

CENTRAL VALLEY WATER RECLAMATION FACILITY

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Central Valley Water Reclamation Facility
Salt Lake City, Utah

We have audited the accompanying financial statements of the Central Valley Water Reclamation Facility, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Facility'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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 of America. Those standards require that we plan and perform the audit 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Valley Water Reclamation Facility as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages five through nine be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2017, on our consideration of Central Valley Water Reclamation Facility'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Pinnock, Robbins, Posey & Richins

Salt Lake City, Utah
March 14, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Central Valley Water Reclamation Facility's (the Facility) annual financial report presents management's analysis of the Facility's financial performance during the year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes to enhance their understanding of the Facility's financial activities.

Financial Highlights:

- During 2016, the Facility's net position increased by \$1,601 due primarily to unfunded depreciation expense of \$5,667,717, offset by member contributions of \$5,616,416. The board has elected not to fund depreciation on an on-going basis but to provide funds on an as-needed basis. The facility also realized a gain on the disposal of capital assets totaling \$52,902.
- Operating revenues generated by septage permits and fees, compost sales, and "other services" increased 15% from the previous year. Total revenue from these sources for the year was \$699,463.
- Total operating expenses (offset by other revenue) were 1.5% under the approved 2016 budget.
- The Facility continued its program to rehabilitate portions of the interceptor system which are subject to hydrogen sulfide corrosion. The Cottonwood/Murray Interceptor Slip lining Project was initiated at a cost of \$1,809,360. The project was substantially completed by the end of the year. However, final completion will not occur until the spring of 2017 when final stages of site restoration and landscaping can be completed.
- The Facility authorized an engineering consultant to design the Cogeneration System Engine Replacement and Upgrades project. This project has a three-year design and construction timeline. During 2016, \$800,759 was paid for engineering evaluation and design services, engine pre-purchase document preparation, engine generator supplier selection, and partial down payment to the selected engine supplier. The total estimated cost of the project is \$15.5M.
- The completion of the Granger-Hunter Siphon Repair and Rehabilitation Project in 2015 completely sealed the pipe and eliminated the venting of hydrogen sulfide gas through the pipe defects. This caused a significant increase in gas at the treatment plant. To reduce the gas, the Facility constructed a ferric chloride feed facility at a Granger-Hunter wastewater lift station. During 2016, \$237,160 was expended on this project and it was approximately 95% complete at December 31, 2016. Final completion will occur in the spring of 2017 when temperatures increase above freezing so that painting and leak testing can occur.

- The Facility continued its Asset Management Program which was initiated in 2015 with an Asset Management Study and development of 5-year and 20-year Capital Improvement Plans (CIP). The CIP recommended approximately \$50 million worth of improvements over five years (2016-2021) and a total of \$150 million worth of improvements over a 20-year planning horizon. Based on the CIP recommendations, the Facility significantly increased its capital budget in 2016 compared to prior years. Significant progress was made in rehabilitating interceptor systems (described above); replacing and rehabilitating aging and worn out equipment; and upgrading administration building cyber security, business, laboratory information technology systems.

Overview of Financial Report:

This discussion and analysis is intended to serve as an introduction to Central Valley Water Reclamation Facility's financial statements. The Facility's financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements and supplementary information. The MD&A represents management's analysis of the Facility's financial condition and performance.

The financial statements report information about the Facility using full accrual accounting methods as utilized by similar business activities in the private sector. They include a balance sheet; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Facility on a full accrual basis. While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net position presents the results of business activities over the course of the year and information as to how the Facility's net position changed during the year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. In other words, it provides information regarding where the cash came from and how it was used, and the change in the cash balance during the reporting period. The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of material data provided in the financial statements. The notes present information about the Facility's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events, if any.

Financial Analysis:

To begin our analysis, a summary of the Facility's balance sheet is presented in the schedule below. This section will discuss and analyze significant differences between the years ended December 31, 2016 and 2015.

