

**Inscription Canyon Ranch Sanitary District**

**Financial Statements**

**Years Ended June 30, 2017 and 2016**

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Financial Statements  
Years Ended June 30, 2017 and 2016**

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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, 2017 and 2016. 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 2017**

- The District's net position increased by 2.1%
- Operating revenues decreased by 5.38%
- Operating expenses decreased by 26.4%

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 fiscal year ended in June 2017, the District engaged the engineering firm, Sunrise Engineering, Inc., to begin designing upgrades to and expansion of the wastewater treatment plant. The design of the first phase of improvements to the existing plant was completed in June 2017. Construction of the first phase will be undertaken in fiscal year 2017/2018, with plant expansion planned following.

### **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, 2017 and 2016. 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, 2017 and 2016

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

	30-Jun-17	30-Jun-16	\$ Change	% Change
Total current and other assets	1,311,234	1,283,525	27,709	2.2%
Capital assets, net	4,379,458	4,389,148	-9,690	-0.2%
Total assets	5,690,692	5,672,673	18,019	0.3%
Long-term debt outstanding	3,071,261	3,120,150	-48,889	-1.6%
Other liabilities	61,182	47,559	13,623	28.6%
Total liabilities	3,132,443	3,167,709	-35,266	-1.1%
Net assets invested in capital assets, net of related debt	1,286,427	1,235,308	51,119	4.1%
Restricted	774,658	747,158	27,500	3.7%
Unrestricted	497,164	522,498	-25,334	-4.8%
Total net position	2,558,249	2,504,964	53,285	2.1%

Total assets increased by \$18,019 or 0.3% during the fiscal year ended June 30, 2017. The increase is attributed to an increase in cash, offset by depreciation.

Total liabilities reflect an overall decrease of \$35,266 or 1.1%. The decrease is reflective of repayment of outstanding long-term debt.

Table 1 also indicates that total net position increased by \$53,285 or 2.1%.

**REVENUES, EXPENSES, AND CHANGES IN NET POSITION COMPARISON OF JUNE 30, 2017 and 2016**

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

	<u>30-Jun-17</u>	<u>30-Jun-16</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	363,330	383,987	-20,657	-5.38%
Non-operating revenues	5,742	217,229	-211,487	-97.4%
Total revenues	369,072	601,216	-232,144	-38.6%
Depreciation expense	84,553	83,055	1,498	1.8%
Other operating expenses	231,234	314,179	-82,945	-26.4%
Total expenses	315,787	397,234	-81,447	-20.5%
Changes in net position	53,285	203,982	-150,697	-73.9%
Net position beginning	2,504,964	2,300,982	203,982	8.9%
Net position ending	2,558,249	2,504,964	53,285	2.1%

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, 2017, was \$2,558,249.

Total revenues decreased by \$232,144 in 2017. This was due to the claim settled against its insurer for legal fees in the prior year ended June 30, 2016. Operating revenues decreased by \$20,657 or 5.38%. This was due to a reduction in ad valorem taxes assessed and collect in the fiscal year ended June 30, 2016 versus the year ended June 30, 2017.

Total expenses decreased by \$81,447 in 2017. The decrease is attributed to higher attorney fees incurred by the District during the prior year ended June 30, 2016, for the claim settlement mentioned above.

## **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, 2017, the District's investment in capital assets totaled \$4,379,458, which is a decrease of .2% over the balance at June 30, 2016. The decrease in capital assets is due to depreciation.

## **LONG-TERM DEBT**

At June 30, 2017, the District had a total of \$3,071,261 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 the aforementioned settlement agreement.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Operating expenses for the year ending June 2018 are expected to be comparable to the current year. The District plans to spend approximately \$220,000 of capital funds for improvements to the existing treatment plant in the next fiscal year.

## **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.



## 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 are comprised of the Statement of Net Position as of June 30, 2017 and 2016, 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 the District's 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 the 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 conformity 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 and budgetary comparison information on pages i through v be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my review of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

*Alex Cohan, CPA*

Prescott Valley, Arizona  
January 24, 2018

**Inscription Canyon Ranch Sanitary District  
Statement of Net Position  
June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Assets</u></b>		
Current assets		
Cash and cash equivalents	\$ 530,640	\$ 531,043
Property tax receivables	1,477	4,429
Other receivables	4,459	895
Total current assets	536,576	536,367
Other assets		
Restricted cash	774,658	747,158
Property, Plant and Equipment		
Non-depreciable capital assets:		
Land and land rights	56,000	56,000
Decommissioned plant	877,000	877,000
Depreciable capital assets:		
Property, plant and equipment, at cost, net of accumulated depreciation of \$731,500 and \$646,947 respectively	3,446,458	3,456,148
Total property, plant and equipment	4,379,458	4,389,148
Total assets	\$ 5,690,692	\$ 5,672,673
<b><u>Liabilities</u></b>		
Current liabilities		
Accounts payable	28,206	12,384
Accrued expenses	1,517	1,485
Current portion of long-term repayments	31,459	33,690
Total current liabilities	61,182	47,559
Long-term liabilities		
Santec plant and development infrastructure repayment	3,071,261	3,120,150
Total liabilities	\$ 3,132,443	\$ 3,167,709
<b><u>Net Position</u></b>		
Invested in capital assets, net of related debt	1,276,737	1,235,308
Restricted-capital improvements	774,658	747,158
Unrestricted	506,854	522,498
Total net position	\$ 2,558,249	\$ 2,504,964

