

Inscription Canyon Ranch Sanitary District

Financial Statements

Years Ended June 30, 2018 and 2017

**Inscription Canyon Ranch Sanitary District
Financial Statements
Years Ended June 30, 2018 and 2017**

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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, 2018 and 2017. 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 2018

- The District's net position decreased by 3.7%
- Operating revenues increased by 5.6%
- Operating expenses increased by 55.7%

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.

During the fiscal year ending in June 2018, the District completed design of certain improvements to the Wastewater treatment plant. The improvements are covered under Phase 1 of a project to upgrade and replace the treatment plant. The Phase 1 portion, which includes replacement of the backup generator and addition of cooling for the equipment room has been bid and contracts awarded. Phase 1 construction is expected to cost approximately \$100,000. The District placed on hold, phase 2 of the project, design of a replacement of the existing treatment plant with additional capacity, pending securing financing for that portion of the project.

In April, 2018, Talking Rock Ranch, LLC filed a court action (Order to Show Cause) asking the court to compel the District to approve Capacity Assurance Forms for 43 lots in a new Talking Rock development called Sterling Ranch at Talking Rock. Once the forms were forwarded with complete information, the District signed the forms; however the matter is still pending with the Superior Court of Arizona as of fiscal year ended 2018.

Talking Rock also filed a damage claim against the District for \$5 million dollars. That claim is also pending as of fiscal year ended 2018.

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, 2018 and 2017. 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, 2018 and 2017

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

	<u>30-Jun-18</u>	<u>30-Jun-17</u>	<u>\$ Change</u>	<u>% Change</u>
Total current and other assets	1,271,615	1,311,234	-39,619	-3.0%
Capital assets, net	4,365,480	4,379,457	-13,977	-0.3%
Total assets	5,637,095	5,690,691	-53,596	-0.9%
Long-term debt outstanding	3,038,094	3,071,261	-33,167	-1.1%
Other liabilities	135,126	61,182	73,944	120.9%
Total liabilities	3,173,220	3,132,443	40,777	1.3%
Net assets invested in capital assets, net of related debt	1,293,115	1,276,737	16,378	1.3%
Restricted	679,628	774,658	-95,030	-12.3%
Unrestricted	491,132	506,854	-15,722	-3.1%
Total net position	2,463,875	2,558,249	-94,374	-3.7%

Total assets decreased by \$53,596 or 0.9% during the fiscal year ended June 30, 2018. The decrease is attributed to depreciation offset by Plant upgrade costs.

Total liabilities reflect an overall increase of \$40,777 or 1.3%. The increase is reflective of current litigation fees payable less principal payments on long term debt.

Table 1 also indicates that total net position decreased by \$94,374 or 3.7%. Restricted fund balances consist of cash required to be used for Plant expansion.

REVENUES, EXPENSES, AND CHANGES IN NET POSITION COMPARISON OF JUNE 30, 2018 and 2017

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

	30-Jun-18	30-Jun-17	\$ Change	% Change
Operating revenues	383,662	363,330	20,332	5.6%
Non-operating revenues	13,728	5,742	7,986	139.1%
Total revenues	397,390	369,072	28,318	7.7%
Depreciation expense	85,432	84,553	879	1.0%
Other operating expenses	406,332	231,234	175,098	75.7%
Total expenses	491,764	315,787	175,977	55.7%
Changes in net position	-94,374	53,285	-147,659	-277.1%
Net position beginning	2,558,249	2,504,964	53,285	2.1%
Net position ending	2,463,875	2,558,249	-94,374	-3.7%

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, 2018, was \$2,463,875.

Total revenues increased by \$28,318 in 2018. This was due to an increase in fees and effluent income. Operating revenues increased by \$20,332 or 5.6%. This was due to an increase in the total amount of new lots being established in the current year ended June 30, 2018.

Total expenses increased by \$175,977 in the current fiscal year ended June 30, 2018. The increase is attributed to attorney fees incurred by current litigation brought against the District.

