

Inscription Canyon Ranch Sanitary District

Financial Statements

Years Ended June 30, 2015 and 2014

**Inscription Canyon Ranch Sanitary District
Financial Statements
Years Ended June 30, 2015 and 2014**

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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, 2015 and 2014. 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 2015

- The District's net position increased by 1.2%
- Operating revenues decreased by 23.0%
- Operating expenses decreased by 11.4%

The District uses fund accounting to record operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Therefore, its financial statements are designed to provide the reader with a broad overview of the District's finances in a manner similar to a private-sector business.

The primary source of revenue for the District is the ad valorem tax on property owners of the District.

During the fiscal year ended June of 2015, the District introduced two programs that reduced operating expenses. First, the System Operator, A-Quality Water, obtained an onsite testing license so that daily samples taken at the treatment plant could be tested on site, rather than taken to Prescott, then transported to Phoenix for testing. The license cost approximately \$1,900 plus some lab equipment, but making these daily tests on site eliminated a \$35 expense four days per week plus the lab testing fees. Secondly, the District changed its sludge disposal method from pumping semi-liquid waste into a tanker truck, which hauled the waste to Prescott's facility for drying and disposal, to a dewatering bag. Sludge is now injected with a polymer and pumped into a large polypropylene bag. The polymer drives off the water, leaving thickened waste that is placed in a dumpster and hauled to an appropriate landfill. The process saves the District approximately \$20,000 per year in sludge disposal costs.

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, 2015 and 2014. 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, 2015 and 2014

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

	30-Jun-15	30-Jun-14	\$ Change	% Change
Total current and other assets	1,030,185	973,744	56,441	5.8%
Capital assets, net	4,472,203	4,528,527	-56,324	-1.2%
Total assets	5,502,388	5,502,271	117	0.0%
Long-term debt outstanding	3,154,265	3,180,337	-26,072	-0.8%
Other liabilities	47,141	48,501	-1,361	-2.8%
Total liabilities	3,201,406	3,228,838	-27,433	-0.8%
Net assets invested in capital assets, net of related debt	1,287,210	1,793,377	-506,167	29.3%
Restricted	732,158	717,158	15,000	2.1%
Unrestricted	281,614	-237,102	518,716	-218.8%
Total net position	2,300,982	2,273,433	27,549	1.2%

Total assets increased by \$117 or 0% during the fiscal year ended June 30, 2015. The increase is attributed to an increase in cash and fixed assets, offset by depreciation.

Total liabilities reflect an overall decrease of \$27,433 or .8%. The decrease is reflective of paying down outstanding long-term debt.

Table 1 also indicates that total net position increased by \$27,549 or 1.2%.

REVENUES, EXPENSES, AND CHANGES IN NET POSITION COMPARISON OF JUNE 30, 2015 and 2014

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

	<u>30-Jun-15</u>	<u>30-Jun-14</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	353,919	459,771	(105,852)	-23.0%
Non-operating revenues	3,359	3,662	(303)	-8.3%
Total revenues	357,278	463,433	(106,155)	-22.9%
Depreciation expense	82,791	82,466	325	0.4%
Other operating expenses	246,938	289,706	(42,768)	-14.8%
Total expenses	329,729	372,172	(42,443)	-11.4%
Excess before special items	27,549	91,261	(63,712)	-69.8%
Other special items	0	44,732	(44,732)	-100.0%
Changes in net position	27,549	135,993	(108,444)	-79.7%
Net position beginning	2,273,433	2,137,440	135,993	6.4%
Net position ending	2,300,982	2,273,433	27,549	1.2%

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, 2015, was \$2,300,982.

Total revenues decreased by \$106,155 in 2015. Operating revenues decreased by \$105,852 or 23.0%. This was due to fewer fees for new services and a decrease in budgeted tax revenue.

Total expenses decreased by \$42,443 in 2015. The decrease is attributed to lower attorney fees incurred by the District and lower operations costs from sludge removal in the fiscal year ended June 30, 2015, over the prior year end.

Special items were recognized in the fiscal years ended June 30 2014, which reflect contributions from developers toward treatment plant upgrades as required by a prior year's 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, 2015, the District's investment in capital assets totaled \$4,472,203, which is a decrease of 1.2% over the balance at June 30, 2014. The decrease in capital assets is due to depreciation.

