

**Inscription Canyon Ranch Sanitary District**  
**Financial Statements**  
**Years Ended June 30, 2012 and 2011**

**Inscription Canyon Ranch Sanitary District  
Financial Statements  
Years Ended June 30, 2012 and 2011**

**Contents**

Management’s Discussion and Analysis .....	i
Independent Accountant’s Report .....	1

**General Purpose Financial Statements:**

Statement of Net Position .....	2
Statement of Revenues, Expenses, and Changes in Net Position .....	3
Statement of Cash Flows .....	4
Notes to Financial Statements .....	5



# Alyx Cohan, CPA PC

100 N. Summit Avenue \* Prescott, AZ 86301  
928-771-1950 / 928-771-9907 fax / 928-379-0286 cell  
accohan@msn.com

## INDEPENDENT ACCOUNTANT'S REPORT

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

I have reviewed the accompanying Statement of Net Position of Inscription Canyon Ranch Sanitary District (District) as of June 30, 2012, and the related Statements of Revenues, Expenses and Changes in Net Position, and Cash Flows for the year then ended. 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 for the year ending June 30, 2012.

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 and for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe that the results of my procedures provide a reasonable basis for my report.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements for the year ending June 30, 2012, in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 operations, economic, or historical context. Such information was not audited, reviewed, or compiled by me and, accordingly, I do not express an opinion or any other form of assurance on the supplementary information.

The Statement of Net Position, and related Statements of Revenues, Expenses and Changes in Net Position, and Cash Flows for the period ending June 30, 2011, were audited by me and I expressed an unqualified opinion on them in my report dated December 28, 2011. I have not performed any auditing procedures since that date.

*Alyx Cohan, CPA PC*

Prescott, Arizona  
January 4, 2013

## **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, 2012 and 2011. This information is presented in conjunction with the audited 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 2012**

- The District's net assets increased by 42.3%
- Operating revenues increased by .9%
- Operating expenses decreased by 36.7%

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. However, the District billed user fees from September through December of 2011.

Beginning with the seating of a new District Board in June of 2011, the District entered into negotiations with plaintiffs in a legal dispute following a moratorium imposed by the District in late 2009. A settlement agreement and release in settlement of the dispute was signed in November 2011. As agreed in the settlement a settlement agreement with the Preserve at the Ranch and an Amended and Restated Development Agreement with other developers were executed in March 2012. The parties began implementing the various terms of the new agreement, including the payment by Talking Rock Golf Course of agreed upon amounts for effluent deliveries made during the dispute, billing for ongoing effluent delivery, and work toward completion of punch list items agreed upon as a condition of acceptance of infrastructure. In May the District signed a Bill of Sale and accepted transfer of the wastewater treatment plant. In June the first of several scheduled transfers of funds from a joint escrow account to the District's Capital Improvement Account held by Yavapai County was made. The District is now solely responsible for the cost, timing and technology of future plant expansion.

In the settlement agreement with the Preserve at the Ranch the parties agreed that the District would pay the developers two payments of \$11,056 as complete repayment for infrastructure construction by the developer, one payment to be made in 2012, and one in 2013.

In May 2011 the District filed a claim in US District Court against its insurer, American Alternative Insurance Corporation (case CIV 12-8019PCT DGC) for amounts paid to its (District's) attorneys.

## **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 which 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, 2012 and 2011. 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 Assets and Statement of Revenues, Expense and Changes in Net Assets provides an indication of the District's financial condition and also identify if the financial condition of the District has improved during the last two fiscal years. An increase in net assets 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 equivalents balance for the past year.

The notes to the 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, 2012 AND 2011

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

	<b>June 30, 12</b>	<b>June 30, 11</b>	<b>\$ Change</b>	<b>% Change</b>
Total current and other assets	1,006,413	270,960	735,453	271.4%
Capital assets, net	1,729,709	1,344,883	384,826	28.6%
Total assets	2,736,122	1,615,843	1,120,279	69.3%
Long-term debt outstanding	414,043	-	414,043	n/a
Other liabilities	36,934	12,761	24,173	189.4%
Total liabilities	450,977	12,761	438,216	3434.0%
Net assets invested in capital assets, net of related debt	1,334,209	1,344,883	(10,674)	-0.8%
Restricted capital improvements	727,489	-	727,489	n/a
Unrestricted assets	223,447	258,199	(34,752)	-13.5%
Total net assets	2,285,145	1,603,082	682,063	42.3%

Total assets increased by \$1,120,279 or 69.3% during the fiscal year ended June 30, 2012. The increase is attributed to an increase in fixed assets and cash received as part of a settlement agreement. Specific assets include the wastewater treatment plant that was transferred to the District in May of 2012 and transferred lot fees restricted for capital improvements.

