



CENTRAL UTAH WATER CONSERVANCY DISTRICT
Basic Financial Statements and Supplementary Information
June 30, 2018
and
Audit of Federal Awards performed in Accordance
with the Uniform Guidance for Federal Awards
Year Ended June 30, 2018
(With Independent Auditors' Reports Thereon)

CENTRAL UTAH WATER CONSERVANCY DISTRICT

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KPMG LLP
Suite 1500
15 W. South Temple
Salt Lake City, UT 84101

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2018, 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 changes in the net OPEB liability; and Notes 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 19, 2018 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

Salt Lake City, Utah
October 19, 2018

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2018

(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, 2018. Please read it in conjunction with the District's basic financial statements, which follow this section.

Financial Highlights

- The District's net position was \$520.0 million at June 30, 2018.
- The District continued various capital projects during the year ended June 30, 2018. The following significant capital additions were recorded during the year; Water and aqueduct rights and privileges \$7.0 million, Land rights \$5.2 million, and Central Water Project \$13.6 million.
- The District is the sponsor of the Olmsted Replacement project and expended \$14.4 million in connection with that project.
- The District is also the sponsor of the Central Utah Project and expended \$20.6 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).

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.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2018

(Unaudited)

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, 2018

(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 Hydroelectric 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 two 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.

Government-Wide Financial Analysis

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

	Governmental activities		Business-type activities	
	2018	2017	2018	2017
Current assets	\$ 136.6	131.5	1.6	1.9
Restricted assets	339.0	126.4	7.6	6.8
Capital assets	979.8	958.3	17.8	18.2
Deferred outflows	24.6	28.6	0.4	0.4
Total assets and deferred outflows	\$ 1,480.0	1,244.8	27.4	27.3

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2018

(Unaudited)

	Governmental activities		Business-type activities	
	2018	2017	2018	2017
Current liabilities	\$ 46.5	35.2	1.3	1.2
Long-term liabilities	912.1	710.6	16.4	17.4
Total liabilities	958.6	745.8	17.7	18.6
Deferred inflows	1.4	0.7	—	—
Net position:				
Net investment in capital				
assets	362.9	270.3	0.8	0.4
Restricted	45.9	116.6	7.7	6.7
Unrestricted	111.2	111.4	1.2	1.6
Total net position	520.0	498.3	9.7	8.7
Total liabilities, deferred inflows and net position	\$ 1,480.0	1,244.8	27.4	27.3

The largest portion of the District's assets reflects its investment in capital assets (e.g., land, water and aqueduct rights and privileges, buildings and improvements, and furniture and equipment, net of accumulated depreciation). Both the restricted assets and the liabilities increased significantly due to a crossover advance refunding Series 2017B for its 2010A Build America Bonds entered into in December of 2017. 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 increased by approximately \$207 million for governmental and decreased by \$1M for business type activities during the year ended June 30, 2018, including: refunding amounts, and amortization and reduction of bond premiums.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2018

(Unaudited)

Changes in net position for the fiscal years ended June 30, 2018 and 2017 are outlined below (in millions):

	Governmental activities		Business-type activities	
	2018	2017	2018	2017
Program revenue:				
Central Utah Project				
Completion Act	\$ 6.2	6.0	—	—
Water treatment plants and other projects	26.1	24.3	—	—
General government	30.2	26.8	—	—
Hydropower sales	—	—	2.5	2.8
Olmsted Hydro Project	13.0	—	—	—
General revenue:				
Property taxes	61.6	55.9	—	—
Redevelopment agency property taxes	4.0	3.9	—	—
Earnings on investments	3.4	2.3	0.1	—
Loss on disposal of capital assets	—	(3.9)	—	—
Total revenue	<u>144.5</u>	<u>115.3</u>	<u>2.6</u>	<u>2.8</u>
Program expenses:				
Central Utah Project				
Completion Act	51.4	11.6	—	—
Water treatment plants and other projects and District projects	8.8	10.1	—	—
Olmsted Hydro Project	14.4	10.3	—	—
Hydropower costs and expenses	—	—	1.1	1.1
General government	14.4	16.3	—	—
Redevelopment agency property tax increment	4.0	3.9	—	—
Interest on long-term debt	32.8	28.7	0.5	0.5
Total expenses	<u>125.8</u>	<u>80.9</u>	<u>1.6</u>	<u>1.6</u>
Change in net position	18.7	34.4	1.0	1.2
Net position beginning of year	498.3	463.9	8.7	7.5
Prior period cumulative effect adjustment	3.0	—	—	—
Net position end of year	<u>\$ 520.0</u>	<u>498.3</u>	<u>9.7</u>	<u>8.7</u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2018

(Unaudited)

Total net position increased by approximately \$19.7 million, including the Jordanelle Hydroelectric Enterprise Fund activities. Program revenue for the CUPCA increased by \$0.2 million for the year ended June 30, 2018. General government revenue increased by \$3.4 million, primarily as a result of one time revenue related to the CWP project. Tax revenue increased by \$5.7 million from the prior year reflecting the general increase in the economy. Investment income increased by approximately \$1.1 million as a result of somewhat higher returns and higher reserve balances. Hydropower sales decreased by \$0.3 million and was consistent with the lower than average water year. Hydropower sales are generally related to the water year. Water treatment plants and other projects revenue increased by \$1.8 million primarily due to increased CWP water deliveries. Olmsted Hydro Project revenues increased by \$13.0 million due to contributions received in the current fiscal year. Program expenses increased \$44.9 million over the prior year reflecting \$39.8 million increase in Central Utah Project Completion Act related expenditures, a \$4.1 million increase in Olmsted Hydro Project expenditures, and \$4.1 million increase in interest on long-term debt; offset by a \$1.3 million decrease in water treatment plants and other projects and District projects, and a \$1.9 decrease in general government.

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, 2018, the District's governmental funds reported a combined fund balance of \$454.4 million. This amount compares to \$246.3 million in the prior year. The changes in combined fund balance reflect net expenditures performed on the Central Utah Project (CUPCA Fund), net expenditures for CUWCD Water Development Project (CWP), expenditures for upgrades to water treatment plants and other projects (Capital Projects Fund), net expenditures for the Olmsted Hydro Project (Olmsted Fund), payments for principal and interest on the District's outstanding debt, and bond proceeds and premiums offset by purchases of investments.

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 insurance reserves, operations and maintenance bond pledge reserves, and power loss. The fund balance of the Capital Projects Fund is designated for future projects and other reserves; 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.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2018

(Unaudited)

Budgetary Highlights

During the year, the board of trustees (the Board) revised the District's budget. Budget amendments were primarily to reflect moving funds to the Capital Projects Fund for future capital projects, and proceeds and premiums from bonding activities including the advanced crossover refunding. Total changes aggregated approximately \$238.6 million.

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, 2018 and 2017 are outlined below (in millions):

	<u>2018</u>	<u>2017</u>
Water and aqueduct rights and privileges	\$ 646.6	639.6
Land and land rights	22.2	17.0
Buildings and equipment	113.7	117.9
Construction in progress	<u>197.3</u>	<u>183.8</u>
Total capital assets, net of accumulated depreciation and net of Enterprise Fund	979.8	958.3
Enterprise Fund capital assets, net of accumulated depreciation	<u>17.8</u>	<u>18.2</u>
Total capital assets, net of accumulated depreciation	<u>\$ 997.6</u>	<u>976.5</u>

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, revenue bonds by 2043, contracts and block notices by 2061, and enterprise fund revenue bonds by 2034. The District's debt outstanding at June 30, 2018 consists of bonds and contract obligations between the District and the U.S. Bureau of Reclamation as outlined below (in millions):

	<u>Governmental activities</u>		<u>Total change 2018–2017</u>
	<u>2018</u>	<u>2017</u>	
General obligation and revenue bonds	\$ 908.4	701.1	207.3
Contracts and block notices	6.9	7.0	(0.1)
Enterprise fund revenue bonds	17.4	18.2	(0.8)

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Management's Discussion and Analysis

June 30, 2018

(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	AA+	

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, 2018

Assets and Deferred Outflows	Governmental activities	Business-type activities
	<u> </u>	<u> </u>
Current assets:		
Cash and cash equivalents (notes 2 and 8)	\$ 122,611,956	1,100,992
Property taxes receivable	2,629,021	—
Accounts receivable	2,804,761	484,816
Interest receivable	855,309	—
Deposits	250,000	—
Prepaid expenses	204,692	—
Restricted investments (note 2)	7,302,190	—
	<u>136,657,929</u>	<u>1,585,808</u>
Total current assets		
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (notes 2 and 8)	112,376,728	7,640,461
Investments (note 2)	226,669,141	—
Capital assets (notes 3 and 4):		
Nondepreciable capital assets:		
Water and aqueduct rights and privileges	646,582,168	—
Land	22,198,328	—
Construction in progress	197,327,883	—
Depreciable capital assets, net of accumulated depreciation	113,665,178	17,758,712
	<u>1,455,477,355</u>	<u>26,984,981</u>
Total assets		
Deferred outflows of resources:		
Accumulated decrease in fair value of hedging derivative (note 6)	4,272,138	—
Pension (note 11)	2,045,062	10,021
Deferred charge on refunding (note 7)	18,251,607	379,661
	<u>24,568,807</u>	<u>389,682</u>
Total deferred outflow of resources		
Total assets and deferred outflows	\$ <u>1,480,046,162</u>	<u>27,374,663</u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Statement of Net Position

