



FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014





BUCKSKIN SANITARY DISTRICT

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HENRY & HORNE, LLP  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Buckskin Sanitary District  
Parker, AZ

### Report on the Financial Statements

We have audited the accompanying financial statements of Buckskin Sanitary District, Arizona as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements which comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Buckskin Sanitary District, Arizona as of June 30, 2015 and 2014, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Management has not presented the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2016 on our consideration of the Buckskin Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Buckskin Sanitary District's internal control over financial reporting and compliance.

*Henry + Horne LLP*

Casa Grande, Arizona  
June 24, 2016

## FINANCIAL STATEMENTS

BUCKSKIN SANITARY DISTRICT  
STATEMENTS OF NET POSITION  
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 746,616	\$ 1,550,737
Receivables, net of no allowance for uncollectible	86,008	111,284
<b>TOTAL CURRENT ASSETS</b>	<u>832,624</u>	<u>1,662,021</u>
<b>NONCURRENT ASSETS</b>		
Restricted cash and cash equivalents	553,759	552,513
Assessments receivable	2,897,388	3,107,580
Capital assets, net of depreciation	11,312,909	11,818,618
<b>TOTAL NONCURRENT ASSETS</b>	<u>14,764,056</u>	<u>15,478,711</u>
<b>TOTAL ASSETS</b>	<u>15,596,680</u>	<u>17,140,732</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	20,000	5,798
Plant repairs payable	-	772,867
Accrued payroll and related expenses	12,345	10,094
Current portion - bonds and notes payable	246,242	239,362
<b>TOTAL CURRENT LIABILITIES</b>	<u>278,587</u>	<u>1,028,121</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds and notes payable, less current portion	3,018,838	3,524,750
Security deposits	6,435	7,754
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>3,025,273</u>	<u>3,532,504</u>
<b>TOTAL LIABILITIES</b>	<u>3,303,860</u>	<u>4,560,625</u>
<b>NET POSITION</b>		
Net investment in capital assets	8,047,829	8,054,506
Restricted	553,759	552,513
Unrestricted	3,691,232	3,973,088
<b>TOTAL NET POSITION</b>	<u>\$ 12,292,820</u>	<u>\$ 12,580,107</u>

See accompanying notes.

BUCKSKIN SANITARY DISTRICT  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
User fees	\$ 402,442	\$ 396,593
OPERATING EXPENSES		
Plant expenses	256,583	357,104
Office expenses	31,090	28,529
General and administrative expenses	499,713	541,101
Laboratory expenses	9,921	10,069
Depreciation	473,810	464,254
	<u>1,271,117</u>	<u>1,401,057</u>
TOTAL OPERATING EXPENSES		
	<u>(868,675)</u>	<u>(1,004,464)</u>
OPERATING LOSS		
NONOPERATING REVENUES AND EXPENSES		
Ad valorem taxes	636,797	664,119
Interest income	126,589	150,477
Miscellaneous income	4,661	22,667
Loss on disposal of asset	(31,899)	-
Interest expense	(154,760)	(178,302)
	<u>581,388</u>	<u>658,961</u>
TOTAL NONOPERATING REVENUES, NET		
	<u>(287,287)</u>	<u>(345,503)</u>
CHANGE IN NET POSITION		
NET POSITION - BEGINNING OF YEAR	<u>12,580,107</u>	<u>12,925,610</u>
	<u>\$ 12,292,820</u>	<u>\$ 12,580,107</u>
NET POSITION - END OF YEAR		

BUCKSKIN SANITARY DISTRICT  
 STATEMENTS OF CASH FLOWS  
 Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 407,091	\$ 363,329
Payments to vendors	(543,534)	(825,024)
Payments to employees	<u>(237,320)</u>	<u>(221,819)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(373,763)</u>	<u>(683,514)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from ad valorem taxes	630,963	666,067
Miscellaneous receipts	4,661	22,668
Payments to vendors from insurance proceeds	<u>(772,867)</u>	<u>-</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(137,243)</u>	<u>688,735</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	-	(27,658)
Debt payments	(653,792)	(899,275)
Assessments received	<u>361,923</u>	<u>473,341</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(291,869)</u>	<u>(453,592)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(802,875)	(448,371)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,103,250</u>	<u>2,551,621</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,300,375</u>	<u>\$ 2,103,250</u>

See accompanying notes.

