CENTRAL VALLEY WATER RECLAMATION FACILITY

FINANCIAL STATEMENTS

DECEMBER 31, 2017

Prepared by:
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Michael Lee, Controller
Carol Speredon, Accounts Payable
Jeremy Deppe, Purchasing Specialist

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K&C

Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
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Marcus K. Arbuckle, CPA

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements
We have audited the accompanying financial statements of the Central Valley Water Reclamation Facility (the Facility), as of and for the year ended December 31, 2017, 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.

Auditor's Responsibility
Our responsibility is to express opinions 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. 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 opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Central Valley Water Reclamation Facility, as of December 31, 2017, and the respective 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.

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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 5–11 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 considers 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 consisted 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 any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the 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 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 the Facility's internal control over financial reporting and compliance.

Keddington & Christensen, LLC

Keddington & Christensen, LLC
Salt Lake City, Utah
March 26, 2018

Central Valley Water Reclamation Facility
Management's Discussion and Analysis

History and Background:

The Central Valley Water Reclamation Facility (the "Facility") is headquartered in South Salt Lake City, Utah, along the I-15 corridor. The Facility was organized by an Interlocal Agreement on October 17, 1978, an Interlocal Agreement ("Agreement") of the State of Utah, by two cities and five local districts (the "Member Entity"). The Agreement has been amended seven times.

The Facility began operations in 1986 with a rated capacity of 62.5 million gallons per day (MGD) and upgraded in 1994 to a rated capacity of 75 MGD. Subsequent plant enhancements have occurred in 1999, 2005, and 2010 to improve solids handling, secondary clarification, and disinfection processes, but did not increase overall plant capacity. Initially, Federal funds were furnished by the Environmental Protection Agency (the "EPA") to finance 42% percent of construction costs. The Member Entities provided the remaining 58% percent of costs in proportion to their ownership interests. Subsequent expansions were financed by Member Entity contributions.

The Facility currently serves a population of approximately 550,000, representing approximately 49% of Salt Lake County (U.S Census population estimate of Salt Lake County as of 2016 was 1,121,354). The Facility membership is comprised of the following entities: Cottonwood Improvement District, Granger-Hunter Improvement District, Kearns Improvement District, Murray City, Mt. Olympus Improvement District, South Salt Lake City, and Taylorsville-Bennion Improvement District; collectively the ("Member Entities)".

The Facility is administered by the General Manager, who reports to the Board of Trustees. Each facility Member Entity appoints one representative to the Board, and each Member representative has one vote. The General Manager is responsible for the day-to-day operations of the Facility.

This section of the Facility's annual financial report presents management's analysis of the Facility's financial performance during the year ended December 31, 2017. 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:

- The Facility's net position increased by $1,144,589 due primarily to revenue received for future bond payments. The facility also realized a gain on the disposal of capital assets totaling $23,703.

- The Facility undertook significant preparation for the future change in the wastewater treatment process to respond to future phosphorus limits and to rehabilitate aging infrastructure. In 2017 the Facility issued a sewer revenue bond in the amount of $28,600,000, and was secured by a revenue pledge by all of the Member Entities. The bond was issued at a premium of $4,397,116. Four of the Facility's Member Entities participated in this bond issue. They were Cottonwood Improvement District, Granger-Hunter Improvement District, Murray City, and South Salt Lake City. The remaining three member entities: Mt. Olympus, Kearns, and Taylorsville-Bennion are providing cash to fund their portion of the plant upgrades.

- $4,315,000 of the 2005 sewer revenue bond was retired, with the remaining $3,445,000 amount outstanding refunded which included interest and fees of $69,000.

- Budget billing was used for 2017. This was to provide additional cash for large capital payments. Budget billing was the reason Member Entity accounts receivable decreased over the prior year. This billing method was discontinued in calendar year 2018.

- Restricted cash is a new reporting category, this is from the unspent bond proceeds at year end.

- The Facility had an operating loss of $5,038,814, but this was more than offset by Member Entity contributions.

- Septage and compost revenue increased by $1,828. The Facility hopes to increase these revenues in the future.

- The Facility recorded certain prior period adjustments for calendar year 2016. These adjustments resulted in the 2016 financial statements being restated.

