



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Basic Financial Statements

(With Independent Auditors' Reports Thereon)

June 30, 2016

and

Audit of Federal Awards performed in Accordance  
with the Uniform Guidance for Federal Awards

Year ended June 30, 2016

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

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**KPMG LLP**  
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## **Independent Auditors' Report**

The Board of Trustees  
Central Utah Water Conservancy District:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Central Utah Water Conservancy District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' 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 auditors' 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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis; Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual General Fund; Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual CUPCA Fund; Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual Olmstead Fund; Schedule of the Proportionate Share of the Net Pension Liability; Schedule of Contributions; General Employees' Other Postemployment Benefits Plan Schedule of Funding Progress; and Note to Required Supplementary Information 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.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KPMG LLP

October 25, 2016

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Management's Discussion and Analysis

June 30, 2016

(Unaudited)

This section of Central Utah Water Conservancy District's (District) report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the District's basic financial statements, which follow this section.

### Financial Highlights

- The District's net position was \$463.9 million at June 30, 2016.
- The District continued various capital projects during the year ended June 30, 2016. The following significant capital additions were recorded during the year; Central Water Project, \$7.2 million; and Utah Valley Water Treatment Plant, \$3.9 million.
- The District is the sponsor of the Olmsted Replacement project and expended \$3.3 million in connection with that project.
- The District is also the sponsor of the Central Utah Project and expended \$7.0 million in connection with that project.

### Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

(1) Government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business. These statements include all governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other nonexchange revenue.

The *statement of net position* presents information on all of the assets and liabilities of the District along with deferred inflows and outflows of resources, with the difference between the two reported as net position.

The *statement of activities* presents information showing how the net position of the District changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Management's Discussion and Analysis

June 30, 2016

(Unaudited)

### Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

#### *Governmental Funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the governments near term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund, Central Utah Project Completion Act Fund (CUPCA), Olmsted Replacement Fund (Olmsted) the Debt Service Fund, and the Capital Projects Fund; all of which are considered to be major funds.

- **General Fund:** The General Fund is the operating fund of the District. Revenue from tax collections, water sales, and other sources is received into this fund. Expenditures include administrative costs and operation and maintenance of District and project facilities. Fund transfers are made from the General Fund to the other funds of the District.
- **Central Utah Project Completion Act Fund:** The Central Utah Completion Act Fund (CUPCA), a special revenue fund, contains federal funds, which are in most cases matched with District funds and are used for water development projects owned and approved by the U.S. Department of the Interior and authorized by the CUPCA in Public Law 102 575, October 30, 1992.
- **Olmsted Replacement Fund:** The Olmsted Replacement Fund is a special revenue fund that contains Federal and District funds used for the replacement of the Olmsted hydroelectric power plant.
- **Debt Service Fund:** The Debt Service Fund is used to collect and pay debt service payments on the District's outstanding debt. A trustee administers debt service payments and directs the investment of reserve funds with District approval. Payments are made to bondholders and to the U.S. Bureau of Reclamation, a programmatic bureau of the U.S. Department of the Interior.
- **Capital Projects Fund:** The Capital Projects Fund administers payments for various District capital projects. This includes modifications to the District's water treatment plants and for water conveyance facilities. It is also used to modify certain federal facilities within the District's operating agreements. Funds are transferred into this fund from the General Fund.



# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Management's Discussion and Analysis

June 30, 2016

(Unaudited)

### *Proprietary Funds*

Proprietary funds include functions and services that are business type activities and include more detailed information than found in the government-wide financial statements. Proprietary funds can be either enterprise funds or internal service funds. The District reports one proprietary type fund, the Jordanelle Hydropower Enterprise Fund, which accounts for the activities of the Jordanelle Hydroelectric Plant.

### *Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the District cannot use these funds to fund its programs.

The District maintains one fiduciary fund, which is a private purpose trust fund, described below:

- **June Sucker Recovery Agreement Fund:** The District, along with one state, four federal, and three local agencies entered into an agreement with the U.S. Fish and Wildlife Service to rehabilitate the June sucker, a Utah native fish on the endangered species list. The other state, federal, and local agencies participate in the program and contribute financially. The District administers the funds on behalf of those who are a party to the agreement.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

**Government-wide Financial Analysis**

The District's assets and deferred outflows exceeded liabilities by \$463.9 million at June 30, 2016.

The District's assets, liabilities, and net position are outlined below (in millions):

	<b>Governmental activities</b>		<b>Business-type activities</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Current assets	\$ 114.3	110.5	1.7	1.4
Noncurrent assets	118.6	103.3	7.1	7.0
Capital assets	962.4	955.4	18.6	19.1
Deferred outflows	33.1	31.2	0.5	0.5
Total assets and deferred outflows	<u>\$ 1,228.4</u>	<u>1,200.4</u>	<u>27.9</u>	<u>28.0</u>
Current liabilities	\$ 33.9	35.9	1.2	1.1
Long-term liabilities	730.1	742.7	19.2	20.1
Total liabilities	<u>764.0</u>	<u>778.6</u>	<u>20.4</u>	<u>21.2</u>
Deferred inflows	0.5	0.4	—	—
Net position:				
Net investment in capital assets	259.5	230.6	(1.0)	(1.3)
Restricted	110.8	92.3	7.1	7.0
Unrestricted	93.6	98.5	1.4	1.1
Total net position	<u>463.9</u>	<u>421.4</u>	<u>7.5</u>	<u>6.8</u>
Total liabilities and net position	<u>\$ 1,228.4</u>	<u>1,200.4</u>	<u>27.9</u>	<u>28.0</u>

The largest portion of the District's assets reflects its investment in capital assets (e.g., land, water stock, buildings and improvements, and furniture and equipment, net of accumulated depreciation). The District will service its debt through the future sale of water to customers along with other sources, such as property and motor vehicle taxes. The principal amount of District debt was reduced by approximately \$17.1 million for governmental and business type activities during the year ended June 30, 2016, including amortization of bond premiums.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Changes in net position for the fiscal years ended June 30, 2016 and 2015 are outlined below:

	Governmental activities		Business-type activities	
	2016	2015	2016	2015
Program revenue:				
Central Utah Project Completion Act	\$ 6.3	6.4	—	—
Water treatment plants and other projects	21.6	20.2	—	—
General government	21.7	19.2	—	—
Hydropower sales	—	—	2.3	2.2
Olmsted Hydro Project	4.1	14.9	—	—
General revenue:				
Property taxes	52.6	51.7	—	—
Redevelopment agency property taxes	3.6	3.5	—	—
Earnings on investments	1.8	1.2	—	—
Total revenue	111.7	117.1	2.3	2.2
Program expenses:				
Central Utah Project Completion Act	11.3	30.9	—	—
Water treatment plants and other projects	9.2	9.0	—	—
Olmsted Hydro Project	3.3	0.4	—	—
Hydropower costs and expenses	—	—	1.1	1.1
General government	11.7	12.8	—	—
Redevelopment agency property tax increment	3.6	3.5	—	—
Interest on long-term debt	30.1	30.4	0.5	0.5
Total expenses	69.2	87.0	1.6	1.6
Change in net position	42.5	30.1	0.7	0.6
Net position beginning of year	421.4	394.7	6.8	6.2
Prior period adjustment	—	(3.4)	—	—
Net position end of year	\$ 463.9	421.4	7.5	6.8

Total net position increased by approximately \$43.2 million, including the Jordanelle Hydroelectric Enterprise Fund activities. Program revenue for the CUPCA remained flat for the year ended June 30, 2016. General government revenue increased by \$2.5 million, primarily as a result of one time revenue related to the CWP project. Tax revenue increased by \$1.0 million from the prior year reflecting the general increase in the economy.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Investment income increased by approximately \$0.6 million as a result of somewhat higher returns and higher reserve balances. Hydropower sales increased by \$0.1 million and was consistent with the previous year. Hydropower sales are generally related to the water year. Water treatment plants and other projects increased by \$1.4 million primarily due to increased CWP water deliveries. Olmsted Hydro Project revenues declined by \$10.8 million due to changes in funding levels from year to year. Program expenses decreased \$17.8 million over the prior year reflecting \$19.6 million decrease in Central Utah Project Completion Act expenditures and a \$2.9 million increase in Olmsted Hydro Project expenditures.

### **Financial Analysis of the District's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

### **Governmental Funds**

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. At June 30, 2016, the District's governmental funds reported a combined fund balance of \$221.9 million. This amount compares to \$200.4 million in the prior year. The changes in combined fund balance reflect net expenditures performed on the Central Utah Project (CUPCA Fund), expenditures for CUWCD Water Development Project (CWP), expenditures for upgrades to water treatment plants and other projects (Capital Projects Fund), and payments for principal and interest on the District's outstanding debt.

Governmental funds report the differences between their assets and liabilities as fund balance, which is characterized under the following designations: nonspendable, restricted, committed, assigned, and unassigned. Reservations within the nonspendable, restricted, committed, and assigned designations indicate the portion of the District's fund balances that is not available for appropriation. Fund balances of Debt Service, Capital Projects, and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion. The fund balance of the General Fund is primarily reserved for the following purposes: liability reserves, emergency project operations and maintenance reserves, power loss, and project replacements until current year's tax collections are received. The fund balance of the Capital Projects Fund is designated for future projects; the CUPCA and Olmsted fund balances are reserved for costs on the CUPCA and Olmsted projects; and the Debt Service fund balance is reserved for future debt service.

### **Budgetary Highlights**

During the year, the board of trustees (the Board) revised the District's budget. Budget amendments were primarily to reflect changes related to increased federal funding for the Olmsted project. Total changes aggregated approximately \$8.4 million.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

**Capital Assets and Debt Administration**

*Capital Assets* – The Capital Projects Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for operating and maintaining facilities within the District. Capital assets, net of depreciation at June 30, 2016 and 2015 are outlined below (in millions):

	<b>2016</b>	<b>2015</b>
Water and aqueduct rights and privileges	\$ 639.5	638.4
Land and land rights	17.0	17.0
Buildings and equipment	126.7	128.0
Construction in progress	179.2	172.0
Total capital assets, net of accumulated depreciation and net of Enterprise Fund	962.4	955.4
Enterprise Fund capital assets, net of accumulated depreciation	18.6	19.1
Total capital assets, net of accumulated depreciation	\$ 981.0	974.5

Additional information on the District's capital assets can be found in notes 3 and 4 to the basic financial statements.

*Debt Administration* – The District maintains a schedule to retire all of its general obligation bonds by 2034 and its revenue bonds by 2042. The District's debt outstanding at June 30, 2016 consists of bonds and contract obligations between the District and the U.S. Bureau of Reclamation as outlined below (in millions):

	<b>Governmental activities</b>		<b>Total change 2016–2015</b>
	<b>2016</b>	<b>2015</b>	
General obligation and revenue bonds	\$ 717.8	734.0	(16.2)
Contracts and block notices	7.1	7.2	(0.1)
Enterprise fund revenue bonds	20.0	20.9	(0.9)

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

The District's most recent ratings are as follows:

	<u>Government</u>	<u>Enterprise</u>
Revenue bond ratings:		
Standard and poor's	AA+	AA
Fitch ratings	AA+	AA
Limited tax general obligation ratings:		
Standard and poor's	AA+	
Fitch ratings	AAA	

Additional information on the District's long-term debt can be found in note 5.

The notes to basic financial statements provide additional information that is essential for a more complete understanding of the data provided in the government-wide and fund financial statements.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department, Central Utah Water Conservancy District, 355 West University Parkway, Orem, Utah 84058.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Statement of Net Position

June 30, 2016

<b>Assets and Deferred Outflows</b>	<b>Governmental activities</b>	<b>Business-type activities</b>
Current assets:		
Cash and cash equivalents (notes 2 and 8)	\$ 107,909,133	1,222,461
Property taxes receivable	2,318,236	—
Accounts receivable	2,547,043	504,350
Prepaid expenses	248,775	—
Investments (note 2)	1,236,320	—
Total current assets	114,259,507	1,726,811
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (notes 2 and 8)	98,998,675	7,097,110
Investments (note 2)	19,658,692	—
Net pension asset (note 11)	288	1
Capital assets (notes 3 and 4):		
Nondepreciable capital assets:		
Water and aqueduct rights and privileges	639,476,653	—
Land	17,029,653	—
Construction in progress	179,181,176	—
Depreciable capital assets, net of accumulated depreciation	126,677,214	18,622,514
Total assets	1,195,281,858	27,446,436
Deferred outflows:		
Deferred outflow of resources (note 6):		
Accumulated decrease in fair value of hedging derivative	8,947,535	—
Pension	1,984,288	7,497
Deferred charge on refunding	22,125,511	446,997
Total deferred outflow of resources	33,057,334	454,494
Total assets and deferred outflows	\$ 1,228,339,192	27,900,930

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Statement of Net Position

June 30, 2016

<b>Liabilities, Deferred Inflows, and Net Position</b>	<b>Governmental activities</b>	<b>Business-type activities</b>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 2,547,655	187,170
Accrued liabilities	397,375	120,372
Accrued interest on long-term debt	7,493,844	—
Unearned water sales revenue	6,954,871	—
Current portion of long-term debt:		
Contract obligations to U.S. Bureau of Reclamation (note 5)	115,461	—
Bonds payable (note 5)	14,001,000	725,000
Premiums, net of amortization (note 5)	2,352,808	114,742
Total current liabilities	33,863,014	1,147,284
Long-term liabilities, net of current portion:		
Postretirement benefit liability (note 12)	7,555,153	—
Compensated absences	1,035,849	—
Derivative swap liability (note 6)	8,947,535	—
Net pension liability (note 11)	3,996,122	14,753
Long-term debt:		
Contract obligations to U.S. Bureau of Reclamation (note 5)	7,009,359	—
Bonds payable (note 5)	701,513,082	19,202,858
Total liabilities	763,920,114	20,364,895
Deferred inflow of resources related to pensions (note 11)	504,678	1,862
Net position:		
Net investment in capital assets	259,498,495	(973,089)
Restricted for:		
Emergency project operations and maintenance	1,617,008	—
Future project replacements	772,810	—
Operation and maintenance	2,349,268	—
Power loss reserve	2,164,197	—
Escrow bond reserve	10,381	—
Debt service reserve	60,348,491	7,097,111
Federal contracts	33,931,155	—
Future capital projects	9,603,813	—
Unrestricted	93,618,782	1,410,151
Total net position	\$ 463,914,400	7,534,173

See accompanying notes to basic financial statements.



