

**CHANDLER HEIGHTS CITRUS  
IRRIGATION DISTRICT**

Annual Financial Statements  
and  
Independent Auditors' Report

June 30, 2003

## TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT .....	1
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### **Financial Statements**

Balance Sheet .....	2
Statement of Revenue, Expenses and Changes in Retained Earnings .....	3
Statement of Cash Flows .....	4
Notes to Financial Statements.....	5

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Chandler Heights Citrus Irrigation District  
Chandler Heights, Arizona

We have audited the accompanying balance sheet of Chandler Heights Citrus Irrigation District as of June 30, 2003, and the related statements of revenue, expenses and changes in retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Chandler Heights Citrus Irrigation District's management. Our responsibility is to express an opinion 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. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Chandler Heights Citrus Irrigation District as of June 30, 2003, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

December 5, 2003

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Balance Sheet

June 30, 2003

ASSETS

**Current Assets**

Cash and cash equivalents	\$ 139,137
Investments	242,364
Accounts receivable	78,226
Acreage property tax assessments receivable	6,536
Interest receivable	3,547
Prepaid CAP water	<u>6,125</u>

**Total current assets** 475,935

Property and equipment - net of accumulated depreciation	1,827,559
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**Other Assets**

Refundable deposits	<u>50</u>
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**TOTAL ASSETS** \$ 2,303,544

LIABILITIES AND EQUITY

**Current Liabilities**

Current portion of long-term debt	\$ 47,499
Accounts payable	56,967
Accrued expenses	6,224
Compensated absences	3,099
Customer water deposits	3,481
Deferred income	<u>25,749</u>

**Total current liabilities** 143,019

Long-term debt, net of current portion	<u>695,949</u>
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**Total liabilities** 838,968

**Equity**

Retained earnings	<u>1,464,576</u>
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**TOTAL LIABILITIES AND EQUITY** \$ 2,303,544

*The accompanying notes are an integral part of these financial statements.*

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Statement of Revenue, Expenses and**  
**Changes in Retained Earnings**  
**For the Year Ended June 30, 2003**

<b>Operating Revenue</b>	
Irrigation water sales	\$ 188,508
Domestic water sales	280,224
Acreage property tax assessments	82,393
Other operating revenue	17,112
<b>Total operating revenue</b>	<u>568,237</u>
 <b>Operating Expenses</b>	
Irrigation operations	
Power costs	91,957
Water purchases	68,041
Repairs and maintenance	83,721
Personnel costs	95,032
	<u>338,751</u>
Domestic operations	
Power costs	9,622
Repairs and maintenance	62,056
Personnel costs	60,234
Other costs	6,226
	<u>138,138</u>
General and administrative	
Insurance expense	16,375
Professional services	8,434
Repairs and maintenance	18,795
Personnel costs	49,278
Utilities/telephone	20,324
Miscellaneous	51,943
	<u>165,149</u>
<b>Total operating expenses</b>	<u>642,038</u>
Net income from operations before depreciation	(73,801)
Depreciation	<u>(110,296)</u>
<b>NET INCOME FROM OPERATIONS</b>	<u>(184,097)</u>
 <b>Nonoperating Revenue (Expenses)</b>	
Tap fees	89,700
Investment income	10,656
Interest expense	(3,525)
<b>Total nonoperating revenue (expenses)</b>	<u>96,831</u>
<b>NET INCOME</b>	(87,266)
Retained earnings - Beginning of year	<u>1,551,842</u>
<b>RETAINED EARNINGS - END OF YEAR</b>	<u>\$ 1,464,576</u>

*The accompanying notes are an integral part of these financial statements.*

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**

**Statement of Cash Flows**

**For the Year Ended June 30, 2003**

**Cash Flows from Operating Activities**

Net income from operations	\$ (184,097)
Adjustments to reconcile net income from operations to net cash provided by operating activities:	
Depreciation	110,296
Decrease in investments	789
Increase in accounts receivable	(14,685)
Decrease in acreage property tax assessments receivable	1,404
Increase in interest receivable	(624)
Decrease in employee advances	275
Decrease in prepaid expense	108
Decrease in accounts payable	(2,387)
Decrease in accrued expenses	(2,103)
Increase in compensated absences	3,099
Increase in customer water deposits	470
Increase in deferred income	2,162
	<hr/>
<b>Net cash used by operating activities</b>	<b>(85,293)</b>

