



BUCKSKIN SANITARY DISTRICT

Audited Financial Statements

June 30, 2009

Prepared by:

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BUCKSKIN SANITARY DISTRICT

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Independent Auditor's Report

Board of Directors
Buckskin Sanitary District
Parker, Arizona

We have audited the accompanying financial statements of each major fund of Buckskin Sanitary District (District) as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements of the District as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Buckskin Sanitary District as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2010, on our consideration of 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 8 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Gail Dean Kolesar, CPA, LLC
Certified Public Accountants

February 1, 2010

BUCKSKIN SANITARY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2009

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Buckskin Sanitary District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets increased 9% or \$775,922 from \$8,656,558 to \$9,432,480 in fiscal year 2009. Essentially, the net inflow of cash from assessments and ad valorem taxes exceeded the net outlay of cash for expenses and loans payable.
- The District's operating revenues increased 33% or \$322,165 from \$986,373 to \$1,308,538 in fiscal year 2009. The increase is primarily due to a increase in the ad valorem taxes billed and received during the fiscal year.
- The District's operating expenses increased a net 15% or \$67,900 from \$437,896 to \$505,796 in fiscal year 2009. Areas of savings related to insurance, travel and payroll taxes. Areas that incurred additional cost over the prior year related to salaries and professional fees.

Overview of the Financial Statements

The Buckskin Sanitary District is a governmental entity separate from the Town of Parker and La Paz County. The District's sole purpose is to collect, treat, and dispose of wastewater and its byproducts within the District boundaries located along the Parker Strip on the Colorado River.

The accounting policies of the District conform with generally accepted accounting principles as applicable to state and local governments. Generally accepted accounting principles for state and local governments include those principles prescribed by the governmental accounting standards board (GASB), the American Institute of Certified Public Accountants and the Financial Accounting Standards Board (when applicable).

It is the responsibility of the District to control and manage all matters pertaining to the Sewage Collection and Disposal System and all real and personal property of the Buckskin Sanitary District.

The District is a self-supporting entity and works in conjunction with La Paz County. The County levies real property taxes, notifies the District on a monthly basis of the amount of tax collected and deposits the monies into the District's General Fund. The District also directly bills customers for monthly usage fees.

Required Financial Statements

This annual report consists of a series of financial statements required by GASB 34. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

BUCKSKIN SANITARY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2009

Required Financial Statements continued:

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. The net assets are reported on one day in time, typically the last day of the year. Over time, increases and decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and population growth.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found at pages 12-26.

BUCKSKIN SANITARY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2009

Statement of Net Assets

Condensed Statements of Net Assets

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Assets:			
Current Assets	\$ 7,300,769	\$ 2,930,334	\$4,370,435
Capital Assets, net	10,531,728	8,121,581	2,410,147
Non-Current Assets	<u>510,536</u>	<u>374,109</u>	<u>136,427</u>
Total Assets	<u>18,343,033</u>	<u>11,426,024</u>	<u>6,917,009</u>
Liabilities:			
Current Liabilities	\$ 1,065,762	\$ 498,039	\$ 567,723
Long-Term Liabilities	<u>7,844,791</u>	<u>2,271,427</u>	<u>5,573,364</u>
Total Liabilities	<u>8,910,553</u>	<u>2,769,466</u>	<u>6,141,087</u>
Net Assets:			
Net investment in capital assets	\$ 7,635,785	\$ 7,635,785	\$ 0
Restricted	724,890	443,828	281,062
Unrestricted	<u>1,071,805</u>	<u>576,945</u>	<u>494,860</u>
Total Net Assets	<u>\$ 9,432,480</u>	<u>\$ 8,656,558</u>	<u>\$ 775,922</u>

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by 51.4% as of June 30, 2009 and 75.8% as of June 30, 2008. As of June 30, 2009 the District has not capitalized all construction costs that are related to the new debt which is indicative of the decrease in the ratio of assets to liabilities.

By far the largest portion of the District's net assets (81% as of June 30, 2009 and 88% as of June 30, 2008) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal year 2009 and 2008, the District had unrestricted net assets in the amount of \$1,071,805 and \$576,945, respectively, to be utilized in future years.