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, 2018, the District's investment in capital assets totaled \$4,365,480, which is a decrease of .3% over the balance at June 30, 2017. The decrease in capital assets is due to depreciation.

LONG-TERM DEBT

At June 30, 2018, the District had a total of \$3,038,094 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 a prior year settlement agreement with Developers.

See independent accountant's review report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's operating expenses for the year ending June, 2019 are expected to be heavily influenced by legal fees incurred in connection with actions filed by Talking Rock Ranch, LLC. The District included an additional \$150,000 in its approved budget for legal fees for the 2018/2019 fiscal year, and it is hoped that will be sufficient to cover the litigation fees.

In addition, the District anticipates that within 3-5 years, a major expansion/replacement of the current treatment plant will be necessary due to the marked increase in connections experienced in the last two years, and those anticipated in the next 2-5 years. In order to supplement capital funding for this anticipated expansion, the District approved residential and commercial user fees for 2019 to raise approximately \$200,000 by the end of the 2018/2019 fiscal year. The Governing Board has not authorized billing user fees as of the end of August, 2018.

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 Statements of Net Position as of June 30, 2018 and 2017, and the related Statements of Revenues, Expenses and Changes in Net Position, and Statements 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 information on pages i through iv be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the requirement supplementary information in accordance with Statements on Standards for Accounting and Review Services, which consisted of inquires of management about the methods of preparing the information and comparing the information of 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 provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to provide any assurance.

Alyse Cohan, CPA

Prescott Valley, Arizona
October 22, 2018

**Inscription Canyon Ranch Sanitary District
Statements of Net Position
June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 586,036	\$ 530,640
Property tax receivables	1,409	1,477
Other receivables	4,542	4,459
Total current assets	591,987	536,576
Other assets		
Restricted cash	679,628	774,658
Property, Plant and Equipment		
Non-depreciable capital assets:		
Land and land rights	56,000	56,000
Decommissioned plant	877,000	877,000
Construction in Progress	140,155	74,862
Depreciable capital assets:		
Property, plant and equipment, at cost, net of accumulated depreciation of \$816,932 and \$731,500 respectively	3,292,325	3,371,595
Total property, plant and equipment	4,365,480	4,379,457
Total assets	\$ 5,637,095	\$ 5,690,691
<u>Liabilities</u>		
Current liabilities		
Accounts payable	99,104	28,206
Accrued expenses	1,752	1,517
Current portion of long-term repayments	34,270	31,459
Total current liabilities	135,126	61,182
Long-term liabilities		
Santec plant and development infrastructure repayment	3,038,094	3,071,261
Total liabilities	\$ 3,173,220	\$ 3,132,443
<u>Net Position</u>		
Invested in capital assets, net of related debt	1,293,115	1,276,737
Restricted-Plant improvements and expansion	679,628	774,658
Unrestricted	491,132	506,854
Total net position	\$ 2,463,875	\$ 2,558,249

See accompanying notes and independent accountant's review report.

**Inscription Canyon Ranch Sanitary District
Statements of Revenues, Expenses, and
Changes in Net Position
Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<u>Revenues</u>		
Ad valorem tax revenue	\$ 266,784	\$ 268,171
Activation, commercial, user fees and other operating income	62,193	40,675
Effluent income	54,685	53,210
Other income	-	1,274
Total operating revenues	383,662	363,330
<u>Operating expenses</u>		
Administration		
Accounting	9,596	9,157
District Insurance	9,094	8,376
District clerk	2,470	924
Litigation and attorney fees	182,306	11,098
Meetings	300	140
Office expense	2,788	1,928
Web hosting	304	908
Plant Operations		
Contract fees	77,164	81,619
Depreciation expense	85,432	84,553
Electricity	19,960	18,997
Engineering Services	2,039	4,282
Personnel expenses	25,685	25,606
Plant supplies and maintenance	67,444	63,008
Professional fees	3,700	3,788
Telephone	2,977	825
Trash	216	216
Water	289	362
Total operating expenses	491,764	315,787
Operating (gain) loss	(108,102)	47,543
<u>Non-operating revenues</u>		
Interest income	13,728	5,742
Total non-operating income and expense	13,728	5,742
Net change in net position	(94,374)	53,285
Net position beginning of year	2,558,249	2,504,964
Net position end of year	\$ 2,463,875	\$ 2,558,249

See accompanying notes and independent accountant's review report.