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Statement of Activities

Year ended June 30, 2016

Functions	Expenses	Program revenue			Net revenue (expense) and changes in net position	
		Charges for services and other	Operating grants and contributions	Capital grants and contributions	Total governmental activities	Business-type activities
Governmental activities:						
Central Utah Project:						
Central Utah Project Completion Act (note 10)	\$ 6,995,521	—	6,272,000	—	(723,521)	—
Other Central Utah Project nonreimbursable expenses	4,331,818	—	—	—	(4,331,818)	—
District projects	1,276,377	—	—	—	(1,276,377)	—
Olmsted Hydro Power Replacement	3,259,688	—	—	4,120,000	860,312	—
Total Central Utah Project	15,863,404	—	6,272,000	4,120,000	(5,471,404)	—
Water treatment plants and other projects	8,039,591	21,631,048	—	—	13,591,457	—
General government	11,637,863	21,672,506	—	—	10,034,643	—
Redevelopment agency property taxes	3,640,621	—	—	—	(3,640,621)	—
Interest on long-term debt	30,109,833	—	—	—	(30,109,833)	—
Total governmental activities	69,291,312	43,303,554	6,272,000	4,120,000	(15,595,758)	—
Business-type activities:						
Hydropower	1,625,539	2,280,918	—	—	—	655,379
	\$ 70,916,851	45,584,472	6,272,000	4,120,000	(15,595,758)	655,379
General revenue:						
Property taxes					52,614,545	—
Redevelopment agency property taxes					3,640,621	—
Earnings on investments					1,806,535	59,780
Total general revenue					58,061,701	59,780
Change in net position					42,465,943	715,159
Net position beginning of year					421,448,457	6,819,014
Net position end of year					\$ 463,914,400	7,534,173

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Governmental Funds Balance Sheet

June 30, 2016

<b>Assets</b>	<b>General Fund</b>	<b>CUPCA Fund</b>	<b>Olmsted Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
Cash and cash equivalents (notes 2 and 8)	\$ 22,461,442	—	—	—	85,447,691	107,909,133
Property taxes receivable	2,318,236	—	—	—	—	2,318,236
Accounts receivable	1,085,890	—	—	1,004,079	403,280	2,493,249
Prepaid expenses	240,932	—	—	—	7,843	248,775
Restricted assets:						
Cash and cash equivalents (notes 2 and 8)	15,406,238	19,128,683	15,602,577	38,462,373	10,398,804	98,998,675
Investments (note 2)	—	—	—	20,895,012	—	20,895,012
Total assets	<u>\$ 41,512,738</u>	<u>19,128,683</u>	<u>15,602,577</u>	<u>60,361,464</u>	<u>96,257,618</u>	<u>232,863,080</u>
<b>Liabilities, Deferred Inflows, and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 536,310	552,012	248,093	12,973	1,198,267	2,547,655
Accrued liabilities	397,381	—	—	—	—	397,381
Unavailable water sales	6,954,871	—	—	—	—	6,954,871
Total liabilities	<u>7,888,562</u>	<u>552,012</u>	<u>248,093</u>	<u>12,973</u>	<u>1,198,267</u>	<u>9,899,907</u>
Deferred inflows:						
Unavailable revenue – property tax	1,051,563	—	—	—	—	1,051,563
Total deferred inflows	<u>1,051,563</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,051,563</u>
Fund balances (note 8):						
Nonspendable:						
Prepaid expenses	177,196	—	—	—	7,847	185,043
Restricted:						
Emergency project O&M reserve	1,617,008	—	—	—	—	1,617,008
Replacement reserve	772,810	—	—	—	—	772,810
O&M bond pledge reserve	2,349,268	—	—	—	—	2,349,268
Power loss reserve	2,164,197	—	—	—	—	2,164,197
Escrow bond reserve	10,381	—	—	—	—	10,381
Debt service reserves	—	—	—	60,348,491	—	60,348,491
CUPCA reserve	—	18,576,671	—	—	—	18,576,671
Olmsted reserve	—	—	15,354,484	—	—	15,354,484
Future capital projects	—	—	—	—	28	28
Committed:						
Liability insurance reserve	5,159,036	—	—	—	—	5,159,036
Contingency reserve	—	—	—	—	10,398,776	10,398,776
Assigned:						
Project facility reserve	1,730,473	—	—	—	—	1,730,473
WCWEP project reserve	543,921	—	—	—	—	543,921
District facility reserve	1,031,828	—	—	—	—	1,031,828
Red Butte O&M reserve	27,316	—	—	—	—	27,316
Future capital projects	—	—	—	—	84,652,700	84,652,700
Unassigned	16,989,179	—	—	—	—	16,989,179
Total fund balances	<u>32,572,613</u>	<u>18,576,671</u>	<u>15,354,484</u>	<u>60,348,491</u>	<u>95,059,351</u>	<u>221,911,610</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 41,512,738</u>	<u>19,128,683</u>	<u>15,602,577</u>	<u>60,361,464</u>	<u>96,257,618</u>	<u>232,863,080</u>

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position

June 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances – governmental funds	\$ 221,911,610
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$1,029,981,020 and the accumulated depreciation is \$67,616,324	962,364,696
Property tax revenue is recognized when earned (claim to resources established) rather than when “available.” Uncollected amounts from prior levy years have been recorded as deferred inflows in the funds, but have been recorded as revenue in governmentwide financial statements	1,051,563
The net pension asset is not an available resource and, therefore, is not reported in the funds	288
Pension obligations are not recognized as a liability in the funds as they do not require current financial resources	(2,516,512)
Postretirement benefit obligation is recognized as a liability in the funds when due and mature, rather than when incurred	(7,555,153)
Obligations for compensated absences are recognized as a liability in the funds when due and mature, rather than as earned by employees	(1,035,849)
Deferred charges	22,125,511
FEMA grant revenue is recognized when earned rather than when “available.” Uncollected grant revenue amounts have been recorded as account receivable and revenue in the governmentwide financial statements	53,800
Long-term debt, including bonds payable and accrued interest, is not due and payable in the current period and, therefore, is not reported in the funds	<u>(732,485,554)</u>
Total net position – governmental activities	<u>\$ 463,914,400</u>

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances

Year ended June 30, 2016

	<u>General Fund</u>	<u>CUPCA Fund</u>	<u>Olmsted Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Revenue:						
Property taxes	\$ 52,677,381	—	—	—	—	52,677,381
Redevelopment agency property taxes	3,640,621	—	—	—	—	3,640,621
Water sales	19,180,629	—	—	—	2,450,419	21,631,048
Interest	281,337	14,708	28,673	553,771	772,800	1,651,289
Net increase in fair value of investments	—	—	—	155,246	—	155,246
Central Utah Project Completion Act (note 10)	—	6,272,000	—	—	—	6,272,000
Olmsted Hydro Replacement Project	—	—	4,120,000	—	—	4,120,000
Other	1,276,765	—	—	3,975,937	16,534,000	21,786,702
Total revenue	<u>77,056,733</u>	<u>6,286,708</u>	<u>4,148,673</u>	<u>4,684,954</u>	<u>19,757,219</u>	<u>111,934,287</u>
Expenditures:						
Current:						
Central Utah Project Completion Act (note 10)	—	6,995,521	—	—	—	6,995,521
Other Central Utah Project nonreimbursable expenses	4,331,818	—	—	—	—	4,331,818
Water treatment plants and other projects	2,950,871	—	—	—	—	2,950,871
Olmsted Hydro Replacement Project	—	—	3,259,688	—	—	3,259,688
Administrative and general	7,907,347	—	—	—	994,962	8,902,309
District projects	1,273,987	—	—	—	2,390	1,276,377
Redevelopment agency property tax increment	3,640,621	—	—	—	—	3,640,621
Debt service:						
Principal (note 5)	—	—	—	13,870,226	—	13,870,226
Interest (note 5)	—	—	—	30,632,344	—	30,632,344
Other	—	—	—	504,930	—	504,930
Capital outlay	746,045	—	—	—	13,306,417	14,052,462
Total expenditures	<u>20,850,689</u>	<u>6,995,521</u>	<u>3,259,688</u>	<u>45,007,500</u>	<u>14,303,769</u>	<u>90,417,167</u>
Excess (deficiency) of revenue over expenditures	56,206,044	(708,813)	888,985	(40,322,546)	5,453,450	21,517,120
Other financing sources (uses):						
Transfers in	—	15,000,000	—	40,782,196	7,285,599	63,067,795
Transfers out	(48,067,795)	—	—	—	(15,000,000)	(63,067,795)
Net changes in fund balances	8,138,249	14,291,187	888,985	459,650	(2,260,951)	21,517,120
Fund balances, beginning of year	24,434,364	4,285,484	14,465,499	59,888,841	97,320,302	200,394,490
Fund balances, end of year	\$ <u>32,572,613</u>	<u>18,576,671</u>	<u>15,354,484</u>	<u>60,348,491</u>	<u>95,059,351</u>	<u>221,911,610</u>

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Reconciliation of the Statement of Revenue, Expenditures, and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds		\$ 21,517,120
<p>Governmental funds report capital outlays as expenditures. However, in the governmentwide financial statements, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:</p>		
Capital outlays, net	12,805,937	
Depreciation expense	(5,822,040)	6,983,897
Because some property taxes will not be collected for several months after the District’s fiscal year-end, they are not considered as “available” revenue in the governmental funds		(62,836)
Changes in expenses related to postretirement benefit costs reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		(570,589)
Changes in expenses related to pension reported in the statement of activities that do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		371,124
Changes in expenses related to compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		(51,314)
Changes in revenue related to FEMA grants has not been received and, therefore, haven’t been recorded as revenue in governmental funds		(114,196)
<p>The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. In the statement of activities, issuance of debt is recorded as long-term liabilities, while repayment of bond principal is a reduction of the liability. Also, governmental funds report the premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effects of these differences in the treatment of general obligation bonds and related items are as follows:</p>		
Principal payments	13,870,226	
Change in accrual for interest on long-term debt	(2,260)	
Amortization of bond premium	2,352,808	
Amortization of deferred refunding costs	(1,828,037)	<u>14,392,737</u>
Change in net position of governmental activities		<u>\$ 42,465,943</u>

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**  
Statement of Net Position – Jordanelle Hydroelectric Enterprise Fund  
June 30, 2016

**Assets and Deferred Outflows**

Current assets:	
Cash and cash equivalents (notes 2 and 8)	\$ 1,222,461
Accounts receivable	504,350
Total current assets	1,726,811
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (notes 2 and 8)	7,097,110
Net pension asset	1
Jordanelle Hydro plant (net)	18,622,514
Total noncurrent assets	25,719,625
Deferred outflow of resources:	
Deferred outflow or resources related to pension	7,497
Deferred charge on refunding	446,997
Total assets and deferred outflows	\$ 27,900,930

**Liabilities, Deferred Inflows, and Net Position**

Current liabilities:	
Accounts payable	\$ 187,170
Accrued liabilities	120,372
Current amortization of bond premium	114,742
Revenue bonds payable (note 5)	725,000
Total current liabilities	1,147,284
Noncurrent liabilities:	
Revenue bonds payable (note 5)	19,202,858
Net pension liability	14,753
Total noncurrent liabilities	19,217,611
Total liabilities	20,364,895
Deferred inflows:	
Deferred inflows related to pension (note 11)	1,862
Net position:	
Net investment in capital assets	(973,089)
Restricted for debt service reserve	7,097,111
Unrestricted	1,410,151
Total net position	7,534,173
Total liabilities, deferred inflows, and net position	\$ 27,900,930

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Statement of Revenue, Expenses, and Changes in Net Position  
Jordanelle Hydroelectric Enterprise Fund

Year ended June 30, 2016

Operating revenue:	
Hydropower sales	\$ 2,279,668
Other	1,250
	<hr/>
Total operating revenue	2,280,918
	<hr/>
Operating expenses:	
Cost of sales and services	708,600
Administrative and general	37,263
Depreciation	432,825
	<hr/>
Total operating expenses	1,178,688
	<hr/>
Operating income	1,102,230
	<hr/>
Nonoperating revenue (expenses):	
Investment earnings	59,780
Interest expense	(527,925)
Amortization of deferred refunding costs	(33,668)
Amortization of bond premium	114,742
	<hr/>
Total nonoperating expenses	(387,071)
	<hr/>
Change in net position	715,159
	<hr/>
Net position beginning of year	6,819,014
	<hr/>
Net position end of year	\$ 7,534,173
	<hr/> <hr/>

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**  
Statement of Cash Flows – Jordanelle Hydroelectric Enterprise Fund  
Year ended June 30, 2016

Cash flows from operating activities:	
Receipts from customers and users	\$ 2,022,013
Payments to suppliers	(311,340)
Payments to employees	(43,533)
Payments for interfund services used	<u>(381,410)</u>
Net cash provided by operating activities	<u>1,285,730</u>
Cash flows used for capital and related financing activities:	
Principal paid on revenue bonds	(725,000)
Interest paid on revenue bonds	<u>(527,925)</u>
Net cash used for capital and related financing activities	<u>(1,252,925)</u>
Cash flows from investing activity:	
Interest and dividends received	<u>59,780</u>
Net cash provided by investing activity	<u>59,780</u>
Net increase in cash and cash equivalents	92,585
Cash and cash equivalents, July 1, 2015	<u>8,226,986</u>
Cash and cash equivalents, June 30, 2016	<u><u>\$ 8,319,571</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,102,230
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	432,825
Decrease in net pension liability	(1,424)
Increase in accounts receivable	(258,905)
Increase in accounts payable and accrued liabilities	<u>11,004</u>
Total adjustments	<u>183,500</u>
Net cash provided by operating activities	<u><u>\$ 1,285,730</u></u>
Noncash investing, capital, and financing activities:	
Bond refunding amortization	\$ 33,668
Bond premium amortization	(114,742)

See accompanying notes to basic financial statements.



