Metropolitan Water District of Salt Lake & Sandy
Board Meeting Information
Last Update: October 8, 2018

Agenda Item: Consider approval of FY 2018 financial audit

Background: As required by state law and district policy, a financial audit must be prepared within 180 days of the end of the fiscal year (i.e., December 27, 2018). The financial statements were prepared by District staff and WSRP, the District's accounting consultants. The audit of the financial statements was conducted by Keddington & Christensen, the District's independent auditor.

Committee Activity: The Finance Committee reviewed the financial audit during the October 2, 2018 committee meeting and recommended approval by the full board.

Recommendation: Approval of the FY 2018 financial audit by the full board.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY

FINANCIAL STATEMENTS

June 30, 2018 and 2017

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K&C

Keddington & Christensen
Certified Public Accountants, LLC

Gary K. Keddington, CPA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Metropolitan Water District of Salt Lake & Sandy
Cottonwood Heights, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Water District of Salt Lake & Sandy (the District) as of and for the fiscal years ended June 30, 2018 and 2017, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 District as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Other Report Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 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 the effectiveness of the District's 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.

Keddington & Christensen, LLC

September 24, 2018

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2018

The management of the Metropolitan Water District of Salt Lake & Sandy (the "District") presents to the reader of the District's financial statements this discussion and analysis of the District's financial performance for the fiscal years ended June 30, 2018 and 2017.

Overview of the Financial Statements

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States, promulgated by the Governmental Accounting Standards Board ("GASB"). The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the District's significant accounting policies (Note 1 and others).

Metropolitan Water District of Salt Lake & Sandy's Net Position

June 30,	2018	2017	2016
Assets			
Current and other assets	$ 201,405,222	$ 197,769,300	$ 197,122,936
Capital assets	347,387,933	351,170,501	348,522,700
Total assets	548,793,155	548,939,801	545,645,636
Deferred outflow of resources	21,630,646	26,177,635	32,201,761
Total assets and deferred outflow of resources	570,423,801	575,117,436	577,847,397
Current and other liabilities	14,143,022	15,875,055	14,010,991
Long-term liabilities	251,289,529	264,446,395	277,785,640
Deferred inflow of resources	1,229,621	373,390	243,879
Total liabilities and deferred inflow of resources	266,662,172	280,694,840	292,040,510
Net position			
Invested in capital assets, net of related debt	107,004,342	103,259,819	96,233,918
Restricted	15,556,608	15,257,829	14,448,881
Unrestricted	181,200,679	175,904,948	175,124,088
Total net position	$ 303,761,629	$ 294,422,596	$ 285,806,887

Financial Analysis

- The District’s total assets and deferred outflows exceeded its total liabilities as of the close of the most recent year by $303,761,629 (net position). Of this amount, $181,200,679 (unrestricted) may be used to meet the District’s ongoing obligations.
- The District’s net capital assets decreased by $3,782,568.
- The District’s long-term liabilities decreased by $13,156,866.
- The District’s operating revenues increased by $775,440.

The District's primary sources of revenue are made up from water sales, property taxes, and special assessment revenues. Each source of revenue is predictably stable with slight variations in property taxes due to changes in property values and/or certified tax rates. Special assessment revenues are based on each member city's investment in new system capacity and/or new water supplies. Once the special assessments are established, they remain stable until the investment in system capacity or water supply has been paid.

Metropolitan Water District of Salt Lake & Sandy's Changes in Net Position

	2018	2017	2016
Operating revenues	$ 22,084,091	$ 21,308,651	$ 18,361,234
Operating expenses	(23,339,624)	(23,679,833)	(23,760,134)
Operating loss	(1,255,533)	(2,371,182)	(5,398,900)
Non-operating revenues	24,911,096	25,498,071	24,408,904
Non-operating expenses	(13,249,953)	(13,529,694)	(14,330,767)
Contributions to other governments	(1,066,577)	(981,486)	(1,054,434)
Total non-operating revenues (expenses), net	10,594,566	10,986,891	9,023,703
Change in net position	9,339,033	8,615,709	3,624,803
Net position - beginning of year	294,422,596	285,806,887	282,182,084
Net position - end of year	$ 303,761,629	$ 294,422,596	$ 285,806,887

Metropolitan Water District of Salt Lake & Sandy's Summary of Revenues

	2018	2017	2016
Operating revenues			
Water sales - member entities	$ 21,272,534	$ 20,259,556	$ 17,613,138
Water sales - nonmember entities	811,557	1,049,095	748,096
Total operating revenues	22,084,091	21,308,651	18,361,234
Non-operating revenues			
Property tax revenues	11,873,646	11,717,539	11,645,715
Special assessment revenue	12,249,306	12,248,671	12,246,768
Interest income	587,712	439,376	346,536
Unrealized gain on investments	-	-	47,096
Gain on disposal of capital assets	42,664	622,381	17,300
Other income	157,768	470,104	105,489
Total non-operating revenues	24,911,096	25,498,071	24,408,904
Total revenues	$ 46,995,187	$ 46,806,722	$ 42,770,138

Metropolitan Water District of Salt Lake & Sandy's Summary of Expenses

	2018	2017	2016
Operating expenses			
Cost of sales and services	$ 10,675,838	$ 11,145,491	$ 10,948,959
General and administrative	1,831,853	1,847,819	2,060,071
Depreciation	10,831,933	10,686,523	10,751,104
Total operating expenses	23,339,624	23,679,833	23,760,134
Non-operating expenses			
Interest expense	8,459,189	8,432,739	9,923,111
Loss on investment in PRWUA	4,636,813	4,926,465	4,407,656
Unrealized loss on investments	153,951	170,490	-
Total non-operating expenses	13,249,953	13,529,694	14,330,767
Total expenses	$ 36,589,577	$ 37,209,527	$ 38,090,901

Capital Asset Activity

The District's capital assets for its governmental activities, as of June 30, 2018 and 2017, amounted to $347,387,933 and $351,170,501, respectively (net of accumulated depreciation). This investment in capital assets includes the water system, land, administrative buildings and equipment, aqueduct rights and privileges, and investments in surface water resources.

The District continued the replacement of the terminal reservoir of the Salt Lake Aqueduct. Construction activity began in December 2011. Additional financing was accomplished in fiscal year 2015 and completed the financing activity necessary to fully fund the project. The cost of the project is anticipated to be approximately $42 million. Phases 1-4 of the 5 phase project were completed in 2016. The remaining phase of the project will be completed by December 2018.