BUCKSKIN SANITARY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2009

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenues:			
Operating revenues	\$1,308,538	\$ 986,373	\$ 322,165
Non-operating revenues	<u>88,203</u>	<u>118,046</u>	<u>(29,843)</u>
Total revenues	<u>\$ 1,396,741</u>	<u>\$ 1,104,419</u>	<u>\$ 292,322</u>
Expenses:			
Operating expenses	\$ 477,626	\$ 410,234	\$ 67,392
Depreciation	28,170	27,662	508
Non-operating expenses	<u>115,180</u>	<u>126,036</u>	<u>(10,856)</u>
Total expenses	620,976	563,932	57,044
Prior Period Adjustment	<u>157</u>	<u>(60)</u>	<u>217</u>
Change in net assets	775,922	540,427	235,495
Net assets, beginning of year	<u>8,656,558</u>	<u>8,116,131</u>	<u>540,427</u>
Net assets, end of year	<u>\$9,432,480</u>	<u>\$8,656,558</u>	<u>\$ 775,922</u>

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal year. In the case of the District, net assets increased by \$775,922 for the fiscal year ended June 30, 2009, total revenues increased by \$292,322 and total expenses increased by \$57,044.

Capital Asset Administration

At the end of fiscal year 2009 and 2008, the District's investment in capital assets amounted to \$10,531,728 and \$8,121,580 (net of accumulated depreciation), respectively. This investment in capital assets includes land, buildings and improvements, equipment, office furniture and vehicles.

Changes in capital asset amounts for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2009</u>
Capital assets:				
Non-depreciable assets	\$7,724,618	\$2,410,314	\$ 0	\$10,134,932
Depreciable assets	556,179	28,004		584,183
Accumulated depreciation	<u>(159,217)</u>	<u>(28,170)</u>	<u> </u>	<u>(187,387)</u>
Total capital assets, net	<u>\$8,121,580</u>	<u>\$2,410,148</u>	<u>\$ 0</u>	<u>\$10,531,728</u>

BUCKSKIN SANITARY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2009

Capital Asset Administration continued:

Changes in capital asset amounts for 2008 were as follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2008</u>
Capital assets:				
Non-depreciable assets	\$7,602,405	\$122,213	\$ 0	\$7,724,618
Depreciable assets	549,061	7,118		556,179
Accumulated depreciation	<u>(131,555)</u>	<u>(27,662)</u>	<u> </u>	<u>(159,217)</u>
Total capital assets, net	<u>\$8,019,911</u>	<u>\$101,669</u>	<u>\$ 0</u>	<u>\$8,121,580</u>

BUCKSKIN SANITARY DISTRICT

Statement of Net Assets

June 30, 2009

	General Fund	Debt Service	Capital Projects	Enterprise Fund Treatment Plant	General Fixed Assets	General Long Term Debt	Total
ASSETS							
CURRENT							
Cash and short-term investments	\$ 739,536	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 739,536
Internal Balances	\$ 2,668,236	\$ 204,977	-	138,989	\$ (2,522,862)	\$ (489,340)	-
Investments	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles	-	-	-	-	-	-	-
Assessments	-	21,960	-	7,561	-	-	29,521
Other assets	388	-	-	-	-	-	388
Rural Development Loan proceeds receivable	1,190,749	-	-	-	-	-	1,190,749
Amount available in Debt Service Fund	-	-	-	-	-	519,913	519,913
Debt service Reserve to be provided for retirement of long-term debt	-	-	-	-	-	4,820,662	4,820,662
NON CURRENT							
Restricted							
Cash	11,111	497,953	1,472	-	-	-	510,536
Investments	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles	-	-	-	-	-	-	-
Capital assets, net of accumulated depreciation	-	-	-	374,553	10,157,175	-	10,531,728
TOTAL ASSETS	4,610,020	724,890	1,472	521,103	7,634,313	4,851,235	18,343,033
LIABILITIES							
CURRENT							
Accrued liabilities	691,409	-	-	-	-	-	691,409
Prepaid monthly Usage	-	-	-	11,036	-	-	11,036
Security deposits	-	-	-	5,396	-	-	5,396
Bonds and notes payable	-	-	-	-	-	238,178	238,178
Unearned Revenue	119,743	-	-	-	-	-	119,743
NON CURRENT							
Bonds and notes payable	-	-	-	-	-	4,970,967	4,970,967
Unearned Revenue	2,873,824	-	-	-	-	-	2,873,824
TOTAL LIABILITIES	3,684,976	-	-	16,432	-	5,209,145	8,910,553
NET ASSETS							
Invested in capital assets, net of related debt	-	-	1,472	-	7,634,313	-	7,635,785
Restricted for:							
Debt service	-	724,890	-	-	-	-	724,890
Prepaid items	-	-	-	-	-	-	-
Unrestricted	925,044	-	-	504,671	-	(357,910)	1,071,805
TOTAL NET ASSETS	\$ 925,044	\$ 724,890	\$ 1,472	\$ 504,671	\$ 7,634,313	\$ (357,910)	\$ 9,432,480

See accompanying accountant's report which is an integral part of these financial statements.