June 30, 2018

Liabilities, Deferred Inflows, and Net Position	Governmental activities	Business-type activities
Liabilities:		
Current liabilities:		
Accounts payable	\$ 7,728,465	235,610
Accrued liabilities	331,822	110,000
Accrued interest on long-term debt	9,326,686	—
Unearned other revenue	6,035,488	—
Unearned water sales revenue	6,149,110	—
Current portion of long-term debt:		
Contract obligations to U.S. Bureau of Reclamation (note 5)	118,053	—
Bonds payable, net (note 5)	<u>16,832,351</u>	<u>939,742</u>
Total current liabilities	46,521,975	1,285,352
Long-term liabilities, net of current portion:		
Postretirement benefit liability (note 12)	5,037,254	—
Compensated absences	1,223,246	—
Derivative swap liability (note 6)	4,272,138	—
Net pension liability (note 11)	3,194,201	10,782
Long-term debt:		
Contract obligations to U.S. Bureau of Reclamation (note 5)	6,774,569	—
Bonds payable, net (note 5)	<u>891,565,215</u>	<u>16,418,374</u>
Total liabilities	<u>958,588,598</u>	<u>17,714,508</u>
Deferred inflow of resources related to pensions (note 11)	1,489,815	8,519
Net position:		
Net investment in capital assets	362,915,992	780,257
Restricted for:		
Emergency project operations and maintenance	1,665,838	—
Future project replacements	796,147	—
Operation and maintenance	3,009,933	—
Power loss reserve	5,030	—
Debt service reserve	1,849,338	7,640,461
Federal contracts	36,486,712	—
Future capital projects	2,071,756	—
Unrestricted	<u>111,167,003</u>	<u>1,230,918</u>
Total net position	<u>519,967,749</u>	<u>9,651,636</u>
Total liabilities, deferred inflows, and net position	\$ <u><u>1,480,046,162</u></u>	<u><u>27,374,663</u></u>

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Statement of Activities

Year ended June 30, 2018

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)	\$ 20,628,001	—	6,215,300	—	(14,412,701)	—
Other Central Utah Project nonreimbursable expenses	29,240,824	—	—	—	(29,240,824)	—
District projects	1,483,760	—	—	—	(1,483,760)	—
Olmsted Hydro Power Replacement	14,395,600	—	—	13,012,721	(1,382,879)	—
Total Central Utah Project	65,748,185	—	6,215,300	13,012,721	(46,520,164)	—
Water treatment plants and other projects	8,801,765	26,095,014	—	—	17,293,249	—
General government	14,425,069	30,169,699	—	—	15,744,630	—
Redevelopment agency property taxes (note 14)	4,027,704	—	—	—	(4,027,704)	—
Interest on long-term debt	32,798,161	—	—	—	(32,798,161)	—
Total governmental activities	125,800,884	56,264,713	6,215,300	13,012,721	(50,308,150)	—
Business-type activities:						
Hydropower	1,172,357	2,496,272	—	—	—	1,323,915
Interest on long-term debt	535,848	—	—	—	—	(535,848)
	\$ 127,509,089	58,760,985	6,215,300	13,012,721	(50,308,150)	788,067
General revenue:						
Property taxes					61,635,886	—
Redevelopment agency property taxes (note 14)					4,027,704	—
Earnings on investments					3,393,916	148,085
Loss on disposal of capital assets					(987)	—
Total general revenue					69,056,519	148,085
Change in net position					18,748,369	936,152
Net position beginning of year					498,263,966	8,715,484
Prior period cumulative effect adjustment (note 12)					2,955,414	—
Adjusted beginning of year net assets					501,219,380	8,715,484
Net position end of year					\$ 519,967,749	9,651,636

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Governmental Funds Balance Sheet

June 30, 2018

Assets	General Fund	CUPCA Fund	Olmsted Fund	Debt Service Fund	Capital Projects Fund	Total
Cash and cash equivalents (notes 2 and 8)	\$ 24,157,052	—	—	—	98,454,904	122,611,956
Property taxes receivable	2,629,021	—	—	—	—	2,629,021
Accounts receivable	679,304	—	345,149	1,005,254	775,054	2,804,761
Interest receivable	—	—	—	855,309	—	855,309
Deposits	—	—	—	—	250,000	250,000
Prepaid expenses	194,816	—	—	—	9,876	204,692
Restricted assets:						
Cash and cash equivalents (notes 2 and 8)	8,329,792	33,266,771	5,758,768	46,209,685	18,811,712	112,376,728
Investments (note 2)	—	—	—	233,971,331	—	233,971,331
Total assets	<u>\$ 35,989,985</u>	<u>33,266,771</u>	<u>6,103,917</u>	<u>282,041,579</u>	<u>118,301,546</u>	<u>475,703,798</u>
Liabilities, Deferred Inflows, and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,101,175	524,844	2,359,132	11,225	3,732,089	7,728,465
Accrued liabilities	331,822	—	—	—	—	331,822
Unearned other revenue	—	—	—	—	6,035,488	6,035,488
Unearned water sales revenue	6,149,110	—	—	—	—	6,149,110
Total liabilities	<u>7,582,107</u>	<u>524,844</u>	<u>2,359,132</u>	<u>11,225</u>	<u>9,767,577</u>	<u>20,244,885</u>
Deferred inflows:						
Unavailable revenue – property tax	1,080,746	—	—	—	—	1,080,746
Total deferred inflows	<u>1,080,746</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,080,746</u>
Fund balances (note 8):						
Nonspendable:						
Prepaid expenses	194,816	—	—	—	9,876	204,692
Restricted:						
Emergency project O&M reserve	—	—	—	—	1,665,838	1,665,838
Replacement reserve	—	—	—	—	796,147	796,147
O&M bond pledge reserve	3,009,933	—	—	—	—	3,009,933
Power loss reserve	5,030	—	—	—	—	5,030
Debt service reserves	—	—	—	282,030,354	—	282,030,354
CUPCA reserve	—	32,741,927	—	—	—	32,741,927
Olmsted reserve	—	—	3,744,785	—	—	3,744,785
Future capital projects	—	—	—	—	101,478	101,478
Committed:						
Liability insurance reserve	5,314,829	—	—	—	—	5,314,829
Contingency reserve	—	—	—	—	10,712,799	10,712,799
Assigned:						
Project facility reserve	—	—	—	—	3,653,779	3,653,779
WCWEP project reserve	—	—	—	—	689,592	689,592
District facility reserve	—	—	—	—	1,192,078	1,192,078
Future capital projects	—	—	—	—	89,712,382	89,712,382
Unassigned	18,802,524	—	—	—	—	18,802,524
Total fund balances	<u>27,327,132</u>	<u>32,741,927</u>	<u>3,744,785</u>	<u>282,030,354</u>	<u>108,533,969</u>	<u>454,378,167</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 35,989,985</u>	<u>33,266,771</u>	<u>6,103,917</u>	<u>282,041,579</u>	<u>118,301,546</u>	<u>475,703,798</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, 2018

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

Total fund balances – governmental funds	\$ 454,378,167
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$1,056,549,877 and the accumulated depreciation is \$76,776,320	979,773,557
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 government wide financial statements	1,080,746
Pension obligations are not recognized as a liability in the funds as they do not require current financial resources. This represents the liability and deferred inflows and outflows	(2,638,954)
Postretirement benefit obligation is recognized as a liability in the funds when due and mature, rather than when incurred	(5,037,254)
Obligations for compensated absences are recognized as a liability in the funds when due and mature, rather than as earned by employees	(1,223,246)
Deferred charge on refunding	18,251,607
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>(924,616,874)</u>
Total net position – governmental activities	<u>\$ 519,967,749</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, 2018

