

Inscription Canyon Ranch Sanitary District

Financial Statements

Years Ended June 30, 2019 and 2018

**Inscription Canyon Ranch Sanitary District
Financial Statements
Years Ended June 30, 2019 and 2018**

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INSCRIPTION CANYON RANCH SANITARY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Inscription Canyon Ranch Sanitary District's (District) Annual Financial Report presents an analysis of the District's financial performance during the fiscal years ended June 30, 2019 and 2018. 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 2019

- The District's net position increased by 3.0%
- Operating revenues increased by 69.9%
- Operating expenses increased by 39.6%

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.

The District engaged Civiltec Engineering to design an expansion to the plant to increase capacity to 90,000 gallons per day. The project, expecting to cost approximately \$700,000. A contract with Santec Corporation was executed in early November of 2019. Construction is expected to be completed by mid-spring-2020.

The Yavapai County Attorney General's office has filed an action in court (quo warranto) requesting that the court find that actions taken by Board Members in reinstating a Board Member following his removal after moving and voting outside the District was lawful. The matter is being considered by the Court. In the meantime, there are only two members of the Board.

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, 2019 and 2018. 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, Expense 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, 2019 and 2018

A summary of the District's Statements of Net Position is presented below in Table 1:

	30-Jun-19	30-Jun-18	\$ Change	% Change
Total current and other assets	1,204,156	1,271,615	-67,459	-5.3%
Capital assets, net	4,509,548	4,365,480	144,068	3.3%
Total assets	5,713,704	5,637,095	76,609	1.4%
Long-term debt outstanding	2,972,032	3,038,094	-66,062	-2.2%
Other liabilities	202,743	135,126	67,617	50%
Total liabilities	3,174,775	3,173,220	1,555	0%
Invested in capital assets, net of related debt	1,479,309	1,293,115	186,194	14.4%
Restricted	598,358	679,628	-81,270	-12.0%
Unrestricted	461,263	491,132	-29,869	-6.1%
Total net position	2,538,930	2,463,875	75,055	3.0%

See independent accountant's review report.

Total assets increased by \$76,609 or 1.4% during the fiscal year ended June 30, 2019. The increase is attributed to depreciation offset by Plant upgrade costs.

Total liabilities reflect an overall increase of \$1,555 or 0%. The increase is reflective of debt reduction offset by an increase in accounts payable and accrued liabilities.

Table 1 also indicates that total net position increased by \$75,055 or 3%. Restricted fund balances consist of cash required to be used for Plant upgrades and expansion.

REVENUES, EXPENSES, AND CHANGES IN NET POSITION COMPARISON OF JUNE 30, 2019 and 2018

A condensed statement of revenue and expenses is presented in Table 2:

**Table 2
Condensed Statement of Revenues,
Expenses and Changes in Net Position
As of June 30, 2019 and 2018**

	<u>30-Jun-19</u>	<u>30-Jun-18</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	651,786	383,662	268,124	69.9%
Non-operating revenues	102,535	13,728	88,807	646.9%
Total revenues	754,321	397,390	356,931	89.8%
Depreciation expense	91,548	85,432	6,116	7.2%
Other operating expenses	567,140	406,332	160,808	39.6%
Non-operating expense	20,578	-	20,578	100%
Total expenses	679,266	491,764	187,502	38.1%
Changes in net position	75,055	-94,374	169,429	179.5%
Net position beginning	2,463,875	2,558,249	-94,374	-3.7%
Net position ending	2,538,930	2,463,875	75,055	3.0%

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, 2019, was \$2,538,930.

Total revenues increased by \$356,931 in 2019. This was due to reimbursement by Developers for improvements to the plant as required by the amended and restated development agreement. Operating revenues increased by \$268,124 or 69.9%. This was due to an increase in ad valorem taxes due to budgeted increased attorney fees in 2019.

Total expenses increased by \$187,502 in the current fiscal year ended June 30, 2019. The increase is attributed to attorney fees incurred by current litigation brought against the District.

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, 2019, the District's investment in capital assets totaled \$1,479,309, which is an increase of 14.4% over the balance at June 30, 2018. The increase in capital assets is due to completion of Phase I of the plant and additional capital purchases for Phase II and plant upgrades.

LONG-TERM DEBT

At June 30, 2019, the District had a total of \$3,030,239 in long-term debt. The debt is reflective of the Districts required repayment of 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

The District's operating expenses for the year ending June, 2020 are again expected to be heavily influenced by legal fees incurred in connection with actions filed by Talking Rock Ranch, LLC. In addition, a quo warranto action brought by the Yavapai County Attorney has required retaining additional legal counsel for defense.

