

Inscription Canyon Ranch Sanitary District

Financial Statements

Years Ended June 30, 2020 and 2019

**Inscription Canyon Ranch Sanitary District
Financial Statements
Years Ended June 30, 2020 and 2019**

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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, 2020 and 2019. 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 2020

- The District's net position decreased by 4.0%
- Operating revenues decreased by 19.4%
- Operating expenses decreased by 14.4%

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.

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 lawsuit filed by Talking Rock Land, LLC in 2018 is still pending. As of July, 2020, the parties have scheduled a mediation session in hopes of bringing the dispute to a close. Talking Rock Land was awarded fees and costs in the Order to Show Cause case of over \$85,000 and agreed to settle the judgement at \$75,000.

Turmoil on the Board continued during the year. Yavapai County Attorney General filed a Quo Warranto action with the Courts to determine the rightfully seated Board Members. This action stemmed from the November, 2018 action of a Board Member who relocated outside the District and claimed to remain a Board member. The Quo Warranto action resulted in a Court decision that the Board member was no longer on the Board at that point, and his replacement, therefore was also not a valid member. During this period a vacancy occurred due to a member's resignation. For nearly a year, from July, 2019 to June, 2020, the Board had only two members, one of which ultimately was removed as invalid. In June, 2020, the Board appointed a third member.

See independent accountant's review report.

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, 2020 and 2019. 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, 2020 and 2019

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

	30-Jun-20	30-Jun-19	\$ Change	% Change
Total current and other assets	435,134	1,204,156	-769,022	-63.9%
Capital assets, net	5,095,086	4,509,548	585,538	13.0%
Total assets	5,530,220	5,713,704	-183,484	-3.2%
Long-term debt outstanding	2,939,438	2,972,032	-32,594	-1.1%
Other liabilities	152,263	202,743	-50,479	-24.9%
Total liabilities	3,091,701	3,174,775	-83,073	-2.6%
Invested in capital assets, net of related debt	2,109,587	1,479,309	630,278	42.6%
Restricted	-	598,358	-598,358	-100%
Unrestricted	328,932	461,263	-132,331	-28.7%
Total net position	2,438,519	2,538,930	-100,411	-4.0%

Total assets decreased by \$183,484 or 3.2% during the fiscal year ended June 30, 2020. The decrease is attributed to cash used for litigation and plant upgrades offset by additions of capital assets for the plant upgrades, offset by depreciation.

Total liabilities reflect an overall decrease of \$83,073 or 2.6%. The decrease is reflective of debt and accounts payable and accrued liability reductions.

Table 1 also indicates that total net position decreased by \$100,411 or 4.0%. Restricted fund balances were released by the costs associated with the Plant upgrades and expansion.

REVENUES, EXPENSES, AND CHANGES IN NET POSITION COMPARISON OF JUNE 30, 2020 and 2019

A condensed statement of revenues, expense, and changes in net position is presented in Table 2:

	<u>30-Jun-20</u>	<u>30-Jun-19</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	525,110	651,786	-126,676	-19.4%
Non-operating revenues	35,543	102,535	-66,992	-65.3%
Total revenues	560,653	754,321	-193,668	-25.7%
Depreciation expense	100,708	91,548	9,160	10.0%
Other operating expenses	485,356	567,140	-81,784	-14.4%
Non-operating expense	75,000	20,578	54,422	100.0%
Total expenses	661,064	679,266	-18,202	-2.7%
Changes in net position	-100,411	75,055	-175,466	-233.87%
Net position beginning	2,538,930	2,463,875	75,055	3.0%
Net position ending	2,438,519	2,538,930	-100,411	-4.0%

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, 2020, was \$2,438,519.

Total revenues decreased by \$193,668 in 2020. Operating revenues decreased by \$126,676 or 19.4%. This was due to a decrease in ad valorem taxes due to budgeted decreases in attorney fees in 2020. Nonoperating revenues decreased by \$66,992 due to the change in reimbursable plant upgrades required by the amended and restated development agreement.

Total expenses decreased by \$18,202 or 2.7% in the current fiscal year ended June 30, 2020. The decrease is attributed to a reduction in attorney fees incurred by litigation brought against the District in prior years. Nonoperating expenses increased by \$54,422 which is a combination of loss on disposition of fixed assets at June 30, 2019, offset by awards and judgements brought against the District at June 30, 2020.

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, 2020, the District's investment in capital assets totaled \$5,095,086, which is an increase of 13% over the balance at June 30, 2019. The increase in capital assets is due to completion of the plant upgrades at June 30, 2020.