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**  
Statement of Fiduciary Net Position – Private Purpose Trust Fund  
June 30, 2016

	<b><u>Private Purpose Trust Fund</u></b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 1,757,742
Accounts receivable	<u>668,000</u>
Total assets	<u>2,425,742</u>
<b>Liabilities:</b>	
Accounts payable	258,558
Accrued liabilities	<u>45,907</u>
Total liabilities	<u>304,465</u>
Total net position	<u>\$ 2,121,277</u>

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund

Year ended June 30, 2016

	<b><u>Private Purpose Trust Fund</u></b>
Additions:	
June sucker recovery implementation program contributions	\$ 1,188,243
Interest on investments	<u>14,743</u>
Total additions	1,202,986
Deductions:	
June sucker recovery implementation program expense	<u>1,522,907</u>
Change in fiduciary net position	(319,921)
Net position beginning of year	<u>2,441,198</u>
Net position end of year	\$ <u><u>2,121,277</u></u>

See accompanying notes to basic financial statements.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2016

### (1) Summary of Significant Accounting Policies

The Central Utah Water Conservancy District (the District or CUWCD) prepares its basic financial statements in accordance with U.S. generally accepted accounting principles (GAAP) for governmental entities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are described below in subsequent sections of this note:

#### (a) Reporting Entity

The District was created by the Fourth District Court under authority of the Water Conservancy Act (Utah Code 73 9) in 1964. The purpose of the District, as stated in the court decree, is to acquire the maximum supplies of water for the District and to achieve the optimum development, distribution, and utilization of water resources available for agriculture, domestic, power generating, manufacturing, recreational, and other beneficial uses. The eight counties in the District are Salt Lake, Utah, Uintah, Duchesne, Sanpete, Wasatch, and portions of Juab, and Summit counties.

The District's board of trustees (the Board), comprising 18 individuals, is the governing authority for the District. The Board members are nominated by county commissioners, selected by the Governor, and confirmed by the State Senate. The District is an independent reporting entity and is not a component unit of any other government. The Board establishes District policies, approves the budget, is responsible for fiscal matters, and is authorized to issue bonds, incur debt, and to levy ad valorem taxes.

All funds, including all financial activities over which the Board has financial accountability, are included in this report. The District's financial reporting entity comprises all funds of the District, which constitute the primary government.

In determining the financial reporting entity, the District includes all component units of which the District appoints a voting majority of the unit's board, and the District is either able to impose its will on the unit or a financial benefit or burden relationship exists. The District has no component units.

#### (b) Basis of Presentation

##### Government-wide Financial Statements

The statement of net position and statement of activities display information about the District as a whole. They include all assets, deferred inflows/outflows, and liabilities of the District, except those related to fiduciary funds. These statements include all governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other nonexchange revenue.

##### Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenue, and expenditures/expenses. The District's funds are organized into three categories: governmental, proprietary, and fiduciary. Major funds are presented separately in the fund financial statements. A

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2016

fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- (a) Total assets, liabilities, and deferred inflows/outflows, revenue, or expenditures/expenses of the individual governmental fund are at least 10% of the corresponding total for all funds of that category or type.
- (b) Total assets, liabilities, and deferred inflows/outflows, revenue, or expenditures/expenses of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

Further, any other governmental or enterprise fund may be reported as a major fund if the government's officials believe it is particularly important to the financial statement users. All of the District's governmental funds are considered major funds. The governmental funds, enterprise fund, and fiduciary fund of the District are described below:

### **Governmental Funds**

#### ***General Fund***

The General Fund is the primary operating fund of the District. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

#### ***CUPCA Fund***

The Central Utah Project Completion Act (CUPCA) Fund is used to account for resources restricted for the completion of the Central Utah Project, which includes various water features throughout central Utah.

#### ***Olmsted Replacement Fund***

The Olmsted Replacement Fund was established to facilitate the replacement and upgrading of the Olmsted Hydro Plant as part of the Central Utah Project.

#### ***Debt Service Fund***

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the District. Ad valorem taxes are used for the payment of principal and interest on the District's General Obligation Bonds. All other revenue is pledged for payment of the District's Revenue Bonds.

#### ***Capital Projects Fund***

The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2016

### ***Proprietary Funds***

Proprietary funds include functions and services that are business type activities and include more detailed information than found in the government-wide financial statements. Proprietary funds can be either enterprise funds or internal service funds.

### ***Jordanelle Hydropower Fund***

As of June 30, 2016, the District maintained one proprietary type fund, the Jordanelle Hydropower Fund. This fund is used to account for the activities of the Jordanelle Hydroelectric Plant.

### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements, as the District cannot use these funds to finance its programs. As of June 30, 2016, the District has one fiduciary fund, the June Sucker Recovery Agreement Fund, which is a private purpose trust fund.

### ***June Sucker Recovery Agreement Fund***

The District, along with other state and federal agencies, entered into an agreement with the U.S. Fish and Wildlife Service to rehabilitate the June sucker, a Utah native fish on the endangered species list. The other state and federal agencies participate in the program and contribute financially. The District administers the funds on behalf of those who are a party to the agreement.

### **(c) *Measurement Focus and Basis of Accounting***

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

### **Measurement Focus**

On the government-wide statement of net position and the statement of activities, governmental activities are presented using the economic resources measurement focus as are the proprietary fund and fiduciary fund. Accordingly, these statements recognize the effect of exchange and exchange like transactions when the exchange takes place.

All governmental funds financial statements utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period.

The statement of net position and statement of revenue, expenses, and changes in fund net position for proprietary funds are presented using the economic resources measurement focus and accrual basis of accounting.

The statement of fiduciary net position and the statement of changes in fiduciary net position are presented using the economic resources measurement focus and accrual basis of accounting.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2016

### **Basis of Accounting**

In the government-wide statement of net position and statement of activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenue are recognized when earned and expenses are recorded when the liability is incurred or the economic asset is used. Revenue, expenses, gains, losses, assets, and liabilities resulting from imposed nonexchange transactions, excluding property taxes, are recognized in the period when an enforceable legal claim has arisen or when resources are received, whichever is first. Property tax revenue is recorded in the period levied, net of an allowance for uncollectible amounts, if any. In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures other than debt service expenditures are recognized when a fund liability is incurred. Debt service expenditures, including principal and interest on long-term debt and issue costs paid out of debt proceeds, are reported as expenditures when the payment is due. All liabilities of governmental funds are expected to be liquidated with expendable available resources. Under the modified accrual basis of accounting, all exchange revenue is recognized in the accounting period in which they become available and measurable. Revenue is considered available if it can be collected within a period of 60 days following the close of a fiscal year. Water treatment and delivery revenue, as well as property and other tax revenue, are susceptible to accrual. Accounts receivable are recorded for water treatment and delivery revenue when services are rendered, and for property and other tax revenue when levied, with the unrecognized portion reported as unearned revenue.

The proprietary and fiduciary funds financial statements are presented using the accrual basis of accounting.

Proprietary funds distinguish operating revenue and expenses from nonoperating revenue and expenses.

Operating revenue includes activities that are generated through the sale of power.

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions and primarily include investment earnings and interest income.

Operating expenses include activities that have the characteristics of an exchange transaction, such as: a) employee salaries, benefits, and related expense; b) cost of power sales; c) insurance payments; and d) depreciation of the hydropower plant and equipment.

Nonoperating expenses include activities that have the characteristics of nonexchange transactions, such as interest on debt.

### **(d) Use of Estimates**

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses, during the reporting period. Actual results will differ from those estimates.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2016

(e) ***Cash and Cash Equivalents***

Cash and cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date.

(f) ***Investments***

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

(g) ***Capital Assets***

In the government-wide financial statements, capital assets are valued at historical cost, except for donated fixed assets, which are reported at their estimated fair value at the date of donation. Costs incurred for repairs and maintenance that do not extend the useful life of an asset are recorded as expense in the statement of activities. Additions, improvements, and betterments that provide future benefit and exceed the District's capitalization threshold for capital assets of \$5,000 are recorded as capital assets in the accompanying statement of net position.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives is from 3 to 50 years. Water and aqueduct rights and privileges extend into perpetuity and, accordingly, are not depreciated. Impairment due to changes in circumstances or other adverse factors are considered at least annually.

In the fund financial statements, costs related to capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

(h) ***Long-Term Liabilities***

All long-term debt and other long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide financial statements. The long-term debt consists primarily of general obligation and revenue bonds and U.S. government obligations. Repayment of principal is recorded as a reduction of the liability, and interest expense is recorded as incurred.

Long-term debt and other long-term liabilities are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures in the Debt Service Fund when due and payable.

Interest rate swap derivative instruments are used to hedge against interest costs on variable rate debt to achieve the lowest borrowing costs possible without exposure to significant levels of risk. The fair values of the swaps are measured using the economic resources measurements focus. The fair values are recorded in the statement of net position as deferred inflow/outflow of resources and derivative swap liability/asset.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2016

(i) ***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. Deferred charge on refunding, pension, and accumulated decrease in fair value of hedging derivative reported in the Government-wide statement of net position qualify for reporting as deferred outflows. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The net difference between projected and actual earnings on pension plan investments and contributions made to the pension prior to fiscal year-end, but subsequent to the measurement date are reported as deferred outflows and will be recognized as a reduction to the net pension liability in the upcoming fiscal year(s). An accumulated decrease in fair value of hedging derivative results from the interest rate swap agreement (note 6). The amount is deferred and adjusted to fair value each period with changes recorded to interest expense.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or pension related costs such as actuarial changes in pension assumptions and differences between expected pension and actual pension experience that applied to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

(j) ***Net Position Classifications***

In the government-wide financial statements, net position is displayed in three components:

- *Net investment in capital assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets plus deferred charges on refunding.
- *Restricted net assets* – consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – all other net assets that do not meet the definition of “restricted” or “net investments in capital assets.”

Governmental fund equity is classified as fund balance. Fund balance is displayed in classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation



# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

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- *Committed fund balance* – amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint
- *Assigned fund balance* – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority
- *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

**(k) *Interfund Transactions***

Transactions that constitute reimbursements to a fund for expenditures initially made from that fund, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions are reported as operating transfers. Interfund transactions between funds within governmental activities are eliminated in the accompanying statement of net position and statement of activities.

**(l) *Property Tax Revenue***

Property tax revenue is collected and remitted by the various county treasurers as agents for the District. Redevelopment agency property tax is recorded as revenue and expense equal to the amount for which the Redevelopment Agency has given support in the form of property tax relief, which is provided to the District by the county treasurers of the District's participating counties.

State of Utah statutes establish the process by which taxes are levied and collected. Property taxes are assessed as of January 1 of the year in which they are due and are payable November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at a rate equal to the federal discount rate; the interest period is from January 1 until the date paid. If in May of the fifth year the taxes remain delinquent, the county advertises and sells the property at a tax sale. Therefore, property taxes are ultimately collectible and no allowance for doubtful accounts is considered necessary.

In the fund financial statements, property tax revenue is considered available and recorded as revenue in the period levied to the extent it is collected within 60 days following the close of a fiscal year-end. Property tax revenue is recorded in the government-wide financial statements in the period levied.

**(m) *Other Revenue***

Program revenue for CUPCA and Olmsted consist of contributions from the U.S. Department of Interior. Program revenue for water treatment plans and other projects consists of charges to customers for services provided.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

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**(n) Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for governmental activities. In the fund financial statements, expenditures are classified by character for governmental activities. When an expense is incurred for which both restricted and unrestricted resources are available, the unrestricted resources are first applied.

**(o) Compensated Absences**

The District's policy regarding vacation time permits employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as an accrued liability in the accompanying government-wide statement of net position when earned. The liability for these compensated absences is recognized in the fund financial statements as payments come due each period.

**(p) Pension**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The net pension liability, pension expense, deferred outflows of resources, and deferred inflows of resources have been determined on the same basis as they are reported by the pension fiduciary. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**(q) New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The effective date is for fiscal year beginning after June 15, 2017 and early adoption is permitted. The District is currently evaluating the effect that GASB Statement No. 75 will have on the financial statements and related disclosures.

**(2) Deposits and Investments**

**(a) Deposits**

The District maintains a cash and investment pool that is available for use by the general and capital projects funds. Income from the investment of pooled cash is allocated based on the average ending balance of the general and capital projects funds to the investment pool. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents" and "investments."

State law requires that the District follow the requirements of the Utah Money Management Act (the Act) (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the District to deposit funds in a "qualified depository,"

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

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defined as any financial institution that has been certified by the Utah State Commissioner of Financial Institutions.

The Act also defines the types of securities allowed as appropriate temporary investments for the District and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Cash, cash equivalents, and investments at June 30, 2016 consist of the following:

Cash deposits	\$	35,522,517
Cash equivalents and investments		<u>200,599,875</u>
Total cash, cash equivalents, and investments	\$	<u><u>236,122,392</u></u>

These amounts are included in the following balances on the statement of net position as follows:

	<u>Government activities</u>	<u>Business-type activities</u>
Unrestricted:		
Cash and cash equivalents	\$ 107,909,133	1,222,461
Restricted:		
Cash and cash equivalents	98,998,675	7,097,110
Investments	<u>20,895,012</u>	<u>—</u>
Total cash, cash equivalents, and investments	<u><u>\$ 227,802,820</u></u>	<u><u>8,319,571</u></u>

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Restricted cash and cash equivalents and investments consisted of the following at June 30, 2016:

	<u>General Fund</u>	<u>CUPCA Fund</u>	<u>Olmsted Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Enterprise Fund</u>
Emergency Reserve	\$ 1,617,008	—	—	—	—	—
Replacement Reserve	772,810	—	—	—	—	—
District Facility Reserve	1,031,828	—	—	—	—	—
Liability Insurance Reserve	5,159,036	—	—	—	—	—
Power Loss Reserve	2,164,197	—	—	—	—	—
Project Facility Reserve	1,730,473	—	—	—	—	—
WCWEP Project Reserve	543,921	—	—	—	—	—
Red Butte Dam Reserve	27,316	—	—	—	—	—
O&M Bond Pledge Reserve	2,349,268	—	—	—	—	—
Escrow Bond Reserve	10,381	—	—	—	—	—
Central Utah Project Completion Act (note 10)	—	19,128,683	—	—	—	—
Olmsted Replacement Project	—	—	15,602,577	—	—	—
Debt Service Fund	—	—	—	39,061,731	—	—
Debt Service Coverage Maintenance	—	—	—	20,295,654	—	—
Contingency Reserve	—	—	—	—	10,398,776	—
Future Capital Projects	—	—	—	—	28	—
Hydroelectric Reserve	—	—	—	—	—	7,097,110
 Total restricted cash, cash equivalents, and investments	 <u>\$ 15,406,238</u>	 <u>19,128,683</u>	 <u>15,602,577</u>	 <u>59,357,385</u>	 <u>10,398,804</u>	 <u>7,097,110</u>

Also see note 8.

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be recovered. The Act requires deposits be in a qualified depository. The Act defines a qualified depository as any Utah depository institution or an out of state depository institution that is authorized to conduct business in this state, whose deposits are insured by an agency of the federal government, which has been certified by the Utah State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council (the Council).