	<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	\$ 61,535,348	—	—	—	—	61,535,348
Redevelopment agency property taxes (note 14)	4,027,704	—	—	—	—	4,027,704
Water sales	20,788,220	—	—	—	5,306,794	26,095,014
Interest	573,072	58,770	11,594	2,824,604	2,342,503	5,810,543
Net decrease in fair value of investments	—	—	—	(2,416,627)	—	(2,416,627)
Central Utah Project Completion Act (note 10)	—	6,215,300	—	—	—	6,215,300
Olmsted Hydro Replacement Project	—	—	820,788	—	—	820,788
Other	1,302,600	—	—	3,984,984	24,882,115	30,169,699
Total revenue	<u>88,226,944</u>	<u>6,274,070</u>	<u>832,382</u>	<u>4,392,961</u>	<u>32,531,412</u>	<u>132,257,769</u>
Expenditures:						
Current:						
Central Utah Project Completion Act (note 10)	—	20,628,001	—	—	—	20,628,001
Other Central Utah Project nonreimbursable expenses	4,019,995	—	—	—	—	4,019,995
Water treatment plants and other projects	3,795,296	—	—	—	—	3,795,296
Olmsted Hydro Replacement Project	—	—	14,395,600	—	—	14,395,600
Administrative and general	10,319,289	—	—	—	1,337,739	11,657,028
District projects	1,451,804	—	—	—	3,464	1,455,268
Redevelopment agency property tax increment (note 14)	4,027,704	—	—	—	—	4,027,704
Debt service:						
Principal (note 5)	—	—	—	14,658,737	—	14,658,737
Interest (note 5)	—	—	—	32,290,081	—	32,290,081
Bond issuance expense	—	—	—	1,518,200	—	1,518,200
Other	—	—	—	412,533	—	412,533
Capital outlay	655,141	—	—	—	52,085,309	52,740,450
Total expenditures	<u>24,269,229</u>	<u>20,628,001</u>	<u>14,395,600</u>	<u>48,879,551</u>	<u>53,426,512</u>	<u>161,598,893</u>
Excess (deficiency) of revenue over expenditures	63,957,715	(14,353,931)	(13,563,218)	(44,486,590)	(20,895,100)	(29,341,124)
Other financing sources (uses):						
Transfers in (note 9)	635,888	15,000,000	—	42,386,945	21,695,384	79,718,217
Transfers out (note 9)	(64,082,328)	—	—	—	(15,635,889)	(79,718,217)
Contributions	—	—	12,191,933	—	—	12,191,933
Bond proceeds (note 5)	—	—	—	197,360,000	3,400,000	200,760,000
Bond premium	—	—	—	24,419,860	—	24,419,860
Net changes in fund balances	511,275	646,069	(1,371,285)	219,680,215	(11,435,605)	208,030,669
Fund balances, beginning of year	26,815,857	32,095,858	5,116,070	62,350,139	119,969,574	246,347,498
Fund balances, end of year	\$ <u>27,327,132</u>	<u>32,741,927</u>	<u>3,744,785</u>	<u>282,030,354</u>	<u>108,533,969</u>	<u>454,378,167</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, 2018

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

Net change in fund balances – total governmental funds		\$ 208,030,669
Governmental funds report capital outlays as expenditures. However, in the government wide 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:		
Capital outlays, net	\$ 27,065,349	
Depreciation expense	<u>(5,640,494)</u>	21,424,855
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		100,538
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		181,129
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		120,172
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		(78,804)
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:		
Bond proceeds	(225,179,860)	
Principal payments	14,658,737	
Change in accrual for interest on long-term debt	(2,083,556)	
Amortization of bond premium	3,381,909	
Amortization of deferred refunding costs	(1,806,433)	
Loss on disposal of assets	<u>(987)</u>	<u>(211,030,190)</u>
Change in net position of governmental activities		\$ <u><u>18,748,369</u></u>

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT
Statement of Net Position – Jordanelle Hydroelectric Enterprise Fund
June 30, 2018

Assets and Deferred Outflows

Current assets:	
Cash and cash equivalents (notes 2 and 8)	\$ 1,100,992
Accounts receivable	484,816
Total current assets	1,585,808
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (notes 2 and 8)	7,640,461
Jordanelle Hydro plant, net	17,758,712
Total noncurrent assets	25,399,173
Deferred outflow of resources:	
Deferred outflow or resources related to pension	10,021
Deferred charge on refunding	379,661
Total assets and deferred outflows	\$ 27,374,663

Liabilities, Deferred Inflows, and Net Position

Current liabilities:	
Accounts payable	\$ 235,610
Accrued liabilities	110,000
Revenue bonds payable, net (note 5)	939,742
Total current liabilities	1,285,352
Noncurrent liabilities:	
Revenue bonds payable, net (note 5)	16,418,374
Net pension liability	10,782
Total noncurrent liabilities	16,429,156
Total liabilities	17,714,508
Deferred inflows:	
Deferred inflows related to pension (note 11)	8,519
Net position:	
Net investment in capital assets	780,257
Restricted for debt service reserve (note 8)	7,640,461
Unrestricted	1,230,918
Total net position	9,651,636
Total liabilities, deferred inflows, and net position	\$ 27,374,663

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, 2018

Operating revenue:		
Hydropower sales	\$	2,496,272
Total operating revenue		2,496,272
Operating expenses:		
Cost of sales and services		763,834
Administrative and general		52,983
Depreciation		436,471
Other		143
Total operating expenses		1,253,431
Operating income		1,242,841
Nonoperating revenue (expenses):		
Investment earnings		148,085
Interest expense		(535,848)
Amortization of deferred refunding costs		(33,668)
Amortization of bond premium		114,742
Total nonoperating expenses		(306,689)
Change in net position		936,152
Net position beginning of year		8,715,484
Net position end of year	\$	9,651,636

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Statement of Cash Flows – Jordanelle Hydroelectric Enterprise Fund

Year ended June 30, 2018

Cash flows from operating activities:	
Receipts from customers and users	\$ 2,497,146
Payments to suppliers	(382,322)
Payments to employees	(41,203)
Payments for interfund services used	<u>(411,487)</u>
Net cash provided by operating activities	<u>1,662,134</u>
Cash flows used for capital and related financing activities:	
Acquisition and construction of capital assets	(5,494)
Principal paid on revenue bonds	(725,000)
Interest paid on revenue bonds	<u>(535,848)</u>
Net cash used for capital and related financing activities	<u>(1,266,342)</u>
Cash flows from investing activity:	
Interest and dividends received	<u>148,085</u>
Net cash provided by investing activity	<u>148,085</u>
Net decrease in cash and cash equivalents	543,877
Cash and cash equivalents, July 1, 2017	<u>8,197,577</u>
Cash and cash equivalents, June 30, 2018	<u>\$ 8,741,454</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,242,841
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	436,471
Increase in net pension liability	(496)
Decrease in accounts receivable	873
Increase in accounts payable and accrued liabilities	<u>(17,555)</u>
Total adjustments	<u>419,293</u>
Net cash provided by operating activities	<u>\$ 1,662,134</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, 2018

	Private Purpose Trust Fund
Assets:	
Cash and cash equivalents	\$ 1,135,218
Accounts receivable	<u>1,818,000</u>
Total assets	<u>2,953,218</u>
Liabilities:	
Accounts payable	100,670
Accrued liabilities	<u>112,464</u>
Total liabilities	213,134
Net position	<u>2,740,084</u>
Total liabilities and net position	<u>\$ 2,953,218</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, 2018

	Private Purpose Trust Fund
Additions:	
June sucker recovery implementation program contributions	\$ 2,122,000
Interest on investments	<u>27,598</u>
Total additions	2,149,598
Deductions:	
June sucker recovery implementation program expense	<u>1,444,365</u>
Change in fiduciary net position	705,233
Net position beginning of year	<u>2,034,851</u>
Net position end of year	\$ <u><u>2,740,084</u></u>

See accompanying notes to basic financial statements.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

(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

(i) 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.

(ii) 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, deferred outflows, deferred inflows, net position, fund balance, revenue, and expenditures/expenses. The District's funds are organized into three categories: governmental, proprietary, and fiduciary. Major funds are

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

presented separately in the fund financial statements. A 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:

(iii) *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.

(iv) *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. As of June 30, 2018, the District maintained one proprietary type fund, the Jordanelle Hydroelectric Enterprise Fund.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

Jordanelle Hydroelectric Enterprise Fund

This fund is used to account for the activities of the Jordanelle Hydroelectric Plant.

(v) 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, 2018, 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.

(i) 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.

(ii) 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

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

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.

(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

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

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.

(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 if the hedge is deemed not effective.

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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
- *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

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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.

(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,

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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.

(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," 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, 2018 consist of the following:

Cash deposits	\$ 40,228,095
Cash equivalents and investments	<u>437,473,373</u>
Total cash, cash equivalents, and investments	\$ <u><u>477,701,468</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	\$ 122,611,956	1,100,992
Restricted:		
Cash and cash equivalents	112,376,728	7,640,461
Investments	<u>233,971,331</u>	<u>—</u>
Total cash, cash equivalents, and investments	\$ <u><u>468,960,015</u></u>	<u><u>8,741,453</u></u>

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Restricted cash and cash equivalents and investments consisted of the following at June 30, 2018:

	<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	\$ —	—	—	—	1,665,838	—
Replacement Reserve	—	—	—	—	796,147	—
District Facility Reserve	—	—	—	—	1,192,078	—
Liability Insurance Reserve	5,314,829	—	—	—	—	—
Power Loss Reserve	5,030	—	—	—	—	—
Project Facility Reserve	—	—	—	—	3,653,779	—
WCWEP Project Reserve	—	—	—	—	689,592	—
O&M Bond Pledge Reserve	3,009,933	—	—	—	—	—
Central Utah Project						
Completion Act (note 10)	—	33,266,771	—	—	—	—
Olmsted Replacement Project	—	—	5,758,768	—	—	—
Debt Service Fund	—	—	—	43,431,116	—	—
Debt Service Crossover Refunding Escrow	—	—	—	216,664,708	—	—
Debt Service Coverage						
Maintenance	—	—	—	20,085,192	—	—
Contingency Reserve	—	—	—	—	10,712,799	—
Future Capital Projects	—	—	—	—	101,479	—
Hydroelectric Reserve	—	—	—	—	—	7,640,461
Total restricted cash, cash equivalents, and investments	\$ <u>8,329,792</u>	<u>33,266,771</u>	<u>5,758,768</u>	<u>280,181,016</u>	<u>18,811,712</u>	<u>7,640,461</u>

Also see note 8.