Total liabilities reflect an overall increase of \$438,216 or 3434%. The increase is reflective of amounts owed for fixed assets and repayment of liabilities as part of the above mentioned settlement agreement.

Table 1 also indicates that total net assets increase by \$682,063 or 42.3%.

**REVENUES, EXPENSES, AND CHANGES IN NET POSITION COMPARISON OF  
JUNE 30, 2012 AND 2011**

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

**Table 2**  
**Condensed Statement of Revenues,**  
**Expenses and Changes in Net Assets**  
**As of June 30, 2012 and 2011**

	<u>June 30, 12</u>	<u>June 30, 11</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	437,047	433,344	3,703	0.9%
Non-operating revenues	425	1,623	(1,198)	-73.8%
Total revenues	437,472	434,967	2,505	0.6%
Depreciation expense	32,785	14,388	18,397	127.9%
Other operating expenses	407,570	680,806	(273,236)	-40.1%
Total expenses	440,355	695,194	(254,839)	-36.7%
Excess before special items	(2,883)	(260,227)	257,344	-98.9%
Other special items	684,946	-	684,946	n/a
Changes in net assets	682,063	(260,227)	942,290	-362.1%
Net assets beginning	1,603,082	1,863,309	(260,227)	-14.0%
Net assets ending	2,285,145	1,603,082	682,063	42.5%

The Statement of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items that affect the change in net assets. As the information in Table 2 indicates, total net assets at June 30, 2012, were \$2,285,145.

Total revenues increased by \$2,505 in 2012. Operating revenues increase by \$3,703 or .9%. Operating revenues were relatively stable from the prior year ending June 30, 2011.

The total expense decrease of \$254,839 in 2012 is attributed to lower attorney fees incurred in the fiscal year ending June 30, 2012.

Special items in the amount of \$684,946 were recognized in the fiscal year ending June 30, 2012, as part of a settlement agreement. Special items include transfers of a wastewater plant asset and restricted lot fees to the District as part of the settlement agreement.

**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, 2012, the District's investment in capital assets totaled \$1,729,709, which is an increase of 28.6% over the balance at June 30, 2011. The increase in capital assets is due to a transfer in May of 2012 of the wastewater plant asset.

## **LONG-TERM DEBT**

At June 30, 2012, the District has a total of \$395,500 in long-term debt. The debt is reflective of the District required repayment of 50% of the total cost of the transferred plant asset as part of the aforementioned settlement agreement.

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

The budget for the fiscal year ending June 30, 2012, was created by new board members taking office in May 2011. The budget ending June 30, 2011, had been overspent due to continued litigation, leaving the District with a cash shortage. Additional legal fees were required for the fiscal year ending June 30, 2012. Due to the continued dispute, the District established a user fee to help offset operating and high litigation fees for a two month period. This increased revenue helped to fund the District's operations until an agreement could be reached.

The District's revenue projection/budget was lowered in the 2012/2013 fiscal year, anticipating lower legal expenses related to the resolved aforementioned dispute. The District did not consider depreciation in its revenue requirements for the budget but intends to contribute to the reserve account for future plant replacements with restricted cash.