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (868,675)	\$ (1,004,464)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	473,810	464,254
(Increase) decrease		
Receivables	5,968	(7,690)
Increase (decrease)		
Accounts payable	14,202	(113,321)
Accrued payroll and related expenses	2,251	3,281
Security deposits	<u>(1,319)</u>	<u>(25,574)</u>
NET CASH USED BY OPERATING ACTIVITIES		
	<u>\$ (373,763)</u>	<u>\$ (683,514)</u>
CASH RECONCILIATION		
Cash and cash equivalents, unrestricted	\$ 746,616	\$ 1,550,737
Cash and cash equivalents, restricted	<u>553,759</u>	<u>552,513</u>
	<u>\$ 1,300,375</u>	<u>\$ 2,103,250</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Loss on disposal of asset	\$ 31,899	\$ -

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BUCKSKIN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 and 2014

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

Buckskin Sanitary District (“the District”) was established pursuant to Title-48, Arizona Revised Statutes. The District is administered by the board of directors who are elected by the qualified voters residing within the District. The District is considered to be a political subdivision of the State of Arizona and La Paz County.

The District maintains and operates a sewer system for the benefit of those within its geographical District. Revenues received by the District are primarily from charges for services delivered and property taxes assessed on property owners within the District.

Reporting Entity

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Account Standards Codification, in that the financial statements include all the organizations, activities, functions and component units for which the District is financially accountable. The District is comprised of a single enterprise fund and has no component units. Management of the District is the responsibility of the District's Board of Directors, which, in turn, is elected by the District's landowners.

Principles of Reporting

The District accounts for its operations using the Governmental Enterprise Fund Concept. The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing sewer services to the users are financed through user charges.

Basis of Accounting

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property 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 are met.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are sewer fees, permit and development fees, hook-up fees and capacity fees. Operating expenses for the District include wages, depreciation on capital assets and general and administrative expenses for the plant, lab, and collection system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

BUCKSKIN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 and 2014

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Cash and Cash Equivalents

Cash includes the amount in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government, as well as amounts on deposit with the La Paz County Treasurer in a government pool. All cash in bank was covered by federal depository insurance or by collateral held by the District or its agent but not in the District's name. The District had no investments at June 30, 2015.

Restricted Resources

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Capital Assets

Capital assets are defined as assets with an initial individual cost of \$1,000 or more and an estimated useful life of more than three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at their fair market value on the date donated. Depreciation has been provided using the straight-line method over the estimated useful lives of the individual assets.

Maintenance and repairs are charged to expense; improvements are capitalized.

Compensated Absences

The District's policy is to permit employees to accumulate a limited amount of earned annual pay, sick leave and holiday benefits, as follows:

Annual Leave – Annual leave is a fringe benefit for each employee of the District. Annual leave will begin to accrue after six months of full time employment. The rate of accrual ranges from 3.08 hours to 7.7 hours per two week pay period, depending on the tenure of the employee. A maximum of 200 hours may accumulate in any calendar year; hours in excess of 200 may not be carried over to subsequent years. Annual leave will be paid upon voluntary or involuntary termination of employment with the District.

BUCKSKIN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 and 2014

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Compensated Absences (Continued)

Sick Leave - Employees who become ill or are injured away from work or who may require a doctor-authorized medical procedure are entitled to sick leave with full pay for varying amounts of time depending on the employee's accrued sick leave, as stated below. Sick leave will be granted beginning after six months of full time employment. The rate of accrual will be 3.08 hours of sick leave per each two week pay period in which a full 80 hour work period has been performed, up to a maximum of 240 hours. Fifty percent of unused accrual will be paid upon employee voluntary termination.

