

**CHANDLER HEIGHTS CITRUS  
IRRIGATION DISTRICT**

Annual Financial Statements

June 30, 2014

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors  
Chandler Heights Citrus Irrigation District  
Chandler Heights, Arizona

We have reviewed the accompanying financial statements of Chandler Heights Citrus Irrigation District, as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the management of Chandler Heights Citrus Irrigation District. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

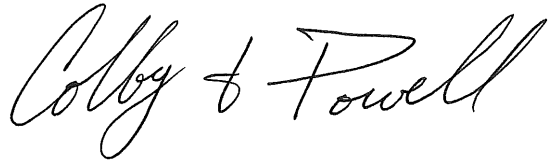
The management of Chandler Heights Citrus Irrigation District is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Management has omitted management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement 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 and for placing the

basic financial statements in an appropriate operational, economic, or historical context. The results of our review of the basic financial statements are not affected by this missing information.

A handwritten signature in cursive script that reads "Colby & Powell". The letters are fluid and connected, with a prominent loop at the end of the word "Powell".

February 25, 2015

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**

**Statement of Net Position**

**June 30, 2014**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 614,794
Cash and cash equivalents, restricted	69,215
Domestic water accounts receivable	74,076
Irrigation water accounts receivable	2,265
Property tax receivable	13,688
Prepaid expenses	5,456

Total current assets 779,494

**Noncurrent assets**

Deposit - reserved for debt service	21,946
Capital assets, not being depreciated	30,435
Capital assets, being depreciated, net	2,749,812

Total noncurrent assets 2,802,193

**Total assets** \$ 3,581,687

**LIABILITIES**

**Current liabilities**

Accounts payable	\$ 23,822
Accrued expenses	49,098
Prepaid irrigation	32,869
Notes payable, current	40,449
Customer water deposits	69,215

Total current liabilities 215,453

**Noncurrent liabilities**

Notes payable, net current portion	<u>821,493</u>
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**Total liabilities** \$ 1,036,946

**NET POSITION**

Net investment in capital assets	\$ 1,918,305
Restricted:	
Debt service	21,946
Unrestricted	<u>604,490</u>

**Total net position** \$ 2,544,741

*See accompanying notes and independent accountant's review report.*

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Statement of Revenues, Expenses, and**  
**Changes in Fund Net Position**  
**For the Year Ended June 30, 2014**

**Operating Revenues**

Domestic water sales	\$	644,989
Irrigation water sales		221,215
Tap fees		2,550
Other operating revenues		31,801
Rental income		1,558
		902,113
<b>Total operating revenues</b>		<b>902,113</b>

**Operating Expenses**

**Cost of goods sold**

Domestic Operations		
Depreciation		132,611
Wages and salaries		81,241
Repairs and maintenance		69,895
Utilities and telephone		46,252
Insurance expense		9,696
Miscellaneous		6,578
Office expense		360
Computer expense		109
		346,742
Total domestic operations		346,742

Irrigation Operations

Utilities and telephone		135,083
Wages and Salaries		107,282
Repairs and maintenance		48,857
Depreciation		45,996
Water purchases		18,702
Insurance expense		9,773
Miscellaneous		1,417
		367,110

Total irrigation operations		367,110
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<b>Cost of goods sold</b>		<b>713,852</b>
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<b>Net income after cost of goods sold</b>		<b>188,261</b>
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*See accompanying notes and independent accountant's review report.*

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Statement of Revenues, Expenses, and**  
**Changes in Fund Net Position - *Continued***  
**For the Year Ended June 30, 2014**

General and administrative	
Personnel costs	139,326
Miscellaneous	36,430
Professional services	25,766
Depreciation	17,291
Office expense	13,762
Insurance expense	11,330
Utilities and telephone	10,929
Repairs and maintenance	9,311
Board expense	8,100
Computer expense	3,535
	275,780
Total general and administrative	275,780
<b>Operating income</b>	<b>(87,519)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Property tax assessments	138,512
Investment income	516
Loss on sale of capital asset	(3,400)
Interest expense	(14,269)
	121,359
<b>Total nonoperating revenues (expenses)</b>	<b>121,359</b>
<b>Net income (loss)</b>	<b>33,840</b>
Net position, July 1, 2013	2,510,901
<b>Net position, June 30, 2014</b>	<b>\$ 2,544,741</b>