## **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.

**Inscription Canyon Ranch Sanitary District**  
**Statement of Net Position**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b><u>Assets</u></b>		
Current assets		
Cash and cash equivalents	\$ 255,079	\$ 174,169
Property tax receivables	6,447	17,294
Other receivables	539,574	79,497
Total current assets	801,100	270,960
Other assets		
Restricted cash	205,313	-
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 \$323,308 and \$290,523, respectively	796,709	411,883
Total capital assets	1,729,709	1,344,883
Total assets	2,736,122	1,615,843
<b><u>Liabilities</u></b>		
Current liabilities		
Accounts payable and accrued expenses	36,934	12,761
Total current liabilities	36,934	12,761
Long-term liabilities		
Santec plant repayment	395,500	-
Effluent credit allowance	18,543	-
Total liabilities	450,977	12,761
<b><u>Net Position</u></b>		
Invested in capital assets, net of related debt	1,334,209	1,344,883
Restricted-capital improvements	727,489	-
Unrestricted fund balance	223,447	258,199
Total net assets	\$ 2,285,145	\$ 1,603,082

See accompanying notes to financial statements.

**Inscription Canyon Ranch Sanitary District  
Statement of Revenues, Expenses, and  
Changes in Net Position  
Years Ended June 30, 2012 and 2011**

<u>Revenues</u>	<u>2012</u>	<u>2011</u>
Ad valorem tax revenue	\$ 328,589	\$ 367,862
Activation, commercial, user, fees and other income	58,488	17,223
Effluent income	<u>49,970</u>	<u>48,259</u>
Total operating revenues	437,047	433,344
<u>Operating expenses</u>		
Administration		
Accounting	22,114	16,321
Consulting	-	3,528
District Insurance	3,142	4,058
District clerk	6,546	3,691
Election expenses	-	2,235
Litigation expenses	188,017	467,382
Meetings	1,305	450
Miscellaneous	2,541	165
Office expense	1,561	315
Publications	66	2,508
Web hosting	1,968	540
Plant Operations		
Depreciation expense	32,785	14,388
Electricity	13,557	15,124
Personnel expenses	93,010	77,645
Plant supplies and maintenance	60,888	65,561
Professional fees	10,625	-
Telephone	1,715	876
Testing	-	19,902
Trash	216	216
Water	<u>299</u>	<u>289</u>
Total operating expenses	<u>440,355</u>	<u>695,194</u>
Operating loss	<u>(3,308)</u>	<u>(261,850)</u>
<u>Non-operating revenues (expenses)</u>		
Interest income	<u>425</u>	<u>1,623</u>
Total non-operating income and expense	<u>425</u>	<u>1,623</u>
Decrease in net assets before special items	(2,883)	(260,227)
Special items		
Developer collected user fees	727,489	-
Developer repayment	<u>(42,543)</u>	<u>-</u>
Net change in fund balance	682,063	(260,227)
Net position beginning of year	1,603,082	1,775,956
Prior period adjustment	<u>-</u>	<u>87,353</u>
Net assets end of year	<u>\$ 2,285,145</u>	<u>\$ 1,603,082</u>

See accompanying notes to financial statements.

**Inscription Canyon Ranch Sanitary District  
Statement of Cash Flows  
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b><u>Cash flows from operating activities:</u></b>		
Cash received from property taxes	\$ 339,437	\$ 350,568
Cash received from other operating income	170,557	16,088
Cash payments for professional services	(225,771)	(580,994)
Cash payments for sewer system operations	(177,520)	(106,025)
Cash payments for administration	<u>(15,161)</u>	<u>(6,213)</u>
Net cash provided (used) by operating activities	<u>91,542</u>	<u>(326,576)</u>
<b><u>Cash flows from capital and related financing activities:</u></b>		
Cash paid for capital asset	(11,056)	-
Proceeds from developer collected lot fees	<u>205,312</u>	<u>-</u>
Net cash provided by capital and related financing activities	<u>194,256</u>	<u>-</u>
<b><u>Cash flows from investing activities:</u></b>		
Interest on investments	<u>425</u>	<u>1,623</u>
Net cash provided by investing activities	<u>425</u>	<u>1,623</u>
Net increase (decrease) in cash and cash equivalents	286,223	(324,953)
Cash and cash equivalents at beginning of year	<u>174,169</u>	<u>499,122</u>
Cash and cash equivalents at end of year	<u>\$ 460,392</u>	<u>\$ 174,169</u>
Unrestricted cash	255,079	174,169
Restricted cash	<u>205,313</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 460,392</u>	<u>\$ 174,169</u>
<b><u>Reconciliation of operating income to net cash provided by operating activities:</u></b>		
Operating loss	\$ (3,308)	\$ (261,850)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	32,785	14,388
Change in assets and liabilities:		
(Increase) decrease in receivable	72,948	(66,687)
Increase (decrease) in accounts payable and accrued expenses	<u>(10,883)</u>	<u>(12,427)</u>
Net cash used by operating activities	<u>\$ 91,542</u>	<u>\$ (326,576)</u>

See accompanying notes to financial statements.

**Inscription Canyon Ranch Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**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 provision 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 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 Governmental Accounting Standards Board (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.

Net assets (total assets net of total liabilities) are 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 recorded when the related liability is incurred. Real estate 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 are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

**Inscription Canyon Ranch Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Note 2 – Summary of Significant Accounting Policies (continued)**

Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) 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 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 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, 2012 and 2011.

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.

**Inscription Canyon Ranch Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Note 2 – Summary of Significant Accounting Policies (continued)**

Cash and Investments (continued)

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.

Operating revenues and expenses

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.

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.

Net Fund Balance

Net assets comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

**Inscription Canyon Ranch Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Note 2 – Summary of Significant Accounting Policies (continued)**

*Invested in capital assets, net of related debt:* This component of net assets 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 asset component as the unspent proceeds.

*Restricted:* This component of net assets 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 net assets:* This component of net assets 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.

Reclassifications

Certain accounts in the prior-year financial statements may have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**Inscription Canyon Ranch Sanitary District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**Note 3 – Cash**

Deposits

The carrying amounts of the District’s deposits for June 30, 2012 and 2011, are \$460,392 and \$174,169, respectively. The bank and treasurer balances at June 30, 2012 and 2011, are \$463,638 and \$186,367, 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 is to receive fees collected by the developer from home owners. These funds are restricted for capital improvements for the District’s wastewater plant and delivery system. The restricted cash balance at June 30, 2012, is \$205,313.

**Note 4 –Other Receivables**

User fees were assessed by the District from September 2011 through December 2011 to help offset operation costs until Ad Valorem tax revenues could be collected. The temporary user’s fee was needed to compensate for litigation and attorney fees incurred by the District. The receivable balance of uncollected user and late fees is \$957 at June 30, 2012.

As part of a settlement agreement with a related party (Note 6) the District is due \$522,177 in previously collected lot fees. The total amount received from the related party for land fees was \$205,313 at June 30, 2012. A receivable in the amount of \$522,177 has been recorded for receipt of remaining lot fees. The income from this transaction has been recognized in the Statement of Revenues, Expenses, and Changes in Net Position as a special item due to its unusual and infrequent nature.

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 receivable at June 30, 2012, is \$16,440.

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

	<u>2012</u>	<u>2011</u>
Customers	\$ 957	\$ -
Lot fees	522,177	-
Effluent	<u>16,440</u>	<u>79,497</u>
Total liability	<u>\$ 539,574</u>	<u>\$ 79,497</u>

**Inscription Canyon Ranch Sanitary District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**Note 5 – Property, Plant, and Equipment**

The following is a summary of fixed assets at June 30, 2012:

	6/30/11 <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	6/30/12 <u>Balance</u>
Non-depreciable assets:				
Land and land rights	\$ 56,000	\$ -	\$ -	\$ 56,000
Decommissioned plant	<u>877,000</u>	<u>-</u>	<u>-</u>	<u>877,000</u>
Total non-depreciable assets	<u>933,000</u>	<u>-</u>	<u>-</u>	<u>933,000</u>
Depreciable assets:				
Plant	-	395,500	-	395,500
Equipment	109,548	-	-	109,548
Infrastructure	<u>592,858</u>	<u>22,112</u>	<u>-</u>	<u>614,970</u>
Total assets being depreciated	<u>702,406</u>	<u>417,612</u>	<u>-</u>	<u>1,120,018</u>
Less accumulated depreciation:				
Decommissioned plant	(169,203)	-	-	(169,203)
Plant	-	(13,810)	-	(13,810)
Equipment	(16,644)	(2,531)	-	(19,175)
Infrastructure	<u>(104,676)</u>	<u>(16,444)</u>	<u>-</u>	<u>(121,120)</u>
Total accumulated depreciation	<u>(290,523)</u>	<u>(32,785)</u>	<u>-</u>	<u>(323,308)</u>
Total property plant and equip	<u>\$ 1,344,883</u>	<u>\$ 384,827</u>	<u>\$ -</u>	<u>\$ 1,729,710</u>

In 2005 a related party (Note 6) built a Santec plant in which wastewater is processed. When the Santec plant began operations, the District's SBR plant was decommissioned. Title to the Santec plant remained with the related party at June 30, 2011. The District continued to operate 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 ending June 30, 2012.

Total depreciation for the years ended June 30, 2012 and 2011, are \$32,785 and \$14,388, 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. At June 30, 2011, 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 are depreciated according to the District's capitalization and depreciation policy.

In 2011 and 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 (Agreement) was entered into on March 1, 2012.

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 ending June 30, 2012 and 2011, are \$49,970 and \$48,259, 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.

**Inscription Canyon Ranch Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Note 7 – Risk Management**

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

**Note 8 – Contingent Liabilities**

As part of a settlement agreement with a related party (Note 6), the District has an outstanding liability in the amount of \$42,543 paid in monthly increments of \$2,000 until paid in full. The repayment is to reimburse the Developer for operations and maintenance of the wastewater plant that was deemed the District's responsibility during litigation. The balance of the liability at June 30, 2012, is comprised of the following:

Amount due in one year (current)	\$ 24,000
Amount due in 2-5 years	<u>18,543</u>
Total liability	<u>\$ 42,543</u>

The expense from this transaction has been recognized in the Statement of Revenues, Expenses, and Changes in Net Position as a special item due to its unusual and infrequent nature.

As part of a settlement agreement entered into on March 1, 2012, the District is to pay an agreement upon amount for the infrastructure of one of the developments located within the District. The total payment for this portion of the infrastructure is \$22,112. A short term liability of \$11,056 remains at June 30, 2012.

**Note 9– Notes Payable**

As part of an the above mentioned settlement agreement, the District is to repay the Developer (Note 6) up to 50% of the costs of the wastewater treatment plant over a twenty year period. The total amount to be repaid by the District is \$395,499. Repayment is to begin in 2014 at 10% of total income of the District's gross annual income including prior or accrued ad valorem property taxes, user and availability fees, excluding effluent. Any uncollected construction costs remaining at the end of twenty years are forfeited by the Developer. Remaining liability will be recognized as contributed capital. At June 30, 2012, the entire liability is considered long term.

**Note 10– Prior Period Adjustment**

A prior period adjustment in the amount of \$353,192 was made at June 30, 2011, to reverse accrued penalties and interest that were not receivable by the District as part of ongoing litigation.

At June 30, 2011, a prior period adjustment of \$215,424 was made to add fixed assets that were inadvertently unrecorded in prior years. Additionally, an entry in the amount of \$225,121 has been made to add back accumulated depreciation of the decommissioned SBR plant from 2005 through June 30, 2010. This amount has been offset by the accumulated depreciation of the unrecorded fixed assets.

The total net prior period adjustment at June 30, 2011, is \$87,353.

**Inscription Canyon Ranch Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Note 11 – Subsequent Events**

During the fiscal years ending June 30, 2012 and 2011, the District was involved in various litigations relating to a moratorium placed on the District in 2009.

In October of 2012 as part of the Amended and Restated Development Agreement, the District agreed to receive ownership of the distribution systems installed by the Developers (Note 6) within District boundaries. Beginning in 2014 the District is to repay up to 50% of the total construction costs of \$3,000,251 of the distribution system located within the Talking Rock Ranch subdivision. Repayment is not to exceed a twenty year period. Repayment terms consist of 10% of the District's gross annual income including prior or to-be-collected ad valorem property taxes, user and availability fees, excluding effluent revenues. Repayment of the 10% of gross annual income is in combination with the Santec Plant repayment. The maximum of 10% gross annual income will be split between each of the repayment obligations. Acceptance of the infrastructure creates an increase in fixed assets and liabilities subsequent to June 30, 2012, up to the maximum repayment amount as indicated above.

The District is also in negotiations to accept the infrastructure located in the Whispering Canyon subdivision of the District. As of the date of these financial statements, no agreement has been entered into.

Management of the District has evaluated events and transactions subsequent to June 30, 2012, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through the financial statements issuance date of January 4, 2013.