**Central Valley Water Reclamation Facility
Condensed Balance Sheet**

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 12,096,469	\$ 11,866,855
Capital assets	<u>82,494,980</u>	<u>82,493,379</u>
Total assets	<u>\$ 94,591,449</u>	<u>\$ 94,360,234</u>
Current liabilities	\$ 2,599,715	\$ 1,704,567
Other liabilities	<u>7,632,094</u>	<u>8,297,628</u>
Total liabilities	<u>10,231,809</u>	<u>10,002,195</u>
Net Position:		
Net investment in capital assets	82,494,980	82,493,379
Unrestricted	<u>1,864,660</u>	<u>1,864,660</u>
Total net position	<u>84,359,640</u>	<u>84,358,039</u>
Total liabilities and net position	<u>\$ 94,591,449</u>	<u>\$ 94,360,234</u>

The balance sheet includes all of the Facility's assets and liabilities, and net position which is categorized as either net investment in capital assets; restricted; or unrestricted. Net position may serve as a useful indicator of a government's financial position. As can be seen from the schedule above, assets exceeded liabilities by \$84,359,640 as of December 31, 2016. The largest portion of the Facility's net position, \$82,494,980 (98%) reflects its net investment in capital assets (e.g., land, buildings, sewer treatment facilities and equipment). The Facility uses these capital assets in its daily operations; consequently, they are not available for future spending.

While the balance sheet shows the change in financial position, the summary of the Facility's statements of revenues, expenses, and changes in net position provides information regarding the nature and source of these changes as seen in the following schedule. During 2016, net assets increased by \$1,601, primarily driven by an operating loss of \$5,673,519.

**Central Valley Water Reclamation Facility
Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 13,232,689	\$ 13,014,341
Non-operating revenues	<u>289,434</u>	<u>293,274</u>
Total revenues	<u>13,522,123</u>	<u>13,307,615</u>
Depreciation expenses	5,667,717	5,498,908
Other operating expenses	13,238,491	13,019,295
Non-operating expenses	<u>230,730</u>	<u>251,820</u>
Total expenses	<u>19,136,938</u>	<u>18,770,023</u>
(Loss) before member contributions	(5,614,815)	(5,462,408)
Net member contributions	<u>5,616,416</u>	<u>4,686,543</u>
Change in net position	1,601	(775,865)
Net position - beginning of year	<u>84,358,039</u>	<u>85,133,904</u>
Net position - end of year	<u>\$ 84,359,640</u>	<u>\$ 84,358,039</u>

Capital Contributions:

Capital contributions made by member entities are used to fund expansion of the plant or to renovate existing facilities.

Prior to implementing the Governmental Accounting Standards Board (GASB) pronouncements 33, 34 and 36-38, system assets received from the federal government and member entities were recorded as direct contributions to equity. GASB 33 defines these fees as non-operating revenues and requires reporting the amounts through the statement of revenues, expenses, and changes in net position.

Capital Assets and Debt Administration:

Capital Assets

The Facility's net investment in capital assets as of December 31, 2016, amounted to \$82,494,980 (net of accumulated depreciation). This investment in capital assets includes land, water reclamation facilities, a golf course, and equipment. The Facility's investment in capital assets increased by \$1,601 during the current year, primarily due to depreciation and the disposal of assets exceeding current year capital asset improvements.

Major capital asset events during the current fiscal year included the following:

- Slip lining of the Cottonwood/Murray (South of 3300 South) line for \$1,807,339
- Cogeneration System Engine Replacement and Upgrades project for \$800,759
- Granger-Flunter Siphon Structures and Meter Station project for \$237,160
- Purchased three push trailers for the sludge trucks for \$226,899

Capital Assets Net of Depreciation

	<u>2016</u>	<u>2015</u>
Land	\$ 10,147,897	\$ 10,147,897
Water reclamation facility	65,991,187	68,860,164
Golf course	1,004,825	1,320,826
Facility equipment	2,095,503	1,950,225
Office furniture and equipment	538,828	70,897
Construction in progress	2,716,740	143,370
Total capital assets (net of depreciation)	<u>\$ 82,494,980</u>	<u>\$ 82,493,379</u>

Additional information on the Facility's capital assets can be found in Note 5.