LONG-TERM DEBT

At June 30, 2020, the District had a total of \$2,939,438 in long-term debt. The debt is reflective of the District's 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

Legal costs remain a significant concern of the District. Legal fees have been a major element in the District's budget since 2018. Until the lawsuit and other issues are settled, legal fees will continue to be a concern.

The District approved billing User Fees in the fiscal year ending June 30, 2021, for the first time since August, 2011. The District anticipates it will bill approximately \$140,000 in User Fees in fiscal year ending June 30, 2021.

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 2344, Prescott, AZ 86302; telephone 928-445-5606.



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 statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to financial statements, which collectively comprise the District's basic 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 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 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 (MD&A) 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 required supplementary information, which consisted of inquires of management about the methods of preparing the information and comparing the information for 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. Such information is the responsibility of management. I have not audited or reviewed such information and I do not express an opinion, a conclusion, nor provide any assurance on it.

Alyce Cohen, CPA

Prescott Valley, Arizona
October 12, 2020

Inscription Canyon Ranch Sanitary District
Statements of Net Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 406,825	\$ 511,291
Property tax receivables	7,049	2,772
Fee receivables	3,035	-
Other receivables	<u>18,225</u>	<u>91,735</u>
Total current assets	<u>435,134</u>	<u>605,798</u>
Other assets		
Restricted cash	<u>-</u>	<u>598,358</u>
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	77,391	204,170
Depreciable capital assets:		
Property, plant and equipment, at cost, net of accumulated depreciation of \$987,970 and \$887,262 respectively	<u>4,084,695</u>	<u>3,372,378</u>
Total property, plant and equipment	<u>5,095,086</u>	<u>4,509,548</u>
Total assets	<u>\$ 5,530,220</u>	<u>\$ 5,713,704</u>
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 29,636	\$ 142,188
Accrued expenses	76,566	2,347
Current portion of Santec plant and development infrastructure repayment	<u>46,061</u>	<u>58,207</u>
Total current liabilities	<u>152,263</u>	<u>202,742</u>
Long-term liabilities		
Santec plant and development infrastructure repayment	<u>2,939,438</u>	<u>2,972,032</u>
Total liabilities	<u>3,091,701</u>	<u>3,174,774</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	2,109,587	1,479,309
Restricted-Plant improvements and expansion	-	598,358
Unrestricted	<u>328,932</u>	<u>461,263</u>
Total net position	<u>2,438,519</u>	<u>2,538,930</u>
Total liabilities and net position	<u>\$ 5,530,220</u>	<u>\$ 5,713,704</u>

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Revenues</u>		
Ad valorem tax revenue	\$ 363,620	\$ 466,319
Inspection, transfer, and hook up fees	38,490	36,565
Lot fees	58,500	91,000
Effluent income	63,411	56,258
Miscellaneous other income	1,089	1,644
Total operating revenues	525,110	651,786
<u>Operating expenses</u>		
Administration		
Accounting	21,956	14,040
District Insurance	21,989	9,648
District clerk	3,995	4,341
District elections	2,686	-
Litigation and attorney fees	182,407	269,692
Meetings	1,332	1,144
Office expense	5,370	6,061
Web hosting	1,679	680
Plant Operations		
Contract fees	76,534	74,469
Customer refunds	1,000	1,000
Depreciation expense	100,708	91,548
Electricity	19,361	20,495
Engineering Services	1,001	46,304
Personnel expenses	24,233	26,479
Plant supplies and maintenance	119,067	91,299
Telephone	2,085	834
Trash	216	216
Water	445	438
Total operating expenses	586,064	658,688
Operating (gain) loss	(60,954)	(6,902)
<u>Non-operating revenues</u>		
Interest income	17,471	18,610
Plant upgrade reimbursements	18,072	83,925
Loss on disposition of assets	-	(20,578)
Judgements and claims	(75,000)	-
Total non-operating income and expense	(39,457)	81,957
Net change in net position	(100,411)	75,055
Net position beginning of year	2,538,930	2,463,875
Net position end of year	\$ 2,438,519	\$ 2,538,930

See accompanying notes and independent accountant's review report.