(i) 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, 2018, the total carrying amount of the District's restricted and unrestricted cash deposits (net of outstanding checks) was \$40,228,095 and the bank balances were \$40,785,236 of which \$250,000 is covered by federal depository insurance and \$40,535,236 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.

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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.

(i) *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.

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The District has no assets measured on a recurring basis using Level 2 or 3 inputs. The following table sets forth the District's assets at fair value as of June 30, 2018:

	<u>June 30, 2018</u>	<u>Level 1</u>
Cash equivalents:		
Money Market Mutual Funds	\$ 40,370,410	40,370,410
Utah Public Treasurers' Investment Fund	199,946,642	199,946,642
U.S. Treasuries	<u>3,413,085</u>	<u>3,413,085</u>
Total cash equivalents	<u>243,730,137</u>	<u>243,730,137</u>
Investments:		
U.S. Treasuries	231,983,473	231,983,473
Commercial Paper	<u>1,987,858</u>	<u>1,987,858</u>
Total investments	<u>233,971,331</u>	<u>233,971,331</u>
Total cash equivalents, and investments measured at fair value	<u>\$ 477,701,468</u>	<u>477,701,468</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.

(ii) *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.

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As of June 30, 2018, 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	\$ 231,983,473	5,314,332	226,669,141	—	—
Commercial Paper	1,987,858	1,987,858	—	—	—
Total	\$ 233,971,331	7,302,190	226,669,141	—	—

(iii) 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, 2018, the District's investments had the following quality ratings:

Investment type	Fair value	Quality ratings			
		AAA	AA	A	Unrated
U.S. Treasuries	\$ 231,983,473	231,574,503	—	—	408,970
Commercial Paper	1,987,858	—	—	1,987,858	—
Total	\$ 233,971,331	231,574,503	—	1,987,858	408,970

(iv) 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, 2018, the District held \$1,987,858 of 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.

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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.

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, 2018 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
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

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Block notice number			
Special	5,000 acre-feet of water from Jordanelle Reservoir for		
Block	municipal and industrial purposes; issued March 31, 1995	\$	22,030,650
Notice 2	Municipal and industrial amendment; issued June 23, 1997		4,129,950
5A	13,800 acre-feet of water from Jordanelle Reservoir for		
	municipal and industrial purposes; issued May 30, 1997		72,203,256
5B	2,400 acre-feet of water from Jordanelle Reservoir for		
	municipal and industrial purposes; issued April 1, 2000		12,557,102
5C	7,900 acre-feet of water from Jordanelle Reservoir for		
	municipal and industrial purposes; issued June 24, 2002		41,333,796
5D	1,590 acre-feet of water from Strawberry Reservoir for		
	municipal and industrial purposes; issued June 30, 2003		8,319,087
6	43,300 acre-feet of water from Strawberry Reservoir for		
	municipal and industrial purposes; issued June 30, 2004		226,551,051
UBRP1	2,500 acre-feet of irrigation water from the enlarged Big Sand		
	Wash Reservoir, issued November 1, 2010		<u>237,500</u>
	Total block notices		503,304,803
	Water rights of the CWP System		104,559,371
	Water rights in Utah Lake		12,605,434
	Facility rights, conveyance rights, and other		<u>26,112,560</u>
	Total water rights and privileges (note 4)	\$	<u><u>646,582,168</u></u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

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(4) Capital Assets

A summary of changes in capital assets for the year ended June 30, 2018 is as follows:

	<u>Balances, June 30, 2017</u>	<u>Transfers/ additions</u>	<u>Transfers/ deletions</u>	<u>Balances, June 30, 2018</u>
Governmental funds:				
Nondepreciable capital assets:				
Water and aqueduct rights and privileges	\$ 639,611,754	6,970,414	—	646,582,168
Land rights	17,011,004	5,187,324	—	22,198,328
Construction in progress:				
Central Water Project	<u>183,752,404</u>	<u>13,575,479</u>	<u>—</u>	<u>197,327,883</u>
Total construction in progress	<u>183,752,404</u>	<u>13,575,479</u>	<u>—</u>	<u>197,327,883</u>
Total nondepreciable capital assets	<u>840,375,162</u>	<u>25,733,217</u>	<u>—</u>	<u>866,108,379</u>
Depreciable capital assets:				
Treatment plants:				
Utah valley plant	98,255,687	26,028	—	98,281,715
Duchesne valley plant	47,089,887	131,014	—	47,220,901
Ashley valley plant	<u>33,289,514</u>	<u>637,968</u>	<u>—</u>	<u>33,927,482</u>
Total treatment plants	178,635,088	795,010	—	179,430,098
District office facilities	7,137,372	231,035	—	7,368,407
District vehicles	<u>3,418,997</u>	<u>306,087</u>	<u>(82,091)</u>	<u>3,642,993</u>
Total depreciable capital assets	189,191,457	1,332,132	(82,091)	190,441,498
Accumulated depreciation	<u>(71,216,930)</u>	<u>(5,640,494)</u>	<u>81,104</u>	<u>(76,776,320)</u>
Depreciable capital assets, net	<u>117,974,527</u>	<u>(4,308,362)</u>	<u>(987)</u>	<u>113,665,178</u>
Capital assets, net	\$ <u>958,349,689</u>	<u>21,424,855</u>	<u>(987)</u>	<u>979,773,557</u>
Enterprise Fund:				
Jordanelle Hydropower	\$ 21,646,952	5,494	(5,690)	21,646,756
Accumulated depreciation	<u>(3,457,263)</u>	<u>(436,471)</u>	<u>5,690</u>	<u>(3,888,044)</u>
Jordanelle Hydro plant, net	\$ <u>18,189,689</u>	<u>(430,977)</u>	<u>—</u>	<u>17,758,712</u>

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Depreciation expense of \$5.0 million related to treatment plants is allocated to water treatment plants and other projects in the accompanying government-wide statement of net position. Depreciation expense of \$0.6 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

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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.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

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

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable:					
General obligation and revenue bonds	\$ 661,689,000	200,760,000	14,542,000	847,907,000	12,921,000
U.S. government obligations	7,009,359	—	116,737	6,892,622	118,053
Premiums, net of amortization	<u>39,452,617</u>	<u>24,419,860</u>	<u>3,381,911</u>	<u>60,490,566</u>	<u>3,911,351</u>
Total bonds payable, net	<u>\$ 708,150,976</u>	<u>225,179,860</u>	<u>18,040,648</u>	<u>915,290,188</u>	<u>16,950,404</u>
Business-type activities:					
Hydropower revenue bonds payable	\$ 17,060,000	—	725,000	16,335,000	825,000
Premiums, net of amortization	<u>1,137,858</u>	<u>—</u>	<u>114,742</u>	<u>1,023,116</u>	<u>114,742</u>
Total bonds payable, net	<u>\$ 18,197,858</u>	<u>—</u>	<u>839,742</u>	<u>17,358,116</u>	<u>939,742</u>

A summary of payments and balances for the year ended June 30, 2018 is as follows:

	<u>2018 Payments</u>		<u>Principal balances at June 30, 2018</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	—	3,897,440
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	—	1,497,920
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	—	210,900

CENTRAL UTAH WATER CONSERVANCY DISTRICT

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June 30, 2018

	<u>2018 Payments</u>		<u>Principal</u>	<u>Interest</u>	<u>Principal balances at June 30, 2018</u>
	<u>Principal</u>	<u>Interest</u>			
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	\$ 74,528	10,080			238,316
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	1,426,709	1,098,145			32,656,013
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	1,153,688	888,000			26,406,822
Block Notice 5A – issued in the original amount of \$72,203,256 in 1997; annual payments of principal and interest of \$2,834,316 through 2047	1,094,663	1,739,653			52,898,307
Block Notice 5B – issued in the original amount of \$12,557,102 in 2000; annual payments of principal and interest of \$501,382 through 2047	193,643	307,739			9,357,531
Block Notice 5C – issued in the original amount of \$41,333,796 in 2003; annual payments of principal and interest of \$1,697,683 through 2047	655,675	1,042,008			31,684,732
Block Notice 5D – issued in the original amount of \$8,319,087 in 2003; annual payments of principal and interest of \$345,198 through 2047	133,321	211,877			6,442,627