BUCKSKIN SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended June 30, 2009

	General Fund	Debt Service	Capital Projects	Enterprise Fund Treatment Plant	General Fixed Assets	General Long Term Debt	Total
Operating Revenue							
Ad Valorem Taxes	\$ 740,609	\$ -	\$ -	\$ -	\$ -	\$ -	740,609
Assessments	-	296,993	-	-	-	-	296,993
Grant Income	35,000	-	-	-	-	-	35,000
User fees	0	-	-	235,936	-	-	235,936
Total Operating Revenues	775,609	296,993	-	235,936	-	-	1,308,538
Operating Expenses							
Plant Operations							
Contract Labor	-	-	-	-	-	-	-
Equipment & Materials	-	-	-	33,207	-	-	33,207
Improvements	-	-	-	-	-	-	-
Lab	-	-	-	3,000	-	-	3,000
Mileage	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-
Repairs & Maintenance	-	-	-	2,179	-	-	2,179
Sewer Cleaning	-	-	-	-	-	-	-
Sludge Management	-	-	-	12,376	-	-	12,376
Supplies	-	-	-	-	-	-	-
Training	-	-	-	520	-	-	520
Utilities	-	-	-	42,838	-	-	42,838
Administration							
Advertising	1,125	-	-	-	-	-	1,125
Auto Repairs/Maintenance	-	-	-	159	-	-	159
Bank Charges	774	-	-	-	-	-	774
Computer Repairs	283	-	-	-	-	-	283
County Fees	1,334	-	-	-	-	-	1,334
Depreciation Expense	1,896	-	-	26,274	-	-	28,170
Dues & Subscriptions	1,180	-	-	34	-	-	1,214
Employee Benefits	19,091	-	-	8,117	-	-	27,208
Engineering Fees	-	-	-	-	-	-	-
Equipment Lease	85	-	-	88	-	-	173
Insurance	29,110	-	-	1,628	-	-	30,738
Land Lease - State	1,402	-	-	-	-	-	1,402
Legal & Financials	70,227	-	-	-	-	-	70,227
Licenses & Permits	-	-	-	2,000	-	-	2,000
Office Supplies	5,577	-	-	1,097	-	-	6,674
Other Administrative Expenses	2	-	-	-	-	-	2
Payroll Taxes	8,575	-	-	4,378	-	-	12,953
Postage	1,457	-	-	2,245	-	-	3,702
Rent	3,900	-	-	-	-	-	3,900
Repairs & Maintenance	15,000	-	-	-	-	-	15,000
Salaries and Wages	127,446	-	-	56,498	-	-	183,944
Storage	600	-	-	600	-	-	1,200
Telephone	3,478	-	-	993	-	-	4,471
Travel & Entertainment	12,351	-	-	457	-	-	12,808
Utilities	2,215	-	-	-	-	-	2,215
Total Operating Expenses	307,108	-	-	198,688	-	-	505,796
Operating income (loss)	468,501	296,993	-	37,248	-	-	802,742
Nonoperating Revenues (Expenses)							
Interest income	4,700	83,448	-	55	-	-	88,203
Interest expense	-	(115,180)	-	-	-	-	(115,180)
Income before Capital Contributions, Extraordinary item	473,201	265,261	-	37,303	-	-	775,765
Capital Contributions, net of depreciation	-	-	-	-	-	-	-
Prior period adjustment	157	-	-	-	-	-	157
Change in Net Assets	473,358	265,261	-	37,303	-	-	775,922
Net assets, beginning of year	451,686	459,629	1,472	467,368	7,634,313	(357,910)	8,656,558
Net assets, June 30, 2009	\$ 925,044	\$ 724,890	\$ 1,472	\$ 504,671	\$ 7,634,313	\$ (357,910)	\$ 9,432,480

See accompanying accountant's report which is an integral part of these financial statements.

