

**CHANDLER HEIGHTS CITRUS
IRRIGATION DISTRICT**

Annual Financial Statements

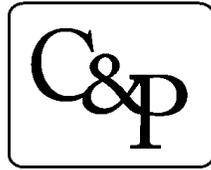
June 30, 2017

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**COLBY &
POWELL, PLC**

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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, 2017 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.

February 26, 2018

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Statement of Net Position
June 30, 2017

ASSETS

Current assets

Cash and cash equivalents	\$ 1,132,125
Cash and cash equivalents, restricted	94,725
Domestic water accounts receivable	88,353
Irrigation water accounts receivable	2,499
Property tax receivable	13,688
Prepaid expenses	7,296
	1,338,686
Total current assets	1,338,686

Noncurrent assets

Deposit - reserved for debt service	21,945
Capital assets, not being depreciated	30,435
Capital assets, being depreciated, net	2,559,659
	2,612,039
Total noncurrent assets	2,612,039

Total assets

\$ 3,950,725

Current liabilities

Accounts payable	\$ 71,410
Accrued expenses	58,350
Prepaid irrigation	29,937
Notes payable, current	45,636
Customer water deposits	94,725
	300,058
Total current liabilities	300,058

Noncurrent liabilities

Notes payable, net current portion	684,854
	684,854

Total liabilities

\$ 984,912

NET POSITION

Net investment in capital assets	\$ 1,859,604
Restricted:	
Debt service	21,946
Unrestricted	1,084,263
	1,106,209
Total net position	\$ 2,965,813

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, 2017

Operating Revenues

Domestic water sales	\$	696,247
Irrigation water sales		215,406
Other operating revenues		71,106
Tap fees		2,100
Rental income		1,500
		986,359

Operating Expenses

Cost of goods sold

Domestic Operations		
Depreciation		132,976
Wages and salaries		101,473
Utilities and telephone		51,943
Repairs and maintenance		39,013
Insurance expense		11,156
Miscellaneous		5,923
Professional services		1,028
Computer expense		598
Office expense		576
		344,686

Irrigation Operations

Wages and Salaries		168,854
Utilities and telephone		120,750
Depreciation		46,122
Repairs and maintenance		18,899
Insurance expense		15,042
Miscellaneous		11,861
Office expense		2,526
Professional services		418
		384,472

Cost of goods sold		729,158
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Net income after cost of goods sold		257,201
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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, 2017

General and administrative	
Personnel costs	103,449
Depreciation	17,338
Miscellaneous	16,904
Office expense	14,253
Professional services	11,044
Utilities and telephone	6,655
Repairs and maintenance	6,310
Board expense	6,300
Computer expense	5,551
Insurance expense	1,844
	189,648
Operating income	67,553
Nonoperating Revenues (Expenses)	
Property tax assessments	132,733
Gain from insurance proceeds	3,480
Investment income	339
Loss on disposition of assets	(11,240)
Interest expense	(39,293)
	86,019
Net income (loss)	153,572
Net position, July 1, 2016	2,812,241
Net position, June 30, 2017	\$ 2,965,813

See accompanying notes and independent accountant's review report.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

**Statement of Cash Flows
For the Year Ended June 30, 2017**

Cash flows from operating activities	
Receipts from customers	\$ 990,225
Payments to suppliers and providers of goods and services	(291,967)
Payments to employees	(373,775)
Net cash provided by operating activities	<u>324,483</u>
Cash flows from noncapital and related financing activities	
Proceeds from property tax collection	<u>132,733</u>
Cash flows from capital and related financing activities	
Interest and penalties paid	(39,293)
Principal paid on long-term debt	(44,584)
Proceeds from insurance	3,480
Cash received on sale of capital asset	28,095
Net cash used by capital and related financing activities	<u>(52,302)</u>
Cash flows from investing activities	
Interest received	<u>339</u>
Net increase in cash and cash equivalents	405,253
Cash and cash equivalents - July 1, 2016	<u>821,597</u>
Cash and cash equivalents - June 30, 2017	<u>\$ 1,226,850</u>
Cash and cash equivalents	\$ 1,132,125
Cash and cash equivalents, restricted	<u>94,725</u>
Cash and cash equivalents - End of Year	<u>\$ 1,226,850</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, 2017

Reconciliation of operating income (loss)	
to net cash provided (used) by operating activities	
Operating income	\$ 67,553
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	196,436
Changes in assets and liabilities	
(Increase) decrease in:	
Domestic water accounts receivable	(4,407)
Irrigation water accounts receivable	(380)
Prepaid expenses	(358)
Increase (decrease) in:	
Accounts payable	55,771
Accrued expenses	1,215
Customer water deposits	10,110
Prepaid irrigation	(1,457)
	(1,457)
Net cash provided by operating activities	\$ 324,483

See accompanying notes and independent accountant's review report.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2017

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, 2017

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.

NOTE 2 – DEPOSITS

At June 30, 2017, the carrying amount of the District's cash in bank was \$1,226,850. The bank balance on that date was for \$1,213,787, 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, 2017

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
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	5,880,979	-	-	5,880,979
Fixtures and equipment	136,372	-	50,950	85,422
Vehicles	167,370	-	25,423	141,947
Software	24,746	-	-	24,746
Total	<u>6,332,032</u>	<u>-</u>	<u>76,373</u>	<u>6,255,659</u>
Less accumulated depreciation for:				
Buildings	47,478	3,651	-	51,129
Water system	3,292,754	165,785	-	3,458,539
Fixtures and equipment	71,025	7,720	15,003	63,742
Vehicles	107,317	17,100	22,035	102,382
Software	18,028	2,180	-	20,208
Total	<u>3,536,602</u>	<u>196,436</u>	<u>37,038</u>	<u>3,696,000</u>
Total capital assets being depreciated, net	<u>2,795,430</u>	<u>(196,436)</u>	<u>39,335</u>	<u>2,559,659</u>
Capital assets, net	<u>\$ 2,825,865</u>	<u>\$ (196,436)</u>	<u>\$ 39,335</u>	<u>\$ 2,590,094</u>

Depreciation expense for the year ended June 30, 2017, was \$196,436

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2017

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, 2017, consisted of the following:

	Balance			Balance	Due within
	June 30, 2016	Additions	Reductions	June 30, 2017	one year
Note payable to WIFA	21,069	-	6,766	14,303	7,020
Note payable to WIFA	149,089	-	16,233	132,856	16,868
Loan payable	604,916	-	21,585	583,331	21,749
	<u>\$ 775,074</u>	<u>\$ -</u>	<u>\$ 44,584</u>	<u>\$ 730,490</u>	<u>\$ 45,636</u>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2017

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
2018	45,636	37,118
2019	47,786	34,964
2020	42,484	32,846
2021	44,565	30,765
2022	46,751	28,579
2023-2027	201,815	110,453
2028-2032	210,714	57,562
2033-2037	90,739	5,446
Total	<u>\$ 730,490</u>	<u>\$ 337,733</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, 2017

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.