CENTRAL UTAH WATER CONSERVANCY DISTRICT

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June 30, 2018

	2018 Payments		Principal balances at June 30, 2018
	Principal	Interest	
Block Notice 6 – issued in the original amount of \$226,551,051 in 2004; annual payments of principal and interest of \$9,501,508 through 2047	\$ 3,669,649	5,831,859	177,331,568
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	30,710	27,197	813,386
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 \$1,036,565 through 2044	440,296	596,269	18,065,879
Block Notice – UBRP1 issued in the original amount of \$237,500; payments of principal only beginning in 2012 through 2061	4,750	—	204,250
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	(1,103,981)	(1,140,273)	(47,580,212)

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Notes to Basic Financial Statements

June 30, 2018

	2018 Payments		Principal balances at June 30, 2018
	Principal	Interest	
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.	\$ (3,116,613)	(3,219,071)	(83,498,511)
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	(193,643)	(307,739)	(9,357,531)
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 a 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	(655,675)	(1,042,008)	(31,684,732)

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

	2018 Payments		Principal balances at June 30, 2018
	Principal	Interest	
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	\$ (3,802,970)	(6,043,736)	(183,774,195)
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 2037	40,857	36,182	1,082,112
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	82,000	35,593	1,377,000
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	1,210,000	54,450	—

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

	<u>2018 Payments</u>		<u>Principal balances at June 30, 2018</u>
	<u>Principal</u>	<u>Interest</u>	
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	\$ —	1,440,846	54,655,000
Jordanelle Hydro Electric 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	—	127,748	7,020,000
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.	—	269,408	23,700,000
Water Conservancy Taxable Subordinate Revenue Bonds (Series 2009) – issued in the 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

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

	<u>2018 Payments</u>		<u>Principal</u>
	<u>Principal</u>	<u>Interest</u>	<u>balances at June 30, 2018</u>
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	—	4,800,000
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	56,000	2,600,000
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	1,090,000	224,150	4,865,257

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

	<u>2018 Payments</u>		<u>Principal</u>	<u>Interest</u>	<u>Principal balances at June 30, 2018</u>
	<u>Principal</u>				
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	\$ 900,000		3,726,000		77,883,239
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		3,425,000	2,343,750		48,445,726
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		4,515,000	1,221,350		24,215,450
Jordanelle Hydroelectric Revenue Refunding Bonds (Series 2012A) issued in the amount of \$11,490,000 plus \$1,721,130 reoffering premium in June 2012. 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	408,100		10,338,116

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

	<u>2018 Payments</u>		<u>Principal balances at June 30, 2018</u>
	<u>Principal</u>	<u>Interest</u>	
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	\$ 1,520,000	561,800	12,961,663
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 2042. Effective July 27, 2016, \$27,965,000 of the bonds were refunded	—	4,800,000	110,168,983
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	1,400,000	1,843,350	47,395,549
Water Revenue Refunding Bonds Series 2016A issued in the original amount of \$25,045,000 with a premium of \$7,418,053. Interest is payable 5.00% coupon rate with maturities beginning in 2022 and going through 2028. The refunding bond included deferred charges of (\$259,237)	—	1,252,250	31,272,439
Water Conservancy Taxable Subordinate Revenue Bonds (Series 2017A) – issued in the original amount of \$5,900,000 in 2017; The initial draw was \$3,400,000 in 2017, the remaining \$2,500,000 will be drawn in 2018 and 2019. Interest is payable at 1% coupon rate with maturities beginning in 2018 and going through 2037	—	—	3,400,000

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

	<u>2018 Payments</u>		<u>Principal balances at June 30, 2018</u>
	<u>Principal</u>	<u>Interest</u>	
Water Revenue Refunding Bonds (Series 2017B) issued in 2017 in the amount of \$197,360,000 with a reoffering premium of \$24,419,860. Interest is payable at 4.00% to 5.00% through 2040	\$ —	2,280,502	221,217,260
Total	<u>\$ 15,383,737</u>	<u>32,825,929</u>	<u>932,648,304</u>
Total governmental activities	<u>\$ 14,658,737</u>	<u>32,290,081</u>	<u>915,290,188</u>
Total business type activities	<u>\$ 725,000</u>	<u>535,848</u>	<u>17,358,116</u>

(b) Contracts and Block Notices

Annual principal maturities on the repayment obligations and related interest using interest rates as of June 30, 2018 for the five years subsequent to June 30, 2018 and, thereafter, for contracts and block notices and general obligation and revenue bonds, including net interest rate swap impact, are as follows:

	<u>Contracts and block notices</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year(s) ending June 30:			
2019	\$ 118,053	34,866	152,919
2020	119,411	33,507	152,918
2021	120,815	32,104	152,919
2022	1,064,037	30,656	1,094,693
2023	1,065,532	29,162	1,094,694
2024–2028	2,470,631	121,653	2,592,284
2029–2033	595,125	76,370	671,495
2034–2038	571,148	23,307	594,455
2039–2043	286,300	—	286,300
2044–2048	286,300	—	286,300
2049–2053	145,870	—	145,870
2054–2058	35,150	—	35,150
2059–2061	14,250	—	14,250
Total	6,892,622	381,625	7,274,247
Less current portion	<u>(118,053)</u>	<u>(34,866)</u>	<u>(152,919)</u>
Long-term debt, net of current portion	<u>\$ 6,774,569</u>	<u>346,759</u>	<u>7,121,328</u>

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

(c) General Obligation and Revenue Bonds

On December 28, 2017, the District issued \$197,360,000 Water Revenue Refunding Bonds, Series 2017B with a reoffering premium of \$24,419,860. Crossover refundings do not qualify for legal defeasance or in-substance defeasance until a crossover date, which will be April 1, 2020. This Series will crossover refund the Series 2010A BABs on the April 1, 2020 crossover date. The issuance of refunding debt in a crossover advance refunding treated just like the issuance of any other debt. The District therefore reported both the refunded debt and refunding debt in the financial statements. At the same time, the District reported the resources held in escrow as restricted cash in the Debt Service Fund. This escrow, together with earnings on the escrow, and certain amounts from the debt service reserve fund with respect to the Series 2010A Bonds to be transferred to the escrow fund on the 2010A April 1, 2020 crossover date will pay in full the outstanding principal of the 2010A principal of the refunded bonds on the crossover date and pay interest on the Series 2017B Bonds to and including the crossover date.

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:

Governmental Activities – GO and Revenue Bonds				
	<u>Principal</u>	<u>Interest</u>	<u>Interest rate swaps, net</u>	<u>Total</u>
Fiscal year(s) ending June 30:				
2019	\$ 12,921,000	35,315,733	39,058	48,275,791
2020	240,969,000	34,779,845	39,058	275,787,903
2021	23,644,000	25,496,708	39,058	49,179,766
2022	25,922,000	24,418,549	39,058	50,379,607
2023	26,789,000	23,203,930	39,058	50,031,988
2024–2028	154,773,000	95,128,397	159,549	250,060,946
2029–2033	162,004,000	60,301,186	—	222,305,186
2034–2038	129,930,000	28,433,174	—	158,363,174
2039–2043	70,955,000	6,612,900	—	77,567,900
Total	847,907,000	333,690,422	354,839	1,181,952,261
Add unamortized premiums	60,490,566	—	—	60,490,566
Total with premiums	908,397,566	333,690,422	354,839	1,242,442,827
Less:				
Current portion of principal	(12,921,000)	(35,315,733)	(39,058)	(48,275,791)
Current portion – premiums	(3,911,351)	—	—	(3,911,351)
Long-term debt, net of current portion	\$ 891,565,215	298,374,689	315,781	1,190,255,685

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

(d) Enterprise Fund Obligations – Jordanelle Hydro

	Business-type activities		
	Principal	Interest	Total
Fiscal year(s) ending June 30:			
2019	\$ 825,000	668,125	1,493,125
2020	825,000	639,250	1,464,250
2021	825,000	610,375	1,435,375
2022	900,000	582,625	1,482,625
2023	890,000	553,575	1,443,575
2024–2028	5,050,000	2,073,688	7,123,688
2029–2033	6,500,000	1,025,370	7,525,370
2034–2035	520,000	44,280	564,280
Total	16,335,000	6,197,288	22,532,288
Add unamortized premiums	1,023,116	—	1,023,116
Total with premiums	17,358,116	6,197,288	23,555,404
Less:			
Current portion of principal	(825,000)	(668,125)	(1,493,125)
Current portion of premium	(114,742)	—	(114,742)
Long-term debt, net of current portion	\$ 16,418,374	5,529,163	21,947,537

(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.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

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June 30, 2018

Basis Risk – The District’s variable rate bondholders are paid the bond rate, which closely follows 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.

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 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

(i) Series 2008A Bonds

As of June 30, 2018, 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, 2018, the actual interest rate is 1.53%.