BUCKSKIN SANITARY DISTRICT

Statements of Cash Flows For the year ended June 30, 2009

	General Fund	Debt Service	Capital Projects	Enterprise Fund Treatment Plant	General Fixed Assets	General Long-Term Debt	Total
Reconciliation of							
Operating Income to							
Net Cash Flows From							
Operating Activities							
Operating Income (Loss)	\$ 468,501	\$ 296,993	\$ -	\$ 37,248	\$ -	\$ -	\$ 802,742
Nonoperating Income (Loss)	4,700	(31,732)	-	55	-	-	(26,977)
Noncash items included in							
operating income							
Depreciation	1,896	-	-	26,274	-	-	28,170
Changes in assets and							
liabilities							
Receivables	-	15,763	-	-	-	-	15,763
Other assets	(4,624)	-	-	-	-	-	(4,624)
Accrued liabilities	426,115	-	-	-	-	-	426,115
Prepaid monthly usage	-	-	-	175	-	-	175
Security deposits	-	-	-	456	-	-	456
Grants receivable	-	-	-	-	-	-	-
Net Cash Flows From							
Operating Activities	\$ 896,588	\$ 281,024	\$ -	\$ 64,208	\$ -	\$ -	\$ 1,241,820
Reconciliation of Cash							
and Cash Equivalents to							
the Statement of Net Assets							
Cash and Investments	\$ 739,536	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 739,536
Restricted assets-noncurrent	11,111	497,953	1,472	-	-	-	510,536
Total Cash Investments and							
Restricted Assets	750,647	497,953	1,472	-	-	-	1,250,072
Less: Noncash Equivalents	-	-	-	-	-	-	-
Total Cash and Cash Equivalents	\$ 750,647	\$ 497,953	\$ 1,472	\$ -	\$ -	\$ -	\$ 1,250,072
Noncash Investment and							
Capital and Related Financing							
Activities							
Interest income earned on noncash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of capital assets unstalled and/or							
financed by developers	-	-	-	-	-	-	-
Market value adjustment on investments	-	-	-	-	-	-	-
Long term debt proceeds	-	296,993	-	-	-	-	-

See accompanying accountant's report which is an integral part of these financial statements.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The Buckskin Sanitary District (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 accounting policies of the District conform with generally accepted accounting principles as applicable to state and local governments. Generally accepted accounting principles for state and local governments include those principles prescribed by the governmental accounting standards board (GASB), the American Institute of Certified Public Accountants and the Financial Accounting Standards Board (when applicable).

B. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's entity, as set forth in section 2100 of GASB's codification of governmental accounting and financial reporting standards, include whether:

- The organization is legally separate can sue and be sued in their own name
- The district holds the corporate powers of the organization
- The district appoints a voting majority of the organizations board
- The district is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the district
- There is fiscal dependency by the organization on the district

Based on the aforementioned criteria, Buckskin Sanitary District has no component units.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Basis of Presentation

The accounts of the district are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The transactions of each fund account or group are summarized by providing a separate set of self-balancing accounts, which include assets, liabilities, fund equity, revenues and expenditures. Funds are ordered into three major categories: governmental, proprietary and fiduciary. The District does not currently employ any fiduciary fund types. The funds located within each major category are grouped by fund type within the combined financial statements. The funds and account groups used by the District are shown on the following pages.

Governmental Fund Types:

Governmental Funds are those through which general governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund

The general fund is the primary operating fund of the district. It accounts for all the financial transactions except those required to be accounted for in other funds.

Debt Service Funds

The debt service funds account is used for the accumulation of resources and the payment of long-term debt principal, interest, and related costs. These funds include the special assessments - area 1, special assessments - area 2 funds and special assessments - area 3 funds.

Capital Project Funds

The capital project funds accounts are financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Proprietary Fund Types

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is for the costs (expenses, including depreciation) of goods or services provided to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Account Groups

General Fixed Asset Account Group

This account group is established to account for all fixed assets of the District. Capital outlays are recorded as expenditures of those funds at the time of purchase and are subsequently recorded for control purposes in the general fixed asset account group.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Long-Term Debt Account Group

This group of accounts is established to account for all long-term debt of Buckskin Sanitary District except that which is accounted for in the proprietary funds and trust funds.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The governmental fund types use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

E. Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation on the current year financial statements.

F. Assets, Liabilities and Net Assets

1. 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.

2. Budgetary Control

The district established the fiscal year as the twelve-month period beginning on July 1. The District's board of directors adopts an annual non-appropriated budget as a management control device. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Assets, Liabilities and Net Assets continued

3. 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 in the District's name. The district had no investments at June 30, 2009.