Economic Factors and Budgetary Analysis

The District continues to find its revenues and expenses to be following a predictable trend. Water sales revenues are expected to increase an average of 3% per year over the next 5 years. This forecast has been communicated to the member cities and they anticipate the change. Operations and maintenance expenses are budgeted at an inflationary index of 3% per year. Capital expenditures are planned using asset management techniques that evaluate the condition, criticality, and consequence of the asset. Long-term debt is reviewed on an ongoing basis in an effort to capitalize on any opportunities. As of June 30, 2018, the District's bond ratings are AA+ and AA+ by S&P and Fitch, respectively. The anticipated revenue increases are necessary to meet future O&M, capital, and debt service costs.

Request for Information

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or requests for additional information should be addressed to the General Manager, 3430 East Danish Road, Cottonwood Heights, Utah 84093 or by calling 801-942-9662.

FINANCIAL STATEMENTS

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF NET POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	$ 15,620,545	$ 10,921,196
Accounts receivable	2,011,417	2,720,431
Prepaid expenses and other receivables	81,275	85,788
Supplies	212,270	184,833
TOTAL CURRENT ASSETS	17,925,507	13,912,248
NONCURRENT ASSETS		
Restricted assets (Note 2):		
Cash and cash equivalents	15,556,608	15,257,829
TOTAL RESTRICTED ASSETS	15,556,608	15,257,829
Investments	18,706,103	18,619,653
Investment in Provo River Water Users Association (Note 5)	146,844,315	147,606,881
Investment in Utah Lake Water Users Association (Note 5)	2,372,689	2,372,689
Capital assets, net (Note 4)	347,387,933	351,170,501
TOTAL NONCURRENT ASSETS	530,867,648	535,027,553
TOTAL ASSETS	548,793,155	548,939,801
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows relating to pensions (Note 8)	1,452,536	1,397,387
Deferred charge on bond refundings	11,554,937	12,678,481
Deferred outflow on interest rate swap agreement (Note 7)	8,623,173	12,101,767
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 570,423,801	$ 575,117,436
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 2,476,747	$ 4,353,382
Accrued expenses	599,052	604,358
Accrued interest payable	3,667,223	3,807,315
Bonds payable, current (Note 6)	7,400,000	7,110,000
TOTAL CURRENT LIABILITIES	14,143,022	15,875,055
LONG-TERM LIABILITIES		
Interest rate swap agreement (Note 7)	8,623,173	12,101,767
Unamortized bond premium, net of discounts	22,626,305	24,026,848
Bonds payable, net of current portion (Note 6)	218,245,000	225,645,000
Net pension liability (Note 8)	1,795,051	2,672,780
TOTAL LONG-TERM LIABILITIES	251,289,529	264,446,395
TOTAL LIABILITIES	265,432,551	280,321,450
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows relating to pensions (Note 8)	1,229,621	373,390
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	266,662,172	280,694,840
NET POSITION		
Net investment in capital assets	107,004,342	103,259,819
Restricted (Note 3)	15,556,608	15,257,829
Unrestricted (Note 3)	181,200,679	175,904,948
TOTAL NET POSITION	$ 303,761,629	$ 294,422,596

The accompanying notes are an integral part of the financial statements.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Water sales - member entities	$ 21,272,534	$ 20,259,556
Water sales - nonmember entities	811,557	1,049,095
TOTAL OPERATING REVENUES	22,084,091	21,308,651
OPERATING EXPENSES		
Cost of sales and services	10,675,838	11,145,491
General and administrative	1,831,853	1,847,819
Depreciation	10,831,933	10,686,523
TOTAL OPERATING EXPENSES	23,339,624	23,679,833
OPERATING LOSS	(1,255,533)	(2,371,182)
NON-OPERATING REVENUES (EXPENSES)		
Property tax revenues	11,873,646	11,717,539
Special assessment revenue	12,249,306	12,248,671
Interest income	587,712	439,376
Interest expense	(8,459,189)	(8,432,739)
Unrealized loss on investments	(153,951)	(170,490)
Loss on investment in Provo River Water Users Association	(4,636,813)	(4,926,465)
Gain on disposal of capital assets	42,664	622,381
Other revenue	157,768	470,104
TOTAL NON-OPERATING REVENUES (EXPENSES), NET	11,661,143	11,968,377
INCOME BEFORE CONTRIBUTIONS	10,405,610	9,597,195
CONTRIBUTIONS TO OTHER GOVERNMENTS	1,066,577	981,486
CHANGE IN NET POSITION	9,339,033	8,615,709
NET POSITION, BEGINNING OF YEAR	294,422,596	285,806,887
NET POSITION, END OF YEAR	$ 303,761,629	$ 294,422,596

The accompanying notes are an integral part of the financial statements.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from water sales - member entities	$ 21,981,548	$ 20,021,433
Receipts from water sales - nonmember entities	811,557	1,049,095
Payments to vendors	(5,977,682)	(3,472,199)
Payments for general and administrative expenses	(1,439,160)	(868,209)
Payments to employees	(3,771,077)	(3,853,136)
Employee benefits paid	(2,836,457)	(2,678,516)
Administrative expenses	(464,827)	(340,059)
NET CASH FLOWS FROM OPERATING ACTIVITIES	8,303,902	9,858,409
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Property tax revenue	10,807,069	10,736,053
Other revenue	157,768	470,104
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	10,964,837	11,206,157
CASH FLOWS FROM CAPITAL AND RELATED: FINANCING ACTIVITIES		
Special assessment revenue	12,249,306	12,248,671
Proceeds received from swap novation, net advisory fees	-	70,000
Principal paid on revenue bonds	(7,110,000)	(6,855,000)
Proceeds from sales of capital assets	42,664	622,381
Acquisition and construction of capital assets	(7,049,365)	(13,334,324)
Interest paid	(8,876,280)	(8,195,883)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(10,743,675)	(15,444,155)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(240,401)	(226,670)
Contributions to PRWUA	(3,874,247)	(3,259,964)
Interest on investments	587,712	439,376
NET CASH FLOWS FROM INVESTING ACTIVITIES	(3,526,936)	(3,047,258)
INCREASE IN CASH AND CASH EQUIVALENTS	4,998,128	2,573,153
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	26,179,025	23,605,872
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 31,177,153	$ 26,179,025