*See accompanying notes and independent accountant's review report.*

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**

**Statement of Cash Flows  
For the Year Ended June 30, 2014**

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 909,888
Payments to suppliers and providers of goods and services	(434,429)
Payments to employees	(327,849)
<b>Net cash provided by operating activities</b>	<u>147,610</u>
<b>Cash flows from noncapital and related financing activities</b>	
Proceeds from property tax collection	<u>138,512</u>
<b>Net cash provided by noncapital and related financing activities</b>	<u>138,512</u>
<b>Cash flows from capital and related financing activities</b>	
Proceeds from capital debt	650,000
Interest and penalties paid	(14,268)
Principal paid on long-term debt	(22,209)
Purchase of property and equipment	(448,786)
Cash received on sale of capital asset	1,800
<b>Net cash provided by capital and related financing activities</b>	<u>166,537</u>
<b>Cash flows from investing activities</b>	
Interest received	<u>516</u>
<b>Net cash provided by investing activities</b>	<u>516</u>
<b>Net increase in cash and cash equivalents</b>	453,175
Cash and cash equivalents - July 1, 2013	<u>230,834</u>
<b>Cash and cash equivalents - June 30, 2014</b>	<u>\$ 684,009</u>
Cash and cash equivalents	\$ 614,794
Cash and cash equivalents, restricted	<u>69,215</u>
<b>Cash and cash equivalents - End of Year</b>	<u>\$ 684,009</u>

*See accompanying notes and independent accountant's review report.*



**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Statement of Cash Flows - *Continued***  
**For the Year Ended June 30, 2014**

<b>Reconciliation of operating income (loss)</b>	
<b>to net cash provided (used) by operating activities</b>	
Operating income	\$ (87,519)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	195,898
Changes in assets and liabilities	
(Increase) decrease in:	
Domestic water accounts receivable	5,523
Irrigation water accounts receivable	224
Other accounts receivable	24,713
Prepaid expenses	6,606
Increase (decrease) in:	
Accounts payable	(3,172)
Accrued expenses	(7,036)
Customer water deposits	7,435
Prepaid irrigation	(5,407)
	<hr/>
<b>Net cash provided by operating activities</b>	<b>\$ 137,265</b>
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*See accompanying notes and independent accountant's review report.*

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2014**

***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 position and a statement of revenue, expenses, and changes in net position. 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.

***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, 2014**

***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.

***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 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.

***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.

***NOTE 2 – DEPOSITS***

At June 30, 2014, the carrying amount of the District's cash in bank was \$684,009. The bank balance on that date was for \$680,412, 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.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 15,435	\$ -	\$ -	\$ 15,435
<b>Total capital assets not being depreciated</b>	<b>15,435</b>	<b>-</b>	<b>-</b>	<b>15,435</b>
Capital assets being depreciated:				
Buildings	116,305		-	116,305
Water system	4,861,016	420,310	-	5,281,326
Fixtures and equipment	82,672		-	82,672
Vehicles	101,923	23,028	8,001	116,950
Software	13,850	5,448	-	19,298
<b>Total</b>	<b>5,175,766</b>	<b>448,786</b>	<b>8,001</b>	<b>5,616,551</b>
Less accumulated depreciation for:				
Buildings	36,525	3,651	-	40,176
Water system	2,799,995	163,097	-	2,963,092
Fixtures and equipment	50,614	9,428	-	60,042
Vehicles	72,336	16,680	2,800	86,216
Software	7,532	3,042	-	10,574
<b>Total</b>	<b>2,967,002</b>	<b>195,898</b>	<b>2,800</b>	<b>3,160,100</b>
<b>Total capital assets being depreciated, net</b>	<b>2,208,764</b>	<b>252,888</b>	<b>5,201</b>	<b>2,456,451</b>
Capital assets, net	<b>\$ 2,224,199</b>	<b>\$ 252,888</b>	<b>\$ 5,201</b>	<b>\$ 2,471,886</b>

Depreciation expense for the year ended June 30, 2014, was \$195,898.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2014**

**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 2014, the District obtained a loan from National Bank of Arizona for well repair costs. The original loan amount was \$650,000. Principal payments are due on the first day of each month beginning March 1, 2014 with the final principal payment due February 1, 2019. Interest of 5.5% is payable monthly, commencing March 1, 2014, with the final interest payment due February 1, 2019.

Long-term debt at June 30, 2014, consisted of the following:

	Balance			Balance	Due within
	June 30, 2013	Additions	Reductions	June 30, 2014	one year
Note payable to WIFA	39,934	-	6,058	33,876	6,286
Note payable to WIFA	194,217	-	14,470	179,747	15,715
Loan payable	-	650,000	1,681	648,319	18,448
	<u>\$ 234,151</u>	<u>\$ 650,000</u>	<u>\$ 22,209</u>	<u>\$ 861,942</u>	<u>\$ 40,449</u>

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2014**

**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
2015	40,449	26,203
2016	42,339	41,068
2017	44,321	39,081
2018	46,400	36,998
2019	48,579	34,814
2020-2021	639,854	293,668
	<u>\$ 861,942</u>	<u>\$ 471,831</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, 2014**

**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.