The District is in the midst of a project to increase the capacity of the existing treatment plant from a rated 62,500 gallons per day to 90,000 gallons per day. The total cost of the project will be in excess of \$700,000. The District anticipates the all the cost of the project will be covered by the District's Restricted Capital Fund. The project should be completed by the end of the fiscal year ending June 30, 2020.

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 Inscription Canyon Ranch Sanitary District, PO Box 215, Chino Valley, AZ 86323; telephone 928-237-9347.



Alyx Cohan, CPA PC
Auditing / Accounting / Tax

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Inscription Canyon Ranch Sanitary District
Prescott, Arizona

I have reviewed the accompanying financial statements of Inscription Canyon Ranch Sanitary District (District) which comprise the statement of net position as of June 30, 2019 and 2018, and the related statement of revenues, expenses and changes in net position, and statement of cash flows for the years then ended, and the related notes to financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

My responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

Accountant's Conclusion

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages i through iv 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the requirement supplementary information in accordance with Statements on Standards for Accounting and Review Services, which consisted of inquires of management about the methods of preparing the information and comparing the information of consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my review of the basic financial statements. I do not provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to provide any assurance.

Alyce Cohan, CPA

Prescott Valley, Arizona
December 23, 2019

Inscription Canyon Ranch Sanitary District
Statements of Net Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 511,291	\$ 586,036
Property tax receivables	2,772	1,409
Other receivables	91,735	4,542
Total current assets	605,798	591,987
Other assets		
Restricted cash	598,358	679,628
Property, Plant and Equipment		
Non-depreciable capital assets:		
Land and land rights	56,000	56,000
Decommissioned plant	877,000	877,000
Construction in Progress	204,170	140,155
Depreciable capital assets:		
Property, plant and equipment, at cost, net of accumulated depreciation of \$887,262 and \$816,932 respectively	3,372,378	3,292,325
Total property, plant and equipment	4,509,548	4,365,480
Total assets	\$ 5,713,704	\$ 5,637,095
<u>Liabilities</u>		
Current liabilities		
Accounts payable	142,188	99,104
Accrued expenses	2,348	1,752
Current portion of Santec plant and development infrastructure repayment	58,207	34,270
Total current liabilities	202,743	135,126
Long-term liabilities		
Santec plant and development infrastructure repayment	2,972,032	3,038,094
Total liabilities	\$ 3,174,775	\$ 3,173,220
<u>Net Position</u>		
Invested in capital assets, net of related debt	1,479,309	1,293,115
Restricted-Plant improvements and expansion	598,358	679,628
Unrestricted	461,263	491,132
Total net position	\$ 2,538,930	\$ 2,463,875

See accompanying notes and independent accountant's review report.

**Inscription Canyon Ranch Sanitary District
Statements of Revenues, Expenses, and
Changes in Net Position
Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<u>Revenues</u>		
Ad valorem tax revenue	\$ 466,319	\$ 266,784
User fees	36,565	19,943
Lot fees	91,000	42,250
Effluent income	56,258	54,685
Miscellaneous other income	1,644	-
Total operating revenues	<u>651,786</u>	<u>383,662</u>
<u>Operating expenses</u>		
Administration		
Accounting	9,265	9,596
District Insurance	9,648	9,094
District clerk	4,341	2,470
Litigation and attorney fees	269,692	182,306
Meetings	1,144	300
Office expense	6,061	2,788
Web hosting	680	304
Plant Operations		
Contract fees	74,469	77,164
Customer refunds	1,000	-
Depreciation expense	91,548	85,432
Electricity	20,495	19,960
Engineering Services	46,304	2,039
Personnel expenses	26,479	25,685
Plant supplies and maintenance	91,299	67,444
Professional fees	4,775	3,700
Telephone	834	2,977
Trash	216	216
Water	438	289
Total operating expenses	<u>658,688</u>	<u>491,764</u>
Operating (gain) loss	<u>(6,902)</u>	<u>(108,102)</u>
<u>Non-operating revenues</u>		
Interest income	18,610	13,728
Plant upgrade reimbursements	83,925	-
Loss on disposition of assets	(20,578)	-
Total non-operating income and expense	<u>81,957</u>	<u>13,728</u>
Net change in net position	75,055	(94,374)
Net position beginning of year	2,463,875	2,558,249
Net position end of year	<u>\$ 2,538,930</u>	<u>\$ 2,463,875</u>

See accompanying notes and independent accountant's review report.

