

**CHANDLER HEIGHTS
CITRUS IRRIGATION DISTRICT**

Annual Financial Statements

June 30, 2018

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1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Chandler Heights Citrus Irrigation District, for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chandler Heights Citrus Irrigation District, as of June 30, 2018 and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

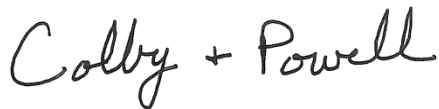
Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis 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 for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2019, on our consideration of Chandler Heights Citrus Irrigation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chandler Heights Citrus Irrigation District's internal control over financial reporting and compliance.



February 22, 2019

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Statement of Net Position
June 30, 2018

ASSETS

Current assets

Cash and cash equivalents	\$ 1,310,296
Cash and cash equivalents, restricted	104,010
Domestic water accounts receivable	92,236
Irrigation water accounts receivable	1,062
Property tax receivable	4,544
Prepaid expenses	<u>2,163</u>
Total current assets	<u>1,514,311</u>

Noncurrent assets

Deposit - reserved for debt service	21,945
Capital assets, not being depreciated	36,327
Capital assets, being depreciated, net	<u>2,467,530</u>
Total noncurrent assets	<u>2,525,802</u>

Total assets

\$ 4,040,113

LIABILITIES

Current liabilities

Accounts payable	\$ 23,688
Accrued expenses	63,221
Prepaid water	44,740
Notes payable, current	47,786
Customer water deposits	<u>104,010</u>
Total current liabilities	<u>283,445</u>

Noncurrent liabilities

Notes payable, net current portion	<u>635,998</u>
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Total liabilities

\$ 919,443

NET POSITION

Net investment in capital assets	\$ 1,820,073
Restricted:	
Debt service	21,945
Unrestricted	<u>1,278,652</u>
Total net position	<u><u>\$ 3,120,670</u></u>

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, 2018

Operating Revenues	
Domestic water sales	\$ 768,384
Irrigation water sales	226,080
Other operating revenues	66,839
Tap fees	2,265
Rental income	<u>1,500</u>
Total operating revenues	<u>1,065,068</u>
Operating Expenses	
Cost of goods sold	
Domestic Operations	
Depreciation	121,416
Repairs and maintenance	105,210
Wages and salaries	102,723
Utilities and telephone	39,028
Insurance expense	21,618
Miscellaneous	7,911
Professional services	2,727
Office expense	173
Computer expense	<u>90</u>
Total domestic operations	<u>400,896</u>
Irrigation Operations	
Wages and Salaries	184,575
Utilities and telephone	122,698
Depreciation	42,113
Repairs and maintenance	38,117
Miscellaneous	12,407
Insurance expense	<u>11,279</u>
Total irrigation operations	<u>411,189</u>
Cost of goods sold	<u>812,085</u>
Net income after cost of goods sold	<u>252,983</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, 2018

General and administrative	
Personnel costs	113,298
Office expense	16,838
Depreciation	15,831
Miscellaneous	14,711
Professional services	11,596
Computer expense	5,078
Board expense	4,725
Utilities and telephone	4,091
Repairs and maintenance	3,155
Insurance expense	191
	189,514
Total general and administrative	
	63,469
	Operating income
Nonoperating Revenues (Expenses)	
Noncapital grant	219,916
Property tax assessments	128,312
Investment income	241
Interest expense	(37,165)
Utility relocation	(219,916)
	91,388
Total nonoperating revenues (expenses)	
	154,857
Increase (decrease) in net position	
Net position, July 1, 2017	2,965,813
Net position, June 30, 2018	\$ 3,120,670

See accompanying notes to financial statements.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT

**Statement of Cash Flows
For the Year Ended June 30, 2018**

Cash flows from operating activities	
Receipts from customers	\$ 1,086,710
Payments to suppliers and providers of goods and services	(459,361)
Payments to employees	<u>(400,596)</u>
Net cash provided (used) by operating activities	<u>226,753</u>
Cash flows from noncapital and related financing activities	
Noncapital grant receipts	219,916
Proceeds from property tax collection	137,456
Payments for utility relocation	<u>(219,916)</u>
Net cash provided (used) by noncapital and related financing activities	<u>137,456</u>
Cash flows from capital and related financing activities	
Interest and penalties paid	(37,165)
Principal paid on long-term debt	(46,706)
Purchase of property and equipment	<u>(93,123)</u>
Net cash provided (used) by capital and related financing activities	<u>(176,994)</u>
Cash flows from investing activities	
Interest received	<u>241</u>
Net cash provided by investing activities	<u>241</u>
Net increase in cash and cash equivalents	187,456
Cash and cash equivalents - July 1, 2017	<u>1,226,850</u>
Cash and cash equivalents - June 30, 2018	<u>\$ 1,414,306</u>
Cash and cash equivalents	\$ 1,310,296
Cash and cash equivalents, restricted	<u>104,010</u>
Cash and cash equivalents - End of Year	<u><u>\$ 1,414,306</u></u>