\$11,111 of cash is restricted to the general fund; \$497,953 of cash is restricted to debt service expenditures; and \$1,472 is restricted to capital projects.

4. Inventories

The cost of inventories is recorded as expenditures when purchased. All inventories of the district are considered immaterial.

5. 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.

6. Capital Assets

Fixed assets used in governmental fund type operations are accounted for in the general fixed assets account group and no depreciation is provided on these assets. The District has adopted a policy of capitalizing "infrastructure" general fixed assets (sewer system). Costs incurred to construct fixed assets that have been substantially provided from federal and state grants.

Property, plant and equipment in the proprietary fund are recorded at cost and are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Treatment plant	39
Plant equipment	7
Office equipment	5

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. In management's opinion, the extent to which costs have been estimated is not material. Donated assets are valued at their fair market value on the date donated. Assets capitalized have an original cost of \$1,000 or over more than three years of life.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Assets, Liabilities and Net Assets continued

7. 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 will be 3.08 hours per each two week pay period for the first five years of employment.

- After five (5) years of full time employment, the annual leave accrual rate will increase to 4.6 hours per two week pay period.
- After ten (10) years of full time employment the annual leave accrual rate will be 6.15 hours per two week pay period.
- After fifteen (15) years of full time employment the annual leave accrual rate will be 7.7 hours per two week pay period.

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.

Holiday Benefits – The Buckskin Sanitary District observes the following paid holidays:

- New Years Day
- Martin Luther King
- President's Birthday
- Memorial Day
- Independence Day
- Labor Day
- Veteran's Day
- Thanksgiving Day
- Day after Thanksgiving
- Christmas Day

Authorized holidays falling on a Saturday will be observed on the preceding Friday; those falling on a Sunday will be observed the following Monday.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Assets, Liabilities and Net Assets continued

8. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** - This component of net assets consists of constraints placed on net assets used through external constraints imposed by creditors, grantors, contributors, as well as laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** - This component of net assets consists of net assets that do not meet the definition of restricted or net investment in capital assets.

9. Inter-Fund Transactions

In applying both the accrual and the modified accrual basis of accounting, distinctions between transfers to and from funds of the same government are made that do not constitute revenues and expenditures. Operating transfers, quasi-external transactions, reimbursements and residual equity transfers are the different types of transfers that occur. Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Reimbursements are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed. Residual equity transfers are non-recurring or non-routine permanent transfers of equity. All other transfers are classified as operating transfers.

10. Tax Exempt Status

The District is exempt from federal and state income taxes.

NOTE 2 - REVENUES

Ad Valorem Taxes

The county levies real property taxes on or before the third Monday in August which becomes due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of May. The county notifies the district in the monthly treasurer's report of the amount of ad valorem taxes collected and deposits the monies into the General Fund account. The majority of the monies are received in October, March and April.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 2 – REVENUES continued

Inter-governmental

Inter-governmental revenues include grants and loan proceeds from the federal and Arizona governments. Revenues are accrued on the construction projects based on the work completed prior to June 30, 2009. The related expenditures on the construction projects are accrued as accounts payable/accrued liabilities on the statement of net assets.

Charges for Services

Monthly service charges are collected from residents who are hooked up to the system.

Assessments

Assessment revenue is billed semi-annually to customers based on units owned. Funds received are used for repayment of loans made to the District by the U.S. Department of Agriculture and Water Infrastructure Finance Authority of Arizona.

NOTE 3 – GENERAL FUND BALANCE

The District's general fund had a balance of \$925,044 at June 30, 2009. The District consistently pursues grant funding to ensure that there is sufficient cash flow for the District's needs. During the 2008/2009 fiscal year, there were funds ear-marked for the District that they received June 30, 2009 to be utilized during the 2009/10 fiscal year (see Subsequent Events at Note 13).

NOTE 4 - ASSESSMENTS

Assessments consist of the following:

Assessments from property owners of area 1 are used as collateral for their note payable to the United States Department of Agriculture, Rural Development described in note 6 below. The balance at June 30, 2009 was \$853,580.

The future scheduled assessment collections are based on 364 equivalent dwelling units, as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2010	\$ 78,988	\$ 40,095
2011	82,628	36,615
2012	86,268	33,124
2013	90,272	29,120
2014	94,276	25,116
2015-2019	421,148	60,060
	<u>\$ 853,580</u>	<u>\$ 224,130</u>

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 4 – ASSESSMENTS continued

Assessments from property owners of Area 2 are used as collateral for the note payable to the Water Infrastructure Finance Authority of Arizona described in Note 6 below. The balance at June 30, 2009 was \$589,942.