See accompanying notes and independent accountant's review report.

**Inscription Canyon Ranch Sanitary District  
Statement of Revenues, Expenses, and  
Changes in Net Position  
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Revenues</u></b>		
Ad valorem tax revenue	\$ 268,171	\$ 305,230
Activation, commercial, user fees and other operating income	40,675	26,938
Effluent income	53,210	51,819
Other income	1,274	-
Total operating revenues	<u>363,330</u>	<u>383,987</u>
<b><u>Operating expenses</u></b>		
Administration		
Accounting	9,157	12,292
District Insurance	8,376	8,194
District clerk	924	1,331
Litigation and attorney fees	11,098	95,382
Meetings	140	280
Office expense	1,928	2,121
Web hosting	908	1,146
Plant Operations		
Contract fees	81,619	70,014
Depreciation expense	84,553	83,055
Electricity	18,997	21,291
Engineering Services	4,282	8,744
Personnel expenses	25,606	25,696
Plant supplies and maintenance	63,008	57,957
Professional fees	3,788	8,358
Telephone	825	825
Trash	216	216
Water	362	332
Total operating expenses	<u>315,787</u>	<u>397,234</u>
Operating gain (loss)	<u>47,543</u>	<u>(13,247)</u>
<b><u>Non-operating revenues</u></b>		
Interest income	5,742	4,729
Insurance recovery	-	212,500
Total non-operating income and expense	<u>5,742</u>	<u>217,229</u>
Net change in net position	53,285	203,982
Net position beginning of year	<u>2,504,964</u>	<u>2,300,982</u>
Net position end of year	<u>\$ 2,558,249</u>	<u>\$ 2,504,964</u>

See accompanying notes and independent accountant's review report.

**Inscription Canyon Ranch Sanitary District  
Statement of Cash Flows  
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Cash flows from operating activities:</u></b>		
Cash received from property taxes	\$ 271,124	\$ 304,023
Cash received from other operating income	90,319	82,271
Cash received from other income	1,274	-
Cash payments for professional services	(14,886)	(103,740)
Cash payments for personnel services	(19,075)	(25,832)
Cash payments for sewer system operations	(159,985)	(161,788)
Cash payments for administration	(21,433)	(25,364)
Net cash provided by operating activities	<u>147,338</u>	<u>69,570</u>
<b><u>Cash flows from capital and related financing activities:</u></b>		
Cash paid for capital asset	(74,864)	-
Payments on long-term debt	(51,119)	(31,153)
Cash received from insurance recoveries	-	212,500
Net cash used by capital and related financing activities	<u>(125,983)</u>	<u>181,347</u>
<b><u>Cash flows from investing activities:</u></b>		
Interest on investments	<u>5,742</u>	<u>4,729</u>
Net cash provided by investing activities	<u>5,742</u>	<u>4,729</u>
Net increase in cash and cash equivalents	27,097	255,646
Cash and cash equivalents at beginning of year	<u>1,278,201</u>	<u>1,022,555</u>
Cash and cash equivalents at end of year	<u>\$ 1,305,298</u>	<u>\$ 1,278,201</u>
Unrestricted cash	530,640	531,043
Restricted cash	<u>774,658</u>	<u>747,158</u>
Total cash and cash equivalents	<u>\$ 1,305,298</u>	<u>\$ 1,278,201</u>
<b><u>Reconciliation of operating income to net cash provided by operating activities:</u></b>		
Operating gain (loss)	\$ 47,543	\$ (13,247)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	84,553	83,055
Change in assets and liabilities:		
(Increase) decrease in receivable	(612)	2,307
Increase (decrease) in accounts payable and accrued expenses	<u>15,854</u>	<u>(2,545)</u>
Net cash received by operating activities	<u>\$ 147,338</u>	<u>\$ 69,570</u>

See accompanying notes and independent accountant's review report.

