

FINANCIAL STATEMENTS

DECEMBER 31, 2018



Central Valley Water Reclamation Facility



Prepared by:
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KEDDINGTON & CHRISTENSEN, CPAS

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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, 2018, 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, 2018, 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 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 February 27, 2019, 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
February 27, 2019

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 as an Interlocal Agreement on October 17, 1978. An Interlocal Agreement ("Agreement") by two cities and five special districts (the "Member Entity" or "Member") in accordance with the laws of the State of Utah. The Agreement has been amended eight times, with the most recent occurring in 2018.

The Facility began operations in 1986 with a rated capacity of 62.5 million gallons per day (MGD) and was 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% of construction costs. The Member Entities provided the remaining 58% 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 is comprised of the following Member 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.

The Facility is administered by the General Manager, who reports to the Board of Trustees ("Board"). Each facility Member Entity appoints one elected 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, 2018. 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.

New Treatment Process and Facility Upgrades:

The Facility is in the process of upgrading the plant's secondary treatment process in response to the State of Utah Division of Water Quality's (DWQ) implementation of a Technology Based Phosphorus Effluent Limitation (TBPEL) Rule. The TBPEL Rule went into effect January 1, 2015 and will add a total phosphorus limit of 1.0 mg/L to the Facility's effluent discharge permit. The original Facility was not designed to remove this nutrient. A permit variance was granted by DWQ through 2024 to allow the Facility to design and construct the treatment processes necessary to comply with the TBPEL Rule. The necessary plant process upgrades are scheduled to be constructed and operational in mid 2024 and in compliance with the phosphorus limit by January 1, 2025.

To help select the new process, the Facility's leadership established a technical advisory committee composed of internationally recognized experts in nutrient removal. This group reviewed various treatment processes, conducted multiple site visits, workshops with plant staff and the Facility's consulting engineer, and the group arrived at a tentative process recommendation. The recommended process is a biological nutrient removal (BNR) process similar to the Westside (also known as Westbank) process employed at the Westside Regional Plant in Kelowna, BC Canada.

Central Valley Water Reclamation Facility Management's Discussion and Analysis

The Facility then pilot tested the recommended process for 7 months to ensure this new treatment process would provide the required performance using actual Facility wastewater. The process provided better phosphorus removal performance than anticipated and was selected for implementation.

The Facility's consulting engineers conducted preliminary design of the process upgrades in 2017 and then in 2018 began detailed design. Detailed design will be completed in the summer of 2019 and then submitted to the DWQ for review and issuance of a construction permit. Although the full design will not be completed until mid 2019, certain aspects of the design, including two additional secondary clarifiers and primary sludge fermenters were expedited, and construction was able to commence on these elements in 2018. Construction of the main BNR facilities will commence in the spring of 2020.

Much of the existing facility equipment is now over 30 years old. An Asset Management Program (AMP) was developed in 2015 to address repair or replacement of plant and collection system components which are not related to the new phosphorus removal project. Repair or replacement priorities are set by assessment of the criticality of each asset and its risk of failure. The Facility has implemented a new computerized maintenance management software (CMMS) package that will assist in the tracking of assets and their replacement/rehabilitation needs. The software will also be used to help develop of short and long term capital budgets for the program which are updated on an annual basis.

Financial Highlights:

- The Facility invested significant resources in CIP during 2018, with \$26,960,456 million going into plant upgrades.
- The Facility's net position increased by \$9,533,592 due primarily to revenue received for future capital and bond payments.
- Member Entities authorized the Facility to retain non-Member Entity generated revenue to help build cash reserves.
- Of the 2017A construction funds, approximately \$13,389,464 million was used for Facility upgrades. This leaves \$14,482,116 million for future capital purchases.
- The Facility had an operating loss of \$6,860,173, but this was more than offset by Member Entity contributions.

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.

Central Valley Water Reclamation Facility Management's Discussion and Analysis

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, 2018 and 2017.