LONG-TERM DEBT

At June 30, 2015, the District had a total of \$3,154,265 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 the fiscal year ending June 2016 is slightly higher than the previous year due to inclusion of \$40,000 for funding replacements to infrastructure as recommended in a Reserve Study commissioned by the District the previous year. In addition, consulting fees are higher anticipating engineering fees for design of possible capital improvements at the treatment plant.

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.



Alyx Cohan, CPA PC
Auditing / Accounting / Tax

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, 2015 and 2014, and the related Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows for the years then ended, and the related Notes to Financial Statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the District's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial statements.

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 AICPA. 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

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.

Alyce Cochran, CPA

Prescott Valley, Arizona

October 26, 2015

Inscription Canyon Ranch Sanitary District
Statement of Net Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 290,397	\$ 247,552
Property tax receivables	3,222	1,749
Other receivables	4,408	7,285
Total current assets	298,027	256,586
Other assets		
Restricted cash	732,158	717,158
Property, Plant and Equipment		
Non-depreciable capital assets:		
Land and land rights	56,000	56,000
Decommissioned plant	877,000	877,000
Depreciable capital assets:		
Property, plant and equipment, at cost, net of accumulated depreciation of \$563,892 and \$481,101 respectively	3,539,203	3,595,527
Total property, plant and equipment	4,472,203	4,528,527
Total assets	\$ 5,502,388	\$ 5,502,271
<u>Liabilities</u>		
Current liabilities		
Accounts payable	14,781	10,934
Accrued expenses	1,632	1,652
Current portion of long-term repayments	30,728	35,915
Total current liabilities	47,141	48,501
Long-term liabilities		
Santec plant and development infrastructure repayment	3,154,265	3,180,337
Total liabilities	\$ 3,201,406	\$ 3,228,838
<u>Net Position</u>		
Invested in capital assets, net of related debt	1,287,210	1,793,377
Restricted-capital improvements	732,158	717,158
Unrestricted	281,614	(237,102)
Total net position	\$ 2,300,982	\$ 2,273,433

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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<u>Revenues</u>		
Ad valorem tax revenue	\$ 272,266	\$ 353,570
Activation, commercial, user fees and other income	35,637	50,575
Effluent income	<u>46,016</u>	<u>55,626</u>
Total operating revenues	353,919	459,771
<u>Operating expenses</u>		
Administration		
Accounting	11,522	15,635
District Insurance	16,448	15,993
District clerk	-	2,090
Litigation and attorney fees	14,063	40,599
Meetings	315	433
Office expense	2,465	2,067
Publications	-	235
Web hosting	1,203	1,086
Plant Operations		
Contract fees	70,014	75,849
Depreciation expense	82,791	82,466
Electricity	16,913	17,796
Engineering Services	12,173	-
Personnel expenses	27,147	25,611
Plant supplies and maintenance	62,592	78,643
Professional fees	9,550	11,069
Telephone	1,968	2,012
Trash	216	216
Water	<u>349</u>	<u>372</u>
Total operating expenses	<u>329,729</u>	<u>372,172</u>
Operating gain (loss)	<u>24,190</u>	<u>87,599</u>
<u>Non-operating revenues (expenses)</u>		
Interest income	<u>3,359</u>	<u>3,662</u>
Total non-operating income and expense	<u>3,359</u>	<u>3,662</u>
Increase (decrease) in net position before special items	27,549	91,261
Special items		
Developer reimbursed expenses	-	44,732
Net change in net position	27,549	135,993
Net position beginning of year	<u>2,273,433</u>	<u>2,137,440</u>
Net position end of year	<u>\$ 2,300,982</u>	<u>\$ 2,273,433</u>

See accompanying notes and independent accountant's review report.

