those revenues that result from the ongoing principal operations of the District and consist primarily of charges for wastewater services and ad valorem tax revenues.

Operating expenses include the costs associated with the conveyance and treatment of wastewater, administrative expenses, and depreciation of capital assets.

All revenues and expenses not meeting these definitions are reported as non-operating and include revenues and expenses related to financing and investing activities and results from non-exchange transactions, special items, or ancillary activities.

Property Taxes (Ad Valorem Tax Revenues)

Ad Valorem taxes are recognized as revenues in the year for which they are levied. Property taxes are levied each year on or before the third Monday in August based on the previous January 1 full cash value as determined by the Yavapai County Assessor. Taxes are due in two equal installments on September 1 and March 1 following the levy date and become delinquent the first business day of November and May, respectively. In accordance with GASB standards, property tax revenue is recognized when an enforceable legal claim to the property tax occurs.

ICR Sanitary District
Notes to Financial Statements
June 30, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Custodial Credit Risk

Generally, the state statutes allow investments in certain certificates of deposit, interest-bearing savings accounts in qualified banks and savings and loan institutions, repurchase agreements with maximum maturity of thirty days, and pooled investment funds established by the state treasurer. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 101% of all deposits not covered by federal depository insurance.

County regulations require the District to hold a significant portion of its deposits in pooled county funds. These monies are under the direct supervision of the Yavapai County (the “County”) Treasurer's Office, which has the fiduciary responsibility to administer all monies held in the County Treasury. The treasurer invests in the Local Government Investment Pool on a pooled cash basis.

Interest earned from investments purchased with such pooled monies is allocated quarterly to each of the funds based on the average month-end cash balances. For additional information on cash and investments see the Yavapai County Financial Statements for the years ended June 30, 2023 and 2022.

In addition to pooled county funds, the District may maintain several accounts in one commercial bank, which may, at times, exceed federally insured limits. At June 30, 2023 and 2022 the District held cash balances in excess of the FDIC insurance limit of \$531,676 and \$284,055, respectively.

Reclassifications

Certain reclassifications may have been made to the prior year financial statement presentation to correspond to the current year's format. The District's net fund position and changes in net fund position are unchanged due to these reclassifications.

Note 3 – Cash

Deposits

The carrying amounts of the District's deposits at June 30, 2023 and 2022 were \$1,331,676 and \$1,077,751, respectively. The bank and treasurer balances at June 30, 2022 and 2021, were \$1,344,276 and \$1,099,653 respectively. The difference between the bank and county balances and the carrying balance represent outstanding checks and deposits in transit.

In March of 2012, as part of a settlement agreement with land developers, the District is to receive fees from Developers as they sell a lot. Per the agreement, these fees are restricted for capital improvements to the District's wastewater plant. The restricted cash balance associated with these fees at June 30, 2023 and 2022 was \$545,410 and \$478,057, respectively.

**ICR Sanitary District
Notes to Financial Statements
June 30, 2023 and 2022**

Note 4 – Other Receivables

The District sells treated wastewater effluent to a related party golf course located within District boundaries. The current effluent rate is \$4,000 per month for the first one million gallons delivered to the golf course, and \$1.20 for each one thousand gallons thereafter.

Additionally, per the amended and restated development agreement with Developers, the District incurs Developer expenses and then seeks reimbursement from the Developers. These costs are not District expenses.

Below is a breakdown of other receivables at June 30:

	<u>2023</u>	<u>2022</u>
Effluent	9,097	5,573

Note 5 – Property, Plant, and Equipment

The following is a summary of fixed assets at June 30, 2023:

	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
Capital assets not being depreciated:				
Land and land rights	56,000			56,000
Decommissioned plant	877,000			877,000
Construction in process	\$ 163,372	99,070		\$ 262,442
Total capital assets not being depreciated	<u>1,096,372</u>	<u>99,070</u>	<u>-</u>	<u>1,195,442</u>
Capital assets being depreciated:				
Plant	421,864	135,673	-	557,537
Plant Upgrade	822,363		-	822,363
Equipment	389,936	12,126	-	402,062
Infrastructure	3,471,206	600,204	(4,100)	4,067,310
Total capital assets being depreciated	<u>5,105,369</u>	<u>748,003</u>	<u>(4,100)</u>	<u>5,849,272</u>
Less accumulated depreciation				
Decommissioned Plant	(169,203)		-	(169,203)
Plant	(93,240)	(10,683)		(103,923)
Plant upgrade	(16,447)	(16,447)	-	(32,894)
Equipment	(121,964)	(29,537)	-	(151,501)
Infrastructure	(813,962)	(88,584)	7,682	(894,864)
Total Accumulated Depreciation	<u>(1,214,816)</u>	<u>(145,251)</u>	<u>7,682</u>	<u>(1,352,385)</u>
Total property plant and equip	<u>4,986,925</u>	<u>701,822</u>	<u>3,582</u>	<u>5,692,329</u>

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Note 5 – Property, Plant, and Equipment (continued)

In 2005, a related party (Note 6) built a Santec plant in which wastewater is processed. When the Santec plant began operations, the District's SBR plant was decommissioned. Title to the Santec plant remained with the related party and the District operated the plant under an agreement with the related party. As part of a settlement agreement entered into by both parties in March of 2012, the title to the plant was transferred to the District in the fiscal year ended June 30, 2012, for the amount of \$395,500. In the fiscal year ended June 30, 2013, the infrastructure to transport wastewater in related party developments was transferred to the District for the amount of \$2,784,796. A note payable was established in the fiscal year ended June 30, 2013. An amendment to the amended and restated development agreement was entered into on April 10, 2014. Omitted wastewater facilities were transferred to the District in accordance with the terms of the original amended and restated development agreement (Note 9).