The accompanying notes are an integral part of the financial statements.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2018 and 2017

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (1,255,533)	$ (2,371,182)
Depreciation	10,831,933	10,686,523
Net pension obligation	(76,647)	195,891
Gain on interest rate swap novation	-	(70,000)
Decrease (increase) in accounts receivable	709,014	(238,123)
Decrease in prepaid expenses	4,513	517,404
(Increase) decrease in supplies	(27,437)	37,100
(Decrease) increase in accounts payable	(1,876,635)	1,162,083
(Decrease) in accrued expenses	(5,306)	(61,287)
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 8,303,902	$ 9,858,409
REPRESENTED ON THE BALANCE SHEET AS		
Unrestricted cash and cash equivalents	$ 15,620,545	$ 10,921,196
Restricted cash and cash equivalents	15,556,608	15,257,829
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 31,177,153	$ 26,179,025
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Loss on investment in Provo River Water Users Association	$ (4,636,813)	$ (4,926,465)
Unrealized loss on investments	$ (153,951)	$ (170,490)

The accompanying notes are an integral part of the financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Metropolitan Water District of Salt Lake & Sandy (the "District") is organized under the Metropolitan Water District Act. The District is a separate legal entity, with a seven member board, five of which are appointed by Salt Lake City and two of which are appointed by Sandy City. Board members serve for a specified term and cannot be removed without cause. However, as the member cities are unable to impose their will and are not financially accountable for the District, the District is not reported as a component unit of the member cities. Substantially all of the water resources developed by the District are sold to Salt Lake City and Sandy City.

Basis of Presentation

The District is a governmental unit that is accounted for as a business-type activity. It is classified as a proprietary fund type and operates as an enterprise fund. The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The District reports its water production, storage, and distribution operations as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the Public Treasurer's Investment Fund (PTIF).

PTIF, managed by the Utah State Treasurer's Office, operates in accordance with appropriate state laws and regulations. The reported value of the PTIF is the same as the fair value of the pooled shares. Investments for the District are reported at fair value.

Accounts Receivable

Accounts receivable are generally comprised of receivables on water sales and special assessment revenues, which are expected to be paid by member cities and other wholesale customers. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management does not expect any uncollectible amounts as most payments are from governmental entities.

Supplies

Inventories, consisting of chemicals for the purification of water and fuels are stated at the lower of cost (on the first-in, first-out basis) or market.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets include property, plant, equipment, and intangible assets (i.e. investment in water sources), and are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life of more than three years. Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Water sources are recorded at their acquisition cost. Donated or contributed capital assets are recorded at their estimated fair value on the date received. Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	5-50
Machinery and equipment	3-20
Transportation equipment	3-7
Furniture and fixtures	3-20
Aqueduct and appurtenances	5-75

No depreciation is provided on construction in progress until the asset is placed in service.

Bond Issuance Costs, Bond Discounts, and Bond Premiums

Costs incurred for bond issuance are expensed as incurred. Costs incurred for bond discounts and bond premiums are deferred and amortized over the term of the related bonds using a method approximating the effective interest method.

Capitalization of Interest Costs

The District capitalizes interest on borrowings which are used to finance construction. Capitalization of interest is net of interest earned on construction funds borrowed. Interest capitalization ceases when the construction project is substantially completed. Net interest capitalized was $436,319 and $735,577 and total interest expense was $8,459,189 and $8,432,739 for the fiscal years ended June 30, 2018 and 2017, respectively.

Deferred Charges

Costs of preliminary surveys, design and other investigations which are related to proposed construction are deferred and included in construction in progress until the projects are placed in service, at which time they are depreciated over their useful lives. The cost of discontinued projects is charged to expense in the year the decision is made to discontinue the project.

Capital Contributions

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* capital contributions are recorded as revenues.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hedging Activities

The District accounts for hedging activities in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This standard requires that derivative instruments be reported at fair value, and that changes in the fair value of instruments that are considered to be hedging derivative instruments and found to be effective, be reported as either deferred inflows or deferred outflows in the statements of net position. In addition, the District has implemented the provisions of GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions -- an amendment of GASB Statement No. 53,* which clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred charges on bond refundings, pensions and deferred outflow on interest rate swaps as deferred outflows of resources on the accompanying statements of net position.

In addition to liabilities, the statement of net 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Classification of Revenue

- *Operating revenues* - Operating revenues include activities that have the characteristics of exchange transactions such as water sales revenue.

- *Non-operating revenues* - Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.* Examples of non-operating revenues include property tax revenues, interest income, gain or loss on sale of assets, and equity earnings in the District's investment in Provo River Water Users Association.

- *Property tax revenue* - Property tax revenue is collected and remitted by the Salt Lake County Treasurer as an agent for the District. Utah statutes establish the process by which taxes are levied and collected. Property values are assessed as of January 1 of the year in which they are due. September 1 is the levy date with a due date of November 30. Delinquent taxes are subject to a two percent 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, and the interest period is from January 1 until the date paid. If on March 15 following the lapse of five years from the date when the property taxes became delinquent, the taxes remain delinquent, the County Treasurer advertises and sells the property at a tax sale.

- *Water sales revenue* - Revenue from water sales is recorded at the stated wholesale water rate. Water usage is measured by flow meters located throughout the system.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Position:

- *Net investment in capital assets* - This component of net position consists of the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

- *Restricted* - This component of net position consists of 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* - This component of net position consists of assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. All general liability, real property, and vehicles are insured through commercial policies. The District has established a self-insurance reserve ($2,000,000) to fund deductibles on the commercial policies. In addition the District carries workers' compensation and requires employer's liability coverage. The amount of settlements did not exceed insurance coverage for the past three years for all policies.

Pensions

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 State Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles and in accordance with GASB Statement No. 72, *Fair Value Measurement and Application.* The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2018:

- Money market funds of $513,796 are valued using quoted market prices (Level 1 inputs).

- Corporate bonds of $7,708,583, municipal bonds of $990,420, government agency bonds of $6,563,314, and U.S. obligation bonds of $2,929,990 are valued using matrix pricing models and discounted cash flows (Level 2).