Long-term Debt

At the end of the current fiscal year, the Facility had total debt of \$7,691,000. The debt represents bonds secured solely by specified revenue sources. The Facility's debt decreased by \$703,000 during the current fiscal year, primarily due to regularly scheduled debt payments.

Long-Term Debt

	<u>2016</u>	<u>2015</u>
Revenue bonds	\$ 7,691,000	\$ 8,394,000

Additional information on the Facility's long-term debt can be found in Note 7.

Final Comments:

This financial report is designed to provide taxpayers, customers and creditors with a general overview of the Facility's finances and to demonstrate the Facility's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Accounting Manager of the Central Valley Water Reclamation Facility, 800 West Central Valley Road, Salt Lake City, Utah 84119 or by phone (801) 973-9100.

CENTRAL VALLEY WATER RECLAMATION FACILITY

BALANCE SHEET

DECEMBER 31, 2016

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 244,244
Receivables:	
Members	2,871,199
Unbilled - members	597,578
Other	52,728
Inventory	252,511
Prepaid expenses	233,389
Due from members - bond interest	153,820
Due from members - bond principal, current portion	<u>728,000</u>

TOTAL CURRENT ASSETS 5,133,469

NONCURRENT ASSETS:

Due from members - bond principal, noncurrent portion	6,963,000
Capital assets (net of accumulated depreciation)	<u>82,494,980</u>

TOTAL NONCURRENT ASSETS 89,457,980

TOTAL ASSETS \$ 94,591,449

CENTRAL VALLEY WATER RECLAMATION FACILITY

BALANCE SHEET (CONTINUED)

DECEMBER 31, 2016

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts payable	\$ 1,053,441
Accrued liabilities	134,780
Compensated absences, current portion	529,674
Accrued interest payable	153,820
Bonds payable, current portion	<u>728,000</u>

TOTAL CURRENT LIABILITIES 2,599,715

NONCURRENT LIABILITIES:

Compensated absences, noncurrent portion	669,094
Bonds payable, noncurrent portion	<u>6,963,000</u>

TOTAL NONCURRENT LIABILITIES 7,632,094

TOTAL LIABILITIES 10,231,809

NET POSITION:

Net investment in capital assets	82,494,980
Unrestricted	<u>1,864,660</u>

TOTAL NET POSITION 84,359,640

TOTAL LIABILITIES AND NET POSITION \$ 94,591,449

CENTRAL VALLEY WATER RECLAMATION FACILITY

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION**

FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES:	
Member service charges	\$ 12,533,226
Septage permits	288,505
Compost sales and dairy waste	280,093
Other	<u>130,865</u>
 TOTAL OPERATING REVENUES	 <u>13,232,689</u>
OPERATING EXPENSES:	
Administrative	1,378,608
Board	51,723
Engineering	897,419
Interceptor monitor	39,595
Lab	823,962
Plant operations and maintenance	9,460,578
Pretreatment - field	586,606
Depreciation	<u>5,667,717</u>
 TOTAL OPERATING EXPENSES	 <u>18,906,208</u>
 OPERATING (LOSS)	 <u>(5,673,519)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	5,802
Interest income - members	230,730
Interest expense	(230,730)
Gain on disposal of assets	<u>52,902</u>
 TOTAL NON-OPERATING REVENUES (EXPENSES)	 <u>58,704</u>
 (LOSS) BEFORE MEMBER CONTRIBUTIONS	 <u>(5,614,815)</u>
 MEMBER CONTRIBUTIONS	 <u>5,616,416</u>
 CHANGE IN NET POSITION	 <u>1,601</u>
 NET POSITION - BEGINNING OF YEAR	 <u>84,358,039</u>
 NET POSITION - END OF YEAR	 <u>\$ 84,359,640</u>

See accompanying notes to the financial statements.