The future scheduled assessment collections are based on 743 equivalent dwelling units, as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2010	\$ 55,725	\$ 25,990
2011	57,954	23,932
2012	60,183	21,800
2013	63,155	19,318
2014	65,384	17,089
2015-2019	<u>287,541</u>	<u>51,267</u>
	<u>\$ 589,942</u>	<u>\$ 159,396</u>

Assessments from property owners of area 3 are used as collateral for their note payable to the United States Department of Agriculture, Rural Development described in note 6 below. The balance at June 30, 2009 was \$2,974,550.

The future scheduled assessment collections are based on 410 equivalent dwelling units, as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2010	\$ 65,600	\$ 68,790
2011	68,470	136,063
2012	71,750	132,959
2013	75,030	129,708
2014	78,720	126,309
2015-2034	<u>2,614,980</u>	<u>1,511,465</u>
	<u>\$2,974,550</u>	<u>\$2,105,294</u>

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of the changes in the general fixed asset account group transactions for year ended June 30, 2009 is as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Office Equipment	\$ 17,703	\$ 370	\$ 0	\$ 18,073
Vehicles	36,052	20,128	(36,052)	20,128
System Improvements	7,724,616	2,410,316	0	10,134,932
Less:				
Accumulated Depreciation	(28,459)	(1,896)	14,395	(15,960)
	<u>\$ 7,749,912</u>	<u>\$ 2,428,918</u>	<u>\$(21,657)</u>	<u>\$ 10,157,173</u>

The following is a summary of the changes in the enterprise fund fixed assets for the District at June 30, 2009:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Operating Plant	419,958	\$ 6,704	\$ 0	\$ 426,662
Plant Equipment	80,518	1,170	0	81,688
Office Equipment	1,950	0	(370)	1,580
Vehicles		36,052		36,052
Less:				
Accumulated Depreciation	(130,759)	(26,274)	(14,395)	(171,428)
	<u>\$ 371,667</u>	<u>\$ 17,652</u>	<u>\$(14,765)</u>	<u>\$ 374,554</u>

Below is a summary of net assets:

Total Fixed Assets	\$ 8,280,797	\$2,474,740	\$ (36,422)	\$ 10,719,115
Less:				
Accumulated Depreciation	(159,218)	(28,170)	0	(187,388)
Total Net Assets	<u>\$ 8,121,579</u>	<u>\$ 2,446,570</u>	<u>\$(36,422)</u>	<u>\$ 10,531,727</u>

Adjustments were made via additions and deletions in the above schedule to correctly allocated assets between the general fixed asset group and the enterprise fund.

Depreciation expense for the year ended June 30, 2009 totaled \$28,170. The total accumulated depreciation amounted to \$187,388.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 6 – LONG-TERM DEBT

Notes payable for the District consist of the following:

A note payable to the Water Infrastructure Finance Authority of Arizona (WIFA) dated July 23, 1998, in the authorized amount of \$1,510,683 is payable in semi-annual installments, including interest at 3.880%. 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.

Collateral consists of special assessment revenues from Area 2 of the District. The note matures July 2019. At June 30, 2009, \$1,510,683 of the authorized amount had been drawn. At June 30, 2009, the principal balance was \$709,766.

The future scheduled maturities of long-term debt are as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2010	\$ 66,772	\$ 27,539
2011	68,067	24,948
2012	69,387	22,307
2013	70,734	19,915
2014	72,106	16,870
2015-2019	<u>362,700</u>	<u>41,286</u>
	<u>\$ 709,766</u>	<u>\$ 152,865</u>

Note 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%.

Collateral consists of special assessments revenues from Area 1 of the District. The note matures July 2022. At June 30, 2009, \$1,770,050 of the authorized amount had been drawn. At June 30, 2009, the principal balance was \$1,018,300.

