

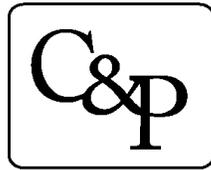
**CHANDLER HEIGHTS CITRUS  
IRRIGATION DISTRICT**

Annual Financial Statements  
and  
Independent Auditors' Report

June 30, 2013

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Chandler Heights Citrus Irrigation District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chandler Heights Citrus Irrigation District, as of June 30, 2013, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2014, on our consideration of Chandler Heights Citrus Irrigation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chandler Heights Citrus Irrigation District's internal control over financial reporting and compliance.



January 13, 2014

# CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

## Statement of Net Position

June 30, 2013

### ASSETS

#### Current assets

Cash and cash equivalents	\$ 169,054
Cash and cash equivalents, restricted	61,780
Domestic water accounts receivable	79,599
Irrigation water accounts receivable	2,489
Property tax receivable	13,688
Prepaid expenses	12,062
Other accounts receivable	24,713
	<hr/>
Total current assets	363,385

#### Noncurrent assets

Deposit - reserved for debt service	21,946
Capital assets, not being depreciated	30,435
Capital assets, being depreciated, net	2,502,125
	<hr/>
Total noncurrent assets	2,554,506

**Total assets** \$ 2,917,891

### LIABILITIES

#### Current liabilities

Accounts payable	\$ 26,994
Accrued expenses	45,789
Prepaid irrigation	38,276
Notes payable, current	21,183
Customer water deposits	61,780
	<hr/>
Total current liabilities	194,022

#### Noncurrent liabilities

Notes payable, net current portion	212,968
	<hr/>

**Total liabilities** \$ 406,990

### NET POSITION

Net investment in capital assets	\$ 2,298,409
Restricted:	
Debt service	21,946
Unrestricted	190,546
	<hr/>
<b>Total net position</b>	<u><u>\$ 2,510,901</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 Position**  
**For the Year Ended June 30, 2013**

**Operating Revenues**

Domestic water sales	\$	666,820
Irrigation water sales		210,847
Tap fees		8,925
Other operating revenues		29,955
Rental income		1,500
		918,047
<b>Total operating revenues</b>		<b>918,047</b>

**Operating Expenses**

**Cost of goods sold**

Domestic Operations		
Depreciation		131,032
Wages and salaries		86,179
Repairs and maintenance		80,690
Utilities and telephone		40,959
Insurance expense		13,288
Water purchases		5,934
Miscellaneous		8,144
Office expense		99
		366,325
Total domestic operations		366,325

Irrigation Operations		
Utilities and telephone		130,896
Wages and Salaries		64,396
Depreciation		45,448
Repairs and maintenance		35,999
Water purchases		13,050
Miscellaneous		10,692
Insurance expense		7,673
Office expense		127
		308,281
Total irrigation operations		308,281
<b>Cost of goods sold</b>		<b>674,606</b>
<b>Net income after cost of goods sold</b>		<b>243,441</b>

*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 Position - *Continued***  
**For the Year Ended June 30, 2013**

General and administrative	
Personnel costs	181,820
Depreciation	17,085
Office expense	15,366
Miscellaneous	12,627
Computer expense	11,062
Professional services	10,021
Board expense	8,100
Insurance expense	3,578
Utilities and telephone	3,249
Repairs and maintenance	2,085
	264,993
<b>Total general and administrative</b>	<b>264,993</b>
<b>Operating income</b>	<b>(21,552)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Property tax assessments	133,149
Investment income	115
Gain on sale of capital asset	700
Interest expense	(8,205)
	125,759
<b>Total nonoperating revenues (expenses)</b>	<b>125,759</b>
<b>Net income (loss)</b>	<b>104,207</b>
Net position, July 1, 2012	2,406,694
<b>Net position, June 30, 2013</b>	<b>\$ 2,510,901</b>

*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, 2013**

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 921,995
Payments to suppliers and providers of goods and services	(433,019)
Payments to employees	(332,395)
	<u>156,581</u>
<b>Net cash provided by operating activities</b>	
<b>Cash flows from noncapital and related financing activities</b>	
Proceeds from property tax collection	133,149
	<u>133,149</u>
<b>Net cash provided by noncapital and related financing activities</b>	
<b>Cash flows from capital and related financing activities</b>	
Interest and penalties paid	(8,205)
Principal paid on long-term debt	(20,395)
Purchase of property and equipment	(314,398)
Cash received on sale of capital asset	700
	<u>(342,298)</u>
<b>Net cash used by capital and related financing activities</b>	
<b>Cash flows from investing activities</b>	
Interest received	115
	<u>115</u>
<b>Net cash provided by investing activities</b>	
<b>Net decrease in cash and cash equivalents</b>	(52,453)
Cash and cash equivalents - July 1, 2012	283,287
	<u>283,287</u>
<b>Cash and cash equivalents - June 30, 2013</b>	<u><u>\$ 230,834</u></u>
Cash and cash equivalents	\$ 169,054
Cash and cash equivalents, restricted	61,780
	<u>61,780</u>
<b>Cash and cash equivalents - End of Year</b>	<u><u>\$ 230,834</u></u>