At June 30, 2016, the total carrying amount of the District's restricted and unrestricted cash deposits (net of outstanding checks) was \$35,522,517 and the bank balances were \$36,092,558 of which \$250,000 is covered by federal depository insurance and \$35,842,558 was uninsured. No deposits are collateralized and collateralization is not required by state statute.

**(b) 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.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2016

The District 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 District's 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 District'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 District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations; 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 Treasurers' 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 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 carrying value of the pool shares.

#### *Fair Value of Investments and Cash Equivalents*

The District 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.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

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At June 30, 2016, the District had the following recurring fair value measurements:

	<b>June 30 2016</b>	<b>Fair value measurements using</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash equivalents:				
Money Market Mutual Funds	\$ 35,625,565	35,625,565	—	—
Utah Public Treasurers’ Investment Fund	179,102,014	179,102,014	—	—
Total cash equivalents	<u>214,727,579</u>	<u>214,727,579</u>	<u>—</u>	<u>—</u>
Debt securities:				
U.S. Treasuries	20,265,748	20,265,748	—	—
U.S. Agencies	1,103,064	1,103,064	—	—
Total debt securities	<u>21,368,812</u>	<u>21,368,812</u>	<u>—</u>	<u>—</u>
Total cash, cash equivalents, and investments measured at fair value	<u>\$ 236,096,391</u>	<u>236,096,391</u>	<u>—</u>	<u>—</u>

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. The PTIF investment pool is valued at net asset value, as a trading price, has a readily determinable fair value, and is classified as a Level 1 investment.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District’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 Money Management Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. 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 days – 15 months or less. The Act further limits the remaining term to maturity on all investments in obligations of the United States Treasury; obligations issued by U.S. government-sponsored enterprises; and bonds, notes, and other evidence of indebtedness of political subdivisions of the State to 5 years. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 3 years.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

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As of June 30, 2016, the District’s investments had the following maturities:

Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1–5	6–10	More than 10
U.S. Treasuries	\$ 20,265,748	662,004	19,603,744	—	—
U.S. Agencies	629,264	574,316	54,948	—	—
Total	\$ 20,895,012	1,236,320	19,658,692	—	—

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s policy for reducing its exposure to credit risk is to comply with the State’s Money Management Act, as previously discussed.

At June 30, 2016, the District’s investments had the following quality ratings:

Investment type	Fair value	Quality ratings			
		AAA	AA	A	Unrated
U.S. Treasuries	\$ 20,265,748	19,980,757	—	—	284,991
U.S. Agencies	629,264	157,747	—	—	471,517
Total	\$ 20,895,012	20,138,504	—	—	756,508

**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 District’s policy for reducing this 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 the total dollar amount held in the portfolio.

At June 30, 2016, the District held no commercial paper and corporate obligations.

**(3) Water and Aqueduct Rights and Privileges**

Under the provisions of the contract between the District and the U.S. Department of the Interior, Bureau of Reclamation (the Bureau), the title to project works constructed or acquired by the Bureau shall remain with the Bureau notwithstanding transfer of the care, operation, and maintenance of said works to the District. The contract further provides that the District shall have the permanent right to use and dispose of project water as such water is made available to it pursuant to development block notices and in compliance with applicable Reclamation Law. When all of the project water of a project has been made available, the District shall thereafter have the permanent right to the annual water yield from such project subject to certain rights reserved for the United States as provided in the contract.

Water and aqueduct rights and privileges have been capitalized at the amounts originally payable to the Bureau for development blocks completed (note 5) and other payments made directly to the Bureau.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

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Water and aqueduct rights and privileges included in the accompanying government-wide statement of net position and business type activities balance sheet as of June 30, 2016 comprise as follows:

<u>Block notice number</u>		
1	21,400 acre-feet of water from Starvation Reservoir for irrigation purposes; issued June 26, 1970	\$ 4,698,100
1A	15,100 acre-feet of water from Starvation Reservoir for irrigation purposes; issued April 1, 2000	2,340,500
1B	3,000 acre-feet of water from Starvation Reservoir for irrigation purposes; issued August 2, 2004	285,000
2	200 acre-feet of water from Starvation Reservoir for municipal, domestic, and miscellaneous purposes; issued May 29, 1975	255,000
	Municipal and industrial amendment; issued March 19, 1980	123,310
	Municipal and industrial amendment; issued January 1, 1988	15,690
	Municipal and industrial amendment; issued June 23, 1997	652,424
3	300 acre-feet of water from Starvation Reservoir for municipal, domestic, and miscellaneous purposes; issued December 13, 1979	578,000
	Municipal and industrial amendment; issued January 1, 1988	13,000
	Municipal and industrial amendment; issued June 23, 1997	978,636
4A	11,000 acre-feet of water from project water for municipal, industrial, and miscellaneous purposes; issued May 16, 1987	14,329,000
	Municipal and industrial amendment; issued January 1, 1988	1,459,000
	Municipal and industrial amendment; issued May 8, 1995	14,754,160
	Municipal and industrial amendment; issued June 23, 1997	27,011,160
4B	9,000 acre-feet of water from project water and costs of additional facilities for municipal, industrial, and miscellaneous purposes; issued November 12, 1987	19,447,000
	Municipal and industrial amendment; issued May 8, 1995	5,542,040
	Municipal and industrial amendment; issued June 23, 1997	22,100,040



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

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<u>Block notice number</u>		
Special Block Notice 1	260 acre-feet of water from Strawberry Reservoir for industrial and miscellaneous purposes; issued November 12, 1987	\$ 512,000
	Municipal and industrial amendment; issued June 7, 1995	209,906
	Municipal and industrial amendment; issued June 23, 1997	638,445
Special Block Notice 2	5,000 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued March 31, 1995	22,030,650
5A	Municipal and industrial amendment; issued June 23, 1997	4,129,950
5B	13,800 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued May 30, 1997	72,203,256
5C	2,400 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued April 1, 2000	12,557,102
5D	7,900 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued June 24, 2002	41,333,796
6	1,590 acre-feet of water from Strawberry Reservoir for municipal and industrial purposes; issued June 30, 2003	8,319,087
UBRP1	43,300 acre-feet of water from Strawberry Reservoir for municipal and industrial purposes; issued June 30, 2004	226,551,051
	2,500 acre-feet of irrigation water from the enlarged Big Sand Wash Reservoir, issued November 1, 2010	237,500
	Total block notices	<u>503,304,803</u>
	Water rights of the CWP System	97,453,856
	Water rights in Utah Lake	12,605,434
	Facility rights, conveyance rights, and other	26,112,560
	Total water rights and privileges (note 4)	<u>\$ 639,476,653</u>

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

**(4) Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

	<u>Balances, June 30, 2015</u>	<u>Transfers/ additions</u>	<u>Transfers/ deletions</u>	<u>Balances, June 30, 2016</u>
Governmental funds:				
Nondepreciable capital assets:				
Water rights, stock, and privileges	\$ 638,376,654	1,099,999	—	639,476,653
Land rights	17,012,853	16,800	—	17,029,653
Construction in progress:				
Central Water Project	<u>171,962,827</u>	<u>7,218,349</u>	<u>—</u>	<u>179,181,176</u>
Total construction in progress	<u>171,962,827</u>	<u>7,218,349</u>	<u>—</u>	<u>179,181,176</u>
Total nondepreciable capital assets	<u>827,352,334</u>	<u>8,335,148</u>	<u>—</u>	<u>835,687,482</u>
Depreciable capital assets:				
Treatment plants and reservoirs:				
Utah valley plant	94,116,351	3,941,895	(13,057)	98,045,189
Duchesne valley plant	47,013,981	11,000	—	47,024,981
Ashley valley plant	33,157,174	59,614	—	33,216,788
Red butte dam rehabilitation	<u>5,739,083</u>	<u>—</u>	<u>—</u>	<u>5,739,083</u>
Total treatment plants and reservoirs	180,026,589	4,012,509	(13,057)	184,026,041
District office facilities	6,895,819	63,810	—	6,959,629
District vehicles	<u>3,017,547</u>	<u>394,470</u>	<u>(104,149)</u>	<u>3,307,868</u>
Total depreciable capital assets	189,939,955	4,470,789	(117,206)	194,293,538
Accumulated depreciation	<u>(61,911,490)</u>	<u>(5,822,040)</u>	<u>117,206</u>	<u>(67,616,324)</u>
Depreciable capital assets, net	<u>128,028,465</u>	<u>(1,351,251)</u>	<u>—</u>	<u>126,677,214</u>
Capital assets, net	<u>\$ 955,380,799</u>	<u>6,983,897</u>	<u>—</u>	<u>962,364,696</u>
Enterprise Fund:				
Jordanelle Hydropower	\$ 21,646,952	—	—	21,646,952
Accumulated depreciation	<u>(2,591,613)</u>	<u>(432,825)</u>	<u>—</u>	<u>(3,024,438)</u>
Jordanelle Hydro, net	<u>\$ 19,055,339</u>	<u>(432,825)</u>	<u>—</u>	<u>18,622,514</u>

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2016

Depreciation expense of \$5.3 million related to treatment plants and reservoirs is allocated to water treatment plants and other projects in the accompanying government-wide statement of net position. Depreciation expense of \$0.5 million related to office facilities and vehicles is recorded as expense of the general government in the statement of net position, as the related capital assets essentially serve all functions. Additionally, depreciation expense of \$0.4 million is related to the enterprise fund.

### **(5) Contract Obligations and Long-Term Debt**

Under terms of an original contract between the District and the Bureau for the construction of facilities of the Bonneville Unit of the Central Utah Project (the Project), the District agreed to pay the Bureau the project repayment obligation of \$130,673,000, plus 20% for possible increases in construction costs, as project facilities are completed and the water from these project facilities becomes available for use. The Bureau establishes developmental blocks and apportions to each block an appropriate part of the District's repayment obligations based on the nature of the water use therein. Any block notice issued with respect thereto is subject to adjustment, depending on the facilities finally constructed, and on the allocation of construction costs and allotments of the project water to irrigation and municipal and industrial uses as made by the U.S. government in accordance with Reclamation Law. The District's original repayment obligation of \$130,673,000 was increased by 20% to \$156,808,000 for increases resulting from price increases for construction of project works. The District's repayment obligation is based on the Definite Plan Report dated August 1964.

Due to substantial increases in the estimated costs to complete the Project, the District negotiated a supplemental repayment contract with the Bureau that was approved by the District voters in 1985. The 1985 Supplemental Repayment Contract does not alter the original repayment contract noted in the preceding paragraph and provides for an additional \$335,000,000, plus a maximum of 10% for cost increase, to be paid by the District.

As projects are completed and block notices are issued under the above described repayment contracts, the District assumes full responsibility for repayment of such debt. Under terms of the repayment contracts, 34.00% of the debt for municipal and industrial water is to be repaid from District assessed property tax revenue. The source of repayment for the remaining 66.00% of the debt is anticipated to be generated from water usage fees arising from municipal and industrial users. It is the District's anticipation that such usage contracts will be entered into as projects are completed; however, any shortfall arising from an inability to generate user fees will be the responsibility of the District. Such debt is generally to be repaid over a period not to exceed a 50-year term, at an interest rate not to exceed 3.22%.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

*Debt Disclosures* – The District and the Bureau amended the repayment contract in fiscal years 2005, 2002, 2000, 1999, 1998, and 1997, which allowed the District to prepay the Bureau for Block Notices originally issued. The actual amount prepaid to retire the outstanding principal balances totaling \$483,916,350 was \$315,904,476. Below is a listing of the original present values of the prepayment amounts:

<u>Prepayment period</u>	<u>Principal (P)</u>	<u>Interest (I)</u>	<u>(P + I)</u>
2005 Prepayment	\$ 234,524,940	188,883,426	423,408,366
2002 Prepayment	41,333,796	35,061,917	76,395,713
2000 Prepayment	12,557,102	11,509,184	24,066,286
1999 Prepayment	2,388,685	7,204,709	9,593,394
1998 Prepayment	127,626,496	109,519,843	237,146,339
1997 Prepayment	65,485,331	46,727,369	112,212,700
Total	<u>\$ 483,916,350</u>	<u>398,906,448</u>	<u>882,822,798</u>

The amount prepaid will be applied against the District’s total outstanding contractual block notice obligation as 50 annual credits.

Certain bond issues require the establishment of a bond service fund and bond reserve fund in amounts as indicated in the respective bond agreements.

**(a) Current Financing Activity**

The foregoing obligations are recorded as long-term debt in the accompanying government-wide statement of net position, and principal and interest payments are made from the Debt Service Fund.