- Interest rate swaps of $8,623,173 are valued by the swap provider under the terms and conditions of the swap agreement with unobservable inputs (Level 3). The unobservable input is the interest rate and internal computation of the market value of the swap as of June 30, 2018 which cannot be corroborated by observable market data.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

There were no changes in the valuation techniques used to determine the fair value of these financial instruments during the fiscal year ended June 30, 2018.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Unrestricted:		
Self insurance contingency	$ 2,000,000	$ 2,000,000
Interest rate stabilization	3,284,866	3,284,866
Capital projects reserve	5,032,033	3,446,460
Aquifer storage and recovery	1,688,905	1,010,992
Operating and maintenance*	3,614,741	1,178,878
Total unrestricted cash and cash equivalents	$ 15,620,545	$ 10,921,196
Restricted:		
Bond accounts	$ 11,075,020	$ 10,942,246
Operating and maintenance	3,735,398	3,570,739
Renewal and replacement	650,000	650,000
150th South pipeline agreement	34,335	33,729
Jordan Valley WTP O&M agreement	20,000	20,000
Jordan aqueduct repayment contract	41,855	41,115
Total restricted cash and cash equivalents	15,556,608	15,257,829
Total cash and cash equivalents	$ 31,177,153	$ 26,179,025

** Reserves can be funded by amounts in investments.*

Deposits

Deposits and investments for local governments are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. The Act requires all deposits of local government to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council.

As of June 30, 2018 and 2017, the District's deposits had bank balances of $3,831,145 and $4,055,285, respectively, which are held in qualified depositories. Because these funds are held in a daily sweep account, they are not covered by federal depository insurance, and all balances are uncollateralized.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The District is authorized to invest in the Utah Public Treasurer's Investment Fund (the "PTIF"), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses - net of administration fees of the PTIF, are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. For the years ended June 30, 2018 and 2017, the District had funds of $14,441,245 and $11,241,731, respectively, with the PTIF. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

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 manages its exposure to declines in fair value by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The District's investment policy specifies that all investments will be sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investors Services or Standard & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; 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), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie 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; and shares or certificates in a money market mutual fund as defined in the Act.

The District's investments at June 30, 2018 are presented below:

		Investment maturities (in years)		
Investment type	Fair value	Less than 1	1-5	6-10
Corporate Bonds	$ 7,708,583	$ 2,712,159	$ 4,996,424	$ -
U.S. Obligations	2,929,990	998,086	1,931,904	-
Government Agencies	6,563,314	496,419	6,066,895	-
Money Market Funds (PTIF)	513,796	513,796	-	-
Municipal Bonds	990,420	990,420	-	-
Total	$ 18,706,103	$ 5,710,880	$ 12,995,223	$ -

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

The District had the following investments and quality ratings (S&P ratings) at June 30, 2018:

Investment type	Fair value	Quality ratings
Corporate Bonds	$ 7,708,583	AA- to BBB+
U.S. Obligations	2,929,990	AA+
Government Agencies	6,563,314	AA+
Money Market Funds (PTIF)	513,796	Unrated
Municipal Bonds	990,420	AAA
Total	$ 18,706,103	

The District's investments at June 30, 2017 are presented below:

		Investment maturities (in years)		
Investment type	Fair value	Less than 1	1-5	6-10
Corporate Bonds	$ 2,534,625	$ 156,395	$ 2,378,230	$ -
US Treasury Notes & Bonds	998,398	998,398	-	-
U.S. Obligations	5,978,361	4,001,742	1,976,619	-
Government Agencies	6,829,866	-	6,829,866	-
Temp Investment Funds (PTIF)	1,278,293	1,278,293	-	-
Municipal Bonds	1,000,110	-	1,000,110	-
Total	$ 18,619,653	$ 6,434,828	$ 12,184,825	$ -

The District had the following investments and quality ratings (S&P ratings) at June 30, 2017:

Investment type	Fair value	Quality ratings
Corporate Bonds	$ 2,534,625	AA- to BBB+
US Treasury Notes & Bonds	998,398	AAA
U.S. Obligations	5,978,361	AA+
Government Agencies	6,829,866	AA+
Temp Investment Funds (PTIF)	1,278,293	Unrated
Municipal Bonds	1,000,110	AAA
Total	$ 18,619,653	

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 3 - NET POSITION

Net position is restricted by provisions of the bond resolutions adopted by the District (Note 6) as follows:

Amounts restricted for revenue bond debt service - On April 29, 2002, the District adopted a master resolution providing for the issuance of water revenue bonds ("2002 Bond Resolution") which requires that a debt service account ("Bond Fund") be maintained, at minimum, that is equal to the principal and interest installment due within the fiscal year on the outstanding revenue bonds.

Amounts restricted for costs of construction projects - The 2002 Bond Resolution requires that a reserve be established or bond proceeds restricted to the related construction projects. Any excess funds shall be applied to the payment of principal and interest on the bonds when due.

Amounts restricted for renewal and replacement - The 2002 Bond Resolution requires that an initial renewal and replacement reserve of $650,000 be established but the reserve may be increased or decreased from time to time by a supplemental resolution. In the event a deficiency arises in the amounts restricted for the Bond Fund, monies in the renewal and replacement reserve shall be transferred to satisfy the deficiency.

Use of restricted assets - When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

As of June 30, 2018 and 2017, the restricted component of net position is as follows:

	2018	2017
Future debt service	$ 11,075,020	$ 10,942,246
Operating and maintenance	3,735,398	3,570,739
Renewal and replacement	650,000	650,000
150th South pipeline agreement	34,335	33,729
Jordan Valley WTP O&M agreement	20,000	20,000
Jordan aqueduct repayment contract	41,855	41,115
Total	$ 15,556,608	$ 15,257,829

As of June 30, 2018 and 2017, the unrestricted component of net position is as follows:

	2018	2017
Committed		
Self insurance contingency	$ 2,000,000	$ 2,000,000
Interest rate stabilization	3,284,866	3,284,866
Capital projects reserve	5,032,033	3,446,460
Aquifer storage and recovery reserve	1,688,905	392,839
Uncommitted	169,194,875	166,780,783
Total	$ 181,200,679	$ 175,904,948

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 is as follows:

