

DRAFT

**CHANDLER HEIGHTS CITRUS  
IRRIGATION DISTRICT**

Annual Financial Statements  
and  
Independent Auditors' Report

June 30, 2010

**TABLE OF CONTENTS**

INDEPENDENT AUDITORS' REPORT .....	1
Statement of Net Assets.....	2
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	3
Statement of Cash Flows .....	5
Notes to Financial Statements .....	7
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	13

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Statement of Net Assets

June 30, 2010

DRAFT

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 430,427
Domestic water accounts receivable, net	89,100
Irrigation water accounts receivable, net	12,196
Property tax receivable, net	13,688
Prepaid water charges	9,519
	<hr/>
Total current assets	554,930

**Noncurrent assets**

Cash and cash equivalents, restricted	21,946
Capital assets, not being depreciated	10,735
Capital assets, being depreciated, net	1,603,024
Refundable deposits	1,213
	<hr/>
Total noncurrent assets	1,636,918
	<hr/>
<b>Total assets</b>	<b>\$ 2,191,848</b>

**LIABILITIES**

**Current liabilities**

Accounts payable	\$ 39,818
Accrued expenses	21,853
Prepaid irrigation	36,323
Notes payable, current	18,906
	<hr/>
Total current liabilities	116,900

**Noncurrent liabilities**

Notes payable	276,253
Customer water deposits	25,895
	<hr/>
Total noncurrent liabilities	302,148
	<hr/>
<b>Total liabilities</b>	<b>\$ 419,048</b>

**NET ASSETS**

Invested in capital assets, net of related debt	\$ 1,175,805
Restricted:	
Debt service	21,946
Unrestricted	575,049
	<hr/>
<b>Total net assets</b>	<b>\$ 1,772,800</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 Assets**  
**For the Year Ended June 30, 2010**

D R A F T

<b>Operating Revenues</b>	
Domestic water sales	\$ 631,708
Irrigation water sales	221,245
Property tax assessments	128,443
Other operating revenues	35,962
Rental income	1,625
Tap fees	1,552
	<u>1,020,535</u>
<b>Operating Expenses</b>	
Domestic Operations	
Depreciation	100,120
Personnel costs	70,091
Power costs	48,037
Repairs and maintenance	39,753
Insurance expense	12,776
Professional services	10,482
Miscellaneous	9,389
Payroll taxes	5,737
Water purchases	4,069
Utilities and telephone	2,241
	<u>302,695</u>
Total domestic operations	
	<u>302,695</u>
Irrigation Operations	
Power costs	110,259
Personnel costs	92,391
Depreciation	34,727
Water purchases	28,751
Repairs and maintenance	20,488
Miscellaneous	12,518
Professional services	10,162
Insurance expense	8,614
Payroll taxes	7,744
Utilities and telephone	2,265
	<u>327,919</u>
Total irrigation operations	<u>327,919</u>
<b>Cost of goods sold</b>	<u>630,614</u>
<b>Net income after cost of goods sold</b>	<u>389,921</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, 2010**

D R A F T

General and administrative	
Personnel costs	73,382
Miscellaneous	23,680
Depreciation	13,054
Professional services	9,889
Board expense	9,143
Payroll taxes	7,237
Utilities and telephone	4,449
Insurance expense	3,089
Penalties	566
Repairs and maintenance	86
	144,575
Total general and administrative	144,575
<b>Operating income</b>	<b>245,346</b>
<b>Nonoperating Revenues (Expenses)</b>	
Investment income	762
Interest expense	(10,725)
	(9,963)
<b>Total nonoperating revenues (expenses)</b>	<b>(9,963)</b>
<b>Change in net assets</b>	<b>235,383</b>
Total net assets - Beginning of Year	1,537,417
<b>Total net assets - End of Year</b>	<b>\$ 1,772,800</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, 2010**

D R A F T

<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 1,003,039
Payments to suppliers and providers of goods and services	(388,170)
Payments to employees	<u>(245,425)</u>
<b>Net cash provided (used) by operating activities</b>	<u>369,444</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Interest and penalties paid	(10,725)
Principal paid on long-term debt	(41,767)
Purchase of property and equipment	<u>(40,264)</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(92,756)</u>
<b>Cash Flows from Investing Activities</b>	
Interest and dividends received	<u>762</u>
<b>Net cash provided (used) by investing activities</b>	<u>762</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	277,450
Cash and cash equivalents - Beginning of Year	<u>174,923</u>
<b>Cash and cash equivalents - End of Year</b>	<u><u>\$ 452,373</u></u>
Cash and cash equivalents	\$ 430,427
Cash and cash equivalents, restricted	<u>21,946</u>
<b>Cash and cash equivalents - End of Year</b>	<u><u>\$ 452,373</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, 2010**