A summary of changes in long-term debt is as follows:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable:					
General obligation and revenue bonds	\$ 692,366,000	—	13,756,000	678,610,000	14,001,000
U.S. government obligations	7,239,046	—	114,216	7,124,820	115,461
Premiums, net of amortization	41,609,697	—	2,352,808	39,256,890	2,352,808
Total bonds payable	<u>\$ 741,214,743</u>	<u>—</u>	<u>16,223,024</u>	<u>724,991,710</u>	<u>16,469,269</u>
Business-type activities:					
Hydropower revenue bonds payable	\$ 19,515,000	—	725,000	18,790,000	725,000
Premiums, net of amortization	1,367,342	—	114,742	1,252,600	114,742
	<u>\$ 20,882,342</u>	<u>—</u>	<u>839,742</u>	<u>20,042,600</u>	<u>839,742</u>

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

A summary of payments and balances for the year ended June 30, 2016 is as follows:

	<u>2016 payments</u>		<u>Principal balances at June 30, 2016</u>
	<u>Principal</u>	<u>Interest</u>	
Block Notice 1 – issued in the original amount of \$4,698,100 in 1970; annual payments of principal only of \$18,620 through 2021, then \$960,395 through 2025	\$ 18,620	—	3,934,680
Block Notice 1A – issued in the original amount of \$2,340,500 in 2000; annual payments of principal only of \$46,810 through 2050	46,810	—	1,591,540
Block Notice 1B – issued in the original amount of \$285,000 in 2005; annual payments of principal only of \$5,700 through 2055	5,700	—	222,300
Block Notice 3 – issued in the original amount of \$578,000 in 1979; with an additional \$13,000 added in 1988 and an additional \$978,636 added in 1997; interest at 3.222%; annual payments of principal and interest of \$84,608 through 2021	69,948	14,660	385,046
Block Notice 4A – issued in the original amount of \$14,329,000 in 1987; with an additional \$1,459,000 in 1988, an additional \$14,754,160 added in 1995, and an additional \$27,011,160 added in 1997; interest at 3.222%; annual payments of principal and interest of \$2,524,854 through 2035	1,339,031	1,185,823	35,464,897
Block Notice 4B – issued in the original amount of \$19,447,000 in 1987; with an additional \$5,542,040 added in 1995 and an additional \$22,100,040 added in 1997; interest at 3.222%; annual payments of principal and interest of \$2,041,688 through 2035	1,082,789	958,899	28,678,187

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

	<u>2016 payments</u>		<u>Principal balances at June 30, 2016</u>
	<u>Principal</u>	<u>Interest</u>	
Block Notice 5A – issued in the amount of \$72,203,256 in 1997; annual payments of principal and interest of \$2,834,316	\$ 1,027,391	1,806,925	55,053,463
Block Notice 5B – issued in the original amount of \$12,557,102 in 2000; annual payments of principal and interest of \$501,382	181,743	319,639	9,738,773
Block Notice 5C – issued in the original amount of \$41,333,796 in 2003; annual payments of principal and interest of \$1,697,683	615,381	1,082,302	32,975,616
Block Notice 5D – issued in the original amount of \$8,319,087 in 2003; annual payments of principal and interest of \$345,198	125,128	220,070	6,705,107
Block Notice 6 – issued in the original amount of \$226,551,051 in 2004; annual payments of principal and interest of \$9,501,508	3,444,133	6,057,375	184,556,320
Special Block Notice 1 – issued in the original amount of \$512,000 in 1987; with an additional \$209,906 added in 1996 and an additional \$638,445 added in 1997; interest at 3.222%; annual payments of principal and interest of \$57,907 through 2037	28,823	29,084	873,848
Special Block Notice 2 – issued in the original amount of \$22,030,650 in 1995; \$4,129,950 added in 1997; interest at 3.222%; annual payments of principal and interest of \$1,036,555 through 2037	413,238	623,327	18,932,738
Block Notice – UBRP1 issued in the original amount of \$237,500; payments of principal only beginning in 2012 through 2061	4,750	—	213,750

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

	<b>2016 payments</b>		<b>Principal balances at June 30, 2016</b>
	<b>Principal</b>	<b>Interest</b>	
Block Notice Prepayment – issued in the original amount of \$65,485,331 in 1997. This amount represents a prepayment of \$35,500,000 toward existing Block Notices, which had a present value of \$112,212,700, as if paid in annual payments consisting of principal in the amount of \$65,485,331 and interest in the amount of \$46,727,369. The \$112,212,700 is applied against the District’s total outstanding contractual Block Notice obligation as 50 annual credits of \$2,244,254	\$ (1,036,136)	(1,208,118)	(49,753,714)
Block Notices, which had a present value of 237,146,339, as if paid in annual payments consisting of principal in the amount of \$127,626,496 and interest in the amount of \$109,519,843. The \$237,146,339 is applied against the District’s total outstanding contractual Block Notice obligation as 50 annual credits at various amounts.	(2,925,084)	(3,410,600)	(89,634,455)
Block Notice Prepayment – issued in the original amount of \$12,557,102 in 2000. This amount represents a prepayment of \$4,260,556 toward existing Block Notices, which had a present value of \$24,066,286, as if paid in annual payments consisting of principal in the amount of \$12,557,102 and interest in the amount of \$11,509,184. The \$24,066,286 is applied against the District’s total outstanding contractual Block Notice obligation as 47 annual credits at various amounts.	(181,743)	(319,639)	(9,738,773)

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

	<u>2016 payments</u>		<u>Principal balances at June 30, 2016</u>
	<u>Principal</u>	<u>Interest</u>	
Block Notice Prepayment – issued in the original amount of \$41,333,796 in 2003. This amount represents a prepayment of \$20,131,736 toward existing Block Notices, which had present value of \$76,395,713, as if paid in annual payments consisting of principal in the amount of \$41,333,796 and interest in the amount of \$35,061,917. The \$76,395,713 is applied against the District’s total outstanding contractual Block Notice obligation as 45 annual credits at various amounts.	\$ (615,381)	(1,082,302)	(32,975,616)
Block Notice Prepayment – issued in the original amount of \$234,524,940 in 2005. This amount represents a prepayment of \$72,449,940 toward existing Block Notices, which had a present value of \$423,405,366, as if paid in annual payments consisting of principal in the amount of \$234,524,940 and interest in the amount of \$188,883,426. The \$234,524,940 is applied against the District’s total outstanding contractual Block Notice obligation as 43 annual credits at various amounts	(3,569,261)	(6,277,445)	(191,261,427)
Jensen Unit, Central Utah Project repayment contract – issued in the original amount of \$1,885,501 in 1988; interest at 3.222%; annual payments of principal and interest of \$77,039 through 2049	38,346	38,693	1,162,550
Water Conservancy Revenue Bonds (1998 B and C Series) – issued in the original amount of \$840,000 and \$1,300,000, respectively, in 1998. Interest on B bonds is at 0%. Interest on C bonds is at 5.75%, payable semiannually beginning October 1, 1998 and thereafter on each April 1 and October 1 through 2023. Various installments of B bonds begin in 2024 and conclude in 2028	71,000	44,045	1,535,000



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

	<u>2016 payments</u>		<u>Principal balances at June 30, 2016</u>
	<u>Principal</u>	<u>Interest</u>	
General Obligation (2006 A Series) Refunding Bonds – issued in the original amount of \$9,410,000, plus \$430,815 reoffering premium in 2006. Interest at 4.0% to 5.0%, principal and interest payable semiannually beginning October 1, 2006 and thereafter on each April 1 and October 1 through 2018	\$ 1,090,000	165,450	2,429,745
Water Conservancy Revenue Bonds (2008 B-2 Series) – issued in the original amount of \$69,900,000 in 2008; interest at 3.6%, payable monthly beginning July 1, 2008. Principal payments due annually beginning on October 1, 2008. The refunding bond included \$228,977 of deferred charges. In March of 2011, the District refunded \$10,545,000 of this series	700,000	1,144,649	54,655,000
Jordanelle Hydroelectric Revenue Bonds(2008 B-4 Series) – issued in the original amount of \$26,500,000 in 2008; interest at a rate of 3.6%, payable monthly beginning July 1, 2008. Principal payments due annually beginning on October 1, 2028. The refunding bond included \$510,429 of deferred charges	—	65,075	8,025,000
General Obligation (2008 Series) Refunding Bonds – issued in the amount of \$148,700,000 in 2008; interest at a rate of 3.6%, payable monthly beginning July 1, 2008. Principal payments due annually beginning on April 1, 2009. The refunding bond included \$3,625,869 of deferred charges. Effective March 9, 2011, \$72,300,000 of the bonds were refunded.	—	32,644	23,700,000

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

	<b>2016 payments</b>		<b>Principal balances at June 30, 2016</b>
	<b>Principal</b>	<b>Interest</b>	
Water Conservancy Taxable Subordinate Revenue Bonds the (Series 2009) – issued in original amount of \$15,000,000 in 2010; the bonds are noninterest bearing with principal payments in the amount of \$3,000,000 per year beginning April 1, 2029	\$ —	—	15,000,000
Water Conservancy Taxable Revenue Bonds (Series 2010A) – issued in the original amount of \$224,440,000 in 2010; the bonds are Direct Pay Build America Bonds and bear interest at an average rate of 5.52% payable semiannually on October 1 and April 1. (Net rate to the District of 3.63%) Principal payments begin October 1, 2020	—	12,144,450	224,440,000
Water Conservancy Taxable Subordinate Revenue Bonds (Series 2010B) – issued in the original amount of \$6,000,000 in 2010; the bonds are noninterest bearing with principal payments in the amount of \$200,000 per year beginning October 1, 2012	200,000	—	5,200,000
Water Conservancy Taxable Subordinate Revenue Bonds (Series 2010C) – issued in the original amount of \$4,000,000 in 2010; the bonds are Direct Pay Build America bonds and bear interest at 2.0% with principal payments in the amount of \$200,000 per year through 2020 beginning in 2011, with a balloon payment of \$2,000,000 in 2021	200,000	64,000	3,000,000

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

	<b>2016 payments</b>		<b>Principal balances at June 30, 2016</b>
	<b>Principal</b>	<b>Interest</b>	
Water Revenue Refunding Bonds (Series 2011A) issued in the amount of \$9,935,000 plus \$732,204 reoffering premium in 2011. Interest is payable at 2.0% to 5.0% with interest and principal payments beginning October 1, 2011. The refunding bond included \$1,026,696 of deferred charges	\$ 1,035,000	284,138	7,111,697
General Obligation Limited Tax Refunding Bonds (Series 2011A) issued in 2011 in the amount of \$80,075,000 plus \$6,274,247 reoffering premium. Interest is payable at 2.25% to 5.00% with interest and principal payments beginning April 1, 2012. The refunding bond included \$10,234,841 of deferred charges	1,000,000	3,801,000	80,380,786
General Obligation Limited Tax Refunding Bonds (Series 2011B) issued in 2011 in the amount of \$63,115,000 plus \$7,259,676 reoffering premium. Interest is payable at 2.00% to 5.25% with interest and principal payments beginning April 1, 2012. The refunding bond included \$7,724,984 of deferred charges	3,035,000	2,589,175	55,889,807
General Obligation Limited Tax Refunding Bonds (Series 2011C) issued in 2011 in the amount of \$37,545,000 plus \$6,128,406 reoffering premium. Interest is payable at 2.00% to 5.00% with interest and principal payments beginning April 1, 2012. The refunding bond included \$2,646,288 of deferred charges	4,150,000	1,547,475	33,776,439

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

	<u>2016 payments</u>		<u>Principal balances at June 30, 2016</u>
	<u>Principal</u>	<u>Interest</u>	
Jordanelle Hydroelectric Revenue Refunding Bonds (Series 2012A) issued in the amount of \$11,490,000 plus \$1,721,130 reoffering premium. Interest is payable at coupon rates ranging from 2.50% to 5.00% with interest payments beginning October 1, 2012. Principal payments begin October 1, 2015. The refunding bond included \$384,634 of deferred charges	\$ 725,000	462,850	12,017,600
Water Revenue Refunding Bonds (Series 2012B) issued in 2012 in the amount of \$15,745,000 with a reoffering premium of \$2,863,551. Interest is payable at 2.00% to 5.00% through 2022. The refunding bond included \$1,782,924 of deferred charges	1,010,000	663,350	16,448,921
Water Revenue Bonds Series 2012C issued in the original amount of \$123,965,000 with a premium of \$22,557,250. Interest is payable at a 5.00% coupon rate with maturities beginning in 2022 and going through 2043	—	6,198,250	143,765,254
General Obligation Refunding Bonds Series 2013A issued in the original amount of \$51,155,000 with a premium of \$3,503,657. Interest is payable at coupon rates ranging from 2.00% to 5.00% and bonds mature beginning in 2014 through 2034. The refunding bond included deferred charges of \$6,968,473.	<u>1,265,000</u>	<u>1,915,025</u>	<u>50,534,231</u>
Total	<u>14,595,226</u>	<u>31,160,269</u>	<u>745,034,310</u>
Governmental activities	<u>13,870,226</u>	<u>30,632,344</u>	<u>724,991,710</u>
Business-type activities	<u>\$ 725,000</u>	<u>527,925</u>	<u>20,042,600</u>

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

**(b) Contracts and Block Notices**

Annual principal maturities on the repayment obligations and related interest using interest rates as of June 30, 2016 for the five years subsequent to June 30, 2016 and, thereafter, for contracts and block notices and general obligation and revenue bonds, including net interest rate swap impact, are as follows:

	<b>Contracts and block notices</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year(s) ending June 30:			
2017	\$ 115,461	37,457	152,918
2018	116,737	36,182	152,919
2019	118,053	34,866	152,919
2020	119,411	33,507	152,918
2021	120,815	32,104	152,919
2022–2026	4,375,225	137,848	4,513,073
2027–2031	576,146	95,349	671,495
2032–2036	625,946	45,548	671,494
2037–2041	360,936	2,403	363,339
2042–2046	286,300	—	286,300
2047–2051	239,490	—	239,490
2052–2056	46,550	—	46,550
2057–2061	23,750	—	23,750
Total	<u>7,124,820</u>	<u>455,264</u>	<u>7,580,084</u>
Less current portion	<u>(115,461)</u>	<u>(37,747)</u>	<u>(153,208)</u>
Long-term contracts and block notices, net of current portion	<u>\$ 7,009,359</u>	<u>417,517</u>	<u>7,426,876</u>

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

(c) **General Obligation and Revenue Bonds**

Using assumed interest rates for the life of the bonds, debt service requirements of the variable rate, and fixed rate debt and net swap payments are as follows. As rates fluctuate, variable rate bond interest payments and net swap payments will vary:

<b>Governmental Activities – GO and Revenue Bonds</b>				
	<b>Principal</b>	<b>Interest</b>	<b>Interest rate swaps, net</b>	<b>Total</b>
Fiscal year(s) ending June 30:				
2017	\$ 14,001,000	27,723,756	39,058	41,763,814
2018	14,542,000	27,232,428	39,058	41,813,486
2019	15,240,000	26,600,561	39,058	41,879,619
2020	16,296,000	25,885,489	39,058	42,220,547
2021	24,773,000	25,012,415	39,058	49,824,473
2022–2026	148,250,000	107,978,780	195,290	256,424,070
2027–2031	159,268,000	74,577,092	43,275	233,888,367
2032–2036	158,970,000	42,869,899	—	201,839,899
2037–2041	108,925,000	16,412,297	—	125,337,297
2042–2046	18,345,000	918,625	—	19,263,625
Total	678,610,000	375,211,342	433,855	1,054,255,197
Less current portion	(14,001,000)	(27,723,756)	(39,058)	(41,763,814)
Add unamortized premiums	39,256,890	—	—	39,256,890
Long-term debt, net of current portion	\$ 703,865,890	347,487,586	394,797	1,051,748,273

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

**(d) Enterprise Fund Obligations**

	<b>Business-type activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year(s) ended June 30:			
2017	\$ 725,000	728,125	1,453,125
2018	725,000	699,125	1,424,125
2019	825,000	668,125	1,493,125
2018	825,000	639,250	1,464,250
2017	825,000	610,375	1,435,375
2022–2026	4,700,000	2,530,775	7,230,775
2027–2031	5,940,000	1,428,363	7,368,363
2032–2036	4,225,000	358,560	4,583,560
Total	18,790,000	7,662,698	26,452,698
Less current portion	(725,000)	(728,125)	(1,453,125)
Add unamortized premiums	1,252,600	—	1,252,600
Long-term debt, net of current portion	\$ 19,317,600	6,934,573	26,252,173

**(6) Variable Rate Bonds and Swap Agreements**

**Financing Objective** – It has been the District’s goal, in light of the amount of debt it has issued, to develop a finance plan that would achieve the lowest borrowing costs possible without exposing itself to significant levels of risk. The District has used resources available in the market place to achieve its financial goals. The District has issued both fixed rate and variable rate bonds, often utilizing derivatives, specifically interest rate swaps and caps, to hedge against variable interest rate volatility. To date, the combination of these tools has significantly reduced the District’s capital borrowing costs. The fair value of the swaps used in hedging interest rates has been recorded in the statement of net position as deferred outflow of resources and derivative swap liability. The following sections outline the basic risks associated with derivatives followed by the specific details of the transactions, separated by general obligation, and revenue bond categories:

**Credit Risk** – Credit Risk is the risk that the counterparty will not fulfill its obligations to the District. Should a swap be terminated when there is a positive value to the District, the District has the risk the counterparty will not be able to make the termination payment. Also, during the life of the swap, the District runs the risk that the counterparty will not make the monthly swap payments and thus be exposed to variable interest rates. This risk has been mitigated by the highly rated counterparties in these transactions. In managing its interest rate swaps, the District adheres to the rules and regulations set forth by the Utah State Money Management Council.

