

**CHANDLER HEIGHTS  
CITRUS IRRIGATION DISTRICT**

Annual Financial Statements

June 30, 2019

## TABLE OF CONTENTS

INDEPENDENT ACCOUNTANT’S REVIEW REPORT .....	1
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### Financial Statements

Statement of Net Position .....	3
Statement of Revenues, Expenses, and Changes in Fund Net Position .....	4
Statements of Cash Flows .....	6
Notes to Financial Statements.....	8



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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 statements of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the years 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 engagements 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 reviews, 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.

## **Required Supplementary Information**

Management has omitted the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a required 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.

*Colby + Powell*

February 17, 2020

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Statement of Net Position**  
**June 30, 2019**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 1,063,035
Cash and cash equivalents, restricted	596,335
Domestic water accounts receivable	69,383
Irrigation water accounts receivable	1,259
Property tax receivable	4,544
Prepaid expenses	697
Total current assets	1,735,253

**Noncurrent assets**

Deposit - reserved for debt service	21,945
Capital assets, not being depreciated	36,327
Capital assets, being depreciated, net	2,485,117
Total noncurrent assets	2,543,389

<b>Total assets</b>	4,278,642
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**LIABILITIES**

**Current liabilities**

Accounts payable	15,640
Accrued expenses	54,971
Prepaid water	36,005
Notes payable, current	82,635
Customer water deposits	112,410
Total current liabilities	301,661

**Noncurrent liabilities**

Notes payable, net current portion	502,635
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<b>Total liabilities</b>	804,296
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**NET POSITION**

Net investment in capital assets	1,936,174
Restricted:	
Debt service	21,945
Unrestricted	1,516,227
Total net position	\$ 3,474,346

*See accompanying notes to financial statements.*

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Statement of Revenues, Expenses, and**  
**Changes in Fund Net Position**  
**For the Year Ended June 30, 2019**

<b>Operating revenues</b>	
Domestic water sales	\$ 777,047
Irrigation water sales	226,161
Other operating revenues	195,711
Tap fees	2,000
Rental income	1,154
<b>Total operating revenues</b>	<u>1,202,073</u>
 <b>Operating expenses</b>	
<b>Cost of sales and services</b>	
Domestic operations	
Wages and salaries	128,610
Depreciation	112,436
Repairs and maintenance	59,497
Utilities and telephone	50,567
Insurance expense	18,819
Professional services	8,879
Miscellaneous	8,016
Computer expense	2,038
Office expense	621
<b>Total domestic operations</b>	<u>389,483</u>
Irrigation operations	
Wages and salaries	145,247
Utilities and telephone	126,010
Depreciation	38,999
Repairs and maintenance	25,935
Miscellaneous	14,907
Insurance expense	6,694
Water purchases	6,076
Office expense	55
<b>Total irrigation operations</b>	<u>363,923</u>
 <b>Cost of sales and services</b>	 <u>753,406</u>
 <b>Net income after cost of sales and services</b>	 <u>448,667</u>

*See accompanying notes to financial statements.*

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Statement of Revenues, Expenses, and**  
**Changes in Fund Net Position – *Continued***  
**For the Year Ended June 30, 2019**

**Operating expenses**

General and administrative	
Personnel costs	\$ 116,951
Miscellaneous	18,440
Office expense	16,289
Professional services	14,786
Depreciation	14,660
Board expense	8,100
Computer expense	6,289
Utilities and telephone	3,984
Repairs and maintenance	2,103
Insurance expense	181
Total general and administrative	<u>201,783</u>

**Operating income** 246,884

**Nonoperating revenues (expenses)**

Interest expense	(26,563)
Investment income	180
Gain on disposition of assets	1,000
Property tax assessments	132,175
<b>Total nonoperating revenues (expenses)</b>	<u>106,792</u>

**Increase (decrease) in net position** 353,676

Net position, beginning of year 3,120,670

**Net position, end of year** \$ 3,474,346

*See accompanying notes to financial statements.*

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 1,224,394
Payments to suppliers and providers of goods and services	(413,118)
Payments to employees	(390,808)
<b>Net cash provided by (used for) operating activities</b>	<u>420,468</u>
<b>Cash flows from noncapital and related financing activities</b>	
Proceeds from property tax collection	<u>132,175</u>
<b>Cash flows from capital and related financing activities</b>	
Proceeds from capital debt	508,228
Interest and penalties paid	(26,563)
Principal paid on long-term debt	(606,742)
Purchase of property and equipment	(183,682)
Cash received on sale of capital asset	1,000
<b>Net cash provided by (used for) capital and related financing activities</b>	<u>(307,759)</u>
<b>Cash flows from investing activities</b>	
Interest received	<u>180</u>
<b>Net increase in cash and cash equivalents</b>	245,064
Cash and cash equivalents, beginning of year	<u>1,414,306</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,659,370</u>
Cash and cash equivalents	\$ 1,063,035
Cash and cash equivalents, restricted	<u>596,335</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,659,370</u>

*See accompanying notes to financial statements.*



**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Statement of Cash Flows - *Continued***  
**For the Year Ended June 30, 2019**

**Reconciliation of operating income (loss) to net cash provided  
by (used for) operating activities:**

Operating income (loss)	\$ 246,884
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	166,095
Changes in assets and liabilities:	
Domestic water accounts receivable	22,853
Irrigation water accounts receivable	(197)
Prepaid expenses	1,466
Accounts payable	(8,048)
Accrued expenses	(8,250)
Customer water deposits	8,400
Prepaid irrigation	(8,735)
<b>Net cash provided by (used for) operating activities</b>	<b><u><u>\$ 420,468</u></u></b>

*See accompanying notes to financial statements.*

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2019**

***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, 2019**

***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 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***

Arizona Revised Statutes (A.R.S.) authorize the District to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds.

