

**CHANDLER HEIGHTS CITRUS
IRRIGATION DISTRICT**

Annual Financial Statements

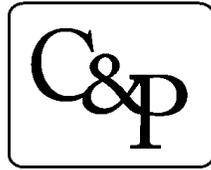
June 30, 2016

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**COLBY &
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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 (the District), which comprise the statement of net position as of June 30, 2016 and the related statements of revenues, expenses, and changes in fund net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of District management. 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.

Management's Responsibility for the Financial Statements

Management 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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.

A handwritten signature in cursive script that reads "Cobby & Powell". The signature is written in black ink and is positioned above the date.

January 30, 2017

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Statement of Net Position
June 30, 2016

ASSETS

Current assets

Cash and cash equivalents	\$ 736,981
Cash and cash equivalents, restricted	84,616
Domestic water accounts receivable	83,946
Irrigation water accounts receivable	2,119
Property tax receivable	13,688
Prepaid expenses	6,938
	928,288
Total current assets	928,288

Noncurrent assets

Deposit - reserved for debt service	21,946
Capital assets, not being depreciated	30,435
Capital assets, being depreciated, net	2,795,430
	2,847,811
Total noncurrent assets	2,847,811

Total assets

\$ 3,776,099

LIABILITIES

Current liabilities

Accounts payable	\$ 15,639
Accrued expenses	57,135
Prepaid irrigation	31,394
Notes payable, current	43,587
Customer water deposits	84,616
	232,371
Total current liabilities	232,371

Noncurrent liabilities

Notes payable, net current portion	731,487
	731,487

Total liabilities

\$ 963,858

NET POSITION

Net investment in capital assets	\$ 2,050,791
Restricted:	
Debt service	21,946
Unrestricted	739,504
	761,450
Total net position	\$ 2,812,241

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, 2016

Operating Revenues

Domestic water sales	\$ 693,528
Irrigation water sales	210,403
Other operating revenues	333,202
Tap fees	6,593
Rental income	1,500
	1,245,226
Total operating revenues	1,245,226

Operating Expenses

Cost of goods sold

Domestic Operations	
Depreciation	134,350
Wages and salaries	84,759
Repairs and maintenance	65,509
Utilities and telephone	63,122
Professional services	21,039
Insurance expense	12,903
Miscellaneous	8,631
Computer expense	1,080
Office expense	292
	391,685
Total domestic operations	391,685

Irrigation Operations

Wages and Salaries	198,474
Utilities and telephone	119,284
Depreciation	46,600
Repairs and maintenance	38,760
Insurance expense	12,903
Miscellaneous	10,918
Water purchases	1,804
Office expense	221
	428,963
Total irrigation operations	428,963

Cost of goods sold	820,648
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Net income after cost of goods sold	424,578
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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, 2016

General and administrative	
Personnel costs	107,169
Miscellaneous	17,620
Depreciation	17,518
Utilities and telephone	14,197
Office expense	13,046
Board expense	8,100
Professional services	7,727
Repairs and maintenance	6,563
Computer expense	5,261
Insurance expense	1,898
	199,099
Total general and administrative	199,099
Operating income	225,478
Nonoperating Revenues (Expenses)	
Property tax assessments	126,105
Gain from insurance proceeds	11,045
Gain on disposition of assets	4,450
Investment income	275
Interest expense	(38,478)
	103,397
Total nonoperating revenues (expenses)	103,397
Net income (loss)	328,875
Net position, July 1, 2015	2,483,366
Net position, June 30, 2016	\$ 2,812,241

