

**CHANDLER HEIGHTS CITRUS
IRRIGATION DISTRICT**

Annual Financial Statements
and
Independent Auditors' Report

June 30, 2006

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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, 2006, 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.

Except as discussed in the following paragraph, 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.

We did not audit domestic water receivables because sufficient detailed documentation was unavailable to test the balance presented by management on the financial statements. We were unable to satisfy ourselves about the existence, completeness, and valuation of domestic water receivables by means of other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about domestic water receivables, 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, 2006, 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 May 30, 2007, 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 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.

Colby + Powell PLC

May 30, 2007

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Statement of Net Assets
June 30, 2006

ASSETS

Cash and cash equivalents	\$	134,369
Reserved cash		6,695
Domestic water accounts receivable		101,920
Irrigation water accounts receivable		22,719
Property tax receivable		3,638
Refundable deposits		564
Prepaid water charges		9,516
Capital assets, not being depreciated		10,735
Capital assets, being depreciated, net		<u>1,821,613</u>
Total assets	\$	<u><u>2,111,769</u></u>

LIABILITIES

Accounts payable	\$	20,834
Accrued expenses		18,175
Customer water deposits		2,881
Deferred income		25,907
Noncurrent liabilities		
Due within one year		16,074
Due in more than one year		<u>967,660</u>
Total liabilities		<u>1,051,531</u>

NET ASSETS

Invested in capital assets, net of related debt		848,614
Unrestricted		<u>211,624</u>
Total net assets	\$	<u><u>1,060,238</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, 2006

Operating Revenues		
Domestic water sales		\$ 461,184
Irrigation water sales		228,464
Tap fees		106,000
Property tax assessments		90,273
Other operating revenues		50,526
Total operating revenues		<u>936,447</u>
Operating Expenses		
Irrigation operations		
Power costs	109,576	
Repairs and maintenance	94,599	
Personnel costs	86,283	
Water purchases	<u>29,889</u>	
		320,347
Domestic operations		
Personnel costs	71,672	
Repairs and maintenance	55,320	
Miscellaneous	23,160	
Power costs	<u>10,376</u>	
		160,528
General and administrative		
Depreciation and amortization	128,954	
Professional services	127,952	
Personnel costs	72,913	
Miscellaneous	34,920	
Utilities and telephone	25,969	
Insurance expense	18,946	
Repairs and maintenance	<u>1,521</u>	
		411,175
Total operating expenses		<u>892,050</u>
Operating income		<u>44,397</u>
Nonoperating Revenues (Expenses)		
Investment income		2,557
Gain on sale of assets		265
Interest expense		<u>(15,248)</u>
Total nonoperating revenues (expenses)		<u>(12,426)</u>
Change in net assets		31,971
Total net assets - Beginning of year		<u>1,028,267</u>
Total net assets - End of year		<u>\$ 1,060,238</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, 2006

Reconciliation of operating loss	
to net cash provided by operating activities	
Operating income	\$ 44,397
Adjustments to reconcile operating income	
to net cash provided by operating activities:	
Depreciation	128,954
Changes in assets and liabilities	
(Increase) decrease in:	
Domestic water accounts receivable	(39,994)
Irrigation water accounts receivable	(9,485)
Refundable deposits	600
Prepaid water charges	(4,450)
Increase (decrease) in:	
Accounts payable	(60,672)
Accrued expenses	7,151
Customer water deposits	200
Deferred income	954
	<hr/>
Net cash provided by operating activities	\$ 67,655
	<hr/> <hr/>

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

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2006

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, 2006

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, 2006, was \$67.76 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, 2006

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, 2006:

Cash in bank	\$ 30,540
Merrill Lynch money market	103,099
Cash on hand	<u>730</u>
	<u>\$ 134,369</u>

At June 30, 2006, the carrying amount of the District's cash in bank was \$30,540 and the bank balance was \$82,483, all of which was covered by federal depository insurance. At June 30, 2006, the carrying amount and banking balance of the money market accounts was \$103,099, of which \$100,000 was insured by the Securities Investors Protection Corporation. The remaining balance of \$3,099 was covered by collateral held by the pledging financial institution's trust department or agent in the City's name. 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, 2006.

