

**CHANDLER HEIGHTS CITRUS
IRRIGATION DISTRICT**

Annual Financial Statements
and
Independent Auditors' Report

June 30, 2009

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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, 2009, 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, 2009, 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 December 4, 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

December 4, 2009

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Statement of Net Assets
June 30, 2009

ASSETS

Current assets

Cash and cash equivalents	\$	155,209
Domestic water accounts receivable, net		57,688
Irrigation water accounts receivable, net		10,986
Property tax receivable, net		13,688
Prepaid water charges		8,903
Total current assets		246,474

Noncurrent assets

Cash and cash equivalents, restricted		19,714
Capital assets, not being depreciated		10,735
Capital assets, being depreciated, net		1,710,661
Refundable deposits		1,213
Total noncurrent assets		1,742,323

Total assets

\$ 1,988,797

LIABILITIES

Current liabilities

Accounts payable	\$	35,948
Accrued expenses		31,414
Prepaid irrigation		35,557
Notes payable, current		27,930
Total current liabilities		130,849

Noncurrent liabilities

Notes payable		308,996
Customer water deposits		11,535
Total noncurrent liabilities		320,531

Total liabilities

\$ 451,380

NET ASSETS

Invested in capital assets, net of related debt	\$	1,206,529
Restricted:		
Debt service		19,714
Unrestricted		311,174
Total net assets		\$ 1,537,417

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, 2009

Operating Revenues	
Domestic water sales	\$ 620,947
Irrigation water sales	215,376
Property tax assessments	137,945
Other operating revenues	23,664
Rental income	1,500
Tap fees	<u>16,430</u>
Total operating revenues	<u>1,015,862</u>
 Operating Expenses	
Domestic Operations	
Personnel costs	113,642
Depreciation	98,733
Repairs and maintenance	64,887
Power costs	58,072
Payroll taxes	8,456
Insurance expense	7,629
Miscellaneous	5,789
Water Purchases	5,251
Utilities and telephone	2,019
Professional services	<u>113</u>
Total domestic operations	<u>364,591</u>
 Irrigation Operations	
Personnel costs	133,471
Power costs	88,139
Repairs and maintenance	48,462
Depreciation	34,246
Water purchases	14,951
Payroll taxes	9,970
Utilities and telephone	5,209
Miscellaneous	5,122
Insurance expense	<u>4,190</u>
Total irrigation operations	<u>343,760</u>
Cost of goods sold	<u>708,350</u>
Net income (loss) after cost of goods sold	<u>307,512</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 - *Continued*
For the Year Ended June 30, 2009

General and administrative	94,611
Personnel costs	32,064
Professional services	27,204
Miscellaneous	22,885
Utilities and telephone	21,642
Insurance expense	12,873
Depreciation	9,795
Board expense	7,913
Payroll taxes	3,404
Penalties	629
Repairs and maintenance	<u>629</u>
Total general and administrative	<u>233,020</u>
Operating income (loss)	<u>74,492</u>
Nonoperating Revenues (Expenses)	
Investment income	725
Gain on sale	2,980
Interest expense	<u>(17,078)</u>
Total nonoperating revenues (expenses)	<u>(13,373)</u>
Change in net assets	61,119
Total net assets - Beginning of Year	<u>1,476,298</u>
Total net assets - End of Year	<u><u>\$ 1,537,417</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, 2009

Cash Flows from Operating Activities	
Receipts from customers	\$ 1,010,996
Payments to suppliers and providers of goods and services	(489,951)
Payments to employees	<u>(325,945)</u>
Net cash provided (used) by operating activities	<u>195,100</u>
 Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of assets	14,500
Interest and penalties paid	(17,078)
Principal paid on long-term debt	(21,891)
Purchase of property and equipment	<u>(123,610)</u>
Net cash provided (used) by capital and related financing activities	<u>(148,079)</u>
 Cash Flows from Investing Activities	
Interest and dividends received	<u>725</u>
Net cash provided (used) by investing activities	<u>725</u>
Net increase (decrease) in cash and cash equivalents	47,746
Cash and cash equivalents - Beginning of Year	<u>127,177</u>
Cash and cash equivalents - End of Year	<u><u>\$ 174,923</u></u>
 Cash and cash equivalents	
	\$ 155,209
Cash and cash equivalents, restricted	<u>19,714</u>
Cash and cash equivalents - End of Year	<u><u>\$ 174,923</u></u>
 Non-cash investing and financing activities:	
Capital assets acquired through financing	<u><u>\$ 30,000</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, 2009