**Basis Risk** – The District’s variable rate bondholders are paid the bond rate, which rate is closely based upon the tax-exempt interest rate of the Securities Industry and Financial Markets Association (SIFMA) plus a spread, if any, based upon actual remarketing rates. Interest rate swaps can be structured utilizing a number of indices, which results in varying synthetic fixed rates. The basis risk is created when the interest paid by the District to the bondholder differs from the interest rate received from the counterparty.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

**Termination Risk** – The contracts permit the District to terminate its swaps, one or all, at any time. The counterparty may only terminate the swap should the District not uphold its covenants agreed to in the documents. The termination of a swap exposes the District to a positive or negative swap termination payment, based upon the current market value of the swap. Depending on the market value of the swap, a payment is made from the owing party in the transaction.

**Rollover Risk** – The District is exposed to rollover risk with its interest rate derivatives. Should a derivative terminate before the underlying bonds mature, there could be a time when the District is exposed to market volatility. Upon the termination of current interest rate derivatives, the District could be exposed to different market conditions for hedging its true variable rate bonds.

**Statement of Net Position Presentation** – The fair value of the swaps that are considered to be effective hedges is presented as deferred inflow/outflow of resources under noncurrent assets and/or derivative swap liability under long-term liabilities in the statement of net position.

**(a) General Obligation Variable Rate Bonds**

**Series 2008A Bonds**

As of June 30, 2016, debt service requirements of the variable rate debt, assuming a historical rate of 3.6% on true variable rate debt is as follows. As rates vary, variable rate bond interest payments will vary. As of June 30, 2016, the actual interest rate is .43%.

The following table is a summary of the District’s general obligation variable rate bonds along with the projected interest expense:

	<b>General obligation variable rate bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year(s) ending June 30:			
2017	\$ —	853,200	853,200
2018	—	853,200	853,200
2019	1,400,000	853,200	2,253,200
2020	1,500,000	804,453	2,304,453
2021	1,600,000	747,259	2,347,259
2022–2026	5,700,000	3,049,259	8,749,259
2027–2031	10,100,000	1,011,607	11,111,607
2032–2036	3,400,000	356,407	3,756,407
Total	\$ 23,700,000	8,528,585	32,228,585

As of June 30, 2016, the District has no swaps outstanding in connection with its General Obligation Bonds.



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

**(b) Revenue Variable Rate Bonds**

**Series 2008B 2 Bonds**

As of June 30, 2016, debt service requirements of the variable rate debt, assuming a historical rate of 3.6% on true variable rate debt and the respective swap rate on the hedged debt are described below. As rates vary, variable rate bond interest payments will vary. As of June 30, 2016, the actual interest rate is .43%.

The following table summarizes the District’s variable rate revenue bonds related to its governmental activities along with projected interest costs:

	<b>Governmental activities</b>		
	<b>Revenue variable rate bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year(s):			
2017	\$ —	1,928,500	1,928,500
2018	—	1,928,500	1,928,500
2019	—	1,928,500	1,928,500
2020	—	1,928,500	1,928,500
2021	—	1,928,500	1,928,500
2022–2026	9,055,000	9,100,942	18,155,942
2027–2031	22,500,000	7,372,577	29,872,577
2032–2036	23,100,000	1,828,355	24,928,355
Total	\$ 54,655,000	27,944,374	82,599,374

**Swap Agreement Related to Revenue Bonds**

As of June 30, 2016, the District has one swap outstanding in connection with its revenue bonds.

In August 2009, the District entered into a swap contract with Bank of New York Mellon (BoNY). Because the Utah State Money Management Rules (Rule 18) limits the term of the swap based upon counterparty rating, the swap contract was entered into for a period of 18 years, the maximum period for an AA rated swap provider and are scheduled to terminate in August 2027.

**Series 2008B 2 (Utah Water Finance Agency Program B Revenue Bonds, Series B 2)**

The District restructured three series of revenue variable rate bonds to improve the remarketing levels of the bonds. The District restructured bonds issued through the Utah Water Finance Agency (UWFA) Program A Revenue Bonds, Series A 1, A 12, and A 13 via the UWFA Program B Revenue Bonds, Series B 2. The swaps pertaining to the Series A 1 and A 12 Bonds were assigned to the UWFA Series B 2 Bonds. Other than the expiration date pertaining to the original swap for the A 12 Bonds and references to the correct Series of bonds, no terms of the swaps were altered.

*Terms* – In May 2005, the District issued its \$33,100,000 Series 2005C Revenue Refunding Bonds (UWFA A 12), which were originally issued in a variable rate mode. At the closing, the District also entered into a pay fixed, receive variable interest rate swap for a notional amount equaling the principal

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

amount of the Series 2005C Bonds. The Series 2005C Bonds were subsequently refunded with Series 2008B 2 Bonds and the swap was assigned to the refunding bonds. The swap will expire on August 1, 2027, and while in effect, BoNY will pay to the District a variable rate equivalent to 67.00% of one month LIBOR and the District will pay a fixed rate of 3.48%.

*Fair Value* – As of June 30, 2016, the swap liability had a fair value of \$8,947,535 calculated under the terms and conditions of the Swap Agreement, which represents an increase in the liability of \$2,371,179 from June 30, 2015. BoNY, as the swap provider, is the Calculation Agent. The swap is classified as a Level 2 financial instrument.

(c) **Enterprise Fund Variable Rate Bonds**

**Series 2008B-4 Bonds**

The following table summarizes the District’s variable rate revenue bonds related to its business type activities along with projected interest costs based upon a historical rate of 3.6%. As of June 30, 2016, the actual interest rate is 1.06%.

	<b>Business-type activities</b>		
	<b>Revenue variable rate bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year(s):			
2017	\$ —	288,900	288,900
2018	—	288,900	288,900
2019	—	288,900	288,900
2020	—	288,900	288,900
2021	—	288,900	288,900
2022–2026	—	1,444,500	1,444,500
2027–2031	3,800,000	1,327,050	5,127,050
2032–2036	4,225,000	358,560	4,583,560
Total	\$ 8,025,000	4,574,610	12,599,610

There are no swap agreements related to the Enterprise Fund’s variable rate debt.

(7) **Deferred Gain or Loss on Refunding**

The District reviews and evaluates its outstanding debt portfolio on an ongoing basis. In conducting those reviews, consideration is given to refunding existing debt and replacing it with a new issue. Refunding of existing debt may be done for a variety of reasons, often to take advantage of lower interest rates. It may also be done to revise payment schedules, reduce exposure to certain market risks (e.g., variable rate and derivative related), remove, or modify restrictions on existing debt, or for other reasons. In a refunding of debt, the difference between the reacquisition price and the net carrying amount of the old debt gives rise to a deferred gain or loss on refunding. This deferred gain or loss on refunding is recognized as a deferred outflow of resources or a deferred inflow of resources and amortized to interest expense in a systematic and

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

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rational manner over a period of time that is the shorter of the remaining life of the old debt or the life of the new debt. The following table summarizes the activity related to deferred gain or loss on refunding:

		<b>Government Related</b>			
		<b>Balance</b>			<b>Balance</b>
		<b>June 30, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2016</b>
Refundings	\$	30,785,333	—	—	30,785,333
Amortization		(6,831,785)	(1,828,037)	—	(8,659,822)

  

		<b>Business Related</b>			
		<b>Balance</b>			<b>Balance</b>
		<b>June 30, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2016</b>
Refundings	\$	617,368	—	—	617,368
Amortization		(136,703)	(33,668)	—	(170,371)

**(8) Fund Balance**

**(a) Emergency and Replacement Reserves**

The District is required under a contract with the United States Bureau of Reclamation dated December 28, 1965 to establish a Replacement Reserve Fund and an Emergency Reserve Fund for operations and maintenance as development block notices are issued. The contract requires that these funds shall be maintained apart from other District funds. Withdrawal, investment, or other dispositions are subject to the approval of the appropriate United States Contracting Officer. The Replacement Reserve Fund shall be used for replacement of project works such as buildings, short wave radio facilities, and pumping plants of the District. The Emergency Reserve Fund for operations and maintenance shall be used for payment of the District's share of extraordinary costs of operations and maintenance. The balances in the Replacement Reserve Fund and the Emergency Reserve Fund at June 30, 2016 were \$772,810 and \$1,617,008, respectively.

**(b) Bond Pledge Reserve**

Revenue Bond Covenants require the District to place funds on deposit to cover one quarter of the yearly budgeted operation and maintenance costs to operate Project and District features. A dedicated reserve was created by direction of the Board in March 2009, and contains \$2,349,268 as of June 30, 2016.

**(c) Power Loss Reserve**

The Power Loss Reserve was established through a contact between the U.S. government and Utah Power (PacifiCorp). In 1990, the government determined that under the Olmsted Condemnation, they would condemn the main diversion from the Provo River, which was owned at the time by Utah Power, as a backup water supply for water users in the Utah Valley and other surrounding areas. In response to litigation, an agreement between the U.S. government and Utah Power was established whereby Utah Power was paid \$2,000,000 for the diversion and was allowed to retain management of the diversion and continue to collect revenue from power generated by the water supply. The contract also stipulates that, in the event that the Government uses the water from the diversion as a backup water

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## Notes to Basic Financial Statements

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supply, water users are billed, and all additional revenue collected by water users is placed into the Power Loss reserve account. If the water used results in reduced power generated and sold by Utah Power, the District is required to pay Utah Power (PacifiCorp) annually for the difference between the revenue they earned and the revenue they would have earned. As of June 30, 2016, this reserve has a balance of \$2,164,197.

**(d) Debt Service Reserves**

The District maintains debt service reserves in accordance with bonding agreements and covenants. The cash balances of these reserves aggregate to \$39,061,731 as of June 30, 2016.

**(e) Debt Service Coverage Maintenance Reserve**

Revenue Bond Covenants require the establishment of a Debt Service Coverage Maintenance Fund with contributions until an aggregate balance of \$20,000,000 has been achieved by June 30, 2016. The fund is used to provide assurance that the District will maintain sufficient revenue to equal at least 150% of the aggregate debt service on all bonds for any fiscal year. As of June 30, 2016, the reserve has a balance of \$20,295,654.

**(f) CUPCA Reserve**

The District maintains reserves that are specifically for the completion of the Central Utah Project. The cash balance of these reserves at June 30, 2016 was \$18,576,671.

**(g) Olmsted Replacement Project Reserve**

The District maintains reserves that are specifically for the completion of the Olmsted Replacement Project. The cash balances of those reserves at June 30, 2016 was \$15,354,484.

**(h) Future Capital Projects Reserve**

The District maintains reserves for future capital projects, which aggregated \$84,652,728 as of June 30, 2016.

**(i) Liability Insurance Reserve**

During 1992, the Board authorized the creation of a Liability Insurance Reserve to provide for the District's self-insurance needs for auto, theft, burglary, fire, and other such claims. Yearly contributions were to be made to this reserve until it reached \$5,000,000. The fund has a balance of \$5,159,036 as of June 30, 2016.

**(j) Contingency Reserve**

In 1993, the Board established a Contingency Reserve Fund in the amount of \$1,500,000 in the Capital Projects Fund, and directed that yearly contributions of \$500,000 be made until the fund reached \$10,000,000. At June 30, 2016, the balance of the related fund was \$10,398,776.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

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**(k) Project Facility Reserve**

Concurrent with the creation of the Emergency and Replacement Reserves, the District created a Project Facility Reserve to help fund unusual maintenance activities at the Central Utah Project facilities. The fund, as of June 30, 2016, has a balance of \$1,730,473.

**(l) WCWEP Project Reserve**

The District operates and maintains certain features of the Wasatch County Water Efficiency Project in Wasatch County, Utah. In 2004, a reserve was created that will be used to fund the various maintenance activities at this facility. At June 30, 2016, this reserve has a balance of \$543,921.

**(m) District Facility Reserve**

The District created a District Facility Reserve to help fund unusual maintenance needs of the District's three water treatment plants, located in Orem, Duchesne, and Ashley Valley. One dollar for every acre foot of water treated is accumulated in this fund, which as of June 30, 2016, has a balance of \$1,031,828.

**(n) Red Butte O&M Reserve**

The District operates and maintains the Red Butte Dam and Reservoir in Salt Lake County, as a June Sucker refuge. In March 2010, the District's Board directed that a reserve be established to fund future maintenance activities and facility improvements. As of June 30, 2016, this reserve has a balance of \$27,316.

**(o) Escrow Bond Reserve**

The District established a real estate escrow bond reserve in conjunction with a property purchase. The reserve has a balance of \$10,381 at June 30, 2016.

**(p) Jordanelle Hydropower Reserves**

The District also maintains reserves related to Jordanelle Hydropower in the Enterprise Fund, primarily for contingencies, revenue stabilization, and debt service in the aggregate amount of \$7,097,111 as of June 30, 2016.

