

**CHANDLER HEIGHTS CITRUS
IRRIGATION DISTRICT**

Annual Financial Statements
and
Independent Auditors' Report

June 30, 2005

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INDEPENDENT AUDITORS' REPORT

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

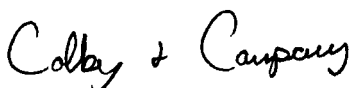
We have audited the accompanying statement of net assets of Chandler Heights Citrus Irrigation District as of June 30, 2005, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of Chandler 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 above present fairly, in all material respects, the financial position of Chandler Heights Citrus Irrigation District as of June 30, 2005, 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.

Chandler Heights Citrus Irrigation District has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



September 16, 2005

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Statement of Net Assets
June 30, 2005

ASSETS

Cash and cash equivalents	\$ 101,668
Accounts receivable	75,160
Property tax receivable	3,638
Refundable deposits	3,395
Prepaid water charges	5,066
Capital assets, not being depreciated	10,735
Capital assets, being depreciated, net	<u>1,950,567</u>
Total assets	<u><u>2,150,229</u></u>

LIABILITIES

Accounts payable	81,506
Accrued expenses	11,024
Customer water deposits	2,681
Deferred income	24,953
Noncurrent liabilities	
Due within one year	53,464
Due in more than one year	<u>948,334</u>
Total liabilities	<u><u>1,121,962</u></u>

NET ASSETS

Invested in capital assets, net of related debt	959,504
Unrestricted	<u>68,763</u>
Total net assets	<u><u>\$ 1,028,267</u></u>

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

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Year Ended June 30, 2005

Operating Revenues		
Irrigation water sales		\$ 195,251
Domestic water sales		359,244
Property tax assessments		83,258
Other operating revenues		<u>82,976</u>
Total operating revenues		<u>720,729</u>
Operating Expenses		
Irrigation operations		
Power costs	128,329	
Water purchases	48,298	
Repairs and maintenance	89,283	
Personnel costs	<u>95,709</u>	
		361,619
Domestic operations		
Power costs	16,495	
Repairs and maintenance	83,848	
Personnel costs	85,413	
Miscellaneous	<u>2,727</u>	
		188,483
General and administrative		
Insurance expense	18,448	
Professional services	193,179	
Repairs and maintenance	429	
Personnel costs	81,163	
Utilities and telephone	17,075	
Depreciation and amortization	131,464	
Miscellaneous	<u>40,606</u>	
		482,364
Total operating expenses		<u>1,032,466</u>
Operating loss		<u>(311,737)</u>
Nonoperating Revenues (Expenses)		
Tap fees		108,300
Investment income		6,115
Loss on sale of assets		(135)
Interest expense		<u>(5,537)</u>
Total nonoperating revenues (expenses)		<u>108,743</u>
Change in net assets		(202,994)
Total net assets - Beginning of year		<u>1,231,261</u>
Total net assets - End of year		<u>\$ 1,028,267</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, 2005

Cash Flows from Operating Activities	
Receipts from customers	\$ 748,894
Payments to suppliers and providers of goods and services	(596,597)
Payments to employees	(269,529)
	(117,232)
Net cash used by operating activities	
Cash Flows from Capital and Related Financing Activities	
Proceeds from new borrowings	306,000
Tap fees collected	108,300
Proceeds from sale of assets	1,215
Interest paid	(5,537)
Principal paid on long-term debt	(9,673)
Purchase of property and equipment	(93,702)
	306,603
Net cash provided by capital and related financing activities	
Cash Flows from Investing Activities	
Interest and dividends received	6,115
	6,115
Net cash provided by investing activities	
Net increase in cash and cash equivalents	195,486
Cash and cash equivalents - Beginning of year	(93,818)
	(93,818)
Cash and cash equivalents - End of year	\$ 101,668

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, 2005

Reconciliation of operating loss	
to net cash used by operating activities	
Operating loss	\$ (311,737)
Adjustments to reconcile operating loss	
to net cash used by operating activities:	
Depreciation	131,464
Changes in assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable	24,074
Property tax receivable	2,289
Refundable deposits	(3,395)
Prepaid water charges	3,334
Increase (decrease) in liabilities:	
Accounts payable	40,991
Accrued expenses	(6,054)
Customer water deposits	500
Deferred income	1,302
Net cash used by operating activities	<u><u>\$ (117,232)</u></u>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Chandler Heights Citrus Irrigation District have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the District's more significant accounting policies follows.

Reporting Entity - 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 District is governed by a separately elected board of directors.