CENTRAL VALLEY WATER RECLAMATION FACILITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from members and customers	\$ 11,795,543
Payments to suppliers	(4,484,600)
Payments to employees	<u>(7,868,009)</u>
NET CASH (USED IN) OPERATING ACTIVITIES	<u>(557,066)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital contributions from members	5,616,416
Payments received from members - bond principal	703,000
Principal paid on capital debt	(703,000)
Payments received from members - bond interest	(292,680)
Interest paid on capital debt	292,680
Proceeds from sale of capital assets	52,902
Acquisition and construction of capital assets	<u>(5,669,318)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Interest received	<u>5,802</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>5,802</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(551,264)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>795,508</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 244,244</u></u>

See accompanying notes to the financial statements.

CENTRAL VALLEY WATER RECLAMATION FACILITY

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2016

RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES:	
Operating (loss)	\$ (5,673,519)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	5,667,717
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables	(1,437,146)
Prepaid expenses	(60,792)
Increase (decrease) in:	
Accounts payable	812,100
Accrued liabilities	23,935
Compensated absences	<u>110,639</u>
NET CASH (USED IN) OPERATING ACTIVITIES	<u>\$ (557,066)</u>

See accompanying notes to the financial statements.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Central Valley Water Reclamation Facility (the Facility) conform to generally accepted accounting principles as applicable to governmental units and are in accordance with established State of Utah legal restrictions as promulgated in the Fiscal Procedures Act. The following is a summary of the more significant policies.

a. Reporting Entity

The Facility's financial statements are prepared on a basis consistent with Internal Service Fund Reporting. Internal service funds are used to account for goods or services provided by a central service department or agency to other departments or agencies of the governmental unit, or to other unrelated governmental units, usually on a cost recovery basis. Accordingly, revenue and other financial resources of these funds should recover expenses, including depreciation and amortization. The Board of Directors has adopted a policy not to recover depreciation and amortization from the members who own the Facility (See Note 5).

In determining the reporting entity, the Facility applied the criteria of Statement No. 14 of the Government Accounting Standards Board (GASB). The underlying concept of Statement No. 14 is that the financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria used for determining financial accountability is whether the facility's Board appoints a voting majority of the potential component units' (PCU) Board, whether the Board of the primary government can impose their will on the PCU and whether the PCU imposes a financial benefit or burden on the primary government. Central Valley Water Reclamation Facility applied these criteria and concludes there are no potential component units that should be included in the reporting entity, nor is Central Valley Water Reclamation Facility a component unit of any other entity.

b. Basis of Accounting

The Facility is an enterprise fund and uses the accrual basis of accounting. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis are financed or recovered primarily through user charges. Revenues are recognized when earned, and expenses are recognized when incurred.

Enterprise funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Facility are sewer service charges. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Organization

The Facility was organized on October 17, 1978, pursuant to the Interlocal Co-operation Act of the State of Utah by five special purpose government entities and two cities. The Facility began operations during 1986 and its purpose is to plan, construct, and operate a regional sewage treatment facility for the benefit of the seven members. The seven members and their related ownership interests are listed below:

	<u>Original Facility</u>	<u>New Expansion</u>	<u>Enhancements</u>	<u>Digesters</u>	<u>Secondaries</u>
Cottonwood Improvement District	19.569%	7.3215%	18.1191%	8.042%	7.1225%
Mt. Olympus Improvement District	25.622	23.6177	24.7780	20.080	22.6557
Granger-Hunter Improvement District	21.124	25.4755	20.2376	25.050	24.9005
Kearns Improvement District	5.978	24.0002	11.2654	28.435	25.7112
Murray City	8.892	6.8421	8.0168	6.280	6.6882
South Salt Lake City	6.120	2.5074	5.0980	1.378	2.5857
Taylorville-Bennion Improvement District	<u>12.695</u>	<u>10.2356</u>	<u>12.4851</u>	<u>10.735</u>	<u>10.3362</u>
	<u>100.000%</u>	<u>100.0000%</u>	<u>100.0000%</u>	<u>100.000%</u>	<u>100.0000%</u>