The future scheduled maturities of long-term debt are as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2010	\$ 65,000	45,823
2011	67,000	42,898
2012	70,000	39,883
2013	74,000	36,733
2014	76,000	33,403
2015-2022	<u>666,300</u>	<u>128,943</u>
	<u>\$1,018,300</u>	<u>\$ 327,683</u>

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 6 – LONG-TERM DEBT continued

Note payable to Capitol Indemnity Corporation, dated May 04, 2004, in the amount of \$1,017,500, payable in twenty equal semi-annual payments of \$68,392 with the first payment due on or before July 15, 2004 and continuing thereafter on January 15 and July 15 until paid in full. This note relates to the settlement of Buckskin Sanitary District vs. the Titus Group, Inc. dba Arizona Earthmovers and Capitol Indemnity Corporation. At June 30, 2009, the principal balance was \$532,507.

The future scheduled maturities of long-term debt are as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2010	106,406	30,378
2011	112,886	23,898
2012	119,761	17,023
2013	127,054	9,730
2014	66,400	1,992
	<u>\$ 532,507</u>	<u>\$ 83,021</u>

The value of the note payable in the amount of \$1,017,500 was added to the cost of the district system improvements as included in the figures shown in note 5.

Note 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 4.625%. 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.

Collateral consists of special assessments revenues from Area 3 of the District. The note matures July 2034. At June 30, 2009, \$2,203,602 of the authorized amount had been drawn leaving a balance of \$744,970. At June 30, 2009, the principal balance was \$2,948,572.

The future scheduled maturities of long-term debt are as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2010	\$ 0	\$ 147,736
2011	69,587	136,371
2012	72,805	133,153
2013	76,173	129,786
2014	79,696	126,263
2015-2034	<u>2,650,311</u>	<u>1,468,858</u>
	<u>\$2,948,572</u>	<u>\$2,142,167</u>

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 7 – NET ASSETS

GASB 34 requires the classification of net assets into three components – invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted 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 are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net asset used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, as well as laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The following calculation supports the District’s net assets invested in capital assets, net of related debt:

	<u>2009</u>	<u>2008</u>
Capital Assets, net of accumulated depreciation	\$10,157,175	\$8,121,581
Less Capital Related Debt:		
Current portion of capital related long term debt	238,178	216,944
Long-term portion of capital related long term debt	<u>4,970,967</u>	<u>2,271,427</u>
Subtotal	<u>5,209,145</u>	<u>2,488,371</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$4,948,030</u>	<u>\$5,633,210</u>

NOTE 8 – INTEREST RATE AND CREDIT RISK

Authorized Deposits and Investments

The District does not have a formal investment policy containing specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk as they did not have any of its monies in investments accounts at June 30, 2009.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 8 – INTEREST RATE AND CREDIT RISK continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government 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.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Concentration of Credit Risk

The District maintains cash in demand deposit accounts with federally insured banks and with the La Paz County Treasurer. At times, the balances in these accounts may be in excess of federally insured limits. The District does not believe that it is exposed to any significant credit risk in connection with cash and cash equivalents.

NOTE 9 – RESERVATIONS OF FUND EQUITY

The District maintains separate accounts which are restricted for capital project outlays and debt service expenditures. Fund balances in these accounts at June 30, 2009 included \$497,953 reserved for debt service payments and \$1,472 designated for capital outlays.

NOTE 10 – 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 for which the district carries commercial insurance.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 11 – CONTINGENCIES AND COMMITMENTS

As of June 30, 2009, Buckskin Sanitary District was involved in one pending litigation matter. The pending litigation matter was with the Sandpiper Resorts Development Corporation. Sandpiper Resorts Development Corporation sued the District to formalize arrangements for delivery of irrigation water to the common areas of the Sandpiper condominium development. There were two matters to be resolved: the first being the delivery of irrigation water, an obligation the District assumed by contract in May 1998, and the second being the payment of attorney fees claimed by Sandpiper Resorts. The first matter should be resolved by the District reaffirming its commitment to supply irrigation water. The second is the attorney fee claim in the approximate amount of \$50,000. It was counsel's opinion that it should be resolved in the range of \$15,000 to \$25,000, a financial obligation of the District. Subsequent to June 30, 2009, on December 15, 2009, a settlement was reached in which the District agreed to provide a specified amount of irrigation water and pay \$20,000 for legal fee costs. The District has made the required payment.

The matter of Robert Willoughby, in which the District sold the delinquent assessment lien on Willoughby's property, and the purchaser took title to the property, has been settled for \$18,800 and the District has made the required payment.

NOTE 12 – ADVERTISING COSTS

Advertising costs, except those for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. At June 30, 2009, the District had no costs associated with direct-response advertising and no advertising expense.