Basis of Presentation – The financial statements include a statement of net assets and a statement of revenue, expenses, and changes in fund net assets. These statements report the financial activities of the District. Operating revenues, such as charges for services, result from transactions associated with the District's principal activity in which each party receives and gives up essentially equal values. Nonoperating revenue, such as investment earnings, result from transactions in which the parties do not exchange equal values.

Basis of Accounting – The District accounts for its operations using the economic resources measurement focus and the accrual basis of accounting. 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. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Acreage tax assessments are recognized as revenue in the year for which they are levied.

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).

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2005

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

– Continued

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.

Capital Assets – Capital assets (such as property and equipment) are recorded at cost. Depreciation is recorded using the straight-line method. Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for additions and betterments are capitalized and depreciated over the estimated remaining useful life of the related asset. Gains and losses on sales and retirements are reflected in income during the year of actual sale or retirement.

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.

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 1st and is delinquent on November 1st. The second payment is due March 1st of the following year and is delinquent May 1st. The assessments are billed and collected by Maricopa County and remitted to the District upon request. The assessment rate for the year ended June 30, 2005, was \$61.60 per acre. All assessments are deemed fully collectible and, therefore, no allowance for uncollectible amounts has been recorded.

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.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 2 – CASH AND CASH EQUIVALENTS

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, 2005:

Cash in bank	\$ 9,425
Merrill Lynch money market	91,843
Cash on hand	<u>400</u>
	<u><u>\$ 101,668</u></u>

At June 30, 2005, the carrying amount of the District's cash in bank was \$9,425 and the bank balance was \$43,620, all of which was covered by federal depository insurance. At June 30, 2005, the carrying amount and banking balance of the money market accounts was \$91,843, 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, 2005.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2005

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 10,735	\$ -	\$ -	\$ 10,735
Total capital assets not being depreciated	<u>10,735</u>	<u>-</u>	<u>-</u>	<u>10,735</u>
Capital assets being depreciated:				
Irrigation system	3,551,757	81,164	-	3,632,921
Fixtures and equipment	141,780	12,538	62,125	92,193
Total	<u>3,693,537</u>	<u>93,702</u>	<u>62,125</u>	<u>3,725,114</u>
Less accumulated depreciation for:				
Irrigation system	1,592,605	122,474	-	1,715,079
Fixtures and equipment	111,253	8,990	60,775	59,468
Total	<u>1,703,858</u>	<u>131,464</u>	<u>60,775</u>	<u>1,774,547</u>
Total capital assets being depreciated, net	<u>1,989,679</u>	<u>(37,762)</u>	<u>1,350</u>	<u>1,950,567</u>
Capital assets, net	<u>\$ 2,000,414</u>	<u>\$ (37,762)</u>	<u>\$ 1,350</u>	<u>\$ 1,961,302</u>

Depreciation expense for the year ended June 30, 2005, was \$131,464.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2005

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, 2005, 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 3.75% is payable semi-annually on each March 1 and September 1, commencing March 1, 1999, with the final interest payment due September 1, 2018.

In July 2004, the District incurred a note payable to the Water Infrastructure Finance Authority of Arizona (WIFA) for the redesign and construction of a new water distribution system. The original note balance was \$306,000. Principal payments are due on the first day of each month commencing January 1, 2005, with the final principal repayment on June 1, 2024. Interest at 3.84% is payable monthly, commencing January 1, 2005, with the final interest payment due June 1, 2024.

Long-term debt at June 30, 2005, consisted of the following:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due within</u> <u>one year</u>
Note payable to the U.S. Bureau of Reclamation	\$ 624,165	\$ -	\$ -	\$ 624,165	\$ 37,987
Note payable to WIFA	81,306	-	4,350	76,956	4,513
Note payable to WIFA	-	306,000	5,323	300,677	10,964
	<u>\$ 705,471</u>	<u>\$ 306,000</u>	<u>\$ 9,673</u>	<u>\$ 1,001,798</u>	<u>\$ 53,464</u>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2005

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,	
2006	\$ 53,464
2007	58,904
2008	61,527
2009	59,975
2010	62,449
2011-2015	346,392
2016-2020	276,451
2021-2024	82,636
	<u>\$ 1,001,798</u>

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
June 30, 2005

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.

The District has also been named in an action initiated by a customer for the District's refusal to grant the customer a water meter on his property. The case is presently in the discovery phase, and is set for trial in November 2005. The District's attorney is exploring settlement in which any loss would be covered by the District's insurance policy.

NOTE 8 – 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; injuries to employees; and natural disasters. The District carries commercial insurance for all such risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

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

We have audited the accompanying statement of net assets of Chandler Heights Citrus Irrigation District as of June 30, 2005, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Chandler Heights Citrus Irrigation District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Chandler Heights Citrus Irrigation District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial

reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Colby & Company

September 16, 2005