The original construction of the treatment facility plant was funded by equity contributions from the seven members in proportion to their ownership interests, and by grants from the Environmental Protection Agency of the federal government and taxable sewer revenue bonds from the Utah State Division of Water Quality. Clean-up costs of the site were provided by the Utah Bureau of Radiation Control and the Department of Energy. The Facility also contributed to the cleanup costs. During October 2004, the Board of Directors determined that any future changes to ownership will be negotiated between the entities. Effective July 2013, capital replacement and plant or process enhancement costs are billed to the member entities based upon actual annual utilization over a twelve-month rolling average of the flow and strength of waste load of each member entity's delivered wastewater. However, ownership in the resulting assets is allocated to each member based upon their current respective ownership percentages.

Effective January 1, 2017 the Facility implemented amendments to the interlocal agreement regarding ownership. The amendments define the Post-2016 beneficial ownership and each member's undivided beneficial ownership interest in Central Valley Water Reclamation Facility as a percentage of the net value of all ownership categories of the Facility as of the most recent annual audit report. The Post-2016 beneficial ownership and valuation of each member's undivided beneficial ownership interest will then be recomputed on an annual basis at the end of each calendar year as outlined in the interlocal agreement.

Effective January 1, 2017, the ownership percentages are as follows:

Cottonwood Improvement District	16.85 %
Mt. Olympus Improvement District	24.82
Granger-Hunter Improvement District	22.03
Kearns Improvement District	10.53
Murray City	8.37
South Salt Lake City	5.21
Taylorville-Bennion Improvement District	<u>12.19</u>
TOTAL	<u>100.00 %</u>

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Budgets

The Facility prepares an annual budget on the modified cash basis of accounting, which is filed with the State of Utah. The member entities are given a monthly financial report, comparing budget to actual expenditures both on a current month and year to date basis.

e. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Facility considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

f. Inventory

During construction of the Facility, contractors supplied spare parts essential to the Facility's operation. In addition, those parts, which are critical to plant operations, and parts requiring long lead times are being currently stocked by the Facility. As inventory is not for sale, repairs expense is the only operating item affected as the items are used. The parts inventory is stated at the lower of cost or market on a first-in first-out basis. Inventory that becomes obsolete is expensed in the year that the obsolescence is determined.

g. Capital Assets

Capital assets are stated at cost. Depreciation of office furniture, equipment, and the Facility is computed using the straight-line method over an estimated useful life of five to forty years. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. All construction and equipment purchases that are directly attributable to the treatment facility project are capitalized. The Facility has adopted a policy to expense capital asset purchases that are for amounts below \$10,000.

h. Revenues

Revenues are received from the member entities based on the inflow allocation formula for operations and maintenance and the applicable percentage for capital expenditures.

i. Compensated Absences

Accumulated unpaid vacation amounts are accrued annually, not to exceed 200 to 296 hours depending upon the employee's length of service. Sick pay amounts are charged as wages when used. Terminated employees are not paid for unused sick leave. Employees who are eligible for retirement are paid twenty-five percent of their unused sick leave immediately upon retirement, and the remaining amount will be used to pay for the retiring employees' health insurance premiums, not to exceed 1,080 hours.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Facility follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Facility funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

a. Deposits

	<u>Bank</u> <u>Balances</u>	<u>Book</u> <u>Balances</u>
Cash on hand	\$ -	\$ 450
Cash on deposit	<u>855,265</u>	<u>(228,820)</u>
TOTAL	<u>\$ 855,265</u>	<u>\$ (228,370)</u>