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

	General obligation variable rate bonds		
	Principal	Interest	Total
Fiscal year(s) ending June 30:			
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	1,700,000	691,200	2,391,200
2023	600,000	630,000	1,230,000
2024–2028	13,200,000	2,351,141	15,551,141
2029–2033	500,000	629,733	1,129,733
2034–2034	3,200,000	115,200	3,315,200
Total	\$ 23,700,000	6,822,186	30,522,186

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

As of June 30, 2018, the District has no swaps outstanding in connection with its general obligation bonds.

(b) Revenue Variable Rate Bonds

(i) Series 2008B 2 Bonds

As of June 30, 2018, 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, 2018, the actual interest rate is 1.53%.

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

	Governmental activities		
	Revenue variable rate bonds		
	Principal	Interest	Total
Fiscal year(s):			
2019	\$ —	1,928,522	1,928,522
2020	—	1,931,611	1,931,611
2021	—	1,925,433	1,925,433
2022	55,000	1,927,204	1,982,204
2023	—	1,926,542	1,926,542
2024–2028	15,600,000	8,213,676	23,813,676
2029–2033	20,200,000	5,133,413	25,333,413
2034–2036	18,800,000	1,101,019	19,901,019
Total	\$ 54,655,000	24,087,420	78,742,420

(ii) Swap Agreement Related to Revenue Bonds

As of June 30, 2018, 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.

(iii) 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.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

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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 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, 2018, the swap liability had a fair value of \$4,272,138 calculated under the terms and conditions of the Swap Agreement, which represents a decrease in the liability of \$1,851,539 from June 30, 2017. 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

(i) 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, 2018, the actual interest rate is 2.16%.

	Business-type activities		
	Revenue variable rate bonds		
	Principal	Interest	Total
Fiscal year(s):			
2019	\$ —	288,900	288,900
2020	—	288,900	288,900
2021	—	288,900	288,900
2022	—	288,900	288,900
2023	—	288,900	288,900
2024–2028	—	1,444,500	1,444,500
2029–2033	6,500,000	1,025,370	7,525,370
2034–2035	520,000	44,280	564,280
Total	\$ 7,020,000	3,958,650	10,978,650

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

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and 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:

		Government related		
		Balance		Balance
		June 30, 2017	Additions	June 30, 2018
			Deletions	
Refundings	\$	30,526,096	—	30,526,096
Amortization		(10,468,056)	(1,806,433)	(12,274,489)
Total	\$	<u>20,058,040</u>	<u>(1,806,433)</u>	<u>18,251,607</u>

		Business related		
		Balance		Balance
		June 30, 2017	Additions	June 30, 2018
			Deletions	
Refundings	\$	617,368	—	617,368
Amortization		(204,039)	(33,668)	(237,707)
Total	\$	<u>413,329</u>	<u>(33,668)</u>	<u>379,661</u>

(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, 2018 were \$796,147 and \$1,665,838, 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 \$3,009,933 as of June 30, 2018.

(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,

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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 stipulated that, in the event that the Government used the water from the diversion as a backup water supply, water users were to be billed, and all additional revenue collected by water users be placed into the Power Loss reserve account. If the water used resulted in reduced power generated and sold by Utah Power, the District was 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, 2018, this contract has expired and the District has taken over the responsibility for the Olmsted Hydroelectric Project and is currently in the process of replacing the power plant. As of June 30 2018, the reserve has a balance of \$5,030 which will be used to help fund the replacement power plant.

(d) Debt Service Reserves

The District maintains debt service reserves in accordance with bond agreements and covenants. The cash balances of these reserves aggregate to \$43,431,116 as of June 30, 2018.

(e) Debt Service Crossover Refunding Escrow Reserves

On December 28, 2017 the District bonded for Series 2017B to advance crossover refund Series 2010A Build America bonds which have a face value of \$224,440,000. As part of the 2017B transaction, an escrow account was set up with a trustee to purchase open market securities sufficient to, together with earnings on the 2010A escrow fund and certain amounts from the debt service reserve fund with respect to the Series 2010A Bonds to be transferred to the escrow fund on the 2010A April 1, 2020 crossover date, pay in full the outstanding principal of the 2010A refunded bonds on the crossover date and to pay interest on the Series 2017B bonds to and including the crossover date. The cash balance of this reserves was \$216,664,708 as of June 30, 2018.

(f) 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, 2018. 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, 2018, the reserve has a balance of \$20,085,192.

(g) 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, 2018 was \$33,266,771.

(h) 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, 2018 was \$5,758,768.

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(i) Future Capital Projects Reserve

The District maintains reserves for future capital projects, which aggregated to \$89,813,860 as of June 30, 2018.

(j) 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 reserve has a balance of \$5,314,829 as of June 30, 2018.

(k) 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, 2018, the balance of the related reserve was \$10,712,799.

(l) 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 reserve, as of June 30, 2018, has a balance of \$3,653,779.

(m) 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, 2018, this reserve has a balance of \$689,592.

(n) 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. A charge for every acre foot of water treated is accumulated in this reserve, which as of June 30, 2018, has a balance of \$1,192,078.

(o) 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 \$7,640,461 as of June 30, 2018.

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(9) Interfund Transfers

Interfund transfers for the year ended June 30, 2018 consisted of the following:

	Transfers				Total
	General Fund	CUPCA Fund	Debt Service Fund	Capital Projects Fund	
Transfers in	\$ 635,888	15,000,000	42,386,945	21,695,384	79,718,217
Transfers out	(64,082,328)	—	—	(15,635,889)	(79,718,217)

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 8 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, 2018 totaled \$6.2 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.

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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.

(b) Benefits Provided

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

Summary of Benefits by System				
System	Final average salary	Years of service required and/or age eligible for benefit	Benefit percent per year of service	COLA**
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:

Utah Retirement Systems				
	Employee paid	Paid by employer for employee	Employer contribution rates	Employer rate for 401(k) Plans
Contributory system:				
111 – Local Governmental Division Tier 2	N/A	N/A	15.11	1.58
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, 2018, the employer and employee contributions to the Systems were as follows:

	Employer contributions	Employee contributions
System:		
Noncontributory System	\$ 1,121,731	N/A
Tier 2 Public Employees	260,595	—
Tier 2 DC Only System	<u>15,539</u>	<u>N/A</u>
Total contributions	\$ <u><u>1,397,865</u></u>	<u><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.

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

At June 30, 2018, the District reported a net pension liability of \$3,204,983.

	<u>Net pension asset</u>	<u>Net pension liability</u>	<u>Prop. Share 12/31/2017</u>	<u>Prop. Share 12/31/2016</u>	<u>Change (decrease)</u>
Noncontributory system	\$ —	3,189,656	0.7280158 %	0.6949017 %	0.0331141 %
Tier 2 public employees	—	15,327	0.1738361	0.1293359	0.0445002
Total net pension asset/liability	\$ <u>—</u>	<u>3,204,983</u>			

The net pension asset and liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2017 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, 2018, the District recognized pension expense of \$1,276,927.

At June 30, 2018, 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	\$ 71,723	209,556
Changes in assumptions	1,166,336	76,076
Net difference between projected and actual earnings on pension plan investments	—	1,133,963
Changes in proportion and differences between contributions and proportionate share of contributions	123,872	78,739
Contributions subsequent to the measurement date	<u>693,152</u>	<u>—</u>
Total	\$ <u>2,055,083</u>	<u>1,498,334</u>

The District reported \$693,152 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, 2017.

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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:

	Net deferred outflows (inflows) of resources
	<u> </u>
Year ended December 31:	
2018	\$ 162,925
2019	264,333
2020	(181,770)
2021	(396,776)
2022	(3,139)
Thereafter	<u>18,024</u>
	<u>\$ (136,403)</u>

(e) Actuarial Assumptions

The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25–9.75% average, including inflation
Investment rate of return	6.95%, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experience and 2014 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, 2017 valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2016.

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.

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

	Expected return arithmetic basis		
	Target asset allocation	Real return arithmetic basis	Long-term expected portfolio real rate of return
Asset class:			
Equity securities	40 %	6.15 %	2.46 %
Debt securities	20	0.40	0.08
Real assets	15	5.75	0.86
Private equity	9	9.95	0.89
Absolute return	16	2.85	0.46
Totals	<u>100 %</u>	<u>25 %</u>	<u>4.75 %</u>
Inflation			2.50 %
Expected arithmetic nominal return			7.25

The 6.95% assumed investment rate of return comprises an inflation rate of 2.50%, a real return of 4.45% that is net of investment expense.

Discount rate: The discount rate used to measure the total pension liability was 6.95%. 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. The discount rate does not use the Municipal Bond Index Rate. The discount rate was reduced to 6.95% from 7.20% from the prior measurement period.