Reconciliation of operating income (loss)	
to net cash provided (used) by operating activities	
Operating income (loss)	\$ 74,492
Adjustments to reconcile operating income (loss)	
to net cash provided (used) by operating activities:	
Depreciation	145,852
Changes in assets and liabilities	
(Increase) decrease in:	
Domestic water accounts receivable	(10,402)
Irrigation water accounts receivable	(1,566)
Refundable deposits	(50)
Prepaid water charges	(3,123)
Increase (decrease) in:	
Accounts payable	(32,985)
Accrued expenses	15,779
Customer water deposits	1,299
Prepaid irrigation	35,557
Deferred income	(29,753)
	(29,753)
Net cash provided (used) by operating activities	\$ 195,100

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

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2009

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, property tax assessments, and fees result primarily from transactions associated with the District's principal activity. Nonoperating revenues include income on investments and gains or losses on sale of capital assets.

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 follow FASB pronouncements issued after November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

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, 2009

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, 2009, was \$74.54 per acre. All assessments are deemed fully collectible and, therefore, no allowance for uncollectible amounts has been recorded.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – DEPOSITS

At June 30, 2009, the carrying amount of the District's cash in bank was \$104,620 and the bank balance was \$131,230, all of which was covered by federal depository insurance. Also, at June 30, 2009, the carrying amount and account balance of the money market accounts was \$50,064, 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, 2009.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>
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	34,580	-	-	34,580
Water system	3,712,950	107,900	-	3,820,850
Fixtures and equipment	52,037	45,710	21,600	76,147
Vehicles	74,631	-	-	74,631
Total	<u>3,874,198</u>	<u>153,610</u>	<u>21,600</u>	<u>4,006,208</u>
Less accumulated depreciation for:				
Buildings	28,804	611	-	29,415
Water system	2,054,503	132,979	-	2,187,482
Fixtures and equipment	34,857	4,298	10,079	29,076
Vehicles	41,610	7,964	-	49,574
Total	<u>2,159,774</u>	<u>145,852</u>	<u>10,079</u>	<u>2,295,547</u>
Total capital assets being depreciated, net	<u>1,714,424</u>	<u>7,758</u>	<u>11,521</u>	<u>1,710,661</u>
Capital assets, net	<u>\$ 1,725,159</u>	<u>\$ 7,758</u>	<u>\$ 11,521</u>	<u>\$ 1,721,396</u>

Depreciation expense for the year ended June 30, 2009, was \$145,852.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2009

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.

In September 2008, the District incurred a note payable to Derek Arnson for the purchase of a backhoe. The original note balance, which is secured by the backhoe, was \$30,000 at 8.5% interest. Principal and interest payments are due on the first day of each month commencing October 1, 2008, with the final principal and interest payment on September 1, 2011.

Long-term debt at June 30, 2009, consisted of the following:

	Balance			Balance	Due within
	June 30, 2008	Additions	Reductions	June 30, 2009	one year
Note payable to Arnson	\$ -	\$ 30,000	\$ 6,436	\$ 23,564	\$ 9,727
Note payable to WIFA	67,096	-	5,040	62,056	5,229
Note payable to WIFA	261,721	-	10,415	251,306	12,974
	<u>\$ 328,817</u>	<u>\$ 30,000</u>	<u>\$ 21,891</u>	<u>\$ 336,926</u>	<u>\$ 27,930</u>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2009

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
2010	27,930	13,164
2011	29,493	11,598
2012	22,888	10,162
2013	20,395	9,370
2014	21,183	8,578
2015-2019	118,839	29,895
2020-2024	96,200	3,757
	<u>\$ 336,926</u>	<u>\$ 86,524</u>

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.

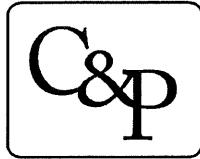
NOTE 6 – CONTINGENCY

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.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2009

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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**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, 2009, 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 December 4, 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 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects 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.

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 or material weaknesses. 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 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.

Colby + Powell PLC

December 4, 2009