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the Facility’s deposits may not be returned to it. The Facility does not have a formal deposit policy for custodial credit risk. As of December 31, 2016, \$605,265 of the Facility’s bank balances was uninsured and uncollateralized.

b. Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Facility and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Facility to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investors Services or Standard & Poor’s; bankers’ acceptances; obligations of the United States Treasury, including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “a” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer’s Investment Fund.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

b. Investments (Continued)

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of December 31, 2016, the Facility had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
State of Utah Public Treasurer's Investment Fund	<u>\$ 472,614</u>	<u>\$ 472,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Facility's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Facility's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed. As of December 31, 2016, the Facility's investments in the State of Utah Public Treasurer's Investment Fund were unrated.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

b. Investments (Continued)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Facility's policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Facility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Facility does not have a formal policy for custodial credit risk.

3. RECEIVABLES FROM MEMBERS

The receivables and working capital advances from the member entities at December 31, 2016 are comprised of the following:

	<u>Receivables</u>
Cottonwood Improvement District	\$ 577,280
Mt. Olympus Improvement District	505,576
Granger-Hunter Improvement District	724,107
Kearns Improvement District	320,149
Murray City	267,612
South Salt Lake City	174,271
Taylorville-Bennion Improvement District	<u>302,204</u>
	<u>\$ 2,871,199</u>

4. RETIREMENT PLAN

Central Valley Water Reclamation Facility sponsors a defined contribution 401(a) retirement plan which provides individual retirement funds for each eligible participating employee. Eligible employees consist of all permanent full-time employees. The Facility's total contribution is 25% of the employee's annual salary. Contributions to the retirement plan amounted to \$1,334,563, \$1,274,520 and \$1,206,914 for 2016, 2015, and 2014, respectively. Covered salaries for the same period were \$5,354,367, \$5,098,080, and \$4,827,656, respectively.

5. CAPITAL ASSETS

In enterprise accounting for governmental entities like the Facility, depreciation acts as a means to set aside funds for replacement of assets. The member entities have decided not to fund amounts that reduce the carrying value of capital assets via member service charges paid to the Facility. The offset is, in effect, a reduction of member capital contributions for the Facility in the equity section and reflects the need for later contributions.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 10,147,897	\$ -	\$ -	\$ 10,147,897
Construction in progress	143,370	2,716,740	(143,370)	2,716,740
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	10,291,267	2,716,740	(143,370)	12,864,637
Capital assets being depreciated:				
Water reclamation facility	193,272,325	2,065,584	-	195,337,909
Golf course	6,014,119	-	-	6,014,119
Facility equipment	6,937,379	523,024	(205,389)	7,255,014
Office furniture and equipment	734,033	507,340	-	1,241,373
TOTAL CAPITAL ASSETS BEING DEPRECIATED	206,957,856	3,095,948	(205,389)	209,848,415
Less accumulated depreciation:				
Water reclamation facility	(124,412,161)	(4,934,561)	-	(129,346,722)
Golf course	(4,693,293)	(316,001)	-	(5,009,294)
Facility equipment	(4,987,154)	(377,746)	205,389	(5,159,511)
Office furniture and equipment	(663,136)	(39,409)	-	(702,545)
TOTAL ACCUMULATED DEPRECIATION	(134,755,744)	(5,667,717)	205,389	(140,218,072)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	72,202,112	(2,571,769)	-	69,630,343
CAPITAL ASSETS, NET	\$ 82,493,379	\$ 144,971	\$ (143,370)	\$ 82,494,980

During 2016, the Facility disposed of capital assets at a net gain of \$52,902. The Facility applied the gain to the member entities based on the member entities' respective ownership percentages. Depreciation expense for the year ended December 31, 2016 was \$5,667,717.