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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 6.95%, 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 (5.95%) or 1-percentage-point higher (7.95%) than the current rate:

System – (asset) liability	1% Decrease (5.95)%	Discount rate (6.95)%	1% Increase (7.95)%
Noncontributory System	\$ 8,626,326	3,189,656	(1,330,666)
Tier 2 Public Employees System	180,464	15,327	(112,018)
Total	\$ 8,806,790	3,204,983	(1,442,684)

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
401(k) Plan:			
Employer contributions	\$ 68,774	49,773	59,974
Employee contributions	179,470	231,482	234,221
457 Plan:			
Employer contributions	\$ —	—	—
Employee contributions	1,780	35,542	26,380
Roth IRA Plan:			
Employer contributions	\$ —	—	—
Employee contributions	61,901	41,235	35,743

(12) Postretirement Healthcare Benefits

(a) Plan Description

The District administers a single-employer defined benefit healthcare plan (the Plan). The governing board of the District sets all policies for 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

(b) Benefits Provided

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 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.

(c) Employees Covered by Benefit Terms

As of June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	9
Active employees	<u>15</u>
	<u><u>24</u></u>

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(d) Annual OPEB Cost and Total OPEB Liability

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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for employers in plans with fewer than 100 total plan members. That method permits the District to calculate the OPEB liability and the related estimates without the services of an actuary. The measurement date used for the OPEB liability was June 30, 2018.

There are currently 24 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 21 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:

(i) Changes in the Total OPEB Liability

The following table shows the components of the District's annual OPEB liability for the year:

Beginning OPEB Obligation		\$	8,173,797
Prior period adjustment – GASB 75 measurement	\$		(1,780,971)
Prior period adjustment – GASB 75 discount rate			(1,174,443)
Total prior period adjustment related to GASB 75			<u>(2,955,414)</u>
Beginning OPEB Liability, as adjusted			<u>5,218,383</u>
Service cost			101,917
Interest on the total OPEB liability			163,335
Changes of assumptions or other inputs			(372,157)
Benefit Payments			<u>(74,224)</u>
Net changes			<u>(181,129)</u>
Ending OPEB liability		\$	<u><u>5,037,254</u></u>

(e) Actuarial Assumptions and Inputs

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.

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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 2014 United States Life Tables (most current information) for Males and for Females were used.

Turnover – Nongroup specific age based turnover data derived from information by the U.S. Office of Personnel Management 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 4.8% initially trending to an ultimate rate of 4.9% after six years was used.

Health insurance premiums – 2018 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid. Insurance rates used were age-adjusted premiums as determined by the State of Utah Public Employees Health Program.

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 2018 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.

Discount rate – The discount rate used is based on the S&P Municipal Bond 20 Year High Grade Rate Index (AA) at June 30, 2018.

In addition, a simplified version of the entry age actuarial cost method was used.

GASB Statement 75 changed the focus of reporting from reporting a “net OPEB obligation” to a “total OPEB liability”. It also changed the source of the discount rate. Previously, the District used a discount rate that reflected a five-year average of interest rates earned on deposits with the Utah State Treasurer’s Public Treasurers’ Investment Fund (PTIF). GASB Statement 75 requires the use of a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The District used the S&P Municipal Bond 20 Year High Grade Rate Index (AA) at June 30, 2018. This is a significant change from the rate used in 2017 (.71%) which resulted in a significant reduction in the OPEB liability. The change in the focus from net OPEB obligation to total OPEB liability resulted in a reduction from 8,173,797 to 6,392,826 or \$1,780,971 at June 30, 2017. The liability was reduced further by the change in the discount rate from 0.71% to 3.13% by \$1,174,443 for a total change in beginning balance due to GASB 75 of \$2,955,414 the liability at June 30, 2017 is

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\$5,218,383. The OPEB expense recognized for the year was (\$181,129) which is included in the general government expense financial statement caption.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.13 to 0.95% and a change in health care cost trend rates from 4.8% to 6.5% in 2017 to 3.4% to 4.9% in 2018.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.98%) or 1-percentage point higher (3.98%) than the current discount rate:

	<u>1% Decrease</u> <u>1.98%</u>	<u>Discount Rate</u> <u>2.98%</u>	<u>1% Increase</u> <u>3.98</u>
Net OPEB Liability	5,464,538	5,037,254	4,642,894

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.8% decreasing to 3.9%) or 1-percentage-point higher (5.8% decreasing to 6.5%) than the current healthcare cost trend rates:

	<u>1% Decrease</u> <u>(3.8% to 3.9%)</u>	<u>Cost Trend Rate</u> <u>(4.8% to 4.9%)</u>	<u>1% Increase</u> <u>(5.8% to 5.9%)</u>
Net OPEB Liability	4,559,611	5,037,254	5,577,415

(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.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Basic Financial Statements

June 30, 2018

(14) Tax Abatements

In addition to various taxes the District levies for its own purposes, the District levies taxes for other governments; those taxes are forwarded to those other governments as the taxes are collected. Taxes levied by the District in fiscal year 2018 for other governments are recorded as revenue with an equivalent amount of expenditure. Incremental taxes of \$4.0 million were recorded in the General Fund are forwarded to various redevelopment agencies within the District for the purposes of financing urban renewal, economic development, and community development projects by earmarking property tax revenue from increases in assessed values within project areas in the counties, as follows:

<u>County</u>	<u>Abatement amount</u>
Salt Lake	\$ 2,890,207
Utah	1,137,497
Total	<u>\$ 4,027,704</u>

(15) Commitments and Contingencies

The District is engaged in the construction of various water projects and treatment plant modifications. At June 30, 2018, the District had contract commitments of approximately \$63.1 million related to these projects.

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, 2018 were \$5.3 million and \$10.7 million, respectively.

(16) Subsequent Events

Subsequent to June 30, 2018, the District has entered into construction contracts aggregating \$1.4 million relating to various District projects. With Board approval on August 15, 2018, the District purchased buildings and associated land for future headquarters and operations and maintenance facilities. The total purchase price was \$16.1 million. The District plans to offset a significant portion of this purchase by selling its current headquarters building, land, and will lease a portion of the new building to tenants during fiscal year 2018. The District prepaid an additional \$1.0 million of the Hydroelectric Enterprise Fund 2008 B-4 Series bond on October 1, 2018.

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, 2018

(Unaudited)

	Budgeted amounts		Actual amounts	Variance with final budget – positive (negative)
	Original	Final		
Revenue:				
Property taxes	\$ 58,129,120	58,129,120	61,535,348	3,406,228
Redevelopment agency property taxes	4,000,000	4,050,000	4,027,704	(22,296)
Water sales	20,502,121	20,502,121	20,788,220	286,099
Interest	155,000	155,000	573,072	418,072
Other	1,380,103	1,580,103	1,302,600	(277,503)
Total revenue	<u>84,166,344</u>	<u>84,416,344</u>	<u>88,226,944</u>	<u>3,810,600</u>
Expenditures:				
Administrative and general	11,826,387	12,026,387	10,319,289	1,707,098
Redevelopment Agency property tax increment	4,000,000	4,050,000	4,027,704	22,296
District projects	2,119,981	2,119,981	1,451,804	668,177
Capital outlay	903,219	903,219	655,141	248,078
Water treatment plants and other projects	4,580,623	4,580,623	3,795,296	785,327
Central Utah Project operation and maintenance	4,427,029	4,427,029	4,019,995	407,034
Total expenditures	<u>27,857,239</u>	<u>28,107,239</u>	<u>24,269,229</u>	<u>3,838,010</u>
Excess of revenue over expenditures	56,309,105	56,309,105	63,957,715	7,648,610
Other financing sources:				
Net transfers in (out)	<u>(58,484,900)</u>	<u>(64,884,900)</u>	<u>(63,446,440)</u>	<u>1,438,460</u>
Net changes in fund balance	(2,175,795)	(8,575,795)	511,275	9,087,070
Fund balance – beginning	<u>26,815,857</u>	<u>26,815,857</u>	<u>26,815,857</u>	—
Fund balance – ending	<u>\$ 24,640,062</u>	<u>18,240,062</u>	<u>27,327,132</u>	<u>9,087,070</u>

See accompanying independent auditors' report.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

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

Year ended June 30, 2018

(Unaudited)

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget – positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue:				
Interest	\$ —	—	58,770	58,770
Federal funding	5,645,000	7,108,300	6,215,300	(893,000)
Total revenue	5,645,000	7,108,300	6,274,070	(834,230)
Expenditures:				
CUPCA activities	20,645,000	22,645,000	20,628,001	2,016,999
Loss of revenue over expenditures	(15,000,000)	(15,536,700)	(14,353,931)	1,182,769
Other financing sources:				
Transfers in	15,000,000	15,000,000	15,000,000	—
Net changes in fund balance	—	(536,700)	646,069	1,182,769
Fund balance – beginning	32,095,858	32,095,858	32,095,858	—
Fund balance – ending	\$ 32,095,858	31,559,158	32,741,927	1,182,769

See accompanying independent auditors' report.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

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

Year ended June 30, 2018

(Unaudited)

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget – positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue:				
Interest	\$ 6,000	6,000	11,594	5,594
Other	3,302,074	3,302,074	—	(3,302,074)
Federal funding	—	—	820,788	820,788
Total revenue	<u>3,308,074</u>	<u>3,308,074</u>	<u>832,382</u>	<u>(2,475,692)</u>
Expenditures:				
Olmsted Hydro Replacement Project	<u>20,288,612</u>	<u>20,288,612</u>	<u>14,395,600</u>	<u>5,893,012</u>
Loss of revenue over expenditures	(16,980,538)	(16,980,538)	(13,563,218)	3,417,320
Other financing sources:				
Contributions	<u>14,194,112</u>	<u>14,194,112</u>	<u>12,191,933</u>	<u>(2,002,179)</u>
Net changes in fund balance	<u>(2,786,426)</u>	<u>(2,786,426)</u>	<u>(1,371,285)</u>	<u>1,415,141</u>
Fund balance – beginning	<u>5,116,070</u>	<u>5,116,070</u>	<u>5,116,070</u>	<u>—</u>
Fund balance – ending	<u>\$ 2,329,644</u>	<u>2,329,644</u>	<u>3,744,785</u>	<u>1,415,141</u>

See accompanying independent auditors' report.