See accompanying notes to financial statements.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Statement of Cash Flows - *Continued*
For the Year Ended June 30, 2018

Reconciliation of operating income (loss)	
to net cash provided (used) by operating activities	
Operating income	\$ 63,469
Adjustments to reconcile operating income	
to net cash provided by operating activities:	
Depreciation	179,360
Changes in assets and liabilities	
(Increase) decrease in:	
Domestic water accounts receivable	(3,883)
Irrigation water accounts receivable	1,437
Prepaid expenses	5,133
Increase (decrease) in:	
Accounts payable	(47,722)
Accrued expenses	4,871
Customer water deposits	9,285
Prepaid irrigation	14,803
Net cash provided (used) by operating activities	\$ 226,753

See accompanying notes to financial statements.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2018

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, 2018

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

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.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

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.

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, 2018, the carrying amounts of the District’s total cash in bank was \$1,414,306. The bank balance was \$1,426,328. The bank balance 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, 2018

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 30,435	\$ 5,892	\$ -	\$ 36,327
Capital assets being depreciated:				
Buildings	122,565	-	-	122,565
Water system	5,880,979	87,231	-	5,968,210
Fixtures and equipment	85,422	-	-	85,422
Vehicles	141,947	-	-	141,947
Software	24,746	-	-	24,746
Total	<u>6,255,659</u>	<u>87,231</u>	<u>-</u>	<u>6,342,890</u>
Less accumulated depreciation for:				
Buildings	(51,129)	(3,651)	-	(54,780)
Water system	(3,458,539)	(157,213)	-	(3,615,752)
Fixtures and equipment	(63,742)	(4,301)	-	(68,043)
Vehicles	(102,382)	(12,015)	-	(114,397)
Software	(20,208)	(2,180)	-	(22,388)
Total	<u>(3,696,000)</u>	<u>(179,360)</u>	<u>-</u>	<u>(3,875,360)</u>
Total capital assets being depreciated, net	<u>2,559,659</u>	<u>(92,129)</u>	<u>-</u>	<u>2,467,530</u>
Capital assets, net	<u>\$ 2,590,094</u>	<u>\$ (86,237)</u>	<u>\$ -</u>	<u>\$ 2,503,857</u>

Depreciation expense for the year ended June 30, 2018, was \$179,360.

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2018

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, 2018, consisted of the following:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due within one year
Note payable to WIFA	14,303	-	7,020	7,283	7,283
Note payable to WIFA	132,856	-	16,868	115,988	17,527
Loan payable	583,331	-	22,818	560,513	22,976
	<u>\$ 730,490</u>	<u>\$ -</u>	<u>\$ 46,706</u>	<u>\$ 683,784</u>	<u>\$ 47,786</u>

CHANDLER HEIGHTS CITRUS IRRIGATION DISTRICT
Notes to Financial Statements
June 30, 2018

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
2019	47,786	34,964
2020	42,484	32,846
2021	44,565	30,765
2022	46,751	28,579
2023	49,047	26,283
2024-2028	190,417	100,177
2029-2033	222,600	45,676
2034-2038	40,135	1,326
Total	\$ 683,784	\$ 300,616

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, 2018

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.



1535 W. Harvard Avenue, Suite 101 · Gilbert, Arizona 85233

Tel: (480) 635-3200 · Fax: (480) 635-3201

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Chandler Heights Citrus Irrigation District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Chandler Heights Citrus Irrigation District's basic financial statements and have issued our report thereon dated February 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

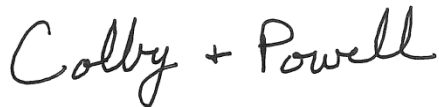
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chandler Heights Citrus Irrigation District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Colby + Powell".

February 22, 2019