**Inscription Canyon Ranch Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 1 – Description of Entity**

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, 2017 and 2016**

**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, 2017 and 2016**

**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, 2017 and 2016.

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, 2017 and 2016**

**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, 2017 and 2016**

**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, 2017 and 2016, are \$1,305,298 and \$1,278,201, respectively. The bank and treasurer balances at June 30, 2017 and 2016, are \$1,310,556 and \$1,278,201, 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 a land developer, the District received fees collected by the developer from homeowners. These funds are restricted for capital improvements for the District’s wastewater plant and delivery system. The restricted cash balances at June 30, 2017 and 2016 are \$774,658 and \$747,158, respectively.

**Note 4 –Other Income**

During the year ended June 30, 2016, the District settled a claim against its insurer for legal fees it had paid its legal counsel for a lawsuit filed against the District by developers in 2010. The settlement resulted in a payment to the District of \$212,500.

**Note 5 –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. Total receivables at June 30, 2017 and 2016, are \$4,459 and zero, respectively.

Total other receivables consist of the following at year end June 30<sup>th</sup>:

	2017	2016
Other	\$ 1,477	\$ 5,324
Total	\$ 1,477	\$ 5,324

**Inscription Canyon Ranch Sanitary District  
Notes to Financial Statements  
June 30, 2017 and 2016**

**Note 6 – Property, Plant, and Equipment**

The following is a summary of fixed assets at June 30, 2017:

	6/30/16			6/30/17
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
Non-depreciable assets:				
Land and land rights	\$ 56,000	\$ -	\$ -	\$ 56,000
Decommissioned plant	877,000	-	-	877,000
Construction in process	<u>-</u>	<u>74,863</u>	<u>-</u>	<u>74,863</u>
Total non-depreciable assets	<u>933,000</u>	<u>74,863</u>	<u>-</u>	<u>1,007,863</u>
Depreciable assets:				
Plant	402,249	-	-	402,249
Equipment	229,640	-	-	229,640
Infrastructure	<u>3,471,206</u>	<u>-</u>	<u>-</u>	<u>3,471,206</u>
Total assets being depreciated	<u>4,103,095</u>	<u>-</u>	<u>-</u>	<u>4,103,095</u>
Less accumulated depreciation:				
Decommissioned plant	(169,203)	-	-	(169,203)
Plant	(43,813)	(10,003)	-	(53,816)
Equipment	(36,513)	(5,126)	-	(41,639)
Infrastructure	<u>(397,418)</u>	<u>(69,424)</u>	<u>-</u>	<u>(466,842)</u>
Total accumulated depreciation	<u>(646,947)</u>	<u>(84,553)</u>	<u>-</u>	<u>(731,500)</u>
Total property plant and equip	<u>\$ 4,389,148</u>	<u>\$ (9,690)</u>	<u>\$ -</u>	<u>\$ 4,379,458</u>

In 2005 a related party (Note 7) 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 10).

Total depreciation for the years ended June 30, 2017 and 2016, was \$84,553 and \$83,055, respectively.

**Note 7 – 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 receive 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

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omitted wastewater facilities were transferred to the District in accordance with the terms of the original amended and restated development agreement (Notes 6 and 10).

**Note 7 – Related Party Transactions (continued)**

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, 2017 and 2016, was \$53,210 and \$51,819, 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 8 – 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 9 – Contingent Liabilities**

On June 15, 2016, the District entered into a contract with an engineering firm for the improvement and expansion of the Wastewater Treatment Plant, with an effective date of July 1, 2016. This project is to be completed in phases and the estimated cost is \$210,200. As of June 30, 2017, the District paid the engineering firm \$66,095, for the design of phase one. Construction of phase one is planned to begin in the fiscal year ending June 30, 2018.

The District is committed under various professional contracts for operations and accounting service. The contracts are cancellable by either party with a ninety-day written notice. Future minimum contract payments are as follows for the fiscal year ended June 30:

2018	<u>\$ 75,715</u>
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**Note 10 – Long-Term Liabilities**

As part of a 2012 settlement agreement, the District was to repay Developers (Note 7) 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 6 and 7). 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 liability	<u>\$ 3,251,735</u>

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**Note 10 – Long-Term Liabilities (continued)**

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:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	<u>\$ 3,153,840</u>	<u>\$ -</u>	<u>\$ (51,120)</u>	<u>\$ 3,102,720</u>	<u>\$ 31,459</u>
Total long-term liabilities	<u>\$ 3,153,840</u>	<u>\$ -</u>	<u>\$ (51,120)</u>	<u>\$ 3,102,720</u>	<u>\$ 31,459</u>

**Note 11 – Subsequent Events**

The District has entered into engineering contracts for Phase One of construction of the new plant. The total estimated cost of Phase One is \$214,000. Construction should begin prior to the end of the subsequent fiscal year ending June 30, 2018. Management of the District has evaluated events and transactions subsequent to June 30, 2017, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through January 24, 2018, which is the date the financial statement were available to be issued.