Inscription Canyon Ranch Sanitary District
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Cash flows from operating activities:</u>		
Cash received from property taxes	\$ 464,956	\$ 266,852
Cash received from other operating income	185,186	116,795
Cash received from other income	644	-
Cash payments for professional services	(358,171)	(108,608)
Cash payments for personnel services	(26,479)	(31,949)
Cash payments for sewer system operations	(188,079)	(170,089)
Cash payments for administration	<u>(31,685)</u>	<u>(24,552)</u>
Net change in cash from operating activities	<u>46,372</u>	<u>48,449</u>
<u>Cash flows from capital and related financing activities:</u>		
Cash paid for capital asset	(178,872)	(71,454)
Payments on long-term debt	<u>(42,125)</u>	<u>(30,357)</u>
Net change in cash from capital and related financing activities	<u>(220,997)</u>	<u>(101,811)</u>
<u>Cash flows from investing activities:</u>		
Interest on investments	<u>18,610</u>	<u>13,728</u>
Net change in cash from investing activities	<u>18,610</u>	<u>13,728</u>
Net change in cash and cash equivalents	(156,015)	(39,634)
Cash and cash equivalents at beginning of year	<u>1,265,664</u>	<u>1,305,298</u>
Cash and cash equivalents at end of year	<u>\$ 1,109,649</u>	<u>\$ 1,265,664</u>
Unrestricted cash	511,291	586,036
Restricted cash	<u>598,358</u>	<u>679,628</u>
Total cash and cash equivalents	<u>\$ 1,109,649</u>	<u>\$ 1,265,664</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Operating (gain) loss	\$ (6,902)	\$ (108,102)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	91,548	85,432
Loss on disposition on capital assets	20,578	-
Change in assets and liabilities:		
(Increase) decrease in operating receivables	3,179	(14)
Increase (decrease) in operating accounts payable and accrued expenses	<u>(62,031)</u>	<u>71,133</u>
Net change in cash from operating activities	<u>\$ 46,372</u>	<u>\$ 48,449</u>

See accompanying notes and independent accountant's review report.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2019 and 2018

Note 1 – Description of the District

Description of Operations

Inscription Canyon Ranch Sanitary District (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) Statement No. 14, 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. With this measurement focus, all assets and all liabilities associated with the operation of the District are included in the statement of net position.

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. Under this basis of accounting, revenues are recognized when earned, and expenses are recognized when the related liability is incurred.

Ad Valorem taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District and consist primarily of charges for wastewater services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from non-exchange transactions, special items, or ancillary activities.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2019 and 2018

Note 2 -- Summary of Significant Accounting Policies (continued)

Property Taxes (Ad Valorem Tax Revenues)

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.

Property Tax 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. Accounts 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.

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.

Cash and Investments

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

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.

A portion of the District's monies is under the direct supervision of the Yavapai County (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.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2019 and 2018

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and Investments (continued)

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, 2019 and 2018.

A. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the county's governance of special districts. County regulations require the District to hold a significant portion of its deposits in pooled county funds. In addition to pooled county funds, the District may maintain several accounts in one commercial bank, which may, at times, exceed federally insured limits.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The District does not participate in investment transactions, except as noted above as required by the County, and has no formal policy for credit risk.

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investment will adversely affect the fair value of an investment. The District does not participate in debt investment and has no formal policy for interest rate risk.

D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not participate in investment transactions and has no formal policy for concentration of credit risk.

Property, Plant, Equipment and Depreciation

Property, plant, and equipment are stated at cost or estimated historical cost. A capitalization limit of \$1,000 has been established by management for purchases of vehicles and equipment with a useful life of more than one year. 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.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2019 and 2018

Note 2 – Summary of Significant Accounting Policies (continued)

Net Position Balance

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:

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, 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.

**Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2019 and 2018**

Note 2 – Summary of Significant Accounting Policies (continued)

Reclassifications

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

Note 3 – Cash

Deposits

The carrying amounts of the District's deposits at June 30, 2019 and 2018, were \$1,109,649 and \$1,265,665, respectively. The bank and treasurer balances at June 30, 2019 and 2018, were \$1,120,547 and \$1,265,831, 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, 2019 and 2018 were \$598,358 and \$679,628, respectively.