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 disclosures of contingent assets and liabilities at the date of the financial statements and reported changes in the District's net assets during the reporting period. Actual results could differ from those estimates.

NOTE 2 PROPERTY TAXES

Ad valorem taxes

La Paz County, on behalf of the District, levies real property taxes based on property valuation on or before the third Monday in August. Taxes are payable in two installments, which are due October 1st (delinquent on November 1st) and March 1st, (delinquent May 1st). Tax revenues are collected by the County Treasurer, and deposited to the District's general fund to be used for general operating expenses.

Assessments

The District has recorded various assessments on specific parcels of land within the District, whether or not developed. Assessment payments are collected annually and are used for repayment of loans made to the District by the U.S. Department of Agriculture and Water Infrastructure Finance Authority of Arizona, for construction or upgrade of infrastructure. Assessments may be paid in full, or paid in installments over a period of 20 to 24 years, depending upon the specific original assessment. Reminder billings are mailed annually on April 15<sup>th</sup>, with principal and one-half interest due June 1<sup>st</sup>. The balance of interest is due on December 1<sup>st</sup>. Due to the nature of these receivables, no allowance has been recorded as management believes these to be fully collectible.

BUCKSKIN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 and 2014

NOTE 3 CASH AND CASH EQUIVALENTS

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurer's investment pools; interest bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; and bonds of the State of Arizona counties, cities, towns, school districts, or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificate of deposit, and repurchase agreements at 102 percent of all deposits not covered by Federal depository insurance.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2015, the carrying amount of the District's deposits totaled \$1,300,375, and the bank balance was \$1,409,007. Of the District's deposits, \$473,918 was covered by Federal Depository Insurance and \$935,089 was covered by collateral held in the pledging bank's trust department at June 30, 2015.

At June 30, 2014, the carrying amount of the District's deposits totaled \$2,103,250, and the bank balance was \$2,098,503. Of the District's deposits, \$500,000 was covered by Federal Depository Insurance and \$1,598,503 was covered by collateral held in the pledging bank's trust department at June 30, 2014.

Restricted Cash

The District is required, under long-term debt agreements with U.S. Rural Development and Water Infrastructure Finance Authority of Arizona, to maintain assessment collections in separate bank accounts for repayment of those long-term debts. Those bank accounts are classified as Restricted Cash on the Statement of Net Position.

BUCKSKIN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 and 2014

NOTE 4 RECEIVABLES

The District had accounts receivables as of June 30, 2015 and 2014, as follows:

	2015	2014
Sewer Monthly User Fees	\$ 38,856	\$ 44,824
Assessments Receivable, current	20,261	46,480
Property Taxes Receivable	25,814	19,980
Miscellaneous Receivables	1,077	-
	<u>\$ 86,008</u>	<u>\$ 111,284</u>

NOTE 5 CAPITAL ASSETS

A summary of the changes in capital assets for the years ended June 30, 2015 and 2014 are as follow:

<u>2015</u>	Beginning			Ending
Capital Assets	Balance	Increases	Decreases	Balance
Non-depreciable assets:				
Construction in progress	\$ 1,648,681	\$ -	\$ 1,648,681	\$ -
Total non-depreciable assets	<u>1,648,681</u>	<u>-</u>	<u>1,648,681</u>	<u>-</u>
Depreciable assets:				
Office equipment	65,378	-	-	65,378
Vehicles	56,298	-	-	56,298
Operating plant	13,377,494	1,648,681	18,887	15,007,288
Plant equipment	100,462	-	13,811	86,651
Total depreciable assets	<u>13,599,632</u>	<u>1,648,681</u>	<u>32,698</u>	<u>15,215,615</u>
Accumulated depreciation:				
Office equipment	(34,598)	(8,101)	-	(42,699)
Vehicles	(56,298)	-	-	(56,298)
Operating plant	(3,281,080)	(458,685)	(799)	(3,738,966)
Plant equipment	(57,719)	(7,024)	-	(64,743)
Total accumulated depreciation	<u>(3,429,695)</u>	<u>(473,810)</u>	<u>(799)</u>	<u>(3,902,706)</u>
Total depreciable assets	<u>10,169,937</u>	<u>1,174,871</u>	<u>31,899</u>	<u>11,312,909</u>
Total capital assets, net	<u>\$ 11,818,618</u>	<u>\$ 1,174,871</u>	<u>\$ 1,680,580</u>	<u>\$ 11,312,909</u>

