

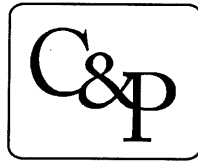
**CHANDLER HEIGHTS CITRUS
IRRIGATION DISTRICT**

Annual Financial Statements
and
Independent Auditors' Report

June 30, 2008

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COLBY &
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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, 2008, and the related statement of revenue, 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 generally accepted auditing standards of 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, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles of 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 February 16, 2009, 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.

Colby & Powell PLC

February 16, 2009

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Statement of Net Assets
June 30, 2008

ASSETS

Cash and cash equivalents	\$ 111,555
Domestic water accounts receivable	47,286
Irrigation water accounts receivable	9,420
Property tax receivable	13,688
Loan reserve	15,622
Refundable deposits	1,163
Prepaid water charges	5,780
Capital assets, not being depreciated	10,735
Capital assets, being depreciated, net	<u>1,714,424</u>
Total assets	<u>1,929,673</u>

LIABILITIES

Accounts payable	68,933
Accrued expenses	15,635
Customer water deposits	10,236
Deferred income	29,754
Noncurrent liabilities	
Due within one year	17,526
Due in more than one year	<u>311,291</u>
Total liabilities	<u>453,375</u>

NET ASSETS

Invested in capital assets, net of related debt	1,396,342
Unrestricted	<u>79,956</u>
Total net assets	<u><u>\$ 1,476,298</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, 2008

Operating Revenues

Domestic water sales	\$ 593,905
Irrigation water sales	222,853
Property tax assessments	132,684
Tap fees	40,125
Other operating revenues	24,299

Total operating revenues	1,013,866
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Operating Expenses

Domestic & irrigation operations	
Personnel costs	228,643
Power costs	166,829
Repairs and maintenance	145,797
Water purchases	34,887

Total domestic & irrigation operations	576,156
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General & administrative

Professional services	167,990
Depreciation and amortization	135,101
Personnel costs	74,056
Insurance expense	27,092
Miscellaneous	26,781
Payroll taxes	24,569
Utilities and telephone	16,268
Board expense	8,866
Repairs and maintenance	3,312

Total general & administrative	484,035
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Total operating expenses	1,060,191
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Operating income (loss)	(46,325)
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Nonoperating Revenues (Expenses)

Investment income	5,549
Interest expense	(16,603)
Penalties	(3,156)

Total nonoperating revenues (expenses)	(14,210)
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Income (loss) before extraordinary item	(60,535)
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Extraordinary item

Forgiveness of USBR note	624,165
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Change in net assets	563,630
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Total net assets - Beginning of year	912,668
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Total net assets - End of year	\$ 1,476,298
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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, 2008

Cash Flows from Operating Activities

Receipts from customers	\$ 1,034,734
Payments to suppliers and providers of goods and services	(584,696)
Payments to employees	<u>(332,195)</u>

Net cash provided by operating activities	<u>117,843</u>
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Cash Flows from Capital and Related Financing Activities

Interest paid	(19,759)
Principal paid on long-term debt	<u>(16,875)</u>

Net cash used by capital and related financing activities	<u>(36,634)</u>
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Cash Flows from Investing Activities

Interest and dividends received	5,549
Capital acquisitions	<u>(121,022)</u>

Net used provided by investing activities	<u>(115,473)</u>
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Net decrease in cash and cash equivalents	(34,264)
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Cash and cash equivalents - Beginning of year	<u>161,441</u>
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Cash and cash equivalents - End of year	<u><u>\$ 127,177</u></u>
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Non-cash investing and financing activities:

Forgiveness of USBR note	<u><u>\$ 624,165</u></u>
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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, 2008

Reconciliation of operating loss

to net cash provided by operating activities

Operating income	\$ (46,325)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	135,101
Changes in assets and liabilities	
(Increase) decrease in:	
Domestic water accounts receivable	23,043
Irrigation water accounts receivable	1,695
Property tax receivable	(5,525)
Refundable deposits	(429)
Prepaid water charges	(740)
Increase (decrease) in:	
Accounts payable	14,295
Accrued expenses	(4,927)
Customer water deposits	1,655
	<hr/>
Net cash provided by operating activities	<u><u>\$ 117,843</u></u>

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

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2008

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 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, 2008

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.

Paid Time Off – Paid time off consists of leave time earned by employees based on services already rendered. All paid time off vests with the employees.

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 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, 2008, was \$74.54 per acre. All assessments are deemed fully collectible and, therefore, no allowance for uncollectible amounts has been recorded.