	Beginning Balance	Additions/ Transfers In	Disposals/ Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Water sources	$ 46,464,884	$ 2,971,200	$ -	$ 49,436,084
Land and right of way	21,943,673	-	-	21,943,673
Construction in progress	14,422,923	4,078,889	(715,732)	17,786,080
Total capital assets, not being depreciated	82,831,480	7,050,089	(715,732)	89,165,837
Capital assets, being depreciated:				
Buildings and improvements	270,967,802	141,382	-	271,109,184
Machinery and equipment	18,860,074	393,160	(6,950)	19,246,284
Transportation equipment	839,349	180,466	(63,595)	956,220
Furniture and fixtures	160,890	-	-	160,890
Aqueduct and appurtenances	112,423,040	-	-	112,423,040
Total capital assets, being depreciated	403,251,155	715,008	(70,545)	403,895,618
Less accumulated depreciation/amortization for:				
Buildings and improvements	(85,163,362)	(7,776,487)	-	(92,939,849)
Machinery and equipment	(14,977,818)	(676,099)	6,950	(15,646,967)
Transportation equipment	(764,450)	(36,068)	63,595	(736,923)
Furniture and fixtures	(160,079)	(811)	-	(160,890)
Aqueduct and appurtenances	(33,846,425)	(2,342,468)	-	(36,188,893)
Total accumulated depreciation/amortization	(134,912,134)	(10,831,933)	70,545	(145,673,522)
Total capital assets being depreciated, net	268,339,021	(10,116,925)	-	258,222,096
Total capital assets, net	$ 351,170,501	$ (3,066,836)	$ (715,732)	$ 347,387,933

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Capital asset activity for the fiscal year ended June 30, 2017 is as follows:

	Beginning Balance	Additions/ Transfers In	Disposals/ Transfers Out	Ending Balance
Capital assets, not being depreciated:				
Water sources	$ 43,493,684	$ 2,971,200	$ -	$ 46,464,884
Land and right of way	20,468,419	1,475,254	-	21,943,673
Construction in progress	16,330,738	8,864,578	(10,772,393)	14,422,923
Total capital assets, not being depreciated	80,292,841	13,311,032	(10,772,393)	82,831,480
Capital assets, being depreciated:				
Buildings and improvements	260,539,015	10,428,787	-	270,967,802
Machinery and equipment	18,681,205	178,869	-	18,860,074
Transportation equipment	875,399	28,629	(64,679)	839,349
Furniture and fixtures	160,890	-	-	160,890
Aqueduct and appurtenances*	112,263,640	159,400	-	112,423,040
Total capital assets, being depreciated	392,520,149	10,795,685	(64,679)	403,251,155
Less accumulated depreciation/amortization for:				
Buildings and improvements	(77,571,936)	(7,591,426)	-	(85,163,362)
Machinery and equipment	(14,285,951)	(691,867)	-	(14,977,818)
Transportation equipment	(784,819)	(44,310)	64,679	(764,450)
Furniture and fixtures	(157,992)	(2,087)	-	(160,079)
Aqueduct and appurtenances	(31,489,592)	(2,356,833)	-	(33,846,425)
Total accumulated depreciation/amortization	(124,290,290)	(10,686,523)	64,679	(134,912,134)
Total capital assets being depreciated, net	268,229,859	109,162	-	268,339,021
Total capital assets, net	$ 348,522,700	$ 13,420,194	$ (10,772,393)	$ 351,170,501

***** The Salt Lake Aqueduct, appurtenances and associated lands and right of way, are recorded in the Aqueduct and Appurtenances group of assets. During 2017 the District sold a piece of land, the cost of which is included in this group of assets.

NOTE 5 - INVESTMENTS IN COMMON STOCK

Investment in Provo River Water Users Association - The Provo River Water Users Association (the "Association") is a Utah Non Profit Corporation and mutual water company with 100,000 shares of no-par value, assessable capital stock, all of which were outstanding at June 30, 2018 and 2017. Each share carries a pro rata right to the use of all water made available by the Association annually up to a limit of one acre foot per share of stock. Each share carries a pro rata right to holdover water in Deer Creek Reservoir for future use on a space available basis. Each share carries a pro rata right to extra allotment water in wet years when it is available as determined by the Secretary of the Interior. The District holds 61,700 (61.7%) of the Association's shares of stock, with the remaining 38.3% being held by 19 stockholders that are made up of individuals, for-profit businesses, not-for-profit companies, and government agencies, of which 1 stockholder owns a greater than 10% interest. In accordance with governmental accounting standards, the District's investment has been accounted for using the equity method. The carrying value of the District's investment at June 30, 2018 and 2017 approximated the District's underlying equity in the total stockholders' equity of the Association.

The accounts of the Association are included in the June 30 financial statements of the District as of the Association's most recent audited financial statements, October 31, 2017 and 2016. The District's investment in the Association as of October 31, 2017 and 2016 is summarized as follows:

October 31	2017	2016
District's share of Deer Creek Division:		
Original contract	$ 7,033,800	$ 7,033,800
Excess costs	7,654,208	7,654,208
Total share of Deer Creek Division	14,688,008	14,688,008
District's interest in the Association's retained earnings	129,164,516	129,718,549
District's total share in the Association's retained earnings	143,852,524	144,406,557
Additional contributions:		
Contribution related to general activities and Provo River Aqueduct	2,991,791	3,200,324
Total	$ 146,844,315	$ 147,606,881

Summary financial information for the Association as of, and for the fiscal years ended October 31, 2017 and 2016, is presented as follows:

	2017	2016
Cash and investments	$ 4,538,736	$ 4,536,368
Fixed assets, net	232,067,896	236,319,506
Other assets, principally water rights	25,059,993	25,087,825
Total assets	261,666,625	265,943,699
Total liabilities	28,518,288	31,897,416
Total equity	233,148,337	234,046,283
Total liabilities and equity	261,666,625	265,943,699
Total revenues, contributions and gains	7,540,252	5,502,609
Total expenses	(8,717,950)	(8,485,816)
Deficit of revenues over expenses	$ (1,177,698)	$ (2,983,207)

The Association's complete financial report can be obtained by contacting their offices directly, located at 285 West 1100 North, Pleasant Grove, UT 84062.