	2018	2017
Current and other assets	\$ 26,393,641	\$ 37,064,967
Capital assets	108,438,867	87,197,412
Total assets	<u>134,832,508</u>	<u>124,262,379</u>
Current and other liabilities	6,741,095	3,993,154
Long-term liabilities	33,912,173	35,623,577
Total liabilities	<u>40,653,268</u>	<u>39,616,731</u>
Net investment in capital assets	90,378,909	82,291,732
Restricted for debt service	1,830,033	755,792
Unrestricted	1,970,298	1,598,124
Total net position	<u>94,179,240</u>	<u>84,645,648</u>
Total liabilities and net position	<u>\$ 134,832,508</u>	<u>\$ 124,262,379</u>

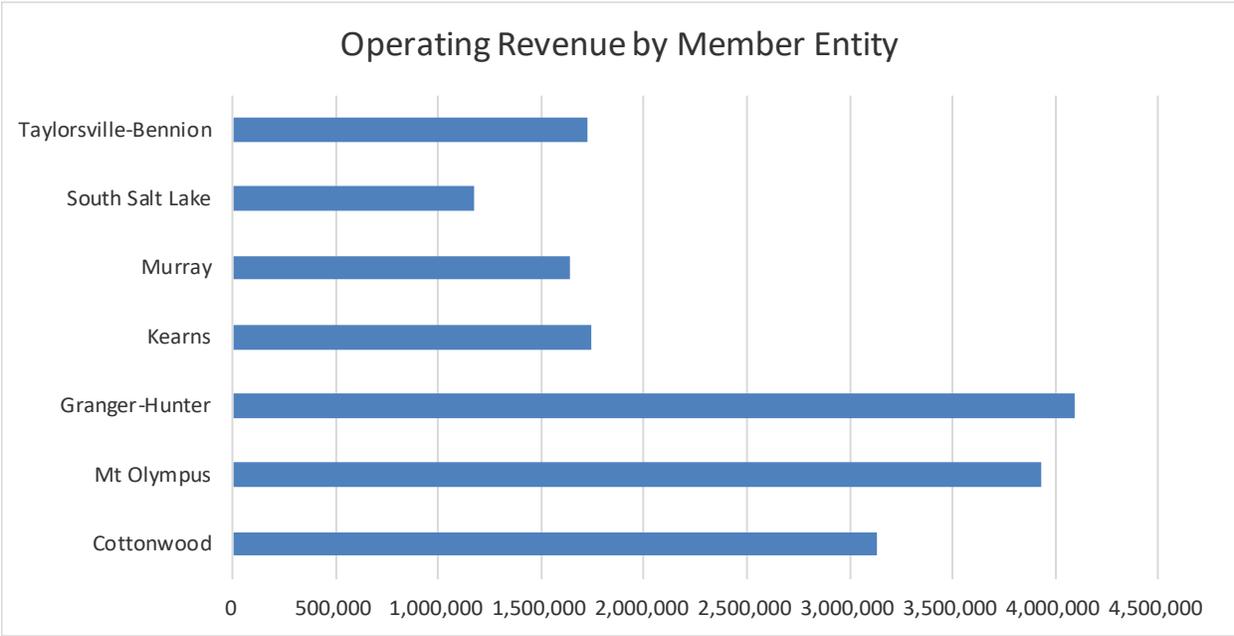
The balance sheet includes all of the Facility's assets and liabilities, and net position which is categorized as either net investment in capital assets, restricted, or unrestricted. Net position may serve as a useful indicator of a government's financial position. As can be seen from the schedule above, assets exceeded liabilities by \$94,179,240 as of December 31, 2018. The largest portion of the Facility's net position, \$90,378,909 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. The Facility will be increasing the net investment in capital assets over the next 6 years as it goes through treatment process upgrades.

**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 2018, net assets increased by \$9,533,592, primarily driven by contributions for debt service and capital payments.