Restricted cash – Restricted cash consists of required cash deposits reserved for debt service.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
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	3,632,921	-	-	3,632,921
Fixtures and equipment	92,193	-	3,939	88,254
Total	<u>3,725,114</u>	<u>-</u>	<u>3,939</u>	<u>3,721,175</u>
Less accumulated depreciation for:				
Irrigation system	1,715,079	123,484	-	1,838,563
Fixtures and equipment	59,468	5,470	3,939	60,999
Total	<u>1,774,547</u>	<u>128,954</u>	<u>3,939</u>	<u>1,899,562</u>
Total capital assets being depreciated, net	<u>1,950,567</u>	<u>(128,954)</u>	<u>-</u>	<u>1,821,613</u>
Capital assets, net	<u>\$ 1,961,302</u>	<u>\$ (128,954)</u>	<u>\$ -</u>	<u>\$ 1,832,348</u>

Depreciation expense for the year ended June 30, 2006, was \$128,954.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2006

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, 2006, 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 2021, 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.

Currently, the note payable to the United States Bureau of Reclamation is being reviewed as possibly being forgiven in its entirety. As of the audit report date, the note terms and conditions were in effect and the note was still due.

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, 2006, with the final principal repayment on June 1, 2024. Interest at 3.84% is payable monthly, commencing January 1, 2006, with the final interest payment due June 1, 2024.

Long-term debt at June 30, 2006, consisted of the following:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
Note payable to the U.S. Bureau of Reclamation	\$ 624,165	\$ -	\$ -	\$ 624,165	\$ -
Note payable to WIFA	76,956	-	4,513	72,443	4,682
Note payable to WIFA	300,677	-	13,551	287,126	11,392
	<u>\$ 1,001,798</u>	<u>\$ -</u>	<u>\$ 18,064</u>	<u>\$ 983,734</u>	<u>\$ 16,074</u>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2006

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,	
2007	\$ 16,074
2008	30,410
2009	48,693
2010	55,997
2011	61,535
2012-2016	338,574
2017-2021	346,628
2022-2024	85,823
	<u>\$ 983,734</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 per acre-foot as per the original contract. The annual assessment fee for the year ended June 30, 2006 was \$33 per acre-foot. 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, 2006

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.

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

To the Board of Directors
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, 2006, 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Chandler Heights Citrus Irrigation District's internal control over financial reporting as a basis for designing our audit 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 Chandler Heights Citrus Irrigation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Chandler Heights Citrus Irrigation District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Chandler Heights Citrus Irrigation District's

ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Chandler Heights Citrus Irrigation District's financial statements that is more than inconsequential will not be prevented or detected by the Chandler Heights Citrus Irrigation District's internal control. We consider the item **06-01** described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Chandler Heights Citrus Irrigation District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item **06-01** to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chandler Heights Citrus Irrigation 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*.

Chandler Heights Citrus Irrigation District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Chandler Heights Citrus Irrigation District's responses and, accordingly, we express no opinion on them.

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

Cally + Powell PLLC

May 30, 2007

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Schedule of Findings and Responses
June 30, 2006

Financial Statement Findings

Audit findings and responses are as follows:

Item: 06-01

Subject: Domestic water receivables.

Criteria/Specific Requirements: The District should have a complete and accurate listing of accounts receivable available and supporting documentation available for audit testing.

Condition: The District did not have complete records for domestic water receivables.

Effect: The existence, completeness, and valuation of receivables could not be verified.

Cause: Reports detailing accounts receivable for domestic water are kept in a separate billing module. Reports can only be generated at the time of billing. For the billing period which ended closest to June 30, 2006, only the first two and last two pages of the detailed receivables report were printed.

Recommendation: To help verify the existence, completeness, and valuation of domestic water receivables, detailed reports should be printed in their entirety and stored in a secure location.

Response: Management agrees with this finding and will implement procedures to ensure that all accounts receivable listings and supporting documentation will be available for audit testing.