

**CHANDLER HEIGHTS CITRUS
IRRIGATION DISTRICT**

Annual Financial Statements
and
Independent Auditors' Report

June 30, 2004

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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 the Chandler Heights Citrus Irrigation District as of June 30, 2004, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of Chandler Heights Citrus Irrigation District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chandler Heights Citrus Irrigation District as of June 30, 2004, 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.

As described in Note 1 the District adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, for the year ended June 30, 2004, to implement a new financial reporting model.

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.

December 1, 2004

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Statement of Net Assets

June 30, 2004

ASSETS

Cash and cash equivalents	\$	53,483
Accounts receivable		99,234
Acreage property tax assessments receivable		5,927
Prepaid CAP water		8,400
Capital assets, not being depreciated		10,735
Capital assets, being depreciated, net		<u>1,989,679</u>
Total assets		<u>2,167,458</u>

LIABILITIES

Cash deficit		147,301
Accounts payable		40,515
Accrued expenses		17,078
Customer water deposits		2,181
Deferred income		23,651
Noncurrent liabilities		
Due within one year		31,780
Due in more than one year		<u>673,691</u>
Total liabilities		<u>936,197</u>

NET ASSETS

Invested in capital assets, net of related debt		1,294,943
Unrestricted (deficit)		<u>(63,682)</u>
Total net assets	\$	<u><u>1,231,261</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, 2004

Operating Revenues	
Irrigation water sales	\$ 196,949
Domestic water sales	324,030
Acreage property tax assessments	79,685
Other operating revenues	48,146
Total operating revenues	<u>648,810</u>
Operating Expenses	
Irrigation operations	
Power costs	115,881
Water purchases	31,087
Repairs and maintenance	73,089
Personnel costs	93,342
	<u>313,399</u>
Domestic operations	
Power costs	12,017
Repairs and maintenance	142,988
Personnel costs	117,784
Other costs	26,804
	<u>299,593</u>
General and administrative	
Insurance expense	15,505
Professional services	100,565
Repairs and maintenance	134
Personnel costs	64,767
Utilities/telephone	21,753
Depreciation	120,597
Miscellaneous	40,182
	<u>363,503</u>
Total operating expenses	<u>976,495</u>
Operating income (loss)	<u>(327,685)</u>
Nonoperating Revenues (Expenses)	
Tap fees	84,675
Investment income	11,807
Gain on sale of assets	1,452
Interest expense	(3,564)
Total nonoperating revenues (expenses)	<u>94,370</u>
Change in net assets	(233,315)
Total net assets - Beginning of year	<u>1,464,576</u>
Total net assets - End of year	<u><u>\$ 1,231,261</u></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, 2004

Cash Flows from Operating Activities	
Receipts from customers	\$ 627,111
Payments to suppliers and providers of goods and services	(350,951)
Payments to employees	(272,056)
	4,104
Cash Flows from Capital and Related Financing Activities	
Tap fees collected	84,675
Purchase of property and equipment	(293,485)
Principal paid on long-term debt	(37,977)
Interest paid	(3,564)
Proceeds from sale of assets	1,485
	(248,866)
Cash Flows from Investing Activities	
Interest and dividends received	11,807
	11,807
Net decrease in cash and cash equivalents	
	(232,955)
Cash and cash equivalents - Beginning of year	139,137
	(93,818)
Cash and cash equivalents - End of year	
	\$ (93,818)
Reported on the Statement of Net Assets:	
Cash and cash equivalents	\$ 53,483
Cash deficit	(147,301)
	(93,818)

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, 2004

Reconciliation of operating income (loss)	
to net cash provided by operating activities	
Operating income (loss)	\$ (327,685)
Adjustments to reconcile operating income (loss)	
to net cash provided by operating activities:	
Depreciation	120,597
Decrease in investments	242,364
Increase in accounts receivable	(21,008)
Decrease in acreage property tax	
assessments receivable	609
Decrease in interest receivable	3,547
Decrease in refundable deposits	50
Increase in prepaid CAP water	(2,275)
Decrease in accounts payable	(16,452)
Increase in accrued expenses	7,755
Decrease in customer water deposits	(1,300)
Decrease in deferred income	(2,098)
	<hr/>
Net cash provided by operating activities	4,104
	<hr/> <hr/>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2004

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Chandler Heights Citrus Irrigation District conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2004, the District implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model for financial statements. The District also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

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 flow of 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 - *Continued*
June 30, 2004

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, 2004, was \$61.60 per acre. All assessments are deemed fully collectible and, therefore, no allowance for uncollectible amounts has been recorded.

