

**ICR SANITARY DISTRICT**

**FINANCIAL STATEMENTS**  
**for the year ended**  
**June 30, 2010**



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To the Board of Directors  
ICR Sanitary District  
Prescott, Arizona

I have reviewed the accompanying statement of financial position of ICR Sanitary District as of June 30, 2010, and the related statement of revenue, expenses and changes in net assets, and the statement of cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the ICR Sanitary District.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with auditing procedures generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

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 conformity with generally accepted accounting principles.

I have also prepared the accompanying Supplementary Information which has not been subjected to the inquiry and analytical procedures applied in the review of financial statements described above. This information has been compiled from information that is the representation of management, without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.

*Constance Pinney CPA, PC*

Prescott, Arizona  
November 19, 2010

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**ICR SANITARY DISTRICT  
STATEMENT OF FINANCIAL POSITION  
June 30, 2010**

ASSETS:

Cash and Equivalents (Notes 1 & 2))		\$	499,122
Accounts Receivable (Notes 1, 3 & 5)	\$		383,294
Less: Noncurrent Portion			<u>-202,729</u>
			180,565
Current Assets		\$	<u>679,687</u>
Property and Equipment (Notes 1 & 4):			
Land	\$		56,000
Collection and SBR Plant			<u>1,363,984</u>
Total Property and Equipment	\$		1,419,984
Accumulated Depreciation			<u>-501,256</u>
Net Property and Equipment			918,728
Other Receivables (Notes 1, 3 & 5)			<u>202,729</u>
<b>TOTAL ASSETS</b>		<b>\$</b>	<b><u>1,801,144</u></b>
<b>CURRENT LIABILITIES:</b>			
Accounts Payable		\$	25,188
<b>NET ASSETS:</b>			
Restricted: Replacement and Repairs	\$		501,256
Temporarily Restricted: Budgetary Carryover			196,379
Unrestricted			<u>1,078,321</u>
<b>TOTAL NET ASSETS</b>			<u>1,775,956</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>		<b>\$</b>	<b><u>1,801,144</u></b>

*The accompanying accountant's review report and notes are an integral part of these financial statements.*

**ICR SANITARY DISTRICT**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
**for the year ended June 30, 2010**

OPERATING REVENUE:		
Late Penalties and Fees	\$	255,875
Ad Valorem Tax Revenues		159,714
Reimbursements from Developers		107,452
Other Fees		7,348
Commercial User Fees		<u>5,261</u>
TOTAL OPERATING REVENUE	\$	535,650
OPERATING EXPENSES:		
Legal and Professional Services	\$	136,973
Contract Operational Services		76,479
Depreciation (Notes 1 & 4)		25,300
Hauling and Disposal		19,211
Chemicals		15,732
Utilities		15,172
Accounting		14,053
Laboratory Analysis		11,175
Repairs, Maintenance and Supplies		5,661
Engineering and Expansion		5,450
Administrative Services		4,400
Contract Courier Services		4,117
Insurance		2,944
Forecasting		2,035
Rent		1,600
Telephone		1,294
Office and Board Expenses		779
Website Hosting		<u>540</u>
TOTAL OPERATING EXPENSES	\$	<u>342,915</u>
NET OPERATING REVENUE	\$	192,735
OTHER REVENUE		
Interest on Investments		<u>3,644</u>
NET REVENUE	\$	196,379
NET ASSETS, BEGINNING OF YEAR		1,579,577
NET ASSETS, END OF YEAR	\$	<u>1,775,956</u>

*The accompanying accountant's review report and notes are an integral part of these financial statements.*

**ICR SANITARY DISTRICT  
STATEMENT OF CASH FLOWS  
for the year ended June 30, 2010**

Net Revenue per Books	\$	196,379
Adjust:		
Items on statement of net revenues not providing or requiring cash during the current period:		
Depreciation (Notes 1 & 4)		25,300
Adjust other items:		
Change in Accounts Receivable		-270,382
Change in Accounts Payable		<u>13,400</u>
Net Cash Flow from Operating Activities	\$	-35,303
Net Cash Flows from Investing Activities		
Additions to Property & Equipment:		-19,144
Cash Flows from Financing Activities:		<u>None</u>
Net Change in Cash and Cash Equivalents	\$	-54,447
Add: Cash and Cash Equivalents, July 1		<u>553,569</u>
Cash and Cash Equivalents, June 30	\$	<u><u>499,122</u></u>

*The accompanying accountant's review report and notes are an integral part of these financial statements.*

**ICR SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended June 30, 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

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 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.