NOTE 13 – SUBSEQUENT EVENTS

Since June 30, 2009, legal counsel has advised the District regarding claims asserted by former employees, Douglas Konkright and Jana Konkright. These claims are wage claims stemming from termination of their respective employment. The matter is still under investigation and, as such, an opinion as to a likely outcome can not be reported at this time. It appears that the total contingent amount in controversy is approximately \$3,700.

Buckskin Sanitary District is receiving grants for the Phase 2 and Phase 3 sewer projects from the United States Department of Agriculture Rural Development in the amounts of \$517,100 and \$1,849,690, respectively, as well as loans in the amount of \$844,000 and \$2,104,572, respectively, payable at 4.625 percent over 25 years. A majority of the loan funds had been received or requested as of June 30, 2009 as stated in note 6. The remainder of the loan funds and the grant monies will be received during the 09/10 fiscal year as the remaining project milestones are achieved.

BUCKSKIN SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2009

NOTE 13 – SUBSEQUENT EVENTS continued

The Financial Office Transactions and Practices report issued by Heinfeld, Meech & Co., PC as a result of a forensic audit completed in December 2009 was reviewed. No conclusions of a monetary nature were quantified.

Buckskin Sanitary District has been awarded a grant of \$485,000 by the United States Environmental Protection Agency. In order to receive the grant the District must provide matching funds of \$396,818.

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

Board of Directors
Buckskin Sanitary District
Parker, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Buckskin Sanitary District, as of and for the year ended June 30, 2009, which collectively comprise Buckskin Sanitary District's basic financial statements and have issued our report thereon dated February 1, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Buckskin Sanitary District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Buckskin Sanitary District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Buckskin Sanitary District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Buckskin Sanitary District's financial statements are free of 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*.

We noted certain other matters that we reported to management of Buckskin Sanitary District in a separate letter dated February 1, 2010.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gail Dean Kolesar, CPA, LLC
Certified Public Accountants

February 1, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Buckskin Sanitary District
Parker, Arizona

We have audited the compliance of Buckskin Sanitary District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Buckskin Sanitary District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Buckskin Sanitary District's management. Our responsibility is to express an opinion on Buckskin Sanitary District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Buckskin Sanitary District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Buckskin Sanitary District's compliance with those requirements.

In our opinion, Buckskin Sanitary District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Buckskin Sanitary District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Buckskin Sanitary District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Buckskin Sanitary District's internal control over compliance."

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Buckskin Sanitary District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Buckskin Sanitary District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, board of directors, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gail Dean Kolesar, CPA, LLC
Certified Public Accountants

February 1, 2010

BUCKSKIN SANITARY DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

SUMMARY OF AUDIT RESULTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? NO

Significant deficiencies identified that are not considered to be material weakness(es)?

Yes

Noncompliance material to financial statements noted? NO

Federal Awards

Internal control over major programs:

Material weakness(es) identified? NO

Significant deficiencies identified that are not considered to be material weakness(es)?

Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of

Circular A-133? NO

Major programs:

CFDA Number

Name of Federal Program

10.760

Rural Utilities Service

Dollar threshold used to distinguish between type A and type B programs: \$500,000

Auditee qualified as low-risk auditee? NO

BUCKSKIN SANITARY DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

FINDINGS—FINANCIAL STATEMENTS AUDIT

It was noted that due to the small staff size of the district that certain internal controls that would be preferred if the office staff were large enough cannot be achieved with the present staff size. This situation dictates that the Board of Directors remains involved in the financial activities of the District to provide oversight and independent review functions.

It was noted that the District records expenditures only at the time a check is approved and issued to a given vendor. The failure to record expenditures on an accrual basis could result in a substantial overstatement of net income and financial position which could be misleading to third parties.

It was noted that the annual operating budget was not recorded in the accounting system and that budget vs. actual variance reporting is done manually. The budget for current and future construction phases should be entered into the accounting system so that these costs are segregated from general and plant costs. Actual vs. budgeted cost reports may then be generated and analyzed by management on a regular basis to assure compliance with allowed and un-allowed costs.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

Same as Financial Statement Audit Findings

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None Noted

BUCKSKIN SANITARY DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:			
Direct programs:			
Water and Waste Program	10.760	\$5,315,362	
Total U.S. Department of Agriculture			
Total expenditures of federal awards			\$2,303,602

See accompanying notes to schedule of expenditures of federal awards.

BUCKSKIN SANITARY DISTRICT
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Buckskin Sanitary District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.