In addition, the District Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2019**

***NOTE 2 – DEPOSITS AND INVESTMENTS – Continued***

*Credit risk*

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated “A” or better at the time of purchase by at least two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody’s investor’s service and Standard and Poor’s rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

*Custodial credit risk*

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

*Concentration of credit risk*

Statutes do not include any requirements for concentration of credit risk.

*Interest rate risk*

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

*Foreign currency risk*

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

The District’s investment policy states that the District will conform with Arizona Revised Statutes. The District does not have a formal investment policy with respect to custodial credit risk, concentration of credit risk, or foreign currency risk.

*Deposits* – As of June 30, 2019, the carrying amounts of the District’s total cash in bank was \$1,659,370. The bank balance was \$1,676,358. Of the bank balances, \$500,000 was covered by federal depository insurance or similar insurance. The remainder was covered by collateral held by the pledging financial institution in the District’s name.

*Restricted cash and cash equivalents* – The District has money held in an account by an escrow agent. The account was established in connection with the capital lease agreement the District entered into during fiscal year 2019. The amount held by the escrow agent at June 30, 2019 was \$483,925. Restricted cash on the balance sheet also consists of cash held by the District for the repayment of customer’s water deposits. The amount of customer’s water deposits held by the District at June 30, 2019 was \$112,410.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2019**

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 36,327	\$ -	\$ -	\$ 36,327
Construction in progress	-	183,682	-	183,682
<b>Total capital assets not being depreciated</b>	<u>36,327</u>	<u>183,682</u>	<u>-</u>	<u>220,009</u>
Capital assets being depreciated:				
Buildings	122,565	-	-	122,565
Water system	5,968,210	-	-	5,968,210
Fixtures and equipment	85,422	-	-	85,422
Vehicles	141,947	-	5,993	135,954
Software	24,746	-	-	24,746
<b>Total</b>	<u>6,342,890</u>	<u>-</u>	<u>5,993</u>	<u>6,336,897</u>
Less accumulated depreciation for:				
Buildings	(54,780)	(3,651)	-	(58,431)
Water system	(3,615,752)	(144,540)	-	(3,760,292)
Fixtures and equipment	(68,043)	(4,442)	-	(72,485)
Vehicles	(114,397)	(11,556)	(5,993)	(119,960)
Software	(22,388)	(1,906)	-	(24,294)
<b>Total</b>	<u>(3,875,360)</u>	<u>(166,095)</u>	<u>(5,993)</u>	<u>(4,035,462)</u>
<b>Total capital assets being depreciated, net</b>	<u>2,467,530</u>	<u>(166,095)</u>	<u>-</u>	<u>2,301,435</u>
Capital assets, net	<u>\$ 2,503,857</u>	<u>\$ 17,587</u>	<u>\$ -</u>	<u>\$ 2,521,444</u>

Depreciation expense for the year ended June 30, 2019, was \$166,095.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2019**

**NOTE 4 – LONG-TERM DEBT**

The following schedule details the District’s long-term liability and obligation activity for the year ended June 30, 2019:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Due within one year
Notes payable from direct borrowings and direct placements	\$ 683,784	\$ -	\$ 585,323	\$ 98,461	\$ 18,212
Capital leases payable	-	508,228	21,419	486,809	64,423
	<u>\$ 683,784</u>	<u>\$ 508,228</u>	<u>\$ 585,323</u>	<u>\$ 585,270</u>	<u>\$ 82,635</u>

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.

The following schedule details debt service requirements to maturity for the District’s note’s payable at June 30, 2019:

Year Ending June 30,	Notes payable from direct borrowings and direct placements	
	Principle	Interest
2020	\$ 18,212	\$ 3,463
2021	18,924	2,751
2022	19,663	2,011
2023	20,432	1,243
2024	21,230	1,088
Total	<u>\$ 98,461</u>	<u>\$ 10,555</u>

Capital leases – The District has entered into capital lease purchase agreements for the acquisition and betterment of the water system of the District. The District will record the capital assets when the water system improvements are finished in fiscal year 2020.

**CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2019**

***NOTE 4 – LONG-TERM DEBT – Continued***

The following schedule details the debt service requirements to maturity for the District’s capital leases payable at June 30, 2019:

Year Ending June 30,	Amount
2020	\$ 84,349
2021	84,349
2022	84,349
2023	84,349
2024	84,349
2025-2029	140,022
Total minimum lease payments	561,765
Less amount representing interest	(74,956)
Present value of net minimum lease payments	\$ 486,809

***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, 2019**

***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.