DRAFT

<b>Reconciliation of operating income (loss)</b>	
<b>to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ 245,346
Adjustments to reconcile operating income (loss)	
to net cash provided (used) by operating activities:	
Depreciation	147,901
Changes in assets and liabilities	
(Increase) decrease in:	
Domestic water accounts receivable	(31,412)
Irrigation water accounts receivable	(1,210)
Prepaid water charges	(616)
Increase (decrease) in:	
Accounts payable	3,870
Accrued expenses	(9,561)
Customer water deposits	14,360
Prepaid irrigation	766
	<hr/>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 369,444</b>
	<hr/> <hr/>

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

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2010

DRAFT

***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, 2010

D R A F T

**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.

**Acres 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. The assessment rate for the year ended June 30, 2010, was \$91.00 per acre. All assessments are deemed fully collectible and, therefore, no allowance for uncollectible amounts has been recorded.

**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, 2010**

D R A F T

**NOTE 2 – DEPOSITS**

At June 30, 2010, the carrying amount of the District’s cash in bank was \$309,775 and the bank balance was \$323,417, \$225,555 of which was covered by federal depository insurance. Also, at June 30, 2010, the carrying amount and account balance of the money market accounts was \$142,598 all of which was insured by the Securities Investors Protection Corporation.

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets not being depreciated:				
Land	\$ 10,735	\$ -	\$ -	\$ 10,735
<b>Total capital assets not     being depreciated</b>	<u>10,735</u>	<u>-</u>	<u>-</u>	<u>10,735</u>
Capital assets being depreciated:				
Buildings	34,580	-	-	34,580
Water system	3,820,850	29,305	-	3,850,155
Fixtures and equipment	76,147	999	-	77,146
Vehicles	74,631	-	-	74,631
Software	-	9,960	-	9,960
<b>Total</b>	<u>4,006,208</u>	<u>40,264</u>	<u>-</u>	<u>4,046,472</u>
Less accumulated depreciation for:				
Buildings	29,415	472	-	29,887
Water system	2,187,482	137,011	-	2,324,493
Fixtures and equipment	29,076	4,209	-	33,285
Vehicles	49,574	6,209	-	55,783
Software	-	-	-	-
<b>Total</b>	<u>2,295,547</u>	<u>147,901</u>	<u>-</u>	<u>2,443,448</u>
<b>Total capital assets being depreciated, net</b>	<u>1,710,661</u>	<u>(107,637)</u>	<u>-</u>	<u>1,603,024</u>
Capital assets, net	<u>\$ 1,721,396</u>	<u>\$ (107,637)</u>	<u>\$ -</u>	<u>\$ 1,613,759</u>

Depreciation expense for the year ended June 30, 2010, was \$147,901.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2010

DRAFT

**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 was secured by the backhoe, was \$30,000 at 8.5% interest. Principal and interest payments were due on the first day of each month commencing October 1, 2008. The note was paid off prior to June, 30, 2010.

Long-term debt at June 30, 2010, consisted of the following:

	Balance			Balance	Due within
	June 30, 2009	Additions	Reductions	June 30, 2010	one year
Note payable to Arnson	\$ 23,564	\$ -	\$ 23,564	\$ -	\$ -
Note payable to WIFA	62,056	-	5,229	56,827	5,425
Note payable to WIFA	251,306	-	12,974	238,332	13,481
	<u>\$ 336,926</u>	<u>\$ -</u>	<u>\$ 41,767</u>	<u>\$ 295,159</u>	<u>\$ 18,906</u>

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**

**Notes to Financial Statements**

**June 30, 2010**

DRAFT

***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
2011	18,906	10,866
2012	19,636	10,132
2013	20,395	9,370
2014	21,183	8,578
2015	22,001	7,755
2016-2020	115,874	25,422
2021-2024	77,164	475
	<u>\$ 295,159</u>	<u>\$ 72,598</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, 2010**

DRAFT

***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.