Note 4 – Other Receivables

The District sells treated wastewater effluent to a related party golf course located within District boundaries. The charge for effluent is \$4,000 per month for the first 1,000,000 gallons delivered to the golf course.

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 30th:

	<u>2019</u>	<u>2018</u>
Non-depreciable assets:		
Developer expense reimbursement	\$ 7,810	\$ -
Effluent	83,955	4,542
Total	<u>\$ 91,765</u>	<u>\$ 4,542</u>

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2019 and 2018

Note 5 – Property, Plant, and Equipment

The following is a summary of fixed assets at June 30, 2019:

	Beginning Balance	Increase	Decrease	Ending Balance
Non-depreciable assets:				
Land and land rights	\$ 56,000	\$ -	\$ -	\$ 56,000
Decommissioned plant	877,000	-	-	877,000
Construction in process	<u>140,156</u>	<u>256,194</u>	<u>(192,180)</u>	<u>204,170</u>
Total non-depreciable assets	<u>1,073,156</u>	<u>256,194</u>	<u>(192,180)</u>	<u>1,137,170</u>
Depreciable assets:				
Plant	402,249	-	-	402,249
Equipment	235,801	192,180	(41,796)	386,185
Infrastructure	<u>3,471,206</u>	<u>-</u>	<u>-</u>	<u>3,471,206</u>
Total assets being depreciated	<u>4,109,256</u>	<u>192,180</u>	<u>(41,796)</u>	<u>4,259,640</u>
Less accumulated depreciation:				
Decommissioned plant	(169,203)	-	-	(169,203)
Plant	(63,818)	(8,505)	-	(72,323)
Equipment	(47,645)	(13,619)	21,218	(40,046)
Infrastructure	<u>(536,266)</u>	<u>(69,424)</u>	<u>-</u>	<u>(605,690)</u>
Total accumulated depreciation	<u>(816,932)</u>	<u>(91,548)</u>	<u>21,218</u>	<u>(887,262)</u>
Total property plant and equip	<u>\$ 4,365,480</u>	<u>\$ 356,826</u>	<u>\$ (212,758)</u>	<u>\$ 4,509,548</u>

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, in 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 in 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, 2019 and 2018, was \$91,548 and \$85,432, 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

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Note 6 – Related Party Transactions (continued)

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, per 1,000,000 gallons sold. Total effluent revenue for the fiscal years ended June 30, 2019 and 2018, was \$56,258 and \$54,685, 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.

Note 8 – Contingencies and Litigation

Pending Litigation

The District is currently a defendant in lawsuits arising in the normal course of business. As part of one of the lawsuits, the court found in favor of the plaintiff and awarded attorney fees in the amount of \$50,000. The matter is under appeal. Due to the unknown probability of loss, no liability has been recognized at June 30, 2019.

In addition, 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 is involved with this claim. To date, probable and reasonable possible loss cannot be determined. In accordance with generally accepted accounting principles, no contingency has been recognized at June 30, 2019.

In September 2019, the District received a quo warranto action against them by the Yavapai County Attorney's Office. Although no monetary claim is associated with this action, a final determination has not been made in the case. Due to this, no liability has been recognized by management in the current year financial statements ended June 30, 2019.

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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. 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 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	<u>\$ 3,251,735</u>

Repayment began in 2014 at 10% of the District's gross annual income including prior or accrued ad valorem tax revenue and user and availability fees, excluding effluent. All remaining balances of uncollected construction costs at the end of the twenty-year repayment term are forfeited by the developers. Remaining liability balances forfeited will be recognized as contributed capital in the twentieth year by the District. The current amount due on the loan is calculated at 10% of total income as listed above.

Changes in long-term liabilities:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
Notes payable	\$ 3,072,364	\$ -	\$ (42,125)	\$ 3,030,239	\$ 58,207
Total long-term liabilities	<u>\$ 3,072,364</u>	<u>\$ -</u>	<u>\$ (42,125)</u>	<u>\$ 3,030,239</u>	<u>\$ 58,207</u>

Note 10 – Subsequent Events

The District has completed design of certain improvements to the Wastewater treatment plant and should begin construction within the subsequent fiscal year ending June 30, 2020. Subsequent to June 30, 2019, the District signed a contract for plant expansion in the approximate amount of \$499,800. Additionally, they incurred engineering consultation fees of approximately \$47,083. Management of the District has evaluated events and transactions subsequent to June 30, 2019, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through December 23, 2019, which is the date the financial statements were available to be issued.