Acreage assessments to landowners are recognized as revenue in the year assessed.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2008

NOTE 2 – DEPOSITS

At June 30, 2008, the carrying amount of the District's cash in bank was \$29,202 and the bank balance was \$34,984, all of which was covered by federal depository insurance. Also, at June 30, 2008, the carrying amount and banking balance of the money market accounts was \$81,953, 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, 2008.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	June 30, 2007	Increases	Decreases	June 30, 2008
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:				
Buildings	32,459	2,121	-	34,580
Water system	3,600,463	112,487	-	3,712,950
Fixtures and equipment	47,923	5,414	1,300	52,037
Vehicles	73,631	1,000	-	74,631
Total	<u>3,754,476</u>	<u>121,022</u>	<u>1,300</u>	<u>3,874,198</u>
Less accumulated depreciation for:				
Buildings	28,220	584	-	28,804
Water system	1,930,464	124,039	-	2,054,503
Fixtures and equipment	34,243	1,914	1,300	34,857
Vehicles	33,046	8,564	-	41,610
Total	<u>2,025,973</u>	<u>135,101</u>	<u>1,300</u>	<u>2,159,774</u>
Total capital assets being depreciated, net	<u>1,728,503</u>	<u>(14,079)</u>	<u>-</u>	<u>1,714,424</u>
Capital assets, net	<u>\$ 1,739,238</u>	<u>\$ (14,079)</u>	<u>\$ -</u>	<u>\$ 1,725,159</u>

Depreciation expense for the year ended June 30, 2008, was \$135,101.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2008

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 during the fiscal year was payable in semi-annual installments ranging from \$1,817 to \$25,260 plus interest at 3.342%. 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.

During the fiscal year, the note payable to the United States Bureau of Reclamation was forgiven in its entirety. See note 5.

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, 2008, consisted of the following:

	Balance			Balance	Due within
	June 30, 2007	Additions	Reductions	June 30, 2008	one year
Note payable to the U.S.					
Bureau of Reclamation	\$ 624,165	\$ -	\$ 624,165	\$ -	\$ -
Note payable to WIFA	71,954	-	4,858	67,096	5,040
Note payable to WIFA	273,737	-	12,016	261,721	12,486
	<u>\$ 969,857</u>	<u>\$ -</u>	<u>\$ 641,039</u>	<u>\$ 328,817</u>	<u>\$ 17,526</u>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2008

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,	Principle	Interest
2009	17,526	12,253
2010	18,203	11,573
2011	18,906	10,866
2012	19,636	10,132
2013	20,395	9,370
2014-2018	114,419	34,338
2019-2023	119,732	7,892
	<u>\$ 328,817</u>	<u>\$ 96,424</u>

NOTE 5 – FORGIVENESS OF LONG-TERM DEBT

On April 3, 2008, the note payable to the United States Bureau of reclamation was forgiven in its entirety. The note existed for the construction of the CAP distribution system used by the District. The District is still responsible for the maintenance of the distribution system.

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

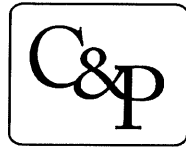
June 30, 2008

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, 2008, and the related statement of revenue, expenses, and changes in fund net assets and cash flows for the years then ended, which collectively comprise the Chandler Heights Citrus Irrigation District's basic financial statements and have issued our report thereon dated February 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Chandler Heights Citrus Irrigation District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chandler Heights Citrus Irrigation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 operations 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 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 Chandler Heights Citrus Irrigation District's financial statements that is more than inconsequential will not be prevented or detected by Chandler Heights Citrus Irrigation District's internal control. We consider the deficiencies with reference numbers **07-01**, described in the accompanying schedule of findings and responses to be significant deficiencies 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 Chandler Heights Citrus Irrigation District's internal control.

Our consideration of 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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

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 a certain provisions of laws, regulations, contracts, and loan 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 response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Chandler Heights Citrus Irrigation District's response and, accordingly, we express no opinion on it.

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

February 16, 2009

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Schedule of Findings and Responses
June 30, 2008

Financial Statement Findings

Audit findings and responses are as follows:

Item: 07-01

Subject: Adequate accounting records.

Criteria/Specific Requirements: The District should have supporting documentation and schedules for all balances and transactions.

Condition: The office personnel could not provide various accounting records and reports.

Effect: A material misstatement due to error or fraud could occur and it would not be detected by management within a timely manner.

Cause: Lack of policy and procedures.

Recommendation: Reports need to be run on regular bases with a proper cutoff, transactions need to have all supporting documentation, and records need to be stored in a clean and logical manner.

Response: Management agrees there is merit to the recommendation and will work with our accountant to implement the necessary procedures.