**Inscription Canyon Ranch Sanitary District
Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<u>Cash flows from operating activities:</u>		
Cash received from property taxes	\$ 266,852	\$ 271,124
Cash received from other operating income	116,795	90,319
Cash received from other income	-	1,274
Cash payments for professional services	(108,608)	(14,886)
Cash payments for personnel services	(31,949)	(19,075)
Cash payments for sewer system operations	(170,089)	(159,985)
Cash payments for administration	<u>(24,552)</u>	<u>(21,433)</u>
Net cash provided by operating activities	<u>48,449</u>	<u>147,338</u>
<u>Cash flows from capital and related financing activities:</u>		
Cash paid for capital asset	(71,454)	(74,864)
Payments on long-term debt	<u>(30,357)</u>	<u>(51,119)</u>
Net cash used by capital and related financing activities	<u>(101,811)</u>	<u>(125,983)</u>
<u>Cash flows from investing activities:</u>		
Interest on investments	<u>13,728</u>	<u>5,742</u>
Net cash provided by investing activities	<u>13,728</u>	<u>5,742</u>
Net (decrease) increase in cash and cash equivalents	(39,634)	27,097
Cash and cash equivalents at beginning of year	<u>1,305,298</u>	<u>1,278,201</u>
Cash and cash equivalents at end of year	<u>\$ 1,265,664</u>	<u>\$ 1,305,298</u>
Unrestricted cash	586,036	530,640
Restricted cash	<u>679,628</u>	<u>774,658</u>
Total cash and cash equivalents	<u>\$ 1,265,664</u>	<u>\$ 1,305,298</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Operating (gain) loss	\$ (108,102)	\$ 47,543
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	85,432	84,553
Change in assets and liabilities:		
(Increase) decrease in receivable	(14)	(612)
Increase (decrease) in accounts payable and accrued expenses	<u>71,133</u>	<u>15,854</u>
Net cash provided by operating activities	<u>\$ 48,449</u>	<u>\$ 147,338</u>

See accompanying notes and independent accountant's review report.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017.

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, 2018 and 2017

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, 2018 and 2017**

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, 2018 and 2017, are \$1,265,665 and \$1,305,298, respectively. The bank and treasurer balances at June 30, 2018 and 2017, are \$1,265,831 and \$1,310,556, respectively. The difference between the bank and county balances and the carrying balance represent outstanding checks and deposits in transit.

In March of 2012, as part of a settlement agreement with land developers, the District received fees collected by the developer from homeowners. Per the settlement agreement, these fees are restricted for capital improvements for the District’s wastewater plant and delivery system. Additionally, as part of the settlement agreement, new lots fees collected by developers, from homeowners are paid to the District and are restricted to capital improvements for the plant and delivery system. The restricted cash balance associated with these fees at June 30, 2018 and 2017 were \$679,628 and \$774,658, respectively.

Note 4 –Other Receivables

The District sells treated wastewater effluent to a related party golf course located within District boundaries. The charge for effluent is \$4,000 per month for the first 1,000,000 gallons delivered to the golf course. Total receivables at June 30, 2018 and 2017, were \$4,542 and \$4,459, respectively.