NOTE 5 - INVESTMENTS IN COMMON STOCK (CONTINUED)

Investment in Utah Lake Water Users Association - Utah Lake Water Users Association is a Utah Non Profit Corporation and mutual water company. The District owns 135 of 769 issued and outstanding shares of Utah Lake Water Users Association stock, a 17.56% interest. The shares are assessable. Each share carries a right to 1 cubic feet per second (cfs) of pumping capacity in the Utah Lake Pump Station. Each share represents a pro rata equitable title interest in the assets of Utah Lake Water Users Association. In accordance with governmental accounting standards, the District's investment has been accounted for using the cost method. Under the cost method, an investor records an investment in the stock of an investee at cost and recognizes as revenue dividends received that are distributed from net accumulated earnings of the investee since the date of acquisition by the investor. The cost basis of the investment at June 30, 2018 and 2017 was $2,372,689 and $2,372,689, respectively.

NOTE 6 - LONG-TERM DEBT

As of June 30, 2018 and 2017, the District's long-term debt consisted of the following:

	2018	2017
2011A Series variable rate water revenue refunding bonds, interest at monthly variable rate (1.4567% at June 30, 2017), maturing in annual installments through fiscal year 2036.	$ 58,800,000	$ 58,800,000
2012A Series water revenue refunding bonds, interest at 3% to 5%, maturing in fiscal year 2038.	95,270,000	101,035,000
2012B Series water revenue refunding bonds, interest at 2% to 5%, maturing in annual installments through fiscal year 2024.	6,870,000	7,980,000
2015A Series water revenue refunding bonds, interest at 2% to 4%, maturing in annual installments through fiscal year 2034.	5,505,000	5,740,000
2016A Series water revenue refunding bonds, interest at 2% to 5%, maturing in fiscal year 2031 with interest only payments through 2024.	59,200,000	59,200,000
Total debt	225,645,000	232,755,000
Less bonds payable, current	(7,400,000)	(7,110,000)
Bonds payable, net of current portion	$ 218,245,000	$ 225,645,000

NOTE 6 - LONG-TERM DEBT (CONTINUED)

As of June 30, 2018, aggregate debt service requirements of the District's debt (fixed-rate and variable-rate) and net receipts/payments on associated hedging derivative instruments are presented below. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. The hedging derivative instruments column reflects only net receipts/payments on derivative instruments that qualify for hedge accounting.

Fiscal years ending June 30,	Principal	Interest	Hedging	Total
2019	$ 7,400,000	$ 8,041,772	$ 1,047,541	$ 16,489,313
2020	7,675,000	7,723,922	1,047,541	16,446,463
2021	8,330,000	7,353,097	1,047,541	16,730,638
2022	8,685,000	6,987,197	1,047,541	16,719,738
2023	9,085,000	6,620,397	1,047,541	16,752,938
2024-2028	63,700,000	25,402,964	4,984,728	94,087,692
2029-2033	72,670,000	13,138,419	3,374,668	89,183,087
2034-2038	48,100,000	3,633,634	459,903	52,193,537
Total	$ 225,645,000	$ 78,901,402	$ 14,057,004	$ 318,603,406

Changes to the District's long-term debt are as follows:

	2018	2017
Beginning balance	$ 232,755,000	$ 239,610,000
Bond retirements and principal payments	(7,110,000)	(6,855,000)
Ending balance	225,645,000	232,755,000
Due within one year	$ (7,400,000)	$ (7,110,000)

Bond refundings - During fiscal year 2016, the District issued $59,200,000 of bonds (series 2016A) to refund $60,320,000 of outstanding bonds (series 2009A). The series 2016A matures in 2031 and has a rating from the S&P and Fitch of AA+. GASB requires that the difference between the reacquisition price and the net carrying amount of the old debt will be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or life of the new debt, whichever is shorter. The difference between the reacquisition price and the net carrying amount of the old debt is comprised of unamortized issuance costs, unamortized premiums/discounts, and unamortized termination costs of the refunded bonds, which totaled $6,293,980 at the date of refunding. The refunding was done in order to reduce total debt service payments in the future and resulted in an estimated economic gain of $9,153,445.

Bond Covenants - The District has certain covenants associated with its bonds payable, which are more fully described in the 2002 Bond Resolution (as defined in Note 3). Among these covenants is a requirement that the District maintain net revenues, together with other available funds, that are at least equal to the sum of (1) 115% of the aggregate debt service for the forthcoming fiscal year, (2) 100% of the repayment obligations, if any, which will be due and payable during the forthcoming fiscal year, and (3) 100% of the amounts, if any, required to be deposited into the debt service reserve account during the forthcoming fiscal year.

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Pledge of the Bond Resolutions - The 2002 Bond Resolution provides that the Bonds shall be special obligations of the District payable solely from and secured by: (i) the proceeds of sale of the Bonds; (ii) the revenues, and (iii) all funds (other than the operation and maintenance fund and the rebate fund), including the investments, if any, thereof, subject to any required rebate of all or a portion of the earnings on such investments to the United States of America.

Funds required by the Bond Resolutions - The 2002 Bond Resolution requires that certain "funds" be established to account for the District's receipts and disbursements. Such "funds" are accounts within the District's records and are not separate funds or groups of self-balancing accounts. The amounts held in these funds are to be used for the purposes stipulated in the 2002 Bond Resolution.

NOTE 7 - DERIVATIVE INSTRUMENTS

The District's long-term debt strategy is to maintain a mixture of fixed and variable-rate debt to take advantage of the two markets in order to effectively manage its debt, and to reduce its exposure to interest rate risk.

The District is a party to contracts for various derivative instruments, as discussed below. All derivative instruments of the District are classified as debt. At June 30, 2018, the District has the following derivative instruments outstanding:

			Changes in Fair Value	
	Notional Amount	Fair Value	Classification	Amount
Pay-fixed interest rate swap	$ 58,800,000	$ (8,623,173)	Deferred Outflow	$ 3,478,594
Total	$ 58,800,000	$ (8,623,173)		$ 3,478,594

At June 30, 2017, the District has the following derivative instruments outstanding:

			Changes in Fair Value	
	Notional Amount	Fair Value	Classification	Amount
Pay-fixed interest rate swap	$ 58,800,000	$ (12,101,767)	Deferred Outflow	$ 5,098,531
Total	$ 58,800,000	$ (12,101,767)		$ 5,098,531

On May 6, 2011, the District novated their two interest rate swap agreements with Deutsche Bank. The novated swaps carry similar terms and are pay-fixed, receive-variable interest rate swaps on a portion of their 2011A revenue refunding bonds. During August 2016 the District novated and simultaneously terminated the 2011 Swap Agreements with Deutsche Bank related to the Series 2011A Water Revenue Refunding Bonds and entered into a replacement swap agreement with Wells Fargo Bank on those same bonds. As part of this transaction, the notional amounts of the previous swaps were combined, totaling $58,800,000, and both the swap and bonds are scheduled to terminate July 1, 2036. Under the terms of the replacement swap agreements, the District pays a rate of 3.18% and receives a variable rate equivalent to 67% of the 1-month USD-LIBOR-BBA (1.40% at June 30, 2018).