The Board of Directors also establishes a rate per acre-foot of water required in excess of that provided by the minimum rate per acre of land. Acreage assessments to landowners are recognized as revenue in the year assessed.

NOTE 2 – BEGINNING BALANCES RELABELED

As a result of implementing GASB Statement No. 34, the District's retained earnings have been relabeled net assets as of July 1, 2003, on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements - *Continued*

June 30, 2004

NOTE 3 – 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, 2004:

Cash in bank	\$ (147,301)
Merrill Lynch money market	<u>53,483</u>
	<u>\$ (93,818)</u>

At June 30, 2004, the carrying amount of the District's cash in bank was \$(147,301) and the bank balance was \$34,386, all of which was covered by federal depository insurance. At June 30, 2004, the carrying amount and banking balance of the money market accounts was \$53,483, 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, 2004.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements - Continued
June 30, 2004

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
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	3,267,043	287,492	2,778	3,551,757
Fixtures and equipment	135,787	5,993	-	141,780
Total	<u>3,402,830</u>	<u>293,485</u>	<u>2,778</u>	<u>3,693,537</u>
Less accumulated depreciation for:				
Irrigation system	1,482,252	113,098	2,745	1,592,605
Fixtures and equipment	103,754	7,499	-	111,253
Total	<u>1,586,006</u>	<u>120,597</u>	<u>2,745</u>	<u>1,703,858</u>
Total capital assets being depreciated, net	<u>1,816,824</u>	<u>172,888</u>	<u>33</u>	<u>1,989,679</u>
Capital assets, net	<u>\$ 1,827,559</u>	<u>\$ 172,888</u>	<u>\$ 33</u>	<u>\$ 2,000,414</u>

Depreciation expense for the year ended June 30, 2004, was \$120,597.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements - *Continued*

June 30, 2004

NOTE 5 – 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, 2004, is payable in semi-annual installments ranging from \$1,817 to \$25,260 plus interest at 3.342% with the final payment being due in August 2017, of \$25,260. Interest is charged only on 6.87% of the unpaid loan balance that is attributable to the furnishing of municipal, domestic, and industrial water as defined in the loan agreement.

In 1998 the District incurred a note payable to the Water Infrastructure Finance Authority of Arizona (WIFA) for the construction of a storage reservoir. The original note balance was \$105,000. Principal payments are made on September 1 of each year commencing September 1, 1999, with the final principal repayment on September 1, 2018. Interest at 4.00% is payable semi-annually on each March 1 and September 1, commencing March 1, 1999, with the final interest payment due September 1, 2018.

The District is not obligated in any manner for special assessment debt.

Long-term debt at June 30, 2004, consisted of the following:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due within</u> <u>one year</u>
Note payable to the U.S. Bureau of Reclamation	\$ 653,757	\$ -	\$ 29,592	\$ 624,165	\$ 27,430
Note payable to WIFA	89,691	-	8,385	81,306	4,350
	<u>\$ 743,448</u>	<u>\$ -</u>	<u>\$ 37,977</u>	<u>\$ 705,471</u>	<u>\$ 31,780</u>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements - *Continued*
June 30, 2004

NOTE 5 – LONG-TERM DEBT - Continued

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

Year Ending June 30,	
2005	\$ 31,780
2006	39,789
2007	45,380
2008	49,820
2009	49,742
2010-2014	269,146
2015-2019	<u>219,814</u>
	<u>\$ 705,471</u>

NOTE 6 – CAP WATER ALLOCATION CONTRACT

In August 1993 Arizona irrigation districts were notified that the Central Arizona Project (CAP) would be declared complete, and that on October 1, 1993, operation of the CAP would be transferred to the Central Arizona Water Conservation District (a public entity created to manage and maintain the CAP). Beginning on October 1, 1993, those irrigation districts with contracts to receive water from the CAP began paying an annual assessment fee of \$22.50 per acre-foot as per the original contract. This fee covers operations, maintenance, and repairs. This fee must be paid whether or not any CAP water is taken by the District (Take or Pay Provision).

NOTE 7 – 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 - *Continued*
June 30, 2004

NOTE 8 – 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 9 – 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.