**Cash Flows from Capital and Related Financing Activities**

Tap fees collected	89,700
Purchase of property and equipment	(27,915)
Principal paid on long-term debt	(17,522)
Interest paid	(3,525)
	<hr/>
<b>Net cash provided by capital and related financing     activities</b>	<b>40,738</b>

**Cash Flows from Investing Activities**

Interest and dividends received	<hr/> 10,656
	<hr/>
<b>Net cash provided by investing activities</b>	<b>10,656</b>

Net decrease in cash and cash equivalents	(33,899)
Cash and cash equivalents - Beginning of year	<hr/> 173,036
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u><u>\$ 139,137</u></u></b>

*The accompanying notes are an integral part of these financial statements.*

# CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

## Notes to Financial Statements

June 30, 2003

### ***NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

***Nature of Operations*** - The District was formed in 1929 in accordance with Title 48, Chapter 19 of the Arizona Revised Statutes, which provides that irrigation districts shall be political subdivisions of the State and vested with all the rights, privileges and benefits granted municipalities. The District, consisting of approximately 1,360 acres of land located in southeastern Maricopa County, Arizona, provides water to landowners for both domestic and agricultural purposes.

The accounting policies of Chandler Heights Citrus Irrigation District conform to generally accepted accounting principles as applicable to governmental units.

***Basis of Accounting*** - The accrual basis of accounting is utilized by the District for financial reporting. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. Accounting methods and policies are determined by reference to generally accepted accounting principles as promulgated by the Financial Accounting Standards Board (FASB) as long as those FASB pronouncements do not conflict with or contradict pronouncements of the Governmental Accounting Standards Board (GASB).

The District accounts for its operations using the flow of economic resources measurement focus. This measurement focus 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 water services to the users holding water rights on a continuing basis is financed through user charges and acreage tax assessments.

With this measurement focus, all assets and liabilities associated with the operation are included in the balance sheet. Equity (i.e., net total assets) is segregated into contributed capital (if any) and retained earnings components. Operating statements present increases (i.e. revenue) and decreases (i.e. expenses) in retained earnings.

***Property and Equipment*** - Depreciation of property and equipment is divided over the estimated useful lives of the assets using the straight-line method. Expenditures for additions and betterments that extend the useful lives of property and equipment are capitalized and depreciated over the estimated remaining useful lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred. Gains and losses on sales and retirements are reflected in income during the year of actual sale or retirement.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements - Continued**  
**June 30, 2003**

***NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued***

***Long-lived assets*** - Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over fair value of the asset; long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

***Income Taxes*** - All income earned by the District in its normal course of operations is exempted from federal income taxation under Section 115 of the Internal Revenue Code.

***Acreage Assessments*** - The District's Board of Directors determines the minimum annual assessment for property taxes on each acre of land that has water rights in the District.

Assessments are not refunded and, upon failure to pay, a lien attaches to the land. Assessments are levied in September of each year on approximately 1,360 acres of taxable land within the District's boundaries and are due and payable in two installments. The first payment is due October 1<sup>st</sup> and is delinquent on November 1<sup>st</sup>. The second payment is due March 1<sup>st</sup> of the following year and is delinquent May 1<sup>st</sup>. The assessments are billed and collected by Maricopa County and remitted to the District upon request.

The Board of Directors also establishes a rate per acre-foot of water required in excess of that provided by the minimum rate per acre of land. Acreage assessments to landowners are recognized as revenue in the year assessed.

***Cash and Cash Equivalents*** - For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

***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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Compensated Absences*** - Compensated absences consist of vacation leave earned by employees based on services already rendered. Generally sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued.



**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements - *Continued***  
**June 30, 2003**

***NOTE 2 - CASH AND INVESTMENTS***

The District is required by statute to invest its cash in accounts covered by federal depository insurance or with other custodial governments such as the County or State Treasurer. Cash held by the District consisted of the following at June 30, 2003:

Cash in bank	\$ 120,211
Merrill Lynch money market	18,926
	18,926
	\$ 139,137

At June 30, 2003, the carrying amount of the District's cash in bank was \$120,211, and the bank balance was \$131,926. Of the bank balance, \$100,000 was covered by federal depository insurance and \$31,926 was uninsured and uncollateralized. At June 30, 2003, the carrying amount and banking balance of the money market accounts was \$18,926, all of which was insured by the Securities Investors Protection Corporation. Each dollar invested in the Merrill Lynch money market fund constitutes one share in the fund, and the fair value of each share in this fund was one dollar as of June 30, 2003.