CENTRAL UTAH WATER CONSERVANCY DISTRICT
Schedule of the Proportionate Share of the Net Pension Liability
Year ended June 30, 2018
(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:

	2014		2015		2016		2017	
	Noncontributory system	Tier 2 Public employees system	Noncontributory system	Tier 2 Public employees system	Noncontributory system	Tier 2 Public employees system	Noncontributory system	Tier 2 Public employees system
Proportion of the net pension liability (asset)	0.7299665 %	0.08852 %	0.7088248 %	0.13241 %	0.6949017 %	0.1293359 %	0.7280158 %	0.1738361 %
Proportionate share of the net pension liability (asset) \$	3,169,686	(2,683)	4,010,875	(288)	4,462,118	14,427	3,189,656	15,327
Covered employee payroll	6,450,671	434,698	6,217,107	855,565	6,204,142	1,060,657	6,258,438	1,702,060
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	49.10 %	(0.60)%	64.51 %	0.03 %	71.92 %	1.36 %	50.97 %	0.90 %
Plan fiduciary net position as a percentage of the total pension liability	90.2 %	103.5 %	87.8 %	100.2 %	87.3 %	95.1 %	91.9 %	97.4 %

* 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, 2015, 2016 and 2017.

See accompanying independent auditors' report.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Schedule of Contributions

Year ended June 30, 2018

(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	2015	1,129,507	1,129,507	—	6,322,051	17.87 %
	2016	1,107,188	1,107,188	—	6,222,645	17.79
	2017	1,124,253	1,124,253	—	6,238,741	18.02
	2018	1,121,731	1,121,731	—	6,227,532	18.01
Tier 2 Public Employees System*	2015	92,543	92,543	—	619,429	14.94 %
	2016	146,017	146,017	—	979,319	14.91
	2017	207,926	207,926	—	1,394,541	14.91
	2018	260,595	260,595	—	1,724,652	15.11
Tier 2 Public Employees DC Only System	2015	3,552	3,552	—	52,862	6.72 %
	2016	3,727	3,727	—	55,708	6.69
	2017	4,646	4,646	—	69,441	6.69
	2018	15,539	15,539	—	232,277	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.

See accompanying independent auditors' report.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

General Employees' Other Postemployment Benefits Plan

Schedule of Changes in the Net OPEB liability

Year ended June 30, 2018

(Unaudited)

Beginning OPEB liability	\$ 5,218,383
Service cost	101,917
Interest on the total OPEB liability	163,335
Changes of assumptions or other inputs	(372,157)
Benefit payments	<u>(74,224)</u>
Net changes	<u>(181,129)</u>
Ending OPEB liability	\$ <u>5,037,254</u>
Covered-employee payroll	1,635,906
Net OPEB liability as a percentage of covered-employee payroll	308 %

Notes to schedule:

In accordance with paragraph 57a of GASB 75, employers will need to disclose a 10 year history of changes in the net OPEB liability. Complete information was only available for fiscal year 2018. Additional years' information will be added as it becomes available. Changes of assumptions. Changes of assumptions and other inputs reflect the effects of changes each period in the discount rate, inflation rate, insurance rates, and the health care cost trend rates.

	<u>Discount rate</u>	<u>Inflation rate</u>	<u>Insurance rates increase</u>	<u>Health care cost trend rates</u>
2018	2.98	2.6 %	0.95 %	3.4 to 4.9%
2017	3.13	2.6	4.72	4.8 to 6.5%

See accompanying independent auditors' report.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Required Supplementary Information

Year ended June 30, 2018

(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, 2018 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, 2017

	Beginning values			Ending values		
	NPL/(NPA)	Asset	Liability	NPL/(NPA)	Asset	Liability
Noncontributory	\$ 4,462,118	—	4,462,118	3,189,656	—	3,189,656
Tier 2 public employees	14,427	—	14,427	15,327	—	15,327
Total	\$ 4,476,545	—	4,476,545	3,204,983	—	3,204,983

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Required Supplementary Information

Year ended June 30, 2018

(Unaudited)

Net Pension Liability/(Asset) at December 31, 2016 and Net Pension Liability/(Asset) at December 31, 2017

Retirement System	2016			2017		
	System total NPL/(NPA)	Proportionate share	Ending values	System total NPL/(NPA)	Proportionate share	Ending values
Noncontributory:						
Local Government	\$ 642,122,385	0.6949020 %	\$ 4,462,118	438,129,988	0.7280160 %	\$ 3,189,656
State School	3,240,916,902	—	—	2,445,362,179	—	—
Contributory:						
Local Government	32,811,102	—	—	8,137,414	—	—
State School	54,795,763	—	—	6,580,407	—	—
Public Safety:						
Other DIV A	202,927,613	—	—	156,865,824	—	—
State of Utah	213,808,638	—	—	173,886,661	—	—
SLC	91,688,895	—	—	86,194,634	—	—
Ogden	19,179,423	—	—	19,938,952	—	—
Provo	13,875,843	—	—	11,389,861	—	—
Logan	7,205,719	—	—	5,809,852	—	—
Bountiful	7,319,792	—	—	6,280,025	—	—
Other DIV B	62,329,711	—	—	48,320,343	—	—
Firefighters:						
Other DIV A	(788,348)	—	—	(6,245,527)	—	—
Other DIV B	14,791,745	—	—	(22,433,533)	—	—
Judges	35,005,177	—	—	32,585,945	—	—
Utah Governors and Legislators	2,302,925	—	—	1,853,770	—	—
Tier 2 Public Employees	11,154,934	0.1293360	14,427	8,816,731	0.1738360	15,327
Tier 2 PS and Firefighters	(868,058)	—	—	(1,157,070)	—	—
Total	\$ 4,650,580,161		\$ 4,476,545	3,420,316,456		\$ 3,204,983

Changes in Assumptions

As a result of an experience study conducted as of December, 31, 2016, the Board adopted recommended changes to several economic and demographic assumptions that are used in the actuarial valuation. The assumption changes that had the largest impact on the Total Pension Liability (and actuarial accrued liability) include a decrease in the investment return assumption from 7.20% to 6.95%, a reduction in the price inflation assumption from 2.60% to 2.50% (which also resulted in a corresponding decrease in the cost-of-living-adjustment assumption for the funds with a 4.00% annual COLA max), and the adoption of an updated retiree mortality table that is developed using URS's actual retiree mortality experience. There were changes to several other demographic assumptions, but those changes had a minimal impact on the Total Pension Liability (and actuarial accrued liability).



KPMG LLP
Suite 1500
15 W. South Temple
Salt Lake City, UT 84101

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, 2018, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2018.

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

Salt Lake City, Utah
October 19, 2019



KPMG LLP
Suite 1500
15 W. South Temple
Salt Lake City, UT 84101

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, 2018. 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, 2018.



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

Salt Lake City, Utah
October 19, 2018

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through agency</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Expenditures</u>
U.S. Department of the Interior:				
Central Utah Project Completion Act	n/a	15.unknown	n/a	\$ 6,217,206
Fish and Wildlife Coordination Act	n/a	15.517	R13AP40023	600,000
Upper Colorado River Basin Fish and Wildlife Mitigation Program	n/a	15.535	R16AC00037	40,000
Upper Colorado River Basin Fish and Wildlife Mitigation Program	n/a	15.535	R14AC00028	600,000
Olmsted Hydroelectric Power Plant Replacement Project	n/a	15.unknown	n/a	<u>14,395,600</u>
Total U.S. Department of the Interior				<u>21,852,806</u>
Total expenditures of federal awards				<u><u>\$ 21,852,806</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, 2018

(1) 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, 2018. 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.

(2) 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*.

(3) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(4) Indirect Cost Rate

The District has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CENTRAL UTAH WATER CONSERVANCY DISTRICT

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

(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:
 - Olmsted Hydroelectric Power Plant Replacement Project – CFDA number unknown (15.UNK)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (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



KPMG LLP
Suite 1500
15 W. South Temple
Salt Lake City, UT 84101

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, 2018.

General state compliance requirements were tested for the year ended June 30, 2018, in the following areas:

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

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, 2018.



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

Salt Lake City, Utah
October 19, 2018