**Inscription Canyon Ranch Sanitary District
Statement of Cash Flows
Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<u>Cash flows from operating activities:</u>		
Cash received from property taxes	\$ 270,793	\$ 356,868
Cash received from other operating income	84,530	107,252
Cash payments for professional services	(23,613)	(51,668)
Cash payments for personnel services	(27,168)	(25,902)
Cash payments for sewer system operations	(160,377)	(194,923)
Cash payments for administration	<u>(31,953)</u>	<u>(37,539)</u>
Net cash provided (used) by operating activities	<u>112,212</u>	<u>154,088</u>
<u>Cash flows from capital and related financing activities:</u>		
Cash paid for capital asset	(26,467)	(50,325)
Payments on long-term debt	<u>(31,259)</u>	<u>(35,484)</u>
Net cash (used) provided by capital and related financing activities	<u>(57,726)</u>	<u>(85,809)</u>
<u>Cash flows from investing activities:</u>		
Interest on investments	<u>3,359</u>	<u>3,662</u>
Net cash provided by investing activities	<u>3,359</u>	<u>3,662</u>
Net increase (decrease) in cash and cash equivalents	57,845	71,941
Cash and cash equivalents at beginning of year	<u>964,710</u>	<u>892,769</u>
Cash and cash equivalents at end of year	<u>\$ 1,022,555</u>	<u>\$ 964,710</u>
Unrestricted cash	290,397	247,552
Restricted cash	<u>732,158</u>	<u>717,158</u>
Total cash and cash equivalents	<u>\$ 1,022,555</u>	<u>\$ 964,710</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Operating gain (loss)	\$ 24,190	\$ 87,599
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	82,791	82,466
Change in assets and liabilities:		
(Increase) decrease in receivable	1,406	4,349
Increase (decrease) in accounts payable and accrued expenses	<u>3,825</u>	<u>(20,326)</u>
Net cash received (used) by operating activities	<u>\$ 112,212</u>	<u>\$ 154,088</u>

See accompanying notes and independent accountant's review report.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014.

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, 2015 and 2014

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.

Reclassifications

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

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2015 and 2014

Note 3 – Cash

Deposits

The carrying amounts of the District's deposits for June 30, 2015 and 2014, were \$1,022,555 and \$964,710, respectively. The bank and treasurer balances at June 30, 2015 and 2014, were \$1,000,974 and \$967,423, 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, 2015 and 2014, are \$732,158 and \$717,158, 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, 2015 and 2014, are \$4,338 and \$4,785, respectively.

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

	<u>2015</u>	<u>2014</u>
Other	\$ 70	\$ 2,500
Effluent	4,338	4,785
Total	<u>\$ 4,408</u>	<u>\$ 7,285</u>

Note 5 – Property, Plant, and Equipment

The following is a summary of fixed assets at June 30, 2015:

	<u>6/30/14</u> <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>6/30/15</u> <u>Balance</u>
Non-depreciable assets:				
Land and land rights	\$ 56,000	\$ -	\$ -	\$ 56,000
Decommissioned plant	<u>877,000</u>	-	-	<u>877,000</u>
Total non-depreciable assets	<u>933,000</u>	-	-	<u>933,000</u>
Depreciable assets:				
Plant	402,249	-	-	402,249
Equipment	203,173	26,467	-	229,640
Infrastructure	<u>3,471,206</u>	-	-	<u>3,471,206</u>
Total assets being depreciated	<u>4,076,628</u>	<u>26,467</u>	-	<u>4,103,095</u>
Less accumulated depreciation:				
Decommissioned plant	(169,203)	-	-	(169,203)
Plant	(26,801)	(8,506)	-	(35,307)
Equipment	(26,527)	(4,861)	-	(31,388)
Infrastructure	<u>(258,570)</u>	<u>(69,424)</u>	-	<u>(327,994)</u>
Total accumulated depreciation	<u>(481,101)</u>	<u>(82,791)</u>	-	<u>(563,892)</u>
Total property plant and equip	<u>\$ 4,528,527</u>	<u>\$ (56,324)</u>	<u>\$ -</u>	<u>\$ 4,472,203</u>

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
June 30, 2015 and 2014

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

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, 2015 and 2014, is \$82,791 and \$82,466, 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.

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, 2015 and 2014, is \$46,016 and \$55,626, 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.

Inscription Canyon Ranch Sanitary District
Notes to Financial Statements
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Note 8 – Contingent Liabilities

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:

2016	\$ 70,964
2017	<u>46,676</u>
Total liability	<u>\$ 117,641</u>

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, 2015.

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	\$ 3,216,252	\$ -	\$ (31,259)	\$ 3,184,993	\$ 30,728
Long-term liabilities	<u>\$ 3,216,252</u>	<u>\$ -</u>	<u>\$ (31,259)</u>	<u>\$ 3,184,993</u>	<u>\$ 30,728</u>

Note 10 – Subsequent Events

Management of the District has evaluated events and transactions subsequent to June 30, 2015, 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 October 26, 2015.