**(9) Interfund Transfers**

Interfund transfers for the year ended June 30, 2016 consisted of the following:

	Transfers				Total
	General Fund	CUPCA Fund	Debt Service Fund	Capital Projects Fund	
Transfers in	\$ —	15,000,000	40,782,196	7,285,599	63,067,795
Transfers out	(48,067,795)	—	—	(15,000,000)	(63,067,795)

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Amounts transferred to the CUPCA Fund are used for ongoing activities to complete the Central Utah Project. Amounts transferred to the Debt Service Fund are used for debt principal and interest payments. Amounts required to cover reserved and designated fund balances in the General Fund are retained in the General Fund, with any excess available amounts transferred to the Capital Projects Fund.

#### **(10) Central Utah Project Completion Act**

On October 30, 1992, the CUPCA (P.L. 102 575 (106 Stat. 4600)) was signed into federal law. The Act authorized approximately \$924 million in federal funds to complete water projects in the 10 county area included in the District. The District must petition Congress for funding on a year-to-year basis and must provide a 35% cost share to match the reimbursable share of the federal portion. The federal reimbursement for the year ended June 30, 2016 totaled \$6.3 million.

The Act gives the District the authority to oversee the planning, design, management, and construction of the remaining facilities of the Central Utah Project; however, the U.S. Department of the Interior retains ownership. The Act emphasizes Districtwide public involvement, addresses protection and enhancement of the environment, and creates stream flow levels to protect present and future fisheries. The Act also calls for significant water conservation programs and specific water management plans.

#### **(11) Retirement Plans**

##### **(a) General Information about the Pension Plan**

Plan description: Eligible plan participants are provided with pensions through the Utah Retirement Systems. The Utah Retirement Systems comprise of the following pension trust funds:

- Public Employees Noncontributory Retirement System (Noncontributory System); is a multiple employer, cost sharing, public employee retirement system.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System); is a multiple employer, cost sharing, public employee retirement system.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah Code Annotated 1953, as amended. The Systems' defined-benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. URS is a component unit of the state of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

URS issues a publicly available financial report that can be obtained by writing Utah Retirement Systems 560 E. 200 S, Salt Lake City, Utah 84102 or visiting the Web site: [www.urs.org](http://www.urs.org).

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Notes to Basic Financial Statements

June 30, 2016

**(b) Benefits Provided**

URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

<b>Summary of Benefits by System</b>				
<b>System</b>	<b>Final average salary</b>	<b>Years of service required and/or age eligible for benefit</b>	<b>Benefit percent per year of service</b>	<b>COLA**</b>
Noncontributory system	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years any age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

\* With actuarial reductions

\*\* All postretirement cost-of-living adjustments are noncompounding and are based on the original benefit except for Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

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(c) **Contributions**

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the URS Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates are as follows:

<b>Utah Retirement Systems</b>				
	<b>Employee paid</b>	<b>Paid by employer for employee</b>	<b>Employer contribution rates</b>	<b>Employer rate for 401(k) Plans</b>
Contributory system:				
111 – Local Governmental Division Tier 2	N/A	N/A	16.67	1.78
Noncontributory system:				
15 – Local Governmental Division Tier 1	N/A	N/A	18.47	N/A
Tier 2 DC only				
211 Local Government	N/A	N/A	6.69	10.00

Tier 2 rates include a statutory contribution to finance the unfunded actuarial liability of the Tier 1 plans.

For fiscal year ended June 30, 2016, the employer and employee contributions to the Systems were as follows:

	<b>Employer contributions</b>	<b>Employee contributions</b>
System:		
Noncontributory System	\$ 1,107,188	N/A
Tier 2 Public Employees	146,017	—
Tier 2 DC Only System	3,727	N/A
Total Contributions	\$ <u>1,256,932</u>	<u>—</u>

Contributions reported are the URS Board approved required contributions by System. Contributions to the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems.



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

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**(d) Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 30, 2015, the District reported a net pension asset of \$288 and a net pension liability of \$4,010,875.

	<u>Proportionate share</u>		<u>Net pension asset</u>	<u>Net pension liability</u>
Noncontributory system	0.7088248%	\$	—	4,010,875
Tier 2 public employees system	0.1324100		288	—
Total net pension asset/liability		\$	<u>288</u>	<u>4,010,875</u>

The net pension asset and liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2015 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended June 30, 2016, the District recognized pension expense of \$884,360.

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$	—	188,040
Changes in assumptions		—	225,233
Net difference between projected and actual earnings on pension plan investments		1,361,945	—
Changes in proportion and differences between contributions and proportionate share of contributions		5,683	93,267
Contributions subsequent to the measurement date		<u>624,157</u>	—
Total	\$	<u>1,991,785</u>	<u>506,540</u>

The District reported \$624,157 as deferred outflows of resources related to pensions resulting from contributions made by us prior to our fiscal year-end, but subsequent to the measurement date of December 31, 2015.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

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These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

		<b>Net deferred outflows (inflows) of resources</b>
Year ended December 31:		
2016	\$	189,575
2017		189,575
2018		193,519
2019		292,344
2020		(713)
Thereafter		(3,212)

**(e) Actuarial Assumptions**

The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%	
Salary increases	3.50–10.50%. average, including inflation	
Investment rate of return	7.50%, net of pension plan investment expense, including inflation	

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation, and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a building - block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<b>Expected return arithmetic basis</b>		
	<b>Target asset allocation</b>	<b>Real return arithmetic basis</b>	<b>Long-term expected portfolio real rate of return</b>
Asset class:			
Equity securities	40%	7.06%	2.82%
Debt securities	20	0.80	0.16
Real assets	13	5.10	0.66
Private equity	9	11.30	1.02
Absolute return	18	3.15	0.57
Cash and cash equivalents	—	—	—
Totals	<u>100%</u>	<u>27.41%</u>	<u>5.23%</u>
Inflation			2.75%
Expected arithmetic nominal return			7.98

The 7.50% assumed investment rate of return comprises an inflation rate of 2.75%, a real return of 4.75% that is net of investment expense.

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension asset and liability to changes in the discount rate: The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

<b>System – (asset) liability</b>	<b>1% Decrease (6.50)%</b>	<b>Discount rate (7.50)%</b>	<b>1% Increase (8.50)%</b>
Noncontributory System	\$ 8,474,581	4,010,875	284,575
Tier 2 Public Employees System	53,007	(288)	(40,682)
Total	<u>\$ 8,527,588</u>	<u>4,010,587</u>	<u>243,893</u>

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

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Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued URS financial report.

**(f) Defined-Contribution Savings Plans**

The Defined-Contribution Savings Plans are administered by the Utah Retirement Systems Board and are generally supplemental plans to the basic retirement benefits of the Retirement Systems, but may also be used as a primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 457(b) and 408 of the Internal Revenue code. Detailed information regarding plan provisions is available in the separately issued URS financial report.

Central Utah Water District participates in the following Defined-Contribution Savings Plans with Utah Retirement Systems:

401(k) Plan

457(b) Plan

Roth IRA Plan

Employee and employer contributions to the Utah Retirement Defined-Contribution Savings Plans for fiscal year ended June 30 were as follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
401(k) Plan:			
Employer contributions	59,974	39,998	30,502
Employee contributions	234,221	283,948	259,780
457 Plan:			
Employer contributions	—	—	—
Employee contributions	26,380	26,910	33,575
Roth IRA Plan:			
Employer contributions	N/A	N/A	N/A
Employee contributions	35,743	39,017	39,722

**(12) Postretirement Healthcare Benefits**

**(a) Plan Description**

The District administers a single employer defined-benefit healthcare plan (the Plan). The Plan provides limited healthcare insurance for eligible retirees and their spouses through the state of Utah’s public employees’ group health insurance plan, which covers both active and retired members. The Plan covers only those employees who were working for the District or were retired as of July 1, 1994. At that point, membership in the Plan was frozen. Employees in the Plan receive one month of health insurance coverage under the Plan for every eight hours of sick leave, accumulated at retirement. Employees in the Plan can continue to earn additional months of coverage while they are still employed with the District. Coverage only applies during the retiree’s lifetime and terminates at the earlier of the

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

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death of the retiree or when the accumulated earned benefits run out. When the retiree and/or his/her spouse turns 65, the retiree/spouse receives Medicare supplement coverage. Employees receive eight hours of sick leave each month. The Plan does not issue a separate financial report.

**(b) Funding Policy**

The District contributes 100% of the cost of current year premiums for eligible retired plan members and their spouses. For fiscal year 2016, the District contributed \$36,250 to the Plan.

**(c) Annual OPEB Cost and Net OPEB Obligation**

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for employers in plans with fewer than 100 total plan members. That method permits the District to calculate actuarial liabilities, annually required contributions, and the related estimates without the services of an actuary. Therefore, the District has made these calculations internally and has not consulted an actuary to verify the amounts.

There are currently 25 members in the Plan. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period of 22 years (the average remaining life expectancy of the group). The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and the changes in the District's net OPEB obligation to the Plan:

Annual required contribution (ARC)	\$ 428,550
Interest on net OPEB obligation	50,987
Adjustment to ARC	<u>127,301</u>
Annual OPEB cost	606,838
Contributions made	<u>(36,250)</u>
Increase in net OPEB obligation	570,588
Net OPEB obligation – beginning of year	<u>6,984,565</u>
Net OPEB obligation – end of year	<u><u>\$ 7,555,153</u></u>

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

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The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net annual OPEB cost for the fiscal years 2016, 2015, and 2014 is as follows:

	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net annual OPEB cost</u>
Fiscal year ended June 30, 2016	\$ 606,839	6.0%	\$ 570,859
Fiscal year ended June 30, 2015	567,121	5.9	533,699
Fiscal year ended June 30, 2014	571,656	4.8	544,404

**(d) Funding Status and Funding Progress**

As of June 30, 2016, the actuarial accrued liability for benefits was \$5,569,939, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,787,159 and the ratio of the unfunded accrued liability to the covered payroll was 311.7%. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**(e) Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or the first subsequent year in which the member would qualify for benefits.

*Marital status* – Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality* – Life expectancies were based on mortality table from the National Center for Health Statistics. The 2009 United States Life Tables (most current information) for Males and for Females were used.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Basic Financial Statements

June 30, 2016

*Turnover* – Nongroup specific age based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at Centers for Medicare and Medicaid Services. A rate of 5.1% initially trending to an ultimate rate of 5.6% after six years was used.

*Health insurance premiums* – 2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

*Inflation rate* – The expected long-term inflation rate of 2.6% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI W) in The 2016 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

*Payroll growth rate* – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the District’s investments in the PTIF, a discount rate of 0.73% was used. In addition, a simplified version of the entry age actuarial cost method was used.

The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2016 was 22 years:

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – simplified entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/c
June 30, 2014	\$ —	4,943,721	4,943,721	—	2,033,483	243.1
June 30, 2015	—	5,076,882	5,076,882	—	2,040,829	248.8
June 30, 2016	—	5,569,939	5,569,939	—	1,787,859	311.5

**(13) June Sucker Recovery Fund**

The District administers funds on behalf of the parties that have entered into an agreement to rehabilitate the June sucker, a native Utah fish on the endangered species list. Transactions related to this activity are recorded in the June Sucker Recovery Fund, a fiduciary fund.

**(14) Commitments and Contingencies**

The District is engaged in the construction of various water projects and treatment plant modifications. At June 30, 2016, the District had contract commitments of approximately \$9.9 million related to these projects.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2016

The District is subject to certain routine litigation, claims, and commitments incident to the ordinary course of business. The District's management believes that the probable resolution of such contingencies will not significantly impact the financial position or results of operations of the District.

Also, the District is self-insured for auto insurance. However, as no claims have been filed against the District in the previous two years, no insurance related liability has been recorded in the basic financial statements. The Board committed unreserved fund balances in the General Fund for a Liability Insurance Reserve to provide for the District's self-insurance for auto, theft, burglary, fire, and other such claims. This balance is specifically committed to cover the deductible for the District's general liability insurance in the General Fund. The District has also committed in the Capital projects fund, a contingency reserve related to capital projects. The balances of these reserves at June 30, 2016 were \$5.2 million and \$10.3 million, respectively.

#### **(15) Subsequent Events**

Subsequent to June 30, 2016, the District issued Water Revenue Refunding Bonds, Series 2016A in the amount of \$25.0 million to partially refund Water Revenue Bonds, Series 2012A. The advance refunding had no impact on the retirement period, but did result in a reduction of aggregate debt service payments of approximately \$4.74 million and a present value economic gain of approximately \$4.20 million.

Subsequent to June 30, 2016, the District has entered into construction contracts aggregating \$28.4 million relating to various District projects.

Effective August 29, 2016, the District transferred ownership and responsibility for the Red Butte Dam to Salt Lake City. The facility was no longer needed for the June Sucker program or other District operations. The dam had an approximate net book value of \$3.9 million at the time of the transfer.