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 are comprised of 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, 2017 and 2016.

	2017	Restated 2016
Current and other assets	$ 37,064,967	$ 11,784,310
Capital assets	87,197,412	81,828,158
Total assets	124,262,379	93,612,468
Current and other liabilities	3,993,154	2,479,315
Long-term liabilities	35,623,577	7,632,094
Total liabilities	39,616,731	10,111,409
Net investment in capital assets	82,291,732	81,636,399
Restricted	755,792	-
Net position - unrestricted	1,598,124	1,864,660
Total net position	84,645,648	83,501,059
Total liabilities and net position	$ 124,262,379	$ 93,612,468

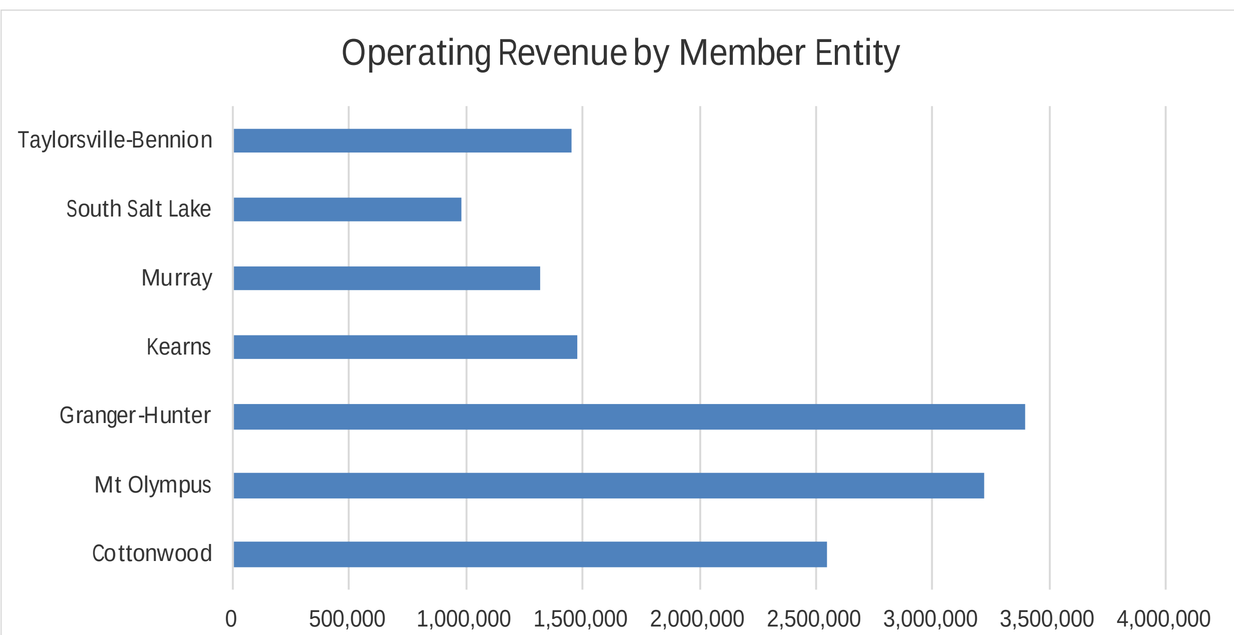
The balance sheet includes all of the Facility's assets and liabilities, and net position which is categorized as either net investment in capital assets; restricted; or unrestricted. Net position may serve as a useful indicator of a government's financial position. As can be seen from the schedule above, assets exceeded liabilities by $84,645,648 as of December 31, 2017. The largest portion of the Facility's net position, $82,291,732 reflects its net investment in capital assets (e.g., land, CIP, facility, facility equipment, interceptor lines, vehicles and equipment, and golf course). The Facility uses these capital assets in its daily operations; they are not available for future spending.