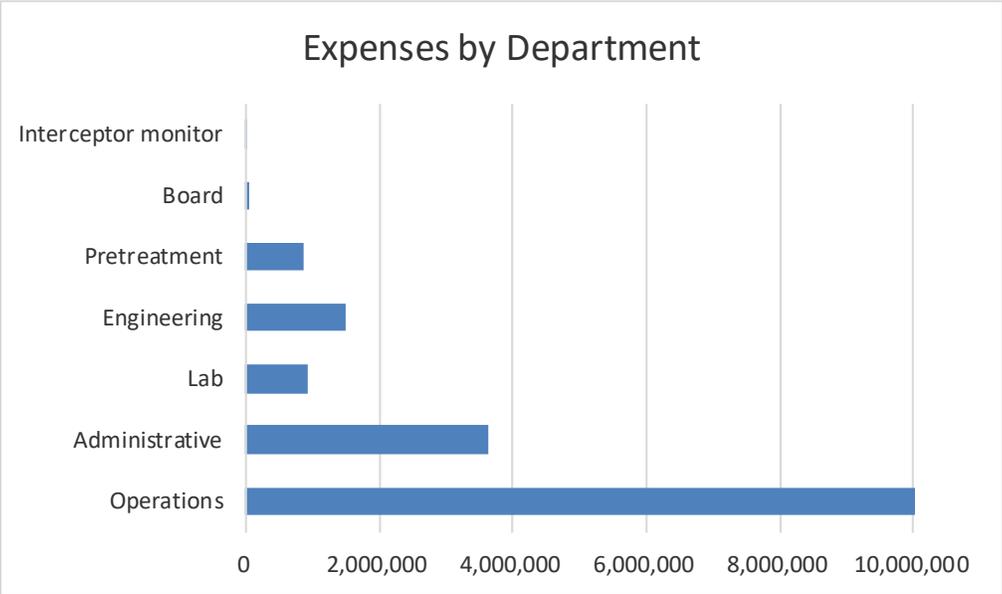
	2018	2017
Operating revenues	\$ 18,230,389	\$ 15,237,162
Non-operating revenues	647,968	233,203
Total revenues	<u>18,878,357</u>	<u>15,470,365</u>
Depreciation expense	6,897,796	5,300,660
Other operating expense	18,192,766	14,975,316
Non-operating expense	686,876	1,389,160
Total expenses	<u>25,777,438</u>	<u>21,665,136</u>
(Loss) before member contributions	(6,899,081)	(6,194,771)
Member contributions	<u>16,432,673</u>	<u>7,339,360</u>
Change in net position	9,533,592	1,144,589
Net position - beginning of year	<u>84,645,648</u>	<u>83,501,059</u>
Net position - end of year	<u>\$ 94,179,240</u>	<u>\$ 84,645,648</u>

Operating Revenue by Member Entity:



**Central Valley Water Reclamation Facility
Management’s Discussion and Analysis**

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 capital assets as of December 31, 2018, amounted to \$108,438,867 (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 increase in capital assets was \$21,241,455. Increases in net capital assets will be a common occurrence in the future with the facility’s planned upgrades.

Major capital asset events during fiscal year 2018 included the following:

- Cogeneration system and biogas treatment system replacement \$8,024,268
- Influent box culvert and collection system lining \$6,264,362
- Secondary clarifiers \$5,579,016
- Nutrient removal process design \$3,937,549
- Blend and equal tank recondition \$1,496,927
- Odor control design and construction \$759,504
- Rolling stock \$715,471

**Central Valley Water Reclamation Facility
Management’s Discussion and Analysis**

Capital Assets Net of Accumulated Depreciation

	2018	2017
Land	\$ 10,147,897	\$ 10,147,897
Construction in progress	36,336,002	9,678,221
Facility	42,059,461	46,624,953
Facility equipment	7,872,028	8,838,008
Interceptor lines	8,356,389	8,731,983
Vehicles and equipment	3,075,791	2,379,628
Golf course	591,299	796,722
Total capital assets (net of acc. depreciation)	<u>\$ 108,438,867</u>	<u>\$ 87,197,412</u>

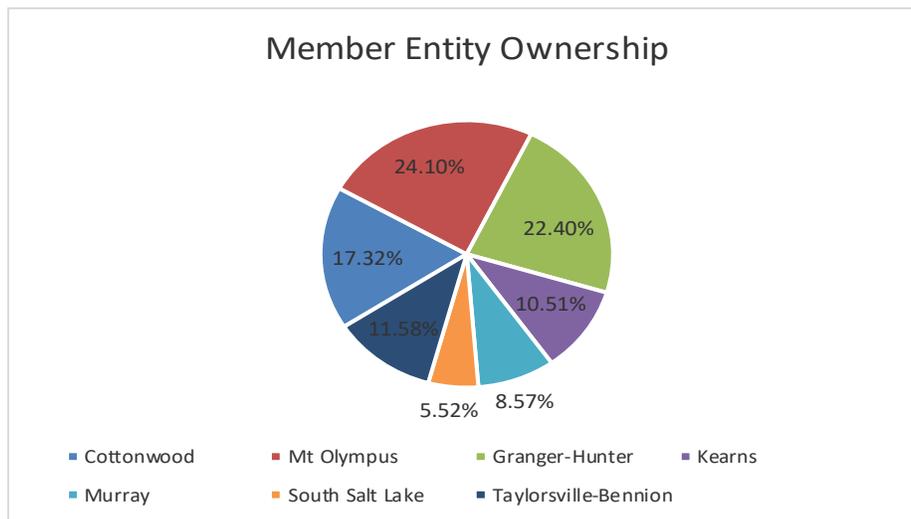
Additional information on the Facility’s capital assets can be found in Note 6.

Long-term Debt:

At the end of the current fiscal year, the Facility had total debt net of premium of \$30,790,000. The debt represents bonds secured solely by sewer revenue and member entity pledges. The Facility’s debt decreased by \$1,255,000 during the current fiscal year. The Facility was approved by the State Division of Drinking Water Board to borrow \$65 million which will be issued toward the end of 2019. The Facility will go out to the market for an addition \$37 million in 2019. This is to help continue to fund process upgrades that will occur through 2024, while smaller rehabilitation projects will be ongoing over the next 20 years, but will largely be completed over the next 6 years. The Facility is planning two more debt issuances in addition to the ones listed above. The amounts of these bond issues are \$35 and \$14 million to finalize the new process upgrades.

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

Member Entity Ownership:



**Central Valley Water Reclamation Facility
Management's Discussion and Analysis**

The table below shows the change in member entity ownership in 2018.

Member Entity	Beginning	Ending
Cottonwood	17.03%	17.32%
Mt Olympus	24.59%	24.10%
Granger-Hunter	22.11%	22.40%
Kearns	10.54%	10.51%
Murray	8.45%	8.57%
South Salt Lake	5.27%	5.52%
Taylorsville-Bennion	12.01%	11.58%

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, 2018

Assets

Current assets:	
Cash and cash equivalents	\$ 2,292,880
Accounts receivable:	
Members	2,538,401
Other	65,614
Due from other government - Kearns	2,695,403
Inventory	203,638
Prepaid items	80,226
	<hr/>
Total current assets	7,876,162
Noncurrent assets:	
Restricted cash	18,517,479
Capital assets	
Land	10,147,897
Construction in progress	36,336,002
Facility	159,802,841
Facility equipment	35,471,671
Interceptor lines	18,509,942
Vehicles & equipment	8,005,997
Golf course	5,601,756
Accumulated depreciation	(165,437,239)
	<hr/>
Total noncurrent assets	126,956,346
	<hr/>
Total assets	134,832,508

Liabilities

Current liabilities:	
Accounts payable	3,905,281
Accrued liabilities	431,675
Compensated absences	608,435
Interest payable	450,704
Bonds payable	1,345,000
	<hr/>
Total current liabilities	6,741,095
Noncurrent liabilities:	
Compensated absences	509,769
Bonds payable, net	33,402,404
	<hr/>
Total noncurrent liabilities	33,912,173
	<hr/>
Total liabilities	40,653,268

Net Position

Net investment in capital assets	90,378,909
Restricted for debt service	1,830,033
Unrestricted	1,970,298
	<hr/>
Total net position	94,179,240
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Total liabilities and net position	\$ 134,832,508

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, 2018

Operating Revenue

Member entity charges	\$	17,450,889
Septage		352,659
Compost		223,278
Rent		91,140
Miscellaneous		112,423
		18,230,389

Operating Expenses

Operations		11,218,150
Administrative		3,627,232
Lab		932,070
Engineering		1,483,465
Pretreatment		877,152
Board		36,405
Interceptor monitor		18,292
Depreciation		6,897,796
		25,090,562
Total operating expenses		25,090,562
Operating income (loss)		(6,860,173)

Non-Operating Revenues (Expenses)

Interest income		615,868
Interest expense		(686,876)
Sale of capital assets		32,100
		(38,908)
Total non-operating revenues, net		(38,908)
Income (loss) before member contributions		(6,899,081)
Member contributions		16,432,673
		9,533,592
Change in net position		9,533,592
Net position, beginning of year		84,645,648
		84,645,648
Net position, end of year	\$	94,179,240

See accompanying notes to the financial statements

**Central Valley Water Reclamation Facility
Statement of Cash Flows
For The Year Ended December 31, 2018**

<u>Cash flows from operating activities</u>	
Receipts from members and customers	\$ 16,815,565
Payments to suppliers	(4,377,280)
Payments to employees	<u>(10,497,997)</u>
Net cash provided (used) by operating activities	<u>1,940,288</u>
<u>Cash flows from capital and related financing activities</u>	
Capital contributions from members	13,516,445
Member entity contributions received for debt service	3,665,825
Principal paid on capital debt	(1,255,000)
Interest and fiscal charges paid on capital debt	(1,374,839)
Proceeds from issuance of debt	-
Proceeds from sale of capital assets	32,100
Purchases of capital assets	<u>(28,139,251)</u>
Net cash provided by financing activities	<u>(13,554,720)</u>
<u>Cash flows from investing activities</u>	
Interest income	<u>615,868</u>
Net cash provided by investing activities	<u>615,868</u>
Net (decrease) increase in cash and cash equivalents	<u>(10,998,564)</u>
Cash and cash equivalents, beginning of year	<u>31,808,923</u>
Cash and cash equivalents, end of year	<u><u>\$ 20,810,359</u></u>
<u>Reconciliation of operating income (loss) to net cash provided by operating activities</u>	
Operating income (loss)	\$ (6,860,173)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	6,897,796
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables	(1,414,824)
Inventory	248,148
Prepaid expenses	89,841
Increase (decrease) in:	
Accounts payable	2,901,710
Accrued liabilities	70,929
Compensated absences	<u>6,861</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,940,288</u></u>

See accompanying notes to the financial statements

Central Valley Water Reclamation Facility
Notes to the Financial Statements

Note 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.

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, 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 are updated annually and are below:

Member Entity	Beginning Net Position Ownership		Ending Net Position Ownership	
Cottonwood	\$ 14,415,154	17.03%	\$ 16,311,844	17.32%
Mt Olympus	20,814,365	24.59%	22,697,197	24.10%
Granger-Hunter	18,715,153	22.11%	21,096,150	22.40%
Kearns	8,921,651	10.54%	9,898,238	10.51%
Murray	7,152,557	8.45%	8,071,161	8.57%
South Salt Lake	4,460,826	5.27%	5,198,694	5.52%
Taylorville-Bennion	10,165,942	12.01%	10,905,956	11.58%
Net Position	\$ 84,645,648	100.00%	\$ 94,179,240	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.

The distribution of the Member Entity cash ownership is as follows:

Member Entity	Amount
Cottonwood	\$397,127
Mt Olympus	552,583
Granger-Hunter	513,605
Kearns	240,982
Murray	196,500
South Salt Lake	126,567
Taylorville-Bennion	265,516

Central Valley Water Reclamation Facility
Notes to the Financial Statements

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. This class of assets has a purchase cost or construction cost of \$30,000 or greater.

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).

**Central Valley Water Reclamation Facility
Notes to the Financial Statements**

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

<u>Capital Descriptions</u>	<u>Life in Years</u>
Facility	20 to 40
Facility equipment	10 to 20
Interceptor lines	20 to 40
Vehicles and equipment	5 to 10
Golf course	20 to 40

Compensated Absences

Unpaid vacation amounts are accumulated throughout the year, not to exceed 296 hours at year end. Vacation and sick pay amounts are charged as wages when used. Terminated employees are not paid for unused sick leave. Qualified retiring employees are paid up to 1,080 hours of accumulated sick leave 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 board meeting. 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.

Central Valley Water Reclamation Facility
Notes to the Financial Statements

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.

**Central Valley Water Reclamation Facility
Notes to the Financial Statements**

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, 2018:

Investment Type	Investment Maturities in Years		
	Level 2		
	Amortized Cost Basis	Less Than 1	1 - 5
Public Treasurer's Investment Fund	\$ 865,367	\$ 865,367	-

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, 2018 fair value factor of .99972772, as calculated by the Utah State Treasurer, to the Facility's average daily balance in the fund is \$865,131.

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, 2018, \$1,979,164 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.

**Central Valley Water Reclamation Facility
Notes to the Financial Statements**

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, 2018, 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 from Member Entities

The receivables from the Member Entities at December 31, 2018 are comprised of the following:

Entity	Receivables Balance
Cottonwood	\$ 239,512
Mt Olympus	828,595
Granger-Hunter	293,313
Kearns	605,064
Murray	118,343
South Salt Lake	83,964
Taylorville-Bennion	369,610
Total	\$ 2,538,401

**Central Valley Water Reclamation Facility
Notes to the Financial Statements**

Note 5 – Retirement Plan

Central Valley Water Reclamation Facility sponsors two defined contribution retirement plans. The 401(a) plan is employer funded, and the 457(b) is employee funded. Calendar year 2018 was the first year the 457(b) retirement plan was available to employees. Eligible employees consist of all permanent full-time employees. The Facility's total contribution for the 401(a) retirement plan is 25% of the employee's annual salary. An employee may contribute to the 457(b) up to \$18,500 if under 50 years old, and contribute an additional \$6,000 if over 50 years of age. Contributions to the retirement plans and covered salaries are in the table below:

Retirement Plan	2018	2017	2016
401(a) Plan			
Employer contributions	\$1,630,298	\$1,473,869	\$1,334,563
Employee contributions	-	-	-
457(b) Plan			
Employer contributions	-	-	-
Employee contributions	392,938	-	-

**Central Valley Water Reclamation Facility
Notes to the Financial Statements**

Note 6 – Capital Assets

Capital assets for the year ended December 31, 2018 were as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending</u>
Capital assets, not depreciated:					
Land	\$ 10,147,897	\$ -	\$ -	\$ -	\$ 10,147,897
Construction in progress	9,678,221	26,960,456	-	(302,675)	36,336,002
Total capital assets, not depreciated	<u>19,826,118</u>	<u>26,960,456</u>	<u>-</u>	<u>(302,675)</u>	<u>46,483,899</u>
Capital assets, depreciated:					
Facility	160,101,776	7,500	-	(306,435)	159,802,841
Facility equipment	36,203,832	38,249	(300,000)	(470,410)	35,471,671
Interceptor lines	18,150,097	-	-	359,845	18,509,942
Vehicles and equipment	6,215,332	1,133,046	(62,056)	719,675	8,005,997
Golf course	6,009,918	-	(408,162)	-	5,601,756
Total capital assets, depreciated	<u>226,680,955</u>	<u>1,178,795</u>	<u>(770,218)</u>	<u>302,675</u>	<u>227,392,207</u>
Less: accumulated depreciation:					
Facility	(113,476,823)	(4,554,433)	-	287,876	(117,743,380)
Facility equipment	(27,365,824)	(1,022,629)	300,000	488,810	(27,599,643)
Interceptor lines	(9,418,114)	(447,563)	-	(287,876)	(10,153,553)
Vehicles and equipment	(3,835,704)	(667,748)	62,056	(488,810)	(4,930,206)
Golf course	(5,213,196)	(205,423)	408,162	-	(5,010,457)
Total accumulated depreciation	<u>(159,309,661)</u>	<u>(6,897,796)</u>	<u>770,218</u>	<u>-</u>	<u>(165,437,239)</u>
Total capital assets being depreciated, net	<u>67,371,294</u>	<u>(5,719,001)</u>	<u>-</u>	<u>302,675</u>	<u>61,954,968</u>
Capital assets, net	<u>\$ 87,197,412</u>	<u>\$ 21,241,455</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,438,867</u>

During 2018, the Facility disposed of capital assets at a net gain of \$32,100. In 2018, there were also some classification adjustments that occurred among Facility, Facility equipment, Interceptor lines, and Vehicles and equipment with a net impact of zero. Depreciation expense for the year ended December 31, 2018 was \$6,897,796.

**Central Valley Water Reclamation Facility
Notes to the Financial Statements**

Note 7 – Long-Term Debt

Revenue bonds outstanding at December 31, 2018 are as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Due in One Year</u>
Revenue Bonds					
2017A series	\$ 28,600,000	\$ -	\$ 905,000	\$ 27,695,000	\$ 935,000
2017B series	3,445,000	-	350,000	3,095,000	410,000
2017A premium	4,177,260	-	219,856	3,957,404	-
Total	<u>\$ 36,222,260</u>	<u>\$ -</u>	<u>\$ 1,474,856</u>	<u>\$ 34,747,404</u>	<u>\$ 1,345,000</u>

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 & Poor’s and Finch. The new process is State mandated, and the Facility is required to have this change complete by 2025. The four 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, 2018 are as follows:

<u>Bond Series</u>	<u>Amount</u>	<u>Percentage</u>
2017A series sewer revenue bonds		
Cottonwood Improvement District	\$ 8,914,280	32.19%
Granger-Hunter Improvement District	11,528,860	41.62%
Murray City	4,410,819	15.93%
South Salt Lake	2,841,041	10.26%
2017B series sewer revenue bonds		
Kearns Improvement District	3,095,000	100%

Central Valley Water Reclamation Facility
Notes to the Financial Statements

Revenue bond debt service requirements to maturity are as follows:

Year	Principal	Interest	P + I
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	1,565,000	1,110,235	2,675,235
2024-28	7,455,000	4,489,093	11,944,093
2029-33	8,135,000	2,827,000	10,962,000
2034-37	7,950,000	820,000	8,770,000
Total	\$ 30,790,000	\$ 14,268,471	\$ 45,058,471

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, 2018 the Facility received net lease payments of \$16,556 from Scott & Roth Golf Management, LLC.

Central Valley Water Reclamation Facility
Notes to the Financial Statements

Note 9 – Construction Commitments

The Facility has entered into several contracts to upgrade and replace the facility and facility equipment. As of December 31, 2018, the Facility's significant commitments are found below:

Project	Amount
Blend and EQ tank rehabilitation	\$ 488,750
Secondary clarifiers	2,675,692
Odor control	2,833,974
Tunnel extension	78,211
Headworks generator installation	132,946
Cogen engine replacement	1,985,780
Headworks channel upgrade	366,194
Total	\$ 8,561,547

Note 10 – Subsequent Events

None



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CERTIFIED PUBLIC ACCOUNTANTS

Gary K. Keddington, CPA
Phyl R. Warnock, CPA
Marcus K. Arbuckle, CPA
Steven M. Rowley, 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, 2018, and the related notes to the financial statements, which collectively comprise the Facility's basic financial statements, and have issued our report thereon dated February 27, 2019.

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
February 27, 2019



KEDDINGTON & CHRISTENSEN, CPAS

CERTIFIED PUBLIC ACCOUNTANTS

Gary K. Keddington, CPA

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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

We have audited Central Valley Water Reclamation Facility's (the Facility) compliance with the applicable state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the State Auditor, that could have a direct and material effect on the Facility for the year ended December 31, 2018.

State compliance requirements were tested for the year ended December 31, 2018 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 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 state compliance requirement 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 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 Compliance

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, 2018.

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
February 27, 2019