At June 30, 2003, investments consisted entirely of governmental securities such as US Treasury Notes and FNMA Notes, and are stated at fair value.

***NOTE 3 - PROPERTY AND EQUIPMENT***

A summary of property and equipment at June 30, 2003, follows:

Land	\$ 10,735
Irrigation system	3,267,043
Fixtures and equipment	135,787
	3,413,565
Accumulated depreciation	(1,586,006)
	\$ 1,827,559

Depreciation expense for the year ended June 30, 2003, was \$110,296.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements - *Continued***  
**June 30, 2003**

***NOTE 4 - LONG-TERM DEBT***

In December 1985, Chandler Heights Citrus Irrigation District, Queen Creek Irrigation District, and San Tan Irrigation District jointly entered into a contract with the United States Bureau of Reclamation to construct a pipeline to provide water to the three districts from the Central Arizona Project Canal.

The District's share of the direct construction costs and related debt for the project was \$809,873. The note balance at June 30, 2003, is payable in semi-annual installments ranging from \$1,817 to \$25,260 plus interest at 3.342% with the final payment being due in August 2017, of \$25,260. Interest is charged only on 6.87% of the unpaid loan balance that is attributable to the furnishing of municipal, domestic, and industrial water as defined in the loan agreement.

In 1998 the District incurred a note payable to the Water Infrastructure Finance Authority of Arizona (WIFA) for the construction of a storage reservoir. The original note balance was \$105,000. Principal payments are made on September 1 of each year commencing September 1, 1999, with the final principal repayment on September 1, 2018. Interest at 4.00% is payable semi-annually on each March 1 and September 1, commencing March 1, 1999, with the final interest payment due September 1, 2018.

Long-term debt at June 30, 2003, consisted of the following:

Note payable to the U.S. Bureau of Reclamation	\$ 653,757
Note payable to WIFA	89,691
	<hr/>
	743,448
Less current portion	(47,499)
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	\$ 695,949
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**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements - *Continued***  
**June 30, 2003**

***NOTE 4 - LONG-TERM DEBT - Continued***

Maturities of the debt principal over the next five years and thereafter are as follows:

Year Ending June 30,		
2004		\$ 47,499
2005		35,703
2006		42,500
2007		47,512
2008		49,690
2009-2013		265,883
2014-2018		247,378
2019		7,283
		\$ 743,448

***NOTE 5 - CAP WATER ALLOCATION CONTRACT***

In August 1993 Arizona irrigation districts were notified that the Central Arizona Project (CAP) would be declared complete, and that on October 1, 1993, operation of the CAP would be transferred to the Central Arizona Water Conservation District (a public entity created to manage and maintain the CAP). Beginning on October 1, 1993, those irrigation districts with contracts to receive water from the CAP began paying an annual assessment fee of \$22.50 per acre-foot as per the original contract. This fee covers operations, maintenance, and repairs. This fee must be paid whether or not any CAP water is taken by the District (Take or Pay Provision).

***NOTE 6 - CONCENTRATIONS***

As a quasi-governmental unit, Chandler Heights Citrus Irrigation District provides proprietary-fund-type services (i.e. domestic and irrigation water) to customers in a limited geographic area. Consequently, the ability of the District's funds to cover their operating costs is at risk due to this geographic concentration of customers in the area. As with the majority of municipalities and other quasi-governmental units that operate similar proprietary funds, a downturn in the local economy or other unforeseen circumstances could adversely affect the District's ability to collect amounts due from customers or to continue to generate the revenue needed to cover the costs of providing services.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**

**Notes to Financial Statements - *Continued***

**June 30, 2003**

***NOTE 7 - CONTINGENCY***

Chandler Heights Citrus Irrigation District has been named, along with other water and irrigation districts, in an action (initiated in the 1970's) intended to confirm water rights throughout the major watersheds in central and southern Arizona. The loss of water rights could severely impact the revenue and operations of the District. The District has filed a statement of claim to protect its water rights and is vigorously contesting the action. Legal council is currently monitoring the situation and has stated that no opinion on this matter can be expressed. This adjudication has been ongoing and is expected to continue indefinitely.