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Part B—Schedule of District Governing Board Regular Meetings

Date	Time	Location of Meeting	Locations of Public Notices
9/11/14	1:00 PM	5360 W. Inscription Canyon Dr	5360 W. Inscription Canyon Dr
			15401 Talking Rock Ranch Rd.
			website: www.icrsd.net
11/12/14	10:00 AM	same as above	same as above
12/16/14	9:00 AM	same as above	same as above
1/21/15	9:00 AM	same as above	same as above
2/6/15	9:00 AM	same as above	same as above
4/17/15	9:00 AM	125 Granite Street, Prescott	same as above
4/29/15	10:00 AM	5360 W. Inscription Canyon Dr	same as above
5/27/15	10:30 AM	same as above	same as above
6/24/15	10:00 AM	650 E. Center St., Chino Valley	same as above

Part C—Legal Description of Boundary Changes Occurring During the Fiscal Year

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Part E—Schedule of Revenues, Expenses, and Changes in Fund Net Position
(for proprietary and similar fund types)

Basis of Accounting: **Accrual**

Cash

	ENTERPRISE FUNDS	PENSION TRUST FUNDS	FUNDS
Operating Revenues			
Charges for services			
Employer contributions			
Employee contributions			
Investment income			
Miscellaneous			
Total Operating Revenues			
Operating Expenses			
Salaries and wages			
Employee benefits			
Administration			
Professional services			
Utilities and communications			
Insurance			
Repairs and maintenance			
Landfill closure and postclosure care costs			
Depreciation			
Benefits			
Refunds			
Miscellaneous			
Total Operating Expenses			
Operating Income (Loss)			
Nonoperating Revenues (Expenses)			
Intergovernmental			
Interest revenue			
Credit card incentives			
Interest expense			
Gain (Loss) on disposal of capital assets			
Total (Net) nonoperating revenues (expenses)			
Income (Loss) before contributions and transfers			
Capital contributions			
Transfers-in			
Transfers-out			
Net Income (Loss)			
Beginning Fund Net Position— ___/___/___			
Ending Fund Net Position— ___/___/___			

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Part D—Schedule of Revenues, Expenditures, and Changes in Fund Balances
(for governmental fund types)

Basis of Accounting:	Modified Accrual <input type="checkbox"/>		Cash <input type="checkbox"/>	
	GENERAL FUND	CAPITAL PROJECTS FUNDS	DEBT SERVICE FUNDS	FUNDS
Revenues				
Taxes				
Special assessments				
Licenses and permits				
Intergovernmental:				
Federal				
State				
County				
Charges for services				
Fines and forfeits				
Interest on investments				
Rents				
Contributions				
Credit card incentives				
Miscellaneous				
Other revenues (itemize)				

Total Revenues				
Expenditures				
Salaries and wages				
Employee benefits				
Administration				
Professional services				
Utilities and communications				
Insurance				
Repairs and maintenance				
Interest				
Capital outlay:				
Land				
Buildings				
Improvements other than buildings				
Machinery and equipment				
Construction in progress				
Debt service:				
Principal retirement				
Interest and fiscal charges				
Miscellaneous				
Other expenditures (itemize)				

Total Expenditures				

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Part D-(Concl'd)

	GENERAL FUND	<i>Restricted</i> CAPITAL PROJECTS FUNDS	DEBT SERVICE FUNDS	<i>Unrestricted Cap.ital</i> FUNDS
Excess of Revenues Over (Under) Expenditures	_____	_____	_____	_____
Other Financing Sources (Uses)				
Transfers-in	_____	_____	_____	_____
Transfers-out	_____	_____	_____	_____
Proceeds from the sale of bonds	_____	_____	_____	_____
Loan proceeds	_____	_____	_____	_____
Capital lease agreements	_____	_____	_____	_____
Total other financing sources (uses)	_____	_____	_____	_____
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	_____	_____	_____	_____
Beginning Fund Balance— 07 /01 /2014	<u>239,939</u>	<u>724,771</u>	_____	_____
Ending Fund Balance— 06 / 30 /2015	<u>233,417</u>	<u>772,478</u>	_____	<u>3007</u>