The financial statements of ICR Sanitary District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

In evaluating how to define the entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the following criteria:

The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographical boundaries of the government and is generally available to its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

Based on these criteria, there are no component units which should be included in these financial statements.

*These notes and the accompanying accountant's review report are an integral part of the financial statements.*

**ICR SANITARY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended June 30, 2010**  
**(continued)**

Basis of Accounting

The financial statements of the District have been prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liabilities are incurred. In accordance with GASB Statement No. 20 for Proprietary Fund accounting, the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

Fund Accounting

The financial transactions of the District are recorded and reported as an Enterprise Fund as its operations are financed and operated in a manner similar to private business enterprises, in which the intent of the District Board is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Capital Assets

Property, plant and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful life of the assets. For the SBR plant (See Note 4.) an estimated useful life of 39 years is used; for the collection system, depreciation is calculated over 50 years. Expenditures for renewals and betterments that extend the useful life of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as period costs.

Cash and Investments

Generally, 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 one hundred eighty days; pooled investment funds established by the State Treasurer; obligations issued or guaranteed by the United States or certain agencies; certain other state and local bonds; and certain other investments. As required by statute, collateral is required for all demand deposits not covered by federal depository insurance.

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.

**ICR SANITARY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended June 30, 2010**  
**(continued)**

Accounts Receivable

Accounts receivable are considered fully collectible. A property owner who has not paid a hook-up fee will be denied a certificate of occupancy until the fee is paid. In order to collect unpaid user fees, the District can place a lien on the real property. (See Note 3.)

Accounting Estimates

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

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; injuries to employees; and natural disasters. The District carries insurance to minimize these risks.

Budgets and Budgetary Accounting

The District adheres to the following procedures with respect to the budgetary data reflected in these financial statements:

Prior to May 1<sup>st</sup> of each year, the District submits a proposed operating budget to the County Board of Supervisors for the next fiscal year commencing July 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them.

Arizona statutes require that on or before the third Monday in July of each year, the District Board must adopt a tentative budget. Once this tentative budget has been adopted, an expenditure may not be increased upon final adoption; however, it may be decreased. The tentative budget must be published once per week for two consecutive weeks prior to final adoption.

A public hearing and special meeting are held at least fourteen days prior to the date of levying taxes, as stated in the notice of tentative budget. After the public meeting is held as advertised, the special meeting is convened to adopt the final budget.

*These notes and the accompanying accountant's review report are an integral part of the financial statements.*

**ICR SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended June 30, 2010  
(continued)**

Unused budgetary appropriations at year-end are reported on the balance sheet as Temporarily Restricted funds. The District does not use encumbrance accounting.

**NOTE 2: CASH**

As of June 30, 2010, the District had \$29,593 cash in bank, covered by FDIC insurance. The District also had \$469,529 in a warrant account with the Yavapai County treasurer.

**NOTE 3: ACCOUNTS RECEIVABLE & OTHER RECEIVABLES**

As of June 30, 2010, the District had total accounts receivable in the amount of \$383,294. Approximately 66 percent of this amount (\$254,734) was due from a single customer ("Whispering Canyon") with no current payment history. The account is deemed collectible by ICR Sanitary District's management. (See Note 1.) The portion representing unpaid billings over 90 days old (\$145,295) for Whispering Canyon has been removed from current assets and is classified as "Other Receivables" on the statement of financial position.

Approximately 33 percent (\$127,484) of total accounts receivable was due from a single customer ("Harvard Investments") with a regular payment history. The account is deemed collectible by ICR Sanitary District's management. (See Note 1.) The portion representing unpaid billings over 90 days old (\$57,434) for Harvard Investment has been removed from current assets and is classified as "Other Receivables" on the statement of financial position.

**NOTE 4: PROPERTY AND EQUIPMENT**

As of June 30, 2010, property and equipment were as follows:

Land	\$ 56,000
SBR Treatment Plant (Decommissioned)	434,029
Infrastructure – Inscription Canyon Ranch	714,531
Infrastructure – The Preserve	<u>215,424</u>
	\$1,419,984
Accumulated Depreciation	-501,256
Net Property and Equipment	<u>\$ 918,728</u>

Depreciation expense for the year ended June 30, 2010 was \$25,300.