See accompanying notes and independent accountant's review report.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities	
Receipts from customers	\$ 1,229,899
Payments to suppliers and providers of goods and services	(419,613)
Payments to employees	(390,402)
	<u>419,884</u>
Net cash provided by operating activities	
Cash flows from noncapital and related financing activities	
Proceeds from property tax collection	126,105
	<u>126,105</u>
Net cash provided by noncapital and related financing activities	
Cash flows from capital and related financing activities	
Interest and penalties paid	(38,478)
Principal paid on long-term debt	(45,393)
Purchase of property and equipment	(207,009)
Proceeds from insurance	11,045
Cash received on sale of capital asset	4,450
	<u>(275,385)</u>
Net cash provided by capital and related financing activities	
Cash flows from investing activities	
Interest received	275
	<u>275</u>
Net cash provided by investing activities	
Net increase in cash and cash equivalents	270,879
Cash and cash equivalents - July 1, 2015	550,718
	<u>550,718</u>
Cash and cash equivalents - June 30, 2016	<u>\$ 821,597</u>
Cash and cash equivalents	\$ 736,981
Cash and cash equivalents, restricted	84,616
	<u>84,616</u>
Cash and cash equivalents - End of Year	<u>\$ 821,597</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, 2016

Reconciliation of operating income (loss)	
to net cash provided (used) by operating activities	
Operating income	\$ 225,478
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	198,468
Changes in assets and liabilities	
(Increase) decrease in:	
Domestic water accounts receivable	(24,741)
Irrigation water accounts receivable	590
Prepaid expenses	(161)
Increase (decrease) in:	
Accounts payable	(348)
Accrued expenses	11,773
Customer water deposits	10,300
Prepaid irrigation	(1,475)
	<hr/>
Net cash provided by operating activities	<u><u>\$ 419,884</u></u>

See accompanying notes and independent accountant's review report.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2016

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - 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.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates

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, 2016

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF 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.

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.

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The District implemented this standard during this fiscal period.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2016

NOTE 2 – DEPOSITS

At June 30, 2016, the carrying amount of the District’s cash in bank was \$813,487. The bank balance on that date was for \$833,682, 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, 2016, was as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 30,435	\$ -	\$ -	\$ 30,435
Total capital assets not being depreciated	<u>30,435</u>	<u>-</u>	<u>-</u>	<u>30,435</u>
Capital assets being depreciated:				
Buildings	122,565		-	122,565
Water system	5,673,970	207,009	-	5,880,979
Fixtures and equipment	140,129	-	3,757	136,372
Vehicles	178,116	-	10,746	167,370
Software	24,746	-	-	24,746
Total	<u>6,139,526</u>	<u>207,009</u>	<u>14,503</u>	<u>6,332,032</u>
Less accumulated depreciation for:				
Buildings	43,827	3,651	-	47,478
Water system	3,126,021	166,733	-	3,292,754
Fixtures and equipment	66,756	8,026	3,757	71,025
Vehicles	100,963	17,100	10,746	107,317
Software	15,070	2,958	-	18,028
Total	<u>3,352,637</u>	<u>198,468</u>	<u>14,503</u>	<u>3,536,602</u>
Total capital assets being depreciated, net	<u>2,786,889</u>	<u>8,541</u>	<u>-</u>	<u>2,795,430</u>
Capital assets, net	<u>\$ 2,817,324</u>	<u>\$ 8,541</u>	<u>\$ -</u>	<u>\$ 2,825,865</u>

Depreciation expense for the year ended June 30, 2016, was \$198,468.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2016

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, 2016, consisted of the following:

	Balance			Balance	Due within
	June 30, 2015	Additions	Reductions	June 30, 2016	one year
Note payable to WIFA	27,590	-	6,521	21,069	6,766
Note payable to WIFA	164,712	-	15,623	149,089	16,233
Loan payable	628,164	-	23,248	604,916	20,588
	<u>\$ 820,466</u>	<u>\$ -</u>	<u>\$ 45,392</u>	<u>\$ 775,074</u>	<u>\$ 43,587</u>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

Notes to Financial Statements

June 30, 2016

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
2017	44,321	39,081
2018	46,400	36,998
2019	48,579	34,814
2020	43,308	32,665
2021	101,389	28,490
2022-2024	491,078	197,699
	<u>\$ 775,074</u>	<u>\$ 369,747</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, 2016

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.