Central Valley Water Reclamation Facility
Management's Discussion and Analysis

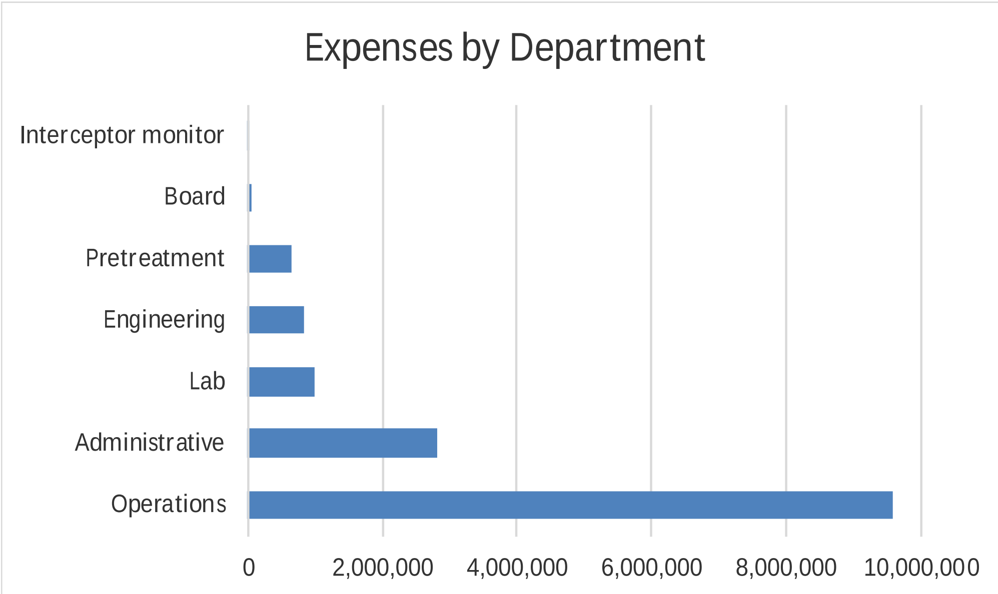
While the balance sheet shows the change in financial position, the summary of the Facility's statements of revenues, expenses, and changes in net position provides information regarding the nature and source of these changes as seen in the following schedule. During 2017, net assets increased by $1,144,589, primarily driven by contributions for debt service payments.

	2017	Restated 2016
Operating revenues	$ 15,237,162	$ 13,232,689
Non-operating revenues	233,203	289,434
Total revenues	15,470,365	13,522,123
Depreciation expense	5,300,660	5,667,717
Other operating expense	14,975,316	13,238,491
Non-operating expense	1,389,160	230,730
Total expenses	21,665,136	19,136,938
(Loss) before member contributions	(6,194,771)	(5,614,815)
Member contributions	7,339,360	5,616,416
Change in net position	1,144,589	1,601
Net position - beginning of year	83,501,059	84,358,039
Prior Period Adjustment	-	(858,581)
Net position - end of year	$ 84,645,648	$ 83,501,059

Operating Revenue by Member Entity:



Expense Chart:



The Administrative Department includes General Manager, Human Resources, Finance and Warehouse, and Information Technology. The Operations Department includes: Superintendent, Maintenance, Electric, Building and Grounds, Bio-solids, and Energy Management.

Capital Assets and Debt Administration:

Capital Assets

The Facility's net investment in capital assets as of December 31, 2017, amounted to $87,197,412 (net of accumulated depreciation). This investment in capital assets includes land, CIP, facility, facility equipment, interceptor lines, vehicles and equipment, and golf course. The Facility's net investment in capital assets increased by $5,369,254. Increases in net capital assets will be a common occurrence in thefuture with the facility's planned upgrades.

Major capital asset events during fiscal year 2017 included the following:

- Cogeneration system and biogas treatment system replacement $5,438,213
- Influent box culvert rehabilitation $1,239,432
- Nutrient removal process predesign $1,247,359
- Front end loader purchase $440,000
- Asset management software and implementation $359,037

Capital Assets Net of Depreciation

	2017	Restated 2016
Land	$ 10,147,897	$ 10,147,897
Construction in progress	9,678,221	2,685,145
Facility	46,624,953	50,175,495
Facility equipment	8,838,008	8,954,244
Interceptor lines	8,731,983	7,420,019
Vehicles and equipment	2,379,628	1,538,205
Golf course	796,722	907,153
Total capital assets (net of depreciation)	$ 87,197,412	$ 81,828,158

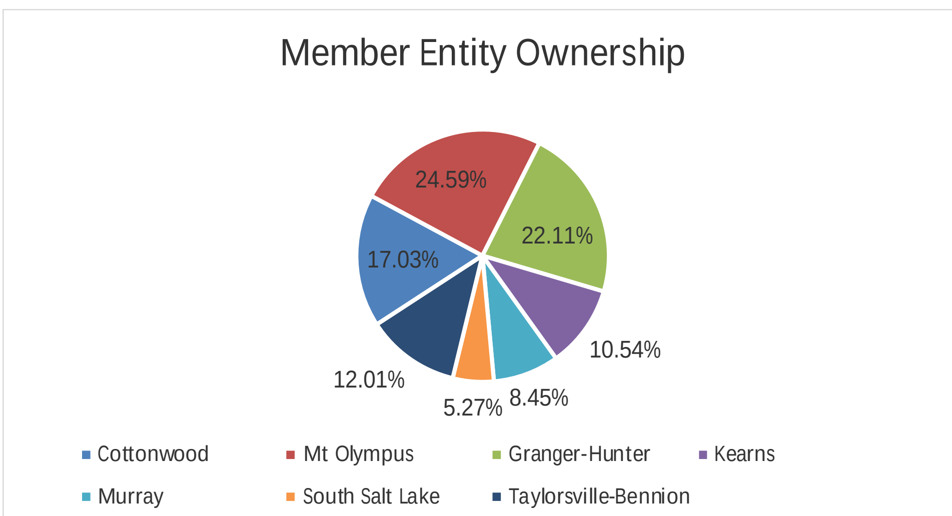
Additional information on the Facility's capital assets can be found in Note 6.

Long-term Debt:

At the end of the current fiscal year, the Facility had total debt net of premium of $32,045,000. The debt represents bonds secured solely by sewer revenue and member entity pledges. The Facility's debt increased by $24,354,000 during the current fiscal year. This is due to the Facility and treatment process upgrades. Process upgrades will take until 2025 to complete, while rehabilitation projects will be ongoing over the next 20 years, but will largely be completed over the next 10 years. The Facility is planning to issue additional debt in the future for additional funding of these changes.

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

Member Entity Ownership:



The table below shows the change in member entity ownership in 2017.

Member Entity	Beginning	Ending
Cottonwood	16.85%	17.03%
Mt Olympus	24.82%	24.59%
Granger-Hunter	22.03%	22.11%
Kearns	10.53%	10.54%
Murray	8.37%	8.45%
South Salt Lake	5.21%	5.27%
Taylorsville-Bennion	12.19%	12.01%

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 Justin Zollinger of the Central Valley Water Reclamation Facility, 800 West Central Valley Road, Salt Lake City, Utah 84119 or by phone (801) 973-9100 ext. 161.

Financial Statements

Central Valley Water Reclamation Facility
Balance Sheet
December 31, 2017

Assets	
Current assets:	
Cash and cash equivalents	$ 973,784
Accounts receivable:	
Members	1,141,137
Other	48,054
Due from other government - Kearns	3,445,000
Inventory	451,786
Prepaid items	170,067
Total current assets	6,229,828
Noncurrent assets:	
Restricted cash	30,835,139
Capital assets	
Land	10,147,897
Construction in progress	9,678,221
Facility	160,101,776
Facility equipment	36,203,832
Interceptor lines	18,150,097
Vehicles & equipment	6,215,332
Golf course	6,009,918
Accumulated depreciation	(159,309,661)
Total noncurrent assets	118,032,551
Total assets	124,262,379
Liabilities	
Current liabilities:	
Accounts payable	1,003,571
Accrued liabilities	360,746
Compensated absences	455,026
Interest payable	918,811
Bonds payable	1,255,000
Total current liabilities	3,993,154
Noncurrent liabilities:	
Compensated absences	656,317
Bonds payable, net	34,967,260
Total noncurrent liabilities	35,623,577
Total liabilities	39,616,731
Net Position	
Net investment in capital assets	82,291,732
Restricted for debt service	755,792
Unrestricted	1,598,124
Total net position	84,645,648
Total liabilities and net position	$ 124,262,379

See accompanying notes to the financial statements

Central Valley Water Reclamation Facility
Statement of Revenues, Expenses, and Changes in Net Position
For The Year Ended December 31, 2017

Operating Revenue		
Member entity charges	$	14,384,840
Septage		298,525
Compost		271,901
Rent		127,537
Miscellaneous		154,359
Total operating revenues		15,237,162
Operating Expenses		
Operations		9,597,351
Administrative		2,822,105
Lab		987,474
Engineering		837,275
Pretreatment		647,666
Board		52,645
Interceptor monitor		30,800
Depreciation		5,300,660
Total operating expenses		20,275,976
Operating income (loss)		(5,038,814)
Non-Operating Revenues (Expenses)		
Interest income		209,500
Interest expense		(1,389,160)
Sale of capital assets		23,703
Total non-operating revenues, net		(1,155,957)
Income (loss) before member contributions		(6,194,771)
Member contributions		7,339,360
Change in net position		1,144,589
Net position, beginning of year		84,359,640
Prior period adjustment		(858,581)
Net position, end of year	$	84,645,648

See accompanying notes to the financial statements

Central Valley Water Reclamation Facility
Statement of Cash Flows
For The Year Ended December 31, 2017

Cash flows from operating activities	
Receipts from members and customers	$ 16,919,170
Payments to suppliers	(4,934,969)
Payments to employees	(10,042,676)
Net cash provided (used) by operating activities	$1,941,525
Cash flows from capital and related financing activities	
Capital contributions from members	6,196,643
Member entity contributions received for debt service	5,457,717
Prinicpal paid on capital debt	(3,896,000)
Interest and fiscal charges paid on capital debt	(690,205)
Proceeds from issuance of debt	32,997,116
Proceeds from sale of capital assets	23,703
Purchases of capital assets	(10,675,320)
Net cash provided by financing activities	29,413,654
Cash flows from investing activities	
Interest income	209,500
Net cash provided by investing activities	$209,500
Net (decrease) increase in cash and cash equivalents	31,564,679
Cash and cash equivalents, beginning of year	244,244
Cash and cash equivalents, end of year	$ 31,808,923
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating income (loss)	$ (5,038,814)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	5,300,660
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables	1,682,008
Inventory	(199,275)
Prepaid expenses	196,764
Increase (decrease) in:	
Accounts payable	(138,359)
Accrued liabilities	225,966
Compensated absences	(87,425)
Net cash provided (used) by operating activities	$1,941,525

See accompanying notes to the financial statements

<u>Note 1 – Summary of Significant Accounting Policies</u>

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.

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 governments, generally 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.

In determining the reporting entity, the Facility applied the criteria of Statement No. 14 as amended by Statement No. 61 of the Government Accounting Standards Board (GASB). The underlying concept of Statement No. 14 as amended 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.

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 the Financial Statements

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 construction of the treatment facility plant has been 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.

On January 1st 2017, the member entities moved to a single ownership percentage. These percentages have been updated for year end 2017 and are below:

Member Entity	Beginning Net Position Ownership			Ending Net Position Ownership		
Cottonwood	$	14,069,928	16.85%	$	14,415,154	17.03%
Mt Olympus		20,724,963	24.82%		20,814,365	24.59%
Granger-Hunter		18,395,283	22.03%		18,715,153	22.11%
Kearns		8,792,662	10.53%		8,921,651	10.54%
Murray		6,989,039	8.37%		7,152,557	8.45%
South Salt Lake		4,350,405	5.21%		4,460,826	5.27%
Taylorsville-Bennion		10,178,779	12.19%		10,165,942	12.01%
Net Position	$	83,501,059	100.00%	$	84,645,648	100.00%

Cash and Cash Equivalents

Cash & cash equivalents are generally considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the purchase date.

Inventory

Parts which are critical to plant operations, and parts requiring long lead times are being currently stocked by the Facility. Inventories of materials and supplies consisting principally of materials used in the repair of the Facility are valued at cost and accounted for on the first in, first out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets are assets that 1) are used in operation of the facility and 2) have an initial useful life in excess of one year. Capital is not the costs of normal maintenance and repairs that do not add capacity to the asset or materially extend the assets useful life. The asset categories are below:

Land – Site preparation and site improvements (other than buildings) that ready land for use. The costs associated with improvements to land are added to the cost of the land. All acquisitions of land are capitalized. Land is an inexhaustible asset and does not depreciate over time.

Facility – A structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. This class also includes all building improvements. This class of assets has a purchase cost or cost of construction of $30,000 or greater.

Facility Equipment – Long-lived capital assets that are normally stationary in nature. These assets are often discrete portions of building that have a substantially shorter life than the building itself. Examples of this class of assets are HVAC systems, clarifier mechanisms, clarifier drives, elevators, UV disinfection system, dewatering equipment, tank covers, large pumps, and other major process equipment. This class of assets has a purchase cost or construction cost of $30,000 or greater.

Interceptor Lines – Long-lived capital assets that are stationary in nature. These assets are composed of waste water lines that connect to Member Entity's collection systems to bring wastewater to the Facility for treatment.

Vehicles and equipment – Items in this class are vehicles, information technology, and similar moveable items. This class of assets has a purchase cost of $5,000 or greater.

Golf course – Items in this class are assets required to operate a golf course.

Construction in progress – Costs incurred to construct or develop a tangible or intangible capital asset before it is substantially ready to be placed into service (at which time the asset would be reclassified into the appropriate major class).

Facility buildings, facility equipment, vehicles and equipment, and golf course assets are depreciated using the straight line method over the following estimated useful lives:

Capital Item Description	Life in Years
Facility	20 to 40
Facility equipment	10 to 20
Interceptor lines	20 to 40
Vehicles and other equipment	5 to 10
Golf course	20 to 40

Compensated Absences

Accumulated unpaid vacation amounts are throughout the year, not to exceed 200 to 296 hours depending upon the employee's length of service. Vacation and sick pay amounts are charged as wages when used. Terminated employees are not paid for unused sick leave. Retired employees 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.

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.

Net position flow assumptions

Sometimes the Facility will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the enterprise fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Facility's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information

The Facility prepares an annual budget on the modified cash basis of accounting, which is filed with the State of Utah. The Facility starts the annual budget preparation in July at the Department level. The Departments prepare their budget requests and submit them to the General Manager for review. Budget review meetings are held in August.

The tentative budget is presented to the Board in the September. After Board requested changes are made, the final budget is approved in the October Board meeting. Additional budget meetings are scheduled as needed.

The Member Entities are provided monthly financial reports, comparing the annual budget to year-to-date expenses, as wells as financial results.

Note 3 – Investments

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, Title 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.

The Money Management Act defines the types of securities authorized as appropriate investments for the Facility's funds 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 non-negotiable 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; bankers' acceptances' obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae); 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 Money Management Act; and the Utah State Public Treasurers' Investment Fund.

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 and is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act (Utah Code, Title 51, Chapter 7). 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 of the PTIF, net of administration fees, 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.

Fair Value of Investments

The Facility measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and
- Level 3: Unobservable inputs.

The following are the Facility's cash and cash equivalents as of December 31, 2017:

	Investment Maturities in Years		
	Level 2		
Investment Type	Amortized Cost Basis	Less Than 1	1 - 5
Public Treasurer's Investment Fund	$ 509,687	$ 509,687	-

Debt securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 are valued using the following approach:

- Utah Public Treasurer's Investment Fund: application of the December 31, 2017 fair value factor of 1.00416858, as calculated by the Utah State Treasurer, to the Facility's average daily balance in the fund is $511,812.

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, 2017, $1,556,006 of the Facility's bank balances were uninsured and uncollateralized.

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, 2017, the Facility's investments in the Utah Public Treasurer's Investment Fund were unrated.

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. The deposits and cash and cash equivalents are included on the balance sheet.

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.

Note 4 – Receivables and Working Capital Advances from Member Entities

The receivables and working capital advances from the Member Entities at December 31, 2017 are comprised of the following:

Entity	Receivables Balance	Working Capital Advances
Cottonwood	$ 96,330	-
Mt Olympus	225,815	-
Granger-Hunter	201,722	-
Kearns	232,448	-
Murray	76,552	-
South Salt Lake	68,731	-
Taylorsville-Bennion	239,539	-
Total	**$ 1,141,137**	**-**

Note 5 – Retirement Plan

Central Valley Water Reclamation Facility sponsors a defined contribution 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 $1,473,869, $1,334,563 and $1,274,520 for 2017, 2016, and 2015, respectively. Covered salaries for the same period were $5,895,476, $5,354,367 and $5,098,080, respectively.

Note 6 – Capital Assets

Capital assets for the year ended December 31, 2017 were as follows:

	Restated Beginning	Increases	Decreases	Transfers	Ending
Capital assets, not depreciated:					
Land	$ 10,147,897	$ -	$ -	$ -	$ 10,147,897
Construction in progress	2,685,145	10,675,320	-	(3,682,244)	9,678,221
Total capital assets, not depreciated	12,833,042	10,675,320	-	(3,682,244)	19,826,118
Capital assets, depreciated:					
Facility	160,101,776	-	-	-	160,101,776
Facility equipment	35,544,672	-	-	659,160	36,203,832
Interceptor lines	16,337,353	-	-	1,812,744	18,150,097
Vehicles and equipment	5,127,171	-	(116,773)	1,204,934	6,215,332
Golf course	6,009,918	-	-	-	6,009,918
Total capital assets, depreciated	223,120,890	-	(116,773)	3,676,838	226,680,955
Less: accumulated depreciation:					
Facility	(109,926,281)	(3,550,542)	-	-	(113,476,823)
Facility equipment	(26,590,428)	(775,396)	-	-	(27,365,824)
Interceptor lines	(8,917,334)	(500,780)	-	-	(9,418,114)
Vehicles and equipment	(3,588,966)	(363,511)	116,773	-	(3,835,704)
Golf course	(5,102,765)	(110,431)	-	-	(5,213,196)
Total accumulated depreciation	(154,125,774)	(5,300,660)	116,773	-	(159,309,661)
Total capital assets being depreciated, net	68,995,116	(5,300,660)	-	3,676,838	67,371,294
Capital assets, net	$ 81,828,158	$ 5,374,660	$ -	$ (5,406)	$ 87,197,412

During 2017, the Facility disposed of capital assets at a net gain of $23,703. 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, 2017 was $5,300,660.

Note 7 – Long-Term Debt

Revenue bonds outstanding at December 31, 2017 are as follows:

	Beginning	Additions	Reductions	Ending	Due in One Year
Revenue Bonds					
2005 sewer revenue	$ 7,691,000	$ -	$ 7,691,000	-	$ -
2017A series	-	28,600,000	-	28,600,000	905,000
2017B series	-	3,445,000	-	3,445,000	350,000
2017A premium	-	4,397,116	219,856	4,177,260	-
Total	$ 7,691,000	$36,442,116	$ 7,910,856	$ 36,222,260	$ 1,255,000

The Facility refunded the 2005 sewer revenue bonds with the 2017B series revenue bonds. Kearns Improvement District is the only Member Entity that is obligated on this bond.

In 2017, the Facility issued 2017A series sewer revenue bonds to fund facility process upgrades. A bond rating of AA was received from Standard & Poors and Finch. The new process is State mandated, and the Facility is required to have this change complete by 2023. The 4 Member Entities that participated in this bond are: Cottonwood Improvement District, Granger-Hunter Improvement District, Murray City, and South Salt Lake.

Revenue bonds outstanding by Member Entities ending ownership percentages as of December 31, 2017 are as follows:

Bond Series	Amount	Percentage
2017A series sewer revenue bonds		
Cottonwood Improvement District	9,210,628	32.20%
Granger-Hunter Improvement District	11,958,132	41.82%
Murray City	4,575,567	16.00%
South Salt Lake	2,855,673	9.98%
2017B series sewer revenue bonds		
Kearns Improvement District	3,445,000	100%

Revenue bond debt service requirements to maturity are as follows:

Year	Principal	Interest	P + I
2018	$ 1,255,000	$ 1,378,216	$ 2,633,216
2019	1,345,000	1,329,515	2,674,515
2020	1,395,000	1,282,905	2,677,905
2021	1,445,000	1,233,538	2,678,538
2022	1,500,000	1,176,185	2,676,185
2023-27	7,585,000	4,840,553	12,425,553
2028-32	7,810,000	3,153,075	10,963,075
2033-37	9,710,000	1,252,700	10,962,700
Total	$ 32,045,000	$ 15,646,687	$ 47,691,687

Note 8 – Ground Lease Agreement

During 1991, the Facility entered into an agreement to lease approximately forty acres of real property, which had been assigned to DD&B, LC, a Utah limited partnership, for the purpose of constructing and operating a golf practice facility. In 2008, the Facility entered into a management agreement with Central Valley Golf Shop, LLC to manage the golf course section of the 40 acres of real property while the driving range section remained under a revised lease agreement with DD&B, LC.

In 2012, the DD&B, LC lease was assigned to Scott & Roth Golf Management, LLC and the Facility terminated the management agreement with Central Valley Golf Shop, LLC. The Facility entered into a consolidated lease with Scott & Roth Golf Management, LLC in 2012 for the forty acres of real property. The terms of the lease provide for a quarterly lease payment of 4% of gross revenue generated from golf course green fees, cart rental fees, and driving range ball fees. During the year ended December 31, 2017 the Facility received net lease payments of $14,667 from Scott & Roth Golf Management, LLC.

Note 9 – Construction Commitments

The Facility has entered into a contract to replace the existing power generators for a total cost of approximately $7,000,000. As of December 31, 2017, the Facility had approximately $3,500,000 remaining to pay on the contract.

Note 10 – Subsequent Events

None

Note 11 – Prior Period Adjustments

The prior period adjustments described within this note have a net impact to the Facility's net position of $858,581. This net decrease in net position is detailed below.

The Facility completed an evaluation of our capital assets. This evaluation took 5 months to complete, and the work of many employees with significant historical knowledge of the plant. Each asset on the capital asset ledger was verified for existence and completeness. After this evaluation was completed, capital was adjusted down by $666,822, and a decrease to net position for the same amount.

The Facility had a liability on the books for $120,400 that was not substantiated. This was corrected, and the offset was to increase net position.

The Facility had inventory that was not recorded on the books of $255,508. This adjustment increased inventory and net position.

The Facility had unbilled member receivables recorded on the books for $567,667 that was not substantiated. This was corrected, and the offset was to decrease net position.

Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
Phyl R. Warnock, CPA
Marcus K. Arbuckle, CPA

INDEPENDENT AUDITOR'S 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
Central Valley Water Reclamation Facility
Salt Lake City, Utah

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 the Central Valley Water Reclamation Facility (the Facility), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Facility's basic financial statements, and have issued our report thereon dated March 26, 2018.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the 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.

Keddington & Christensen, LLC

Keddington & Christensen, LLC
Salt Lake City, Utah
March 26, 2018

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE *STATE COMPLIANCE AUDIT GUIDE*

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

Report on Compliance with General State Compliance Requirements

We have audited Central Valley Water Reclamation Facility's (the Facility) compliance with 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, 2017.

General state compliance requirements were tested for the year ended December 31, 2017 in the following areas:

Budgetary Compliance
Fund Balance
Open and Public Meetings Act
Treasurer's Bond
Cash Management

Management's Responsibility

Management is responsible for compliance with the state requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on the Facility's compliance based on our audit of the state 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 state 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 for each state compliance requirement referred to above. However, our audit does not provide a legal determination of the Facility's compliance with those requirements.

Opinion on General State Compliance Requirements

In our opinion, Central Valley Water Reclamation Facility complied, in all material respects, with the state compliance requirements referred to above for the year ended December 31, 2017.

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Report on Internal Control Over Compliance

Management of the Facility is responsible for establishing and maintaining effective internal control over compliance with the state compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Facility's internal control over compliance with the state compliance requirements referred to above to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with those state compliance requirements 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 state 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 state 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 state 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 report 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.

Keddington & Christensen, LLC

Keddington & Christensen, LLC
Salt Lake City, Utah
March 26, 2018