6. DUE FROM MEMBERS

Although the revenue bonds are in the name of the Facility, the members are responsible to fund debt service requirements over the life of the bonds. The amount currently outstanding, \$7,691,000, is included as "due from members – bond principal" in the balance sheet of the Facility. In addition, accrued interest payable on the bonds as of December 31, 2016 is \$153,820. This amount is included as "due from members – bond interest" in the balance sheet. The members' respective shares of the "due from members – bond principal" and "due from members – bond interest" are as follows:

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. DUE FROM MEMBERS (CONTINUED)

	Due from Members - <u>Bond Principal</u>	Due from Members - <u>Bond Interest</u>
Cottonwood Improvement District	\$ -	\$ -
Mt. Olympus Improvement District	-	-
Granger-Hunter Improvement District	-	-
Kearns Improvement District	3,729,595	74,592
Murray City	1,899,066	37,981
South Salt Lake City	261,515	5,231
Taylorsville-Bennion Improvement District	<u>1,800,824</u>	<u>36,016</u>
	7,691,000	<u>\$ 153,820</u>
Less current portion	<u>(728,000)</u>	
Long-term portion	<u>\$ 6,963,000</u>	

7. LONG-TERM DEBT

Revenue Bonds

The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2016 were as follows:

<u>Purpose</u>	<u>Issue Date</u>	<u>Original Borrowings</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Amount</u>
Sewer treatment facility	2005	\$35,000,000	3.00%	2025	\$ 7,691,000

During 2006, the Board of Directors agreed to change the usage of the bond proceeds from four secondaries to two and build the ultraviolet treatment system instead. This change of usage resulted in a change to the respective bond payback amount of the individual entities. The new payback percentages were determined during 2009 once all bond proceeds had been received by the Facility. In 2010, three members retired all outstanding principal on their portions of the debt. After application of the new percentages and retirement of certain members' principal, the members' respective shares of the bonds are now as follows:

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. LONG-TERM DEBT (CONTINUED)

	<u>Percentage</u>	<u>Amount</u>
Cottonwood Improvement District	0.0000%	\$ -
Mt. Olympus Improvement District	0.0000	-
Granger-Hunter Improvement District	0.0000	-
Kearns Improvement District	48.4930	3,729,595
Murray City	24.6920	1,899,066
South Salt Lake City	3.4003	261,515
Taylorsville-Bennion Improvement District	<u>23.4147</u>	<u>1,800,824</u>
	<u>100.0000%</u>	<u>\$ 7,691,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ends December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	\$ 728,000	\$ 230,730	\$ 958,730
2018	745,000	208,890	953,890
2019	770,000	186,540	956,540
2020	790,000	163,440	953,440
2021-2025	<u>4,658,000</u>	<u>444,300</u>	<u>5,102,300</u>
	<u>\$ 7,691,000</u>	<u>\$ 1,233,900</u>	<u>\$ 8,924,900</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 8,394,000	\$ -	\$ (703,000)	\$ 7,691,000	\$ 728,000
Compensated absences	<u>1,088,129</u>	<u>504,017</u>	<u>(393,378)</u>	<u>1,198,768</u>	<u>529,674</u>
TOTAL LONG-TERM DEBT	<u>\$ 9,482,129</u>	<u>\$ 504,017</u>	<u>\$ (1,096,378)</u>	<u>\$ 8,889,768</u>	<u>\$ 1,257,674</u>

Total accrued interest on long-term debt for the year ended December 31, 2016 was \$153,820, all of which is included on the balance sheet as "Due from members – bond interest".

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. COMMITMENTS

During 2016, the Facility entered into a contract with an engineering firm for the Biological Nutrient Removal and Preliminary Design project for approximately \$1,360,000. As of December 31, 2016, no payments had been made of this contract.

During 2016, the Facility entered into a contract for a new asset management system for approximately \$468,000. As of December 31, 2016, \$360,000 was still remaining on this contract.

9. SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the Facility implemented amendments regarding ownership to the interlocal agreement regarding ownership Post-2016 (see Note 1.c.).

Subsequent to December 31, 2016, the Facility entered into a contract with an engineering firm for the Cogeneration System Final Design project for approximately \$1,040,000.

SUPPLEMENTAL INFORMATION

<u>Depreciation</u>	<u>Gain on Disposal of Assets</u>	<u>Balance December 31, 2016</u>
\$ 595,409	\$ 10,352	\$ 9,546,248
779,580	13,555	12,499,050
642,723	11,175	10,304,814
181,888	3,162	2,916,218
270,550	4,704	4,337,739
186,208	3,238	2,985,490
386,261	6,716	6,192,935
1,035,360	-	15,589,966
68,297	-	775,211
<u>4,146,276</u>	<u>52,902</u>	<u>65,147,671</u>
51,277	-	498,248
165,408	-	1,642,160
178,420	-	1,769,324
168,087	-	1,678,327
47,919	-	473,371
17,561	-	172,235
71,686	-	711,057
<u>700,358</u>	<u>-</u>	<u>6,944,722</u>
2,440	-	48,811
3,337	-	66,747
2,726	-	54,512
1,517	-	30,348
1,080	-	21,593
687	-	13,730
1,682	-	33,628
<u>13,469</u>	<u>-</u>	<u>269,369</u>
44,430	-	548,230
110,936	-	1,382,462
138,394	-	1,726,756
157,095	-	1,966,531
34,695	-	431,252
7,613	-	93,196
59,307	-	739,635
<u>552,470</u>	<u>-</u>	<u>6,888,062</u>
18,173	-	363,944
57,805	-	1,157,663
63,532	-	1,272,371
65,600	-	1,313,797
17,065	-	341,754
6,597	-	132,124
26,372	-	528,163
<u>255,144</u>	<u>-</u>	<u>5,109,816</u>
<u>\$ 5,667,717</u>	<u>\$ 52,902</u>	<u>\$ 84,359,640</u>



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

To The Board of Directors
Central Valley Water Reclamation Facility
Salt Lake City, Utah

We have audited the financial statements of Central Valley Water Reclamation Facility, as of and for the year ended December 31, 2016, and have issued our report thereon dated March 14, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central Valley Water Reclamation Facility'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Valley Water Reclamation Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of Central Valley Water Reclamation Facility'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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Valley Water Reclamation Facility'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.

Pinnock, Robbins, Posey & Richins

Belli Lake City, Utah
March 14, 2017



PINNOCK, ROBBINS, POSEY & RICHINS

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**INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH THE
STATE COMPLIANCE AUDIT GUIDE ON COMPLIANCE WITH
GENERAL STATE COMPLIANCE REQUIREMENTS AND
INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Directors
Central Valley Water Reclamation Facility

Report on Compliance with General State Compliance Requirements

We have audited Central Valley Water Reclamation Facility's (the Facility) compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the Facility for the year ended December 31, 2016.

General state compliance requirements were tested for the year ended December 31, 2016 in the following areas:

Budgetary Compliance
Fund Balance

Open and Public Meetings Act
Treasurer's Bond

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above and the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the Facility's compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Facility occurred. An audit includes examining, on a test basis, evidence about the Facility's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with general state compliance requirements. However, our audit does not provide a legal determination of the Facility's compliance.

Opinion on General State Compliance Requirements

In our opinion, Central Valley Water Reclamation Facility, complied, in all material respects, with the general state compliance requirements referred to above that could have a direct and material effect on the Facility for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Facility is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Facility’s internal control over compliance with the compliance requirements that could have a direct and material effect on the Facility or on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and for each major state program and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Facility’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a general state or major state program compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a general state or major state program compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a general state or major state program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on the requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Pinnock, Robbins, Posey & Richins

Salt Lake City, Utah
March 14, 2017