**Inscription Canyon Ranch Sanitary District
Statements of Cash Flows
Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<u>Cash flows from operating activities:</u>		
Cash received from property taxes	\$ 359,342	\$ 464,956
Cash received from other operating income	156,185	185,186
Cash received from other income	1,089	644
Cash payments for professional services	(280,607)	(358,171)
Cash payments for personnel services	(25,015)	(26,479)
Cash payments for sewer system operations	(150,215)	(188,079)
Cash payments for administration	(54,520)	(31,685)
Net change in cash from operating activities	<u>6,259</u>	<u>46,372</u>
<u>Cash flows from capital and related financing activities:</u>		
Cash paid for capital asset	(681,814)	(178,872)
Payments on long-term debt	(44,740)	(42,125)
Net change in cash from capital and related financing activities	<u>(726,554)</u>	<u>(220,997)</u>
<u>Cash flows from investing activities:</u>		
Interest on investments	17,471	18,610
Net change in cash from investing activities	<u>17,471</u>	<u>18,610</u>
Net change in cash and cash equivalents	(702,824)	(156,015)
Cash and cash equivalents at beginning of year	<u>1,109,649</u>	<u>1,265,664</u>
Cash and cash equivalents at end of year	<u>\$ 406,825</u>	<u>\$ 1,109,649</u>
Unrestricted cash	406,825	511,291
Restricted cash	-	598,358
Total cash and cash equivalents	<u>\$ 406,825</u>	<u>\$ 1,109,649</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Operating (gain) loss	\$ (60,954)	\$ (6,902)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	100,708	91,548
Loss on disposition on capital assets	-	20,578
Change in assets and liabilities:		
(Increase) decrease in operating receivables	(7,493)	3,179
Increase (decrease) in operating accounts payable and accrued expenses	(26,002)	(62,031)
Net change in cash from operating activities	<u>\$ 6,259</u>	<u>\$ 46,372</u>

See accompanying notes and independent accountant's review report.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2020 and 2019

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), 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:

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2020 and 2019

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, 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 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.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2020 and 2019

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 if 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.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2020 and 2019

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 (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, 2020 and 2019.

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, 2020 and 2019, the District held cash balances in excess of the FDIC insurance limit of \$78,311 and \$0, 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, 2020 and 2019, were \$406,825 and \$1,109,649, respectively. The bank and treasurer balances at June 30, 2020 and 2019, were \$548,399 and \$1,120,547, 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, 2020 and 2019 were \$0 and \$598,358, respectively.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2020 and 2019

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>2020</u>	<u>2019</u>
Developer expense reimbursement	\$ 18,043	\$ 83,925
Effluent	182	7,810
Total	<u>\$ 18,225</u>	<u>\$ 91,735</u>

Note 5 – Property, Plant, and Equipment

The following is a summary of fixed assets at June 30, 2020:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Non-depreciable assets:				
Land and land rights	\$ 56,000	\$ -	\$ -	\$ 56,000
Decommissioned plant	877,000	-	-	877,000
Construction in process	204,170	-	(126,779)	77,391
Total non-depreciable assets	<u>1,137,170</u>	<u>-</u>	<u>(126,779)</u>	<u>1,010,391</u>
Depreciable assets:				
Plant	402,249	-	-	402,249
Plant upgrade	-	822,363	-	822,363
Equipment	386,185	3,750	(13,088)	376,847
Infrastructure	3,471,206	-	-	3,471,206
Total assets being depreciated	<u>4,259,640</u>	<u>826,113</u>	<u>(13,088)</u>	<u>5,072,665</u>
Less accumulated depreciation:				
Decommissioned plant	(169,203)	-	-	(169,203)
Plant	(69,330)	(7,970)	-	(77,300)
Equipment	(43,039)	(23,314)	-	(66,353)
Infrastructure	(605,690)	(69,424)	-	(675,114)
Total accumulated depreciation	<u>(887,262)</u>	<u>(100,708)</u>	<u>-</u>	<u>(987,970)</u>
Total property plant and equip	<u>\$ 4,509,548</u>	<u>\$ 725,405</u>	<u>\$ (139,867)</u>	<u>\$ 5,095,086</u>

Inscription Canyon Ranch Sanitary District
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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, 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, 2020 and 2019, was \$100,708 and \$91,548, 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, per 1,000,000 gallons sold. Total effluent revenue for the fiscal years ended June 30, 2020 and 2019, totaled \$63,411 and \$56,258, 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 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, 2020.

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	<u>71,439</u>
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 at June 30, 2020:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
Notes payable	<u>\$ 3,030,239</u>	<u>\$ -</u>	<u>\$ (44,740)</u>	<u>\$ 2,985,499</u>	<u>\$ 46,061</u>
Total long-term liabilities	<u>\$ 3,030,239</u>	<u>\$ -</u>	<u>\$ (44,740)</u>	<u>\$ 2,985,499</u>	<u>\$ 46,601</u>

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.

**Inscription Canyon Ranch Sanitary District
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Note 11 – Subsequent Events

Management of the District has evaluated events and transactions subsequent to June 30, 2020, for potential recognition or disclosure in the financial statements. The District had no subsequent events that required recognition or disclosure in the financial statements. Subsequent events have been evaluated through October 12, 2020, which is the date the financial statements were available to be issued.