Total depreciation for the years ended June 30, 2023 and 2022, was \$145,251 and \$121,846, respectively

Note 6 – Related Party Transactions

At June 30, 2011, the District had a standing agreement with related party owners/developers (Developers) of the District. The District operated the sanitary plant in which the users of the District received service, but which was owned by the Developers. Improvements to the plant by the District were depreciated according to the District's capitalization and depreciation policy.

In 2012, the District was in dispute with the Developers regarding the operating agreement. A settlement was reached, and a new amended and restated development agreement was entered into on March 1, 2012. In the fiscal year ended June 30, 2012, title to the plant asset was transferred to the District. In the fiscal year ended June 30, 2013, title for infrastructure assets was transferred to the District in exchange for a twenty-year note payable. In the fiscal year ended June 30, 2014, it was discovered that a phase of the development was omitted from the March 1, 2012, amended and restated development agreement. An amendment to the amended and restated development agreement was entered into on April 10, 2014. The omitted wastewater facilities were transferred to the District in accordance with the terms of the original amended and restated development agreement (Notes 5 and 9).

As part of the amended and restated agreement, the District sells wastewater effluent to a developer at a rate of \$4,000 per month for the first one million gallons sold, and \$1.20 for each one thousand gallons delivered thereafter. Total effluent revenue for the fiscal years ended June 30, 2023 and 2022, totaled \$67,007 and \$64,144, respectively.

In the ordinary course of business, the District provides wastewater services to Board members of the District at the same rates established for all District customers.

Note 7 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance for all such risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage for the last three fiscal years.

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Note 8 – Contingencies and Litigation

Pending Litigation

In the prior fiscal year ended June 30, 2019, a claim for damages was filed by the Developer of Talking Rock Ranch in the amount of \$5,000,000. The District's insurance carrier was involved with this claim. There was a settlement agreement in September 2021 that settled the claim for damages. Based on the settlement agreement, no contingency or further obligation has been recognized at June 30, 2022.

Note 9 – Long-Term Liabilities

As part of a 2012 settlement agreement, the District was to repay Developers (Note 6) up to 50% of the developer paid costs of the Wastewater treatment plant and infrastructure over a twenty-year period that was changed to a twenty-one year period in a second amendment to the amended and restated development agreement that was entered into on May, 27,2022. A first amendment to the amended and restated development agreement was entered into on April 10, 2014 and omitted wastewater facilities were transferred to the District in accordance with the terms of the original amended and restated development agreement in the fiscal year ended June 30, 2014 (Notes 5 and 6). The original principal amounts to be repaid by the District follow:

Wastewater Treatment Plant-2012	\$ 395,500
Infrastructure-2012	2,784,796
Wastewater facilities phase 12 - 2014	71,439
Total	\$ 3,251,735

Repayment began in 2014 at 10% of the District's gross annual income including, without limitation, prior or to-be-collected ad valorem property taxes, user and availability fees, interest income, capacity fees, expansion-related fees and excluding the effluent fee paid by Talking Rock, direct costs reimbursed to the District by the developers and developer lot fees. All remaining balances of uncollected construction costs at the end of the twenty-one year repayment term are forfeited by the developers. Remaining liability balances forfeited will be recognized as contributed capital in the twenty-first year by the District. Subsequent to the June 30, 2023 fiscal year end, a third amendment was entered into on August 29,2023 to clarify the developer repayment definition to be as described above and to change the annual payment to a fiscal year calculation from a calendar calculation beginning with the fiscal year ending June 30, 2023 has changed the annual payment to a fiscal year calculation from a calendar year calculation. The current portion of the Santac Plant and Infrastructure for the years ended June 30, 2023 and 2022, was \$69,084 and \$75,611, respectively.

Changes in long-term liabilities at June 30, 2023:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
Notes Payable	\$ 3,030,679	\$ 680,200	\$ (22,384)	\$ 3,688,495	\$ 69,084
Total Long Term liabilities	\$ 3,030,679	\$ 680,200	\$ (22,384)	\$ 3,688,495	\$ 69,084

Note 10 – COVID-19 Considerations

On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy, including the industries in which the District operates.

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Note 11 – Subsequent Events

Management of the District has evaluated events and transactions subsequent to June 30, 2023, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through November 15, 2023 which is the date the financial statements were available to be issued. Subsequent to the June 30, 2023 fiscal year end, a third amendment has changed the annual payment to a fiscal year calculation from a calendar year calculation, making it more consistent with the fiscal year end.