

**CHANDLER HEIGHTS CITRUS
IRRIGATION DISTRICT**

Annual Financial Statements
and
Independent Auditors' Report

June 30, 2012

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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, 2012, 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 audits 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 audits 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Chandler Heights Citrus Irrigation District as of June 30, 2012, and the respective changes in financial position and 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 of America has determined is necessary to supplement, although not required to be part of, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012, on our consideration of the 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* and should be considered in assessing the results of our audit.

Colby + Powell

November 26, 2012

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Statement of Net Assets

June 30, 2012

ASSETS

Current assets

Cash and cash equivalents	\$ 234,257
Cash and cash equivalents, restricted	49,030
Domestic water accounts receivable	68,932
Irrigation water accounts receivable	2,593
Property tax receivable	13,688
Prepaid expenses	12,810

Total current assets 381,310

Noncurrent assets

Deposit - reserved for debt service	21,946
Refundable deposits	1,213
Capital assets, not being depreciated	15,435
Capital assets, being depreciated, net	2,396,292

Total noncurrent assets 2,434,886

Total assets \$ 2,816,196

LIABILITIES

Current liabilities

Accounts payable	\$ 32,154
Accrued expenses	37,257
Prepaid irrigation	36,515
Notes payable, current	20,395
Customer water deposits	49,030

Total current liabilities 175,351

Noncurrent liabilities

Notes payable, net current portion	234,151
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Total liabilities \$ 409,502

NET ASSETS

Invested in capital assets, net of related debt	\$ 2,157,181
Restricted:	
Debt service	21,946
Unrestricted	227,567

Total net assets \$ 2,406,694

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, 2012

Operating Revenues	
Domestic water sales	\$ 648,907
Irrigation water sales	226,739
Tap fees	54,540
Other operating revenues	41,177
Rental income	1,394
Total operating revenues	972,757
Operating Expenses	
Cost of goods sold	
Domestic Operations	
Depreciation	123,356
Wages and salaries	91,285
Repairs and maintenance	62,997
Utilities and telephone	39,381
Insurance expense	12,999
Water purchases	8,060
Miscellaneous	6,153
Professional services	270
Total domestic operations	344,501
Irrigation Operations	
Wages and Salaries	125,888
Utilities and telephone	123,648
Depreciation	42,786
Repairs and maintenance	36,506
Water purchases	24,750
Miscellaneous	20,871
Insurance expense	7,421
Professional services	420
Total irrigation operations	382,290
Cost of goods sold	726,791
Net income after cost of goods sold	245,966

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 - *Continued*
For the Year Ended June 30, 2012

General and administrative	
Personnel costs	96,912
Miscellaneous	30,371
Depreciation	16,084
Professional services	12,434
Utilities and telephone	10,802
Board expense	8,100
Repairs and maintenance	4,579
Insurance expense	1,488
	180,770
Total general and administrative	180,770
Operating income	65,196
Nonoperating Revenues (Expenses)	
Property tax assessments	133,710
Investment income	36
Interest expense	(9,564)
	124,182
Total nonoperating revenues (expenses)	124,182
Net income (loss)	189,378
Total net assets - July 1, 2011	2,217,316
Total net assets - June 30, 2012	\$ 2,406,694

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, 2012

Cash flows from operating activities	
Receipts from customers	\$ 982,922
Payments to suppliers and providers of goods and services	(497,280)
Payments to employees	<u>(314,085)</u>
Net cash provided by operating activities	<u>171,557</u>
Cash flows from noncapital and related financing activities	
Proceeds from property tax collection	<u>133,710</u>
Net cash provided by noncapital and related financing activities	<u>133,710</u>
Cash flows from capital and related financing activities	
Interest and penalties paid	(9,564)
Principal paid on long-term debt	(20,642)
Purchase of property and equipment	<u>(142,178)</u>
Net cash used by capital and related financing activities	<u>(172,384)</u>
Cash flows from investing activities	
Interest received	<u>36</u>
Net cash provided by investing activities	<u>36</u>
Net increase in cash and cash equivalents	132,919
Cash and cash equivalents - July 1, 2011	<u>150,368</u>
Cash and cash equivalents - June 30 2012	<u><u>\$ 283,287</u></u>
Cash and cash equivalents	\$ 234,257
Cash and cash equivalents, restricted	<u>49,030</u>
Cash and cash equivalents - End of Year	<u><u>\$ 283,287</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, 2012

Reconciliation of operating income (loss)	
to net cash provided (used) by operating activities	
Operating income	\$ 65,196
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	182,226
Changes in assets and liabilities	
(Increase) decrease in:	
Domestic water accounts receivable	(657)
Irrigation water accounts receivable	2,341
Prepaid expenses	2,492
Increase (decrease) in:	
Accounts payable	(95,694)
Accrued expenses	7,172
Customer water deposits	10,285
Prepaid irrigation	<u>(1,804)</u>
Net cash provided by operating activities	<u><u>\$ 171,557</u></u>

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

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2012

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 assets and a statement of revenue, expenses, and changes in 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 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.

The District follows FASB Statements and Interpretations issued before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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, 2012

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 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.

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, 2012

NOTE 2 – DEPOSITS

At June 30, 2012, the carrying amount of the District’s cash in bank was \$283,287. The bank balance on that date was for \$295,027, 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, 2012, was as follows:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 10,735	\$ 4,700	\$ -	\$ 15,435
Total capital assets not being depreciated	<u>10,735</u>	<u>4,700</u>	<u>-</u>	<u>15,435</u>
Capital assets being depreciated:				
Buildings	88,050	28,255	-	116,305
Water system	4,779,086	81,931	-	4,861,017
Fixtures and equipment	82,672	-	-	82,672
Vehicles	74,631	27,292	-	101,923
Software	13,850	-	-	13,850
Total	<u>5,038,289</u>	<u>137,478</u>	<u>-</u>	<u>5,175,767</u>
Less accumulated depreciation for:				
Buildings	30,165	3,022	-	33,187
Water system	2,465,913	165,314	-	2,631,227
Fixtures and equipment	38,439	5,338	-	43,777
Vehicles	60,740	5,782	-	66,522
Software	1,992	2,770	-	4,762
Total	<u>2,597,249</u>	<u>182,226</u>	<u>-</u>	<u>2,779,475</u>
Total capital assets being depreciated, net	<u>2,441,040</u>	<u>(44,748)</u>	<u>-</u>	<u>2,396,292</u>
Capital assets, net	<u>\$ 2,451,775</u>	<u>\$ (40,048)</u>	<u>\$ -</u>	<u>\$ 2,411,727</u>

Depreciation expense for the year ended June 30, 2012, was \$182,226.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2012

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, 2012, consisted of the following:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
Note payable to WIFA	51,402	-	5,628	45,774	5,840
Note payable to WIFA	223,786	-	15,014	208,772	14,555
	<u>\$ 275,188</u>	<u>\$ -</u>	<u>\$ 20,642</u>	<u>\$ 254,546</u>	<u>\$ 20,395</u>

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

Year Ending June 30,	Principle	Interest
2013	20,395	9,370
2014	21,183	8,578
2015	22,001	7,755
2016	22,851	6,901
2017	23,734	6,013
2018-2022	144,382	12,983
	<u>\$ 254,546</u>	<u>\$ 51,599</u>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2012

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.



COLBY &
POWELL, PLC

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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 financial statements of Chandler Heights Citrus Irrigation District as of and for the year ended June 30, 2012 and have issued our report thereon dated November 26, 2012. 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

Management of Chandler Heights Citrus Irrigation District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered 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 opinion 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

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

Colby + Powell

November 26, 2012