**ICR SANITARY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended June 30, 2010  
(concluded)**

**NOTE 5: CONTINGENT LIABILITIES & GOING CONCERN CONSIDERATIONS**

On December 9, 2009, the Board of Directors of ICR Sanitary District voted on and adopted a Resolution placing a Moratorium precluding any new or additional sewer hookups within the District. The Resolution expresses concern that existing capacity of its wastewater treatment plant is insufficient to treat estimated wastewater from residential and other facilities within the District that have been approved for construction. The Resolution also addresses "timing problems" in expanding the wastewater treatment plant, in "which construction thereof is the obligation" of at least one developer-entity "at its own cost, to meet the existing and future demands for sewage effluent treatment in the District". Finally, the Resolution states that the Moratorium shall not be lifted until all outstanding invoices have been paid in full by any developer-entity which owes monies to the District. In addition, the Moratorium shall not be lifted "no sooner than...160 days of when the new and expanded wastewater treatment plant will actually be in operation in the District".

There are ongoing legal disputes related to the above:

1. A lawsuit has been filed by developers Harvard Simon I, LLC, the Preserve at the Ranch LLC, Old Capitol Investments, LLC and Whispering Canyon Development LLC, alleging violations of the Arizona Open Meetings Law and alleging that the Moratorium described above was unlawful for specific reasons. At the time of issuance of these financial statements, the potential, possible or likely outcome of this lawsuit was unknown and any potential liability cost to the District could not be reasonably estimated.
2. A Demand Notice dated March 18, 2010, alleges that the Private Property Rights Protection Act was violated by imposing the Moratorium (above), contracts were breached, and the District failed to act in accordance with statutory powers and other contractual obligations. Talking Rock, The Preserve and Whispering Canyon allege combined damages in excess of \$6,000,000. At the time of issuance of these financial statements, lawsuit has not been filed and potential liability costs to the District could not be reasonably estimated.
3. A Demand Notice dated May 18, 2010 was submitted by Inscription Canyon Ranch, L.P. also alleging that the Private Property Rights Protection Act was violated by the Moratorium, resulting in diminution of property value in excess of \$11,000,000. At the time of issuance of these financial statements, lawsuit has not been filed and potential liability costs to the District could not be reasonably estimated.
4. A Demand Notice dated June 3, 2010 was filed by a private party claiming that the District violated the Private Property Rights Protection Act, breaching a sewer service agreement with the Preserve at the Ranch. Alleged damages claimed were in excess of \$4,000,000. At the time of issuance of these financial statements, lawsuit has not been filed and potential liability costs to the District could not be reasonably estimated.

Should the above parties be successful in asserting their claims, it is likely that the ICR Sanitary District could be forced into bankruptcy.

*These notes and the accompanying accountant's review report are an integral part of the financial statements.*

**ICR SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
for the year ended June 30, 2010**

The following discussion and analysis of ICR Sanitary District's financial performance is intended to provide an overview of the District's financial activities for the year ended June 30, 2010. It should be read in conjunction with the District's accompanying financial statements.

History and Background

ICR Sanitary 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

During the year ended June 30, 2010, the District's operating revenue increased \$208,369 (63.6%) from the prior year. Related expenses increased \$78,686 (29.8%). The resulting change in operating income was an increase in the amount of \$129,683 (205.6%). However, largely due to the accrual basis used in recording late penalties and fees (the bulk of which remain unpaid at year-end), there was actually a negative cash flow from operations for the year in the amount of \$35,303.

Overview of the Financial Statements

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 balance sheet presents information on all District assets and liabilities; the difference between assets and liabilities is reported as net assets. This information is presented as of June 30, 2010, the ending date of the District's fiscal year. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenue, expenses and changes in net assets presents information showing how the District's net assets changed during the year ended June 30, 2010. Changes in net assets are reported when underlying events give rise to the change, regardless of the timing of related cash flows. Accordingly, revenues and expenses reported on this statement may include items that will affect cash flows during future periods.

*See the accompanying accountant's review report.*

**ICR SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
for the year ended June 30, 2010  
(concluded)**

The statement of cash flows exhibits the impact on cash flows of the District's operating, investment and financing activities during the current year. Cash is vital to all organizations and this statement is intended to assist the reader in understanding how the District received and disbursed cash during the year.

Notes to the Financial Statements

These notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes are an integral part of the financial statements.

Financial Analysis

As previously noted, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,775,956 on June 30, 2010.

The largest portion of the District's assets on that date, \$918,728 (51.0%) was invested in capital assets (land and collection and decommissioned SBR treatment plant, net of depreciation). There was no debt associated with these assets.

The District had no long term debt as of balance sheet date.

*See the accompanying accountant's review report.*