BUCKSKIN SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 and 2014

NOTE 5 CAPITAL ASSETS (Continued)

<u>2014</u>	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital Assets</u>				
Non-depreciable assets:				
Construction in progress	\$ 1,648,681	\$ -	\$ -	\$ 1,648,681
Total non-depreciable assets	<u>1,648,681</u>	<u>-</u>	<u>-</u>	<u>1,648,681</u>
Depreciable assets:				
Office equipment	52,598	12,780	-	65,378
Vehicles	56,298	-	-	56,298
Operating plant	13,377,494	-	-	13,377,494
Plant equipment	85,584	14,878	-	100,462
Total depreciable assets	<u>13,571,974</u>	<u>27,658</u>	<u>-</u>	<u>13,599,632</u>
Accumulated depreciation:				
Office equipment	(25,960)	(8,638)	-	(34,598)
Vehicles	(56,298)	-	-	(56,298)
Operating plant	(2,831,555)	(449,525)	-	(3,281,080)
Plant equipment	(51,628)	(6,091)	-	(57,719)
Total accumulated depreciation	<u>(2,965,441)</u>	<u>(464,254)</u>	<u>-</u>	<u>(3,429,695)</u>
Total depreciable assets	<u>10,606,533</u>	<u>(436,596)</u>	<u>-</u>	<u>10,169,937</u>
Total capital assets, net	<u>\$ 12,255,214</u>	<u>\$ (436,596)</u>	<u>\$ -</u>	<u>\$ 11,818,618</u>

NOTE 6 LONG TERM DEBT

Long-term debt activity for the years ended June 30, 2015 and 2014, is as follows:

	July 1, 2014	Additions	Reductions	June 30, 2015	Current Portion
Note payable	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds payable	3,764,112	-	(499,032)	3,265,080	246,242
Total long-term debt	<u>\$ 3,764,112</u>	<u>\$ -</u>	<u>\$ (499,032)</u>	<u>\$ 3,265,080</u>	<u>\$ 246,242</u>
	July 1, 2013	Additions	Reductions	June 30, 2014	Current Portion
Note payable	\$ 136,784	\$ -	\$ (136,784)	\$ -	\$ -
Bonds payable	4,348,301	-	(584,189)	3,764,112	239,362
Total long-term debt	<u>\$ 4,485,085</u>	<u>\$ -</u>	<u>\$ (720,973)</u>	<u>\$ 3,764,112</u>	<u>\$ 239,362</u>

BUCKSKIN SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015 and 2014

NOTE 6 LONG TERM DEBT (Continued)

A revenue bond payable to WIFA dated July 20, 2012, in the authorized amount of \$1,650,000, against which \$307,263 has been drawn down, is payable in six semi-annual payments of interest and fee only at the rate of 1.0%. The final semi-annual payment due on July 1, 2015 includes all principal, and any accrued interest and fees due. The note is collateralized by net revenues of the District's complete sewer plant and system.

A special assessment improvement bond payable to the United States Department of Agriculture, Rural Utilities Service, dated October 2, 1998, in the amount of \$1,770,050 is payable in semi-annual installments, including interest at 4.5%. The note is collateralized by assessments from Areas 1 of the District.

A special assessment improvement bond payable to the United States Department of Agriculture, Rural Utilities Service, dated June 1, 2009, in the amount of \$2,948,572 is payable in semi-annual installments, including interest at 4.5%. One semi-annual installment consisting of interest only is due on January 1; a second semi-annual installment including principal and interest is due on July 1. The note is collateralized by assessments from Area 3 of the District.