Note 5 – Property, Plant, and Equipment

The following is a summary of fixed assets at June 30, 2018:

	6/30/17				6/30/18
	<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>74,863</u>	<u>65,293</u>	-		<u>140,156</u>
Total non-depreciable assets	<u>1,007,863</u>	<u>65,293</u>	-		<u>1,073,156</u>
Depreciable assets:					
Plant	402,249	-	-		402,249
Equipment	229,640	6,161	-		235,801
Infrastructure	<u>3,471,206</u>	-	-		<u>3,471,206</u>
Total assets being depreciated	<u>4,103,095</u>	<u>6,161</u>	-		<u>4,109,256</u>

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2018 and 2017

Note 5 – Property, Plant, and Equipment (continued)

Less accumulated depreciation:				
Decommissioned plant	(169,203)	-	-	(169,203)
Plant	(53,816)	(10,002)	-	(63,818)
Equipment	(41,639)	(6,006)	-	(47,645)
Infrastructure	<u>(466,842)</u>	<u>(69,424)</u>	<u>-</u>	<u>(536,266)</u>
Total accumulated depreciation	<u>(731,500)</u>	<u>(85,432)</u>	<u>-</u>	<u>(816,932)</u>
Total property plant and equip	<u>\$ 4,379,458</u>	<u>\$ (13,978)</u>	<u>\$ -</u>	<u>\$ 4,365,480</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 and the District operated the plant under an agreement with the related party. As part of a settlement agreement entered into by both parties in March of 2012, the title to the plant was transferred to the District in the fiscal year ended June 30, 2012, in the amount of \$395,500. In the fiscal year ended June 30, 2013, the infrastructure to transport wastewater in related party developments was transferred to the District in the amount of \$2,784,796. A note payable was established in the fiscal year ended June 30, 2013. An amendment to the amended and restated development agreement was entered into on April 10, 2014. Omitted wastewater facilities were transferred to the District in accordance with the terms of the original amended and restated development agreement (Note 9).

Total depreciation for the years ended June 30, 2018 and 2017, was \$85,432 and \$83,055, respectively.

Note 6 – Related Party Transactions

At June 30, 2011, the District had a standing agreement with related party owners/developers (Developers) of the District. The District operated the sanitary plant in which the users of the District received service, but which was owned by the Developers. Improvements to the plant by the District were depreciated according to the District’s capitalization and depreciation policy.

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

omitted wastewater facilities were transferred to the District in accordance with the terms of the original amended and restated development agreement (Notes 5 and 9).

As part of the amended and restated agreement, the District sells wastewater effluent to a developer at a rate of \$4,000 per month, per 1,000,000 gallons sold. Total effluent revenue for the fiscal years ended June 30, 2018 and 2017, was \$54,685 and \$53,210, 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.

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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 – Contingencies and Litigation

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 with an estimated cost of \$213,700. In April 2018, the District entered into several additional contracts for the improvement and expansion project. The contracts totaled \$106,495. The expansion project has an estimated completion date of September 30, 2018. As of June 30, 2018, the total amount expended for the project was \$130,134. At June 30, 2018, the remaining liability was \$190,060.

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:

2019	\$ <u>75,714</u>
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Pending Litigation

The District is currently a defendant in a lawsuit arising in the normal course of business. The claim seeks monetary damages in a significant amount. To date, probable and reasonably possible loss cannot be determined. In accordance with generally accepted accounting principles, no contingency has been recognized at June 30, 2018.

Note 9 – Long-Term Liabilities

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

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

**Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
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Note 9 – 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>\$ 3,102,720</u>	<u>\$ -</u>	<u>\$ (30,356)</u>	<u>\$ 3,072,364</u>	<u>\$ 34,270</u>
Total long-term liabilities	<u>\$ 3,102,720</u>	<u>\$ -</u>	<u>\$ (30,356)</u>	<u>\$ 3,072,364</u>	<u>\$ 34,270</u>

Note 10 – Subsequent Events

The District has completed design of certain improvements to the Wastewater treatment plant and should begin construction within the subsequent fiscal year ending June 30, 2019. Management of the District has evaluated events and transactions subsequent to June 30, 2018, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through October 22, 2018, which is the date the financial statements were available to be issued.