NOTE 7 - DERIVATIVE INSTRUMENTS (CONTINUED)

As part of the novation process, Wells Fargo was required to make payment to Deutsche Bank in the amount of $16,312,000 in order to accept the swaps. This cost will ultimately be repaid by the District over time in the new swap rate paid to Wells Fargo. As a result of this transaction, the District received $120,000 from Deutsche Bank and paid advisory fees of $50,000. As of June 30, 2018 and 2017, the notional amount of the swap was $58,800,000, respectively. The notional amount of the swap and the principal amount of the debt will start to decline in fiscal year 2025.

Fair value - At June 30, 2018 and 2017, the swap had a negative fair value of $8,623,173 and $12,101,767, respectively. The negative fair value is due to the interest rates declining since the swaps were executed. The negative fair value may be mitigated by reduction in total interest payments required on the bonds, creating a lower synthetic interest rate. Because interest on the variable rate bonds adjusts to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was calculated under the terms and conditions of the agreement. The swap provider is the calculation agent.

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 somewhat mitigated by the ratings of the counterparty in these transactions. At June 30, 2018, the swap counterparty was rated Aa2 by Moody’s Investor Services, A+ by S&P, and AA- by Fitch. In managing its interest rate swaps, the District adheres to the rules and regulations set forth by the Utah State Money Management Council.

Basis risk - The District's variable rate bondholders are paid the bond rate, which rate is closely based upon the tax-exempt interest rate of the Securities Industry and Financial Markets Association, which replaced the Bond Market Association Index, plus a spread, if any, based upon actual remarketing rates. Interest rate swaps can be structured utilizing a number of indices, which result 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 District or the counterparty may terminate the swap if either party fails to perform under the terms of the contract. The District may terminate the swap if the counterparty’s credit quality rating falls below BBB-. If the swap is terminated, the variable-rate bond will no longer carry a synthetic interest rate. Also, if at the time of termination, the swap had a negative fair value, the District would be liable to the counterparty for an amount equal to the swap’s fair value.

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.

NOTE 8 - RETIREMENT PLANS

General Information about the Pension Plan

Plan Description: Eligible plan participants are provided with pensions through the Utah Retirement Systems. Utah Retirement Systems are comprised of the following Pension Trust Funds:

Defined Benefit Plans

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

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

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

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah Code Annotated 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Utah State Retirement 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 website: www.urs.org.

Summary of Benefits by System

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

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 yrs any age 25 yrs any age* 20 yrs age 60* 10 yrs age 62* 4 yrs age 65	2.0% per year all years	Up to 4%
Tier 2 Public Employees System	Highest 5 years	35 yrs any age 20 yrs age 60* 10 yrs age 62* 4 yrs age 65	1.5% per year all years	Up to 2.5%

** with actuarial reductions*

*** All post-retirement cost-of-living adjustments are non-compounding 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.*

NOTE 8 - RETIREMENT PLANS (CONTINUED)

Contribution Rate Summary

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 Utah State Retirement 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 as of June 30, 2018 are as follows:

	Employee	Employer	Employer Rate for 401(k) Plan
Contributory System			
111 - Local Governmental Division - Tier 2	N/A	15.11%	1.58%
Noncontributory System			
15 - Local Governmental Division - Tier 1	N/A	18.47%	N/A
Tier 2 DC Only			
211 Local Government	N/A	6.69%	10.00%

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans. For the fiscal year ended June 30, 2018, the employer and employee contributions to the Systems were as follows:

System	Employer Contributions	Employee Contributions
Noncontributory System	$ 659,576	N/A
Tier 2 Public Employees System	68,505	-
Tier 2 DC Only System	6,383	N/A
Total Contributions	$ 734,464	$ -

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

Combined Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, we reported a net pension asset of $0 and a net pension liability of $1,795,051.

Measurement Date: December 31, 2017	Net Pension Asset	Net Pension Liability
Noncontributory System	$ -	$ 1,791,271
Tier 2 Public Employees System	-	3,780
	$ -	$ 1,795,051

	Proportionate Share December 31, 2017	Proportionate Share December 31, 2016	Change (Decrease)
Noncontributory System	0.4088446%	0.4156324%	-0.0067878%
Tier 2 Public Employees System	0.0428754%	0.0350673%	0.0078081%

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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

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 we recognized pension expense of $657,560.

At June, 30, 2018 we reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 40,099	$ 113,163
Changes in assumptions	648,503	42,235
Net difference between projected and actual earnings on pension plan investments	386,833	1,018,145
Changes in proportion and differences between contributions and proportionate share of contributions	11,785	56,078
Contributions subsequent to the measurement date	365,316	-
Total	$ 1,452,536	$ 1,229,621

$365,316 reported as deferred outflows of resources related to pensions results from contributions made by us prior to our fiscal year end, but subsequent to the measurement date of December 31, 2017.

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:

Year Ended December 31,	Net Deferred Outflows (Inflows) of Resources
2018	$ 78,739
2019	128,359
2020	(131,308)
2021	(221,676)
2022	(798)
Thereafter	4,283

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 Percent
Salary Increases	3.25 - 9.75 percent, average, including inflation
Investment rate of return	6.95 percent, net of pension plan investment expense, including inflation

NOTE 8 - RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions (Continued)

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

The actuarial assumptions used in the January 1, 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 and is applied consistently to each defined benefit pension plan. 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		
Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity securities	40.00%	6.15%	2.46%
Debt securities	20.00%	0.40%	0.08%
Real assets	15.00%	5.75%	0.86%
Private equity	9.00%	9.95%	0.89%
Absolute return	16.00%	2.85%	0.46%
Cash and cash equivalents	0.00%	0.00%	0.00%
TOTALS	100.00%		4.75%
INFLATION			2.50%
EXPECTED ARITHMETIC NOMINAL RETURN			7.25%

The 6.95% assumed investment rate of return is comprised of 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 percent. 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 percent from 7.20 percent from the prior measurement period.