**REQUIRED SUPPLEMENTARY INFORMATION**

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual

General Fund

Year ended June 30, 2016

(Unaudited)

	Budgeted amounts		Actual amounts	Variance with final budget – positive (negative)
	Original	Final		
Revenue:				
Property taxes	\$ 49,633,327	49,633,327	52,677,381	3,044,054
Redevelopment agency property taxes	3,600,000	3,650,000	3,640,621	(9,379)
Water sales	19,685,775	19,685,775	19,180,629	(505,146)
Interest	60,250	60,250	281,337	221,087
Other	1,082,783	1,082,783	1,276,765	193,982
<b>Total revenue</b>	<b>74,062,135</b>	<b>74,112,135</b>	<b>77,056,733</b>	<b>2,944,598</b>
Expenditures:				
Administrative and general	9,661,576	9,661,576	7,907,347	1,754,229
Redevelopment Agency property tax increment	3,600,000	3,650,000	3,640,621	9,379
District projects	1,904,029	1,904,029	1,273,987	630,042
Capital outlay	975,700	975,700	746,045	229,655
Water treatment plants and other projects	3,069,858	3,069,858	2,950,871	118,987
Central Utah Project operation and maintenance	5,337,875	5,337,875	4,331,818	1,006,057
<b>Total expenditures</b>	<b>24,549,038</b>	<b>24,599,038</b>	<b>20,850,689</b>	<b>3,748,349</b>
Excess of revenue over expenditures	49,513,097	49,513,097	56,206,044	6,692,947
Other financing sources:				
Net transfers in (out)	(50,263,097)	(50,263,097)	(48,067,795)	2,195,302
Net changes in fund balance	(750,000)	(750,000)	8,138,249	8,888,249
Fund balance – beginning	24,434,364	24,434,364	24,434,364	—
Fund balance – ending	\$ 23,684,364	23,684,364	32,572,613	8,888,249

Unaudited – See accompanying independent auditors’ report and note to required supplementary information.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual

CUPCA Fund

Year ended June 30, 2016

(Unaudited)

	<b>Budgeted amounts</b>		<b>Actual amounts</b>	<b>Variance with final budget – positive (negative)</b>
	<b>Original</b>	<b>Final</b>		
Revenue:				
Interest	\$ 15,000	15,000	14,708	(292)
Federal funding	3,572,000	6,272,000	6,272,000	—
Total revenue	3,587,000	6,287,000	6,286,708	(292)
Expenditures:				
CUPCA activities	22,470,000	22,470,000	6,995,521	15,474,479
Loss of revenue over expenditures	(18,883,000)	(16,183,000)	(708,813)	15,474,187
Other financing sources:				
Transfers in	15,000,000	15,000,000	15,000,000	—
Net changes in fund balance	(3,883,000)	(1,183,000)	14,291,187	15,474,187
Fund balance – beginning	4,285,484	4,285,484	4,285,484	—
Fund balance – ending	\$ 402,484	3,102,484	18,576,671	15,474,187

Unaudited – See accompanying independent auditors’ report and note to required supplementary information.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual

Olmsted Fund

Year ended June 30, 2016

(Unaudited)

	<b>Budgeted amounts</b>		<b>Actual amounts</b>	<b>Variance with final budget – positive (negative)</b>
	<b>Original</b>	<b>Final</b>		
Revenue:				
Interest	\$ 15,000	15,000	28,673	13,673
Federal funding	—	4,120,000	4,120,000	—
Total revenue	15,000	4,135,000	4,148,673	13,673
Expenditures:				
Olmsted Hydro Replacement Project	4,000,000	4,000,000	3,259,688	740,312
Loss of revenue over expenditures	(3,985,000)	135,000	888,985	753,985
Other financing sources:				
Contributions	—	—	—	—
Net changes in fund balance	(3,985,000)	135,000	888,985	753,985
Fund balance – beginning	14,465,499	14,465,499	14,465,499	—
Fund balance – ending	\$ 10,480,499	14,600,499	15,354,484	753,985

Unaudited – See accompanying independent auditors’ report and note to required supplementary information.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Schedule of the Proportionate Share of the Net Pension Liability

Year ended June 30, 2016

(Unaudited)

The schedule of the proportionate share of the net pension liability as of December 31 for the last 10 Fiscal Years\* is as follows:

	<u>2014</u>		<u>2015</u>	
	<u>Noncontributory system</u>	<u>Tier 2 Public employees system</u>	<u>Noncontributory system</u>	<u>Tier 2 Public employees system</u>
Proportion of the net pension liability (asset)	0.7299665%	0.088523%	0.7088248%	0.13241%
Proportionate share of the net pension liability (asset)	\$ 3,169,686	(2,683)	4,010,875	(288)
Covered employee payroll	6,450,671	434,698	6,217,107	855,565
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	49.10%	(0.60)%	64.51%	0.03%
Plan fiduciary net position as a percentage of the total pension liability	90.2%	103.5%	87.8%	100.2%

\* In accordance with paragraph 81.a of GASB 68, employers will need to disclose a 10 year history of their proportionate share of the Net Pension Liability (Asset) in their Required Supplementary Information. The 10 year schedule will need to be built prospectively. Accordingly, the schedule above is only for 2014 and 2015.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Schedule of Contributions

Year ended June 30, 2016

(Unaudited)

Last 10 Fiscal Years\*

	<u>Fiscal year ended</u>	<u>Actuarial determined contributions</u>	<u>Contributions in relation to the contractually required contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
Noncontributory System	2014	1,067,434	1,067,434	—	6,392,096	16.70%
	2015	1,129,507	1,129,507	—	6,322,051	17.87%
	2016	1,107,188	1,107,188	—	6,222,645	17.79%
Tier 2 Public Employees System*	2014	51,633	51,633	—	369,072	13.99%
	2015	92,543	92,543	—	619,429	14.94%
	2016	146,017	146,017	—	979,319	14.91%
Tier 2 Public Employees DC Only System	2014	770	770	—	13,795	5.58%
	2015	3,552	3,552	—	52,862	6.72%
	2016	3,727	3,727	—	55,708	6.69%

\* Contribution in the Tier 2 System include an amortization rate to help fund the unfunded liabilities in the Tier 1 Systems. The Tier 2 Systems were created effective July 1, 2011.

Paragraph 81.b of GASB 68 requires employers to disclose a 10 year history of contributions in Required Supplementary Information, developed prospectively. Contributions as a percentage of covered payroll may be different than the Board certified rate due to rounding and other administrative issues.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

General Employees' Other Postemployment Benefits Plan

Schedule of Funding Progress

Year ended June 30, 2016

(Unaudited)

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) – simplified entry age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll (b-a)/c)</b>
June 30, 2014	—	4,943,721	4,943,721	—	2,033,483	243.1
June 30, 2015	—	5,076,882	5,076,882	—	2,040,829	248.8
June 30, 2016	—	5,569,939	5,569,939	—	1,787,159	311.7

Unaudited – See accompanying independent auditors' report and note to required supplementary information.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Note to Required Supplementary Information

Year ended June 30, 2016

(Unaudited)

**Budget Operation**

The Central Utah Water Conservancy District operates within the budget requirements for special districts as specified by state law. The financial reports reflect the following budgetary standards:

- For the fiscal year beginning July 1, the District controller prepares departmental budgets, which are reviewed by staff and the Board of Trustees' (Board) standing committees. Following this review, a tentative budget is prepared, which is reviewed by the finance committee, and finally by the Board, generally by the Board meeting held in May of the preceding year.
- By state laws, the Board legally adopts the final budget after a public hearing has been held.
- Once adopted, the budget can be amended by subsequent Board action. Reductions in or reallocations of appropriations can be approved by the Board, but increased appropriations by fund require a public hearing prior to amending the budget.
- Interim adjustments in estimated revenue and appropriations during the year ended June 30, 2016 have been included in the final budget approved by the Board, as presented in the basic financial statements.
- The level for which expenditures may not legally exceed appropriations is the total budget of a given fund.
- As required by Utah state law, budgets for the General Fund and the Debt Service Fund are prepared and adopted on a generally accepted accounting principles (GAAP) basis of accounting.
- At the end of a year, unencumbered appropriations lapse.
- All funds at the District have legally adopted budgets.

***Pension Beginning and Ending Values at December 31, 2015***

	Beginning values			Ending values		
	NPL/(NPA)	Asset	Liability	NPL/(NPA)	Asset	Liability
Noncontributory	\$ 3,169,686	—	3,169,686	4,010,875	—	4,010,875
Tier 2 public employees	(2,683)	2,683	—	(288)	288	—
Total	\$ 3,167,003	2,683	3,169,686	4,010,587	288	4,010,875



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Note to Required Supplementary Information

Year ended June 30, 2016

(Unaudited)

*Net Pension Liability / (Asset) at December 31, 2014 and Net Pension Liability / (Asset) at December 31, 2015*

Retirement System	2014			2015		
	System total NPL/(NPA)	Proportionate share	Beginning values	System total NPL/(NPA)	Proportionate share	Ending values
Noncontributory:						
Local Government	\$ 434,223,527	0.7299665%	3,169,686	565,848,640	0.7088248%	4,010,875
State School	2,512,528,676	—	—	3,141,286,375	—	—
Contributory:						
Local Government	28,844,354	—	—	70,285,442	—	—
State School	10,964,846	—	—	62,665,215	—	—
Public Safety:						
Other DIVA	125,758,305	—	—	179,125,130	—	—
State of Utah	185,823,830	—	—	215,286,507	—	—
SLC	72,876,185	—	—	85,106,335	—	—
Ogden	16,593,951	—	—	18,295,061	—	—
Provo	10,123,567	—	—	12,665,826	—	—
Logan	4,968,069	—	—	6,714,361	—	—
Bountiful	4,953,805	—	—	6,448,887	—	—
Other DIV B	39,543,268	—	—	48,795,133	—	—
Firefighters:						
Other DIVA	(5,706,385)	—	—	(1,811,196)	—	—
Other DIV B	(11,004,766)	—	—	17,015,827	—	—
Judges	28,450,908	—	—	35,239,076	—	—
Utah Governors and Legislators	1,901,250	—	—	2,207,830	—	—
Tier 2 Public Employees	(3,030,447)	0.0885230%	(2,683)	(218,300)	0.1319285%	(288)
Tier 2 PS and Firefighters	(1,479,323)	—	—	(1,461,032)	—	—
<b>Total</b>	<b>\$ 3,456,333,620</b>		<b>3,167,003</b>	<b>4,463,495,117</b>		<b>4,010,587</b>

***Changes in Assumptions***

The following assumption changes were adopted from the most recent actuarial experience study. There was a decrease in the wage inflation assumption for all employee groups from 3.75% to 3.5%. Also, there was a modification to the rate of salary increases for most groups. The payroll growth assumption was decreased from 3.5% to 3.25%. There was an improvement in the postretirement mortality assumption for female educators and minor adjustments to the preretirement mortality assumption.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Note to Required Supplementary Information

Year ended June 30, 2016

(Unaudited)

There were additional changes to certain demographic assumptions that generally resulted in: (1) more members are anticipated to terminate employment prior to retirement; (2) slightly fewer members are expected to become disabled, and (3) members are expected to retire at a slightly later age.

***Pension Actuarial Information***

	<u>Noncontributory</u>	<u>Contributory</u>	<u>Public safety</u>	<u>Firefighters</u>	<u>Judges</u>	<u>Governors and legislators</u>	<u>Tier 2 Public employees</u>	<u>Tier 2 Public safety and firefighter</u>
Valuation date	1/1/15	1/1/15	1/1/15	1/1/15	1/1/15	1/1/15	1/1/15	1/1/15
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level dollar amount	Level percent of payroll	Level percent of payroll
Amortization period	Open group 20-year Open period	Open group 20-year Open period	Open group 20-year Open period	Open group 20-year Open period	Open group 20-year Open period	Open group 20-year Closed period	Open group 20-year Open period	Open group 20-year Open period
Actuarial asset valuation method (All systems under same method)	Based on the total fair value income of investments with the excess or shortfall of actual investment income over or under the expected investment return smoothed over five years. One-fifth of the excess or shortfall is recognized each year for five years.							
Actuarial assumptions:								
Investment rate of return	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Projected salary increases	3.25–10.75%	3.25–10.75%	3.25–9.25%	3.25–9.75%	3.25%	None	3.25–10.75%	3.25–9.25%
Inflation rate	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Postretirement cost-of-living adjustment	2.75%	2.75%	2.50% or 2.75%	2.75%	2.75%	2.75%	2.50%	2.50%
			Depending on employer					

All postretirement cost-of-living adjustments are noncompounding and are based on the original benefit except for Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual CPI increase for the year although unused CPI increases not met may be carried forward to subsequent years.



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**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

The Board of Trustees  
Central Utah Water Conservancy District:

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 Central Utah Water Conservancy District (the District), which comprise the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2016.

***Internal Control over Financial Reporting***

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

October 25, 2016



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## **Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Trustees  
Central Utah Water Conservancy District:

### ***Report on Compliance for Each Major Federal Program***

We have audited Central Utah Water Conservancy District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2016. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of 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 audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District'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 the major federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2016.

### ***Report on Internal Control over Compliance***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the federal program to determine the auditing



procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 District'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 type of compliance requirement of a federal program 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 type of compliance requirement of a federal program 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 type of compliance requirement of a federal program 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 over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*KPMG LLP*

October 25, 2016

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

<b>Federal grantor/pass-through grantor/program title</b>	<b>Pass-through agency</b>	<b>Federal CFDA number</b>	<b>Pass-through grantor's number</b>	<b>Expenditures</b>
U.S. Department of the Interior:				
Central Utah Project Completion Act	n/a	15.unknown	n/a	\$ 6,275,000
Fish and Wildlife Coordination Act	n/a	15.517	R13AP40023	41,496
Upper Colorado River Basin Fish and Wildlife Mitigation Program	n/a	15.535	R14AC00028	200,000
Upper Colorado River Basin Fish and Wildlife Mitigation Program	n/a	15.535	12FCUT-1860	61,747
Upper Colorado River Basin Fish and Wildlife Mitigation Program	n/a	15.535	15-WC-40-566	3,259,688
Total U.S. Department of the Interior				<u>9,837,931</u>
U.S. Department of Homeland Security:				
Predisaster Mitigation	State of Utah Dept. Public Safety, Division of Emergency Management	97.047	PDMC-PJ-08-UT-2013-004	270,237
Predisaster Mitigation	State of Utah Dept. Public Safety, Division of Emergency Management	97.047	PDMC-PJ-08-UT-2014-005	15,676
Total U.S. Department of Homeland Security				<u>285,913</u>
Total Expenditures of Federal Awards				\$ <u><u>10,123,844</u></u>

See accompanying notes to schedule of expenditures of federal awards.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

### **(16) Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Central Utah Water Conservancy District (the District) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the District's consolidated financial statements.

### **(17) Reporting Entity**

For purpose of the supplementary Schedule of Expenditures of Federal Awards, the District includes all the funds of the primary government as defined by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

**(1) Summary of Auditor's Results**

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
  - Material weaknesses: **No**
  - Significant deficiencies: **None Reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **No**
  - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major program:
  - Central Utah Project Completion Act – CFDA number unknown (15.UNK)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,057,838**
- (i) Auditee qualified as a low-risk auditee: **Yes**

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None

**(3) Findings and Questioned Costs Relating to Federal Awards**

None



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## **Independent Auditors Report in Accordance with the *State Compliance Audit Guide* on Compliance with General State Compliance Requirements and Internal Control over Compliance**

The Board of Trustees  
Central Utah Water Conservancy District:

### **Report On Compliance with General State Compliance Requirements**

We have audited Central Utah Water Conservancy District's (the District) compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the District for the year ended June 30, 2016.

General state compliance requirements were tested for the year ended June 30, 2016, in the following areas:

- Budgetary Compliance
- Fund Balance
- Utah Retirement Systems
- Open and Public Meetings Act
- Treasurer's Bond
- Utah Public Finance Website
- Cash Management

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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



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

### ***Opinion on General State Compliance Requirements***

In our opinion, Central Utah Water Conservancy District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the District for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the compliance requirements that could have a direct and material effect on the District to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and 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 District's internal control over compliance.

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

**KPMG LLP**

October 25, 2016