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

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Statement of Cash Flows - *Continued***  
**For the Year Ended June 30, 2013**

<b>Reconciliation of operating income (loss)</b>	
<b>to net cash provided (used) by operating activities</b>	
Operating income	\$ (21,552)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	193,565
Changes in assets and liabilities	
(Increase) decrease in:	
Domestic water accounts receivable	(10,667)
Irrigation water accounts receivable	104
Other accounts receivable	(23,500)
Prepaid expenses	1,761
Increase (decrease) in:	
Accounts payable	(5,160)
Accrued expenses	8,532
Customer water deposits	12,750
Prepaid irrigation	748
	156,581
<b>Net cash provided by operating activities</b>	<b>\$ 156,581</b>

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

# CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

## Notes to Financial Statements

June 30, 2013

### ***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).

***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 1,460 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 of the United States of America as applicable to governmental units.

***Basis of Presentation*** – The financial statements include a statement of net position and a statement of revenue, expenses, and changes in net position. 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 revenues, such as investment earnings and property taxes, 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 (including depreciation) of providing water services to the users 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.

***Property and equipment*** – Depreciation of property and equipment is divided over the estimated useful life of each asset using the straight-line method. 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. Expenses 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**

**June 30, 2013**

***NOTE 1 – NATURE OF OPERATIONS AND 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 the 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.

***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.

***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.

***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.

***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 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.

***Subsequent Events*** – Management has evaluated subsequent events through the date of issuance of the financial statements, and has determined that there are no significant subsequent events requiring disclosure.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 2 – DEPOSITS**

At June 30, 2013, the carrying amount of the District’s cash in bank was \$230,834. The bank balance on that date was for \$268,647, all of which was covered by federal depository insurance.

*Restricted cash and cash equivalents* – Restricted cash on the balance sheet consists of cash restricted for repayment of customer water deposits.

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 15,435	\$ 15,000	\$ -	\$ 30,435
<b>Total capital assets not being depreciated</b>	<u>15,435</u>	<u>15,000</u>	<u>-</u>	<u>30,435</u>
Capital assets being depreciated:				
Buildings	116,305	6,260	-	122,565
Water system	4,861,016	189,777	-	5,050,793
Fixtures and equipment	82,672	58,125	-	140,797
Vehicles	101,923	45,237	6,038	141,122
Software	13,850	-	-	13,850
<b>Total</b>	<u>5,175,766</u>	<u>299,399</u>	<u>6,038</u>	<u>5,469,127</u>
Less accumulated depreciation for:				
Buildings	33,187	3,338	-	36,525
Water system	2,631,227	168,768	-	2,799,995
Fixtures and equipment	43,777	6,837	-	50,614
Vehicles	66,522	11,852	6,038	72,336
Software	4,762	2,770	-	7,532
<b>Total</b>	<u>2,779,475</u>	<u>193,565</u>	<u>6,038</u>	<u>2,967,002</u>
<b>Total capital assets being depreciated, net</b>	<u>2,396,291</u>	<u>105,834</u>	<u>-</u>	<u>2,502,125</u>
Capital assets, net	<u>\$ 2,411,726</u>	<u>\$ 120,834</u>	<u>\$ -</u>	<u>\$ 2,532,560</u>

Depreciation expense for the year ended June 30, 2013, was \$193,565.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**

**Notes to Financial Statements**

**June 30, 2013**

**NOTE 4 – LONG-TERM DEBT**

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, 2008, with the final interest payment due September 1, 2020.

Long-term debt at June 30, 2013, consisted of the following:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due within one year
Note payable to WIFA	45,774	-	5,840	39,934	6,058
Note payable to WIFA	208,772	-	14,556	194,217	15,124
	<u>\$ 275,188</u>	<u>\$ -</u>	<u>\$ 20,395</u>	<u>\$ 234,151</u>	<u>\$ 21,183</u>

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

Year Ending June 30,	Principle	Interest
2014	21,183	8,578
2015	22,001	7,755
2016	22,851	6,901
2017	23,734	6,013
2018	24,651	5,092
2019-2021	119,732	7,892
	<u>\$ 234,151</u>	<u>\$ 42,230</u>

# **CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**

## **Notes to Financial Statements**

**June 30, 2013**

### **NOTE 5 – CONCENTRATIONS**

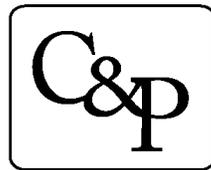
As a quasi-governmental unit, Chandler Heights Citrus Irrigation District provides proprietary fund-type services (i.e. domestic and irrigation water) to customers in a limited geographic area. Consequently, the ability of the District's funds to cover their operating costs is at risk due to this geographic 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.

### **NOTE 6 – 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 7 – 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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POWELL, PLC

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**INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Chandler Heights Citrus Irrigation District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Chandler Heights Citrus Irrigation District's basic financial statements and have issued our report thereon dated January 13, 2014.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Colby & Powell". The signature is written in black ink and is positioned above the date.

January 13, 2014