The future scheduled maturities of revenue bonds payable as of June 30, 2015 and 2014 are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 246,242	\$ 153,538	\$ 399,780
2017	338,829	145,081	483,910
2018	180,105	134,042	314,147
2019	188,251	125,896	314,147
2020	196,582	117,565	314,147
2021-2025	609,855	443,618	1,053,473
2026-2030	716,572	300,493	1,017,065
2031-2035	788,644	119,505	908,149
Total	<u>\$ 3,265,080</u>	<u>\$ 1,539,738</u>	<u>\$ 4,804,818</u>

NOTE 7 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, destruction of assets, error and omissions, injuries to employees, and other losses. The District carries commercial insurance for risks of loss, including workers' compensation, and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

BUCKSKIN SANITARY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015 and 2014

NOTE 8 COMMITMENTS

The District entered into several construction and engineering contracts during the fiscal year for the planning and design of necessary improvements to established sanitation facilities, infrastructure and other capital projects. The balance of these commitments are as follows:

	<u>2015</u>
EEC Consulting Engineers	27,693
Energy & Water Solutions 4	47,824
Energy & Water Solutions 5/6	3,600
Pooled Resources	40,000
NCS Engineers	<u>27,300</u>
Total Commitments	<u><u>\$ 146,417</u></u>

	<u>2014</u>
EEC Consulting Engineers	27,693
Energy & Water Solutions LLC	5,523
Pooled Resources	<u>40,000</u>
Total Commitments	<u><u>\$ 73,216</u></u>

## REPORT ON INTERNAL CONTROL AND COMPLIANCE

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HENRY & HORNE, LLP  
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

To the Board of Directors  
Buckskin Sanitary District  
Parker, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Buckskin Sanitary District, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Buckskin Sanitary District's basic financial statements, and have issued our report thereon dated June 24, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Buckskin Sanitary District, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Buckskin Sanitary District, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Buckskin Sanitary District, Arizona's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2015-001 described in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Buckskin Sanitary District, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Buckskin Sanitary District, Arizona's Response to Findings**

Buckskin Sanitary District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Buckskin Sanitary District, Arizona's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Henry + Horne LLP*

Casa Grande, Arizona  
June 24, 2016

BUCKSKIN SANITARY DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2015

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

FINDING: 2015-001

CRITERIA

The District is required to maintain controls surrounding the year end closing procedures required for accrual basis financial statements in a manner that is timely for users of those statements.

CONDITION/CONTEXT

During the audit, a material number and dollar amount of adjustments and reclass entries were required to properly state assets, liabilities, revenues and expenses of the District, which may indicate that the Board did not have reliable financial information throughout the period under audit.

EFFECT

The District's assets were overstated by \$34,397 and liabilities were understated by \$2,462. The assets overstated consisted primarily of unreconciled cash and capital assets. The liabilities understated consisted primarily of unreconciled debt. District's revenues were overstated by \$369,606 and expenses were overstated by \$332,747. The revenues overstated consisted primarily of assessment collections that should be applied to the related assessment receivables. The expenses overstated consisted primarily of debt payments that should have been applied to the related debt accounts, expenses that should have been applied to the 2016 fiscal year and unreconciled depreciation expense. A review of the audit adjustments proposed identifies the accounts required for proper closing.

CAUSE

Proper procedures were not followed to ensure that financial statements were accurately reported after making a change in reporting software from the prior year.

RECOMMENDATION

The District should perform, at least annually, a year end closing of all accrual based accounts and an inventory reconciliation of all capital assets that affect both there Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position. When making a change to reporting software and the District's chart of accounts, we recommend the District post all prior year ending balances as beginning balances to the new software and report based on those balances going forward in a timely manner.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

Management concurs with this recommendation and will perform a year end closing of all accrual based accounts.