NOTE 8 - RETIREMENT PLANS (CONTINUED)

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 percent, 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 percent) or 1-percentage-point higher (7.95 percent) than the current rate:

System	1% Decrease (5.95%)	Discount Rate (6.95%)	1% Increase (7.95%)
Noncontributory System	$ 4,844,437	$ 1,791,271	$ (747,285)
Tier 2 Public Employees System	44,510	3,780	(27,628)
Total	$ 4,888,947	$ 1,795,051	$ (774,913)

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

NOTE 9 - DEFERRED COMPENSATION PLANS

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.

The District participates in the following Defined Contribution Savings Plans with Utah Retirement:

*401(k) Plan
*457(b) Plan
*Roth IRA Plan
*Traditional IRA Plan

401(k) Plan

The District offers their full-time regular employees participation in a defined contribution plan created in accordance with Internal Revenue Code Section 401(k) (the "Plan"). The Plan is administered by URS. Employees may contribute from 1% to 100% of their annual salary up to a maximum of $18,000 ($24,000 for employees aged 50 or older) for 2018 and 2017. The District contributed 50% of the first 6% contributed by the employee, up to a maximum of 3% of the covered payroll of employees who also participate in the retirement plan. During 2018, 2017, and 2016, all participants in the Plan also participated in the defined benefit plan of URS. The District is not legally obligated to contribute to the Plan, and any contribution made is at the discretion of the Board of Trustees. All employee and District contributions are fully vested at all times.

Contributions made by employees to the Plan were $177,065, $170,774, and $173,803, for the fiscal years ended June 30, 2018, 2017, and 2016, respectively. Contributions made by the District to the Plan were $120,033, $111,171, and $107,091 for the fiscal years ended June 30, 2018, 2017, and 2016, respectively.

NOTE 9 - DEFERRED COMPENSATION PLANS (CONTINUED)

457 and Roth IRA Plans

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and Roth IRA. The 457 and Roth IRA, administered by URS and available to all District full-time regular employees, permit an employee to defer a portion of their salary until future years. The deferred compensation is not available to employees or their beneficiaries until termination, retirement, death, or unforeseeable emergency.

The employer contribution to the 457 and Roth IRA was $0 for the years ended June 30, 2018, 2017 and 2016, respectively. Employee contributions for the years ended June 30, 2018, 2017, and 2016 for the 457 Plan were $72,023, $56,852, and $43,800, respectively, and for the Roth IRA plan the contributions were $58,619, $55,519, and $53,984, respectively.

Traditional IRA Plan

The employer contributions to the Traditional IRA plan was $0 for the years ended June 30, 2018, 2017 and 2016, respectively. Employee contributions for the years ended June 30, 2018, 2017, and 2016 for the Traditional IRA plan were $1,100, $0, and $210, respectively.

The 401(k), 457, Roth IRA and Traditional IRA plans are included in a publicly available financial report that includes financial statements and required supplementary information. A copy of URS report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

Long term commitments/investments in permanent rights to use water and capacity

The District has a number of contracts which give the District certain permanent rights to the use of water, and permanent rights to water conveyance capacities, contingent upon the District meeting corresponding long-term commitments to repay to other entities certain incurred capital costs, as well as on-going operation, maintenance and repair costs relating to the facilities involved. These financial commitments are not secured by pledge of District taxes or future revenues, and are not legally collectable from District funds beyond available annual unencumbered budget appropriations of the District. Meeting these commitments, however, is important to the District maintaining the corresponding permanent water and capacity rights, and meeting the District's priority operation and maintenance obligations described in the 2002 Bond Resolution.

Provo River Project

The District's largest source of water by volume is the Deer Creek Division of the Provo River Project (the "PRP"), a project of the United States, Department of the Interior, Bureau of Reclamation ("Reclamation"). Pursuant to the terms of a 1936 Repayment Contract, the construction costs of the PRP are to be repaid to Reclamation by the Provo River Water Users Association (the "Association"). The Association is also obligated to operate, maintain, repair and replace PRP facilities consistent with the repayment contract and Reclamation rules and regulations. Conditioned on meeting these obligations, the Association has a permanent right to the use of PRP facilities and water rights for the benefit of Association shareholders. As a part of the District's Association stock subscription agreements, the District has committed to pay to the Association a pro rata share of the Association's costs as described below.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

PRP construction cost repayment obligation

The District's annual repayment assessment is $1.65 per share. Repayment is expected to be completed in 2023. The expected payments from these assessments are as follows:

Year Ended June 30,	Assessment Payments
2019	$ 101,805
2020	101,805
2021	101,805
2022	101,805
2023	101,805
Total	$ 509,025

The District is contingently liable for an amount equal to 35% of its direct liability on the original contract with the Association for costs incurred on the Deer Creek Division of the PRP if other subscribers default, and shares remain unsold. The maximum contingent liability amounted to approximately $178,071 at June 30, 2018.

PRP assessments

Under the terms of the District's subscription agreements, the District is obligated to pay a pro rata per share portion of the operation, maintenance, repair, replacement and capital improvement costs of the PRP (other than the Provo River Aqueduct, discussed below). Contingent upon payment of assessments, the District is entitled to a permanent right to use PRP water as described in note 5. If the District fails to timely pay Association assessments, project water may be withheld by the Association. Any delinquent assessments may be collected by the Association via the advertised public auction of the number of the District's Association shares necessary to generate enough revenue to pay then delinquent assessments.

PRP general assessment: The Association assesses a general assessment for the purpose of paying the costs and expenses of operation, maintenance, capital improvement rehabilitation, upgrades, and other improvements related to the facilities of the Association and the Deer Creek Division of the Provo River Project. As of June 30, 2018 and 2017, payments made by the District for the general assessment were $1,329,018 ($21.54 per share) and $1,329,018 ($21.54 per share), respectively.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Provo River Aqueduct

As a part of the PRP, Reclamation purchased a private canal commonly referred to as the Provo Reservoir Canal. The Provo Reservoir Canal was enlarged and improved as a part of the PRP. In 2010 the District agreed to participate in the Provo Reservoir Canal Enclosure Project (the "PRCEP"). The PRCEP involved enclosing the canal in a large steel pipe with greater capacity, now known as the Provo River Aqueduct. The PRCEP involved the participation of Reclamation, the District, the Association, