

Inscription Canyon Ranch Sanitary District

Financial Statements

Years Ended June 30, 2014 and 2013

**Inscription Canyon Ranch Sanitary District
Financial Statements
Years Ended June 30, 2014 and 2013**

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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, 2014 and 2013. 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 2014

- The District's net position increased by 6.4%
- Operating revenues increased by 21.8%
- Operating expenses decreased by 29.4%

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.

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 November 2011 settlement, a new settlement agreement with the Preserve at the Ranch and an amended and restated development agreement with other developers was executed in March 2012. Under the agreement, the District was made solely responsible for the cost, timing, and technology of future plant expansion. 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 of 2012, the District signed a bill of sale and accepted transfer of the wastewater treatment plant. In June of 2012, the first of several scheduled transfers of funds was made from a joint escrow account to the District's Capital Improvement Account held by Yavapai County.

In the fiscal year ended June 30, 2013, time was spent completing terms of the amended and restated development agreement. The infrastructure improvements made by developers of Talking Rock and Whispering Canyon were accepted, and bills of sale were executed by the District. Additionally, the District signed service agreements with the developers of Whispering Canyon for phases 5 thru 7. The Board also executed a three-year contract for accounting services. In the fiscal year ended June 30, 2014, an omission of phase 12 of the Talking Rock Ranch on-site wastewater facilities was discovered. An

See independent accountant's review report.

amendment to the original Amended and Restated Development Agreement was entered into in April of 2014 and transfer of the asset and recognition of liability occurred.

In mid-2012, a complaint from a property owner was filed with the Arizona Attorney General (AG). The AG's office notified the District that it was investigating allegations that the District Board had violated open meeting laws. A settlement of that complaint was reached in September of 2013, with the AG's office finding that some violations had occurred in the first meeting or two of the newly seated Board's tenure. A settlement was executed that involved publishing the AG's findings, open meeting law training for Board members and providing copies of minutes of meetings to the AG's office for several months, which was completed in the fiscal year ended June 30, 2014.

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, 2014 and 2013. 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 identify 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 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, 2014 and 2013

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

	June 30, 14	June 30, 13	\$ Change	% Change
Total current and other assets	973,744	906,152	67,592	7.5%
Capital assets, net	4,528,527	4,444,496	84,031	1.9%
Total assets	5,502,271	5,350,648	151,623	2.8%
Long-term debt outstanding	3,180,337	3,148,176	32,161	1.0%
Other liabilities	48,501	65,032	(16,531)	-25.4%
Total liabilities	3,228,838	3,213,208	15,630	0.5%
Net assets invested in				
capital assets, net of related debt	1,793,377	1,264,200	529,177	41.9%
Restricted	717,158	722,483	(5,325)	-0.7%
Unrestricted	(237,102)	150,757	(387,859)	-257.3%
Total net position	2,273,433	2,137,440	135,993	6.4%

Total assets increased by \$151,623 or 2.8% during the fiscal year ended June 30, 2014. The increase is attributed to purchase and transfer of fixed assets and an increase in cash due to decreased attorney fees. Specific transferred assets include phase 12 of the Talking Rock Ranch subdivision.

Total liabilities reflect an overall increase of \$15,630 or .5%. The increase is reflective of a combination of decreased accrued expenses and accounts payable at year end offset by an increase in liability from the above mentioned transfer of fixed assets.

Table 1 also indicates that total net position increased by \$135,993 or 6.4%.

REVENUES, EXPENSES, AND CHANGES IN NET POSITION COMPARISON OF JUNE 30, 2014 and 2013

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

	June 30, 14	June 30, 13	\$ Change	% Change
Operating revenues	459,771	377,420	82,351	21.8%
Non-operating revenues	3,662	1,741	1,921	110.3%
Total revenues	463,433	379,161	84,272	22.2%
Depreciation expense	82,466	75,327	7,139	9.5%
Other operating expenses	289,706	451,539	(161,833)	-35.8%
Total expenses	372,172	526,866	(154,694)	-29.4%
Excess before special items	91,261	(147,705)	238,966	161.8%
Other special items	44,732	-	n/a	n/a
Changes in net position	135,993	(147,705)	283,698	192.1%
Net position beginning	2,137,440	2,285,145	(147,705)	-6.5%
Net position ending	2,273,433	2,137,440	135,993	6.4%

The Statement of Revenues, Expenses and Changes in Net Position identify 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, 2014, was \$2,273,433.

Total revenues increased by \$84,272 in 2014. Operating revenues increased by \$82,351 or 21.8%. This was due to the collection of fees for new services and an increase in budgeted tax revenue.

Total expenses decreased by \$154,694 in 2014. The decrease is attributed to lower attorney fees incurred by the District in the fiscal year ended June 30, 2014, over the prior year end.

Special items in the amount of \$44,732 were recognized in the fiscal year ended June 30, 2014, which reflect contributions from developers toward treatment plant upgrades as required by a prior year 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, 2014, the District's investment in capital assets totaled \$1,793,377, which is an increase of 41.9% over the balance at June 30, 2013. The increase in capital assets is due to a transfer of infrastructure assets to the District as part of a prior year settlement agreement.

LONG-TERM DEBT

At June 30, 2014, the District had a total of \$3,180,377 in long-term debt. The debt is reflective of the District 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

The budget for year ending June 30, 2015, was adopted anticipating lower consulting fees of approximately \$58,000, in addition to expected developer payments of \$12,000.

The 2014 budget also includes approximately \$100,000 of capital expenditures from the Restricted Capital Fund for plant improvements. The developers, per the restated development agreement, are obligated for an equal amount.

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.



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INDEPENDENT ACCOUNTANT'S REVIEW 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, 2014 and 2013, 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 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 in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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.

Alyx Cohan, CPA PC
Prescott, Arizona
November 24, 2014

Inscription Canyon Ranch Sanitary District
Statement of Net Position
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 247,552	\$ 169,218
Property tax receivables	1,749	5,133
Other receivables	<u>7,285</u>	<u>8,250</u>
Total current assets	256,586	182,601
Other assets		
Restricted cash	<u>717,158</u>	<u>723,551</u>
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 \$481,101 and \$398,635 respectively	<u>3,595,527</u>	<u>3,511,496</u>
Total property, plant and equipment	<u>4,528,527</u>	<u>4,444,496</u>
Total assets	<u>\$ 5,502,271</u>	<u>\$ 5,350,648</u>
<u>Liabilities</u>		
Current liabilities		
Accounts payable	10,934	16,425
Accrued expenses	1,652	16,487
Current portion of long-term repayments	<u>35,915</u>	<u>32,120</u>
Total current liabilities	48,501	65,032
Long-term liabilities		
Santec plant and development infrastructure repayment	<u>3,180,337</u>	<u>3,148,176</u>
Total liabilities	<u>\$ 3,228,838</u>	<u>\$ 3,213,208</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	1,793,377	1,264,200
Restricted-capital improvements	717,158	722,483
Unrestricted	<u>(237,102)</u>	<u>150,757</u>
Total net position	<u>\$ 2,273,433</u>	<u>\$ 2,137,440</u>

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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Revenues</u>		
Ad valorem tax revenue	\$ 353,570	\$ 303,911
Activation, commercial, user fees and other income	50,575	23,290
Effluent income	<u>55,626</u>	<u>50,219</u>
Total operating revenues	459,771	377,420
<u>Operating expenses</u>		
Administration		
Accounting	15,635	14,761
District Insurance	15,993	15,906
District clerk	2,090	3,856
Litigation and attorney fees	40,599	185,370
Meetings	433	595
Office expense	2,067	4,131
Publications	235	147
Web hosting	1,086	600
Plant Operations		
Bad debt expense	-	11,006
Contract fees	75,849	70,360
Depreciation expense	82,466	75,327
Electricity	17,796	17,982
Personnel expenses	25,611	28,482
Plant supplies and maintenance	78,643	68,780
Professional fees	11,069	25,935
Telephone	2,012	3,063
Trash	216	216
Water	<u>372</u>	<u>349</u>
Total operating expenses	<u>372,172</u>	<u>526,866</u>
Operating gain (loss)	<u>87,599</u>	<u>(149,446)</u>
<u>Non-operating revenues (expenses)</u>		
Interest income	<u>3,662</u>	<u>1,741</u>
Total non-operating income and expense	<u>3,662</u>	<u>1,741</u>
Increase (decrease) in net position before special items	91,261	(147,705)
Special items		
Developer reimbursed expenses	<u>44,732</u>	<u>-</u>
Net change in net position	135,993	(147,705)
Net position beginning of year	<u>2,137,440</u>	<u>2,285,145</u>
Net position end of year	<u>\$ 2,273,433</u>	<u>\$ 2,137,440</u>

See accompanying notes and independent accountant's review report.

Inscription Canyon Ranch Sanitary District
Statement of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Cash flows from operating activities:</u>		
Cash received from property taxes	\$ 356,868	\$ 305,224
Cash received from other operating income	107,252	82,656
Cash payments for professional services	(51,668)	(200,119)
Cash payments for personnel services	(25,902)	(28,348)
Cash payments for sewer system operations	(194,923)	(205,642)
Cash payments for administration	(37,539)	(39,996)
Net cash provided (used) by operating activities	<u>154,088</u>	<u>(86,225)</u>
<u>Cash flows from capital and related financing activities:</u>		
Cash paid for capital asset	(50,325)	(5,317)
Proceeds from developer collected lot fees	-	522,178
Payments on long-term debt	(35,484)	-
Net cash (used) provided by capital and related financing activities	<u>(85,809)</u>	<u>516,861</u>
<u>Cash flows from investing activities:</u>		
Interest on investments	<u>3,662</u>	<u>1,741</u>
Net cash provided by investing activities	<u>3,662</u>	<u>1,741</u>
Net increase (decrease) in cash and cash equivalents	71,941	432,377
Cash and cash equivalents at beginning of year	<u>892,769</u>	<u>460,392</u>
Cash and cash equivalents at end of year	<u>\$ 964,710</u>	<u>\$ 892,769</u>
Unrestricted cash	247,552	169,218
Restricted cash	<u>717,158</u>	<u>723,551</u>
Total cash and cash equivalents	<u>\$ 964,710</u>	<u>\$ 892,769</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Operating gain (loss)	\$ 87,599	\$ (149,446)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	82,466	75,327
Change in assets and liabilities:		
(Increase) decrease in receivable	4,349	10,460
Increase (decrease) in accounts payable and accrued expenses	<u>(20,326)</u>	<u>(22,566)</u>
Net cash received (used) by operating activities	<u>\$ 154,088</u>	<u>\$ (86,225)</u>

See accompanying notes and independent accountant's review report.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2014 and 2013

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 recorded 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, 2014 and 2013

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.

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 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. 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, 2014 and 2013.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2014 and 2013

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and Investments (continued)

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.

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:

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2014 and 2013

Note 2 – Summary of Significant Accounting Policies (continued)

Net Position Balance (continued)

Invested capital assets, net of related debt: This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested net assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted: This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When expenditures are incurred for purposes for which both restricted and unrestricted balances are available, the District considers restricted funds to have been spent first.

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The District submits to the Board of Supervisors and the County Treasurer a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- B. Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.
- C. Arizona statutes require that on or before the third Monday in July of each fiscal year, the District Board must adopt a tentative budget. Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption; however, they may be decreased. The tentative budget must be published once per week for two consecutive weeks prior to final adoption. Final adoption must take place on or before the second Monday in August.
- D. The level of control for each legally adopted annual budget is at the total budget level.
- E. Unused budget appropriations lapse as of June 30. The District does not use encumbrance accounting.
- F. The budget amounts shown in the financial statements are the final authorized amounts as amended by the District Board during the year.

**Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2014 and 2013**

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Note 3 – Cash

Deposits

The carrying amounts of the District’s deposits for June 30, 2014 and 2013, were \$964,710 and \$892,769, respectively. The bank and treasurer balances at June 30, 2014 and 2013, were \$967,423 and \$903,866, 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, 2014 and 2013, are \$717,158 and \$723,551, respectively.

Note 4 – Other Receivables

As part of a settlement agreement with a related party (Note 6) the District was 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 was recorded for receipt of remaining lot fees in the fiscal year ended June 30, 2012. The income from this transaction was recognized in the Statement of Revenues, Expenses, and Changes in Net Position as a special item due to its unusual and infrequent nature. As of June 30, 2013, a total of \$511,171 was collected against the June 30, 2012 receivable balance. A bad debt expense of \$11,006 was recognized at June 30, 2013, to record uncollectible lot fees that were foreclosed and remained unpaid by customers during the fiscal year ended June 30, 2013. No amounts remained unpaid at June 30, 2014.

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, 2014 and 2013, are \$4,785 and \$8,250, respectively.

Total other receivables consist of the following at year end June 30th:

	<u>2014</u>	<u>2013</u>
Other	\$ 2,500	\$ -
Effluent	4,785	8,250
Total	<u>\$ 7,285</u>	<u>\$ 8,250</u>

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2014 and 2013

Note 5 – Property, Plant, and Equipment

The following is a summary of fixed assets at June 30, 2014:

	6/30/13			6/30/14
	<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	<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	399,250	3,000	-	402,250
Equipment	111,115	92,058	-	203,173
Infrastructure	<u>3,399,766</u>	<u>71,439</u>	<u>-</u>	<u>3,471,205</u>
Total assets being depreciated	<u>3,910,131</u>	<u>166,497</u>	<u>-</u>	<u>4,076,628</u>
Less accumulated depreciation:				
Decommissioned plant	(169,203)	-	-	(169,203)
Plant	(22,256)	(7,910)	-	(30,166)
Equipment	(21,930)	(10,840)	-	(32,770)
Infrastructure	<u>(185,246)</u>	<u>(63,716)</u>	<u>-</u>	<u>(248,962)</u>
Total accumulated depreciation	<u>(398,635)</u>	<u>(82,466)</u>	<u>-</u>	<u>(481,101)</u>
Total property plant and equip	<u>\$ 4,444,496</u>	<u>\$ 84,031</u>	<u>\$ -</u>	<u>\$ 4,528,527</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 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. The omitted wastewater facilities were transferred to the District in accordance to the terms of the original amended and restated development agreement. See Note 9.

Total depreciation for the years ended June 30, 2014 and 2013, is \$82,466 and \$75,327, 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 were depreciated according to the District's capitalization and depreciation policy.

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Note 6 – Related Party Transactions (continued)

In 2012 the District was in dispute with the Developers regarding the operating agreement. A settlement was reached and a new amended and restated development agreement was entered into on March 1, 2012. In the fiscal year ended June 30, 2012, title to the plant asset was transferred to the District. In the fiscal year ended June 30, 2013, title for infrastructure assets was transferred to the District in exchange for a twenty-year note payable. In the fiscal year ended June 30, 2014, it was discovered that a phase of the development was omitted from the March 1, 2012, amended and restated development agreement. An amendment to the amended and restated development agreement was entered into on April 10, 2014. The omitted wastewater facilities were transferred to the District in accordance to the terms of the original amended and restated development agreement. See Notes 5 and 9.

As part of the amended and restated agreement, the District sells wastewater effluent to a developer at a rate of \$4,000 per month per 1,000,000 gallons sold. Total effluent revenue for the fiscal years ended June 30, 2014 and 2013, is \$55,626 and \$50,219, respectively.

In the ordinary course of business, the District provides wastewater services to Board members of the District at the same rates established for all District customers.

Note 7 – Risk Management

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

Note 8 – Contingent Liabilities

As part of a settlement agreement with a related party (Note 6), the District had an outstanding liability at June 30, 2012, 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, 2013, was \$14,543. The balance of the liability was paid in full in the fiscal year ended June 30, 2014.

The expense from this transaction was recognized in the Statement of Revenues, Expenses, and Changes in Net Position as a special item due to its unusual and infrequent nature in the fiscal year ended June 30, 2012.

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

2015	\$ 11,535
2016	6,784
2017	5,835
Total liability	<u>\$ 24,154</u>

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Note 9– Long-Term Liabilities

As part of a 2012 settlement agreement, the District was to repay Developers (Note 6) up to 50% of the developer paid costs of the wastewater treatment plant and infrastructure over a twenty-year period. An amendment to the amended and restated development agreement was entered into on April 10, 2014. Omitted wastewater facilities were transferred to the District in accordance to the terms of the original amended and restated development agreement in the fiscal year ended June 30, 2014. See Notes 5 and 6. The original principal amounts to be repaid by the District follow:

Wastewater treatment plant-2012	\$ 395,500
Infrastructure-2012	2,784,796
Wastewater facilities phase 12-2014	<u>71,439</u>
Total liability	<u>\$ 3,251,735</u>

Repayment began in 2014 at 10% of the District's gross annual income including prior or accrued ad valorem tax revenue and user and availability fees, excluding effluent. All remaining balances of uncollected construction costs at the end of the twenty-year repayment term are forfeited by the developers. Remaining liability balances forfeited will be recognized as contributed capital in the twentieth year by the District. The current amount due on the loan is calculated at 10% of total income as listed above for the fiscal year ended June 30, 2014.

Changes in long-term liabilities:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
Notes payable	<u>\$ 3,180,296</u>	<u>\$ 71,439</u>	<u>\$ (35,483)</u>	<u>\$ 3,216,252</u>	<u>\$ 35,915</u>
Long-term liabilities	<u>\$ 3,180,296</u>	<u>\$ 71,439</u>	<u>\$ (35,483)</u>	<u>\$ 3,216,252</u>	<u>\$ 35,915</u>

Note 10 – Subsequent Events

Management of the District has evaluated events and transactions subsequent to June 30, 2014, for potential recognition or disclosure in the financial statements. No subsequent events were identified by Management. Subsequent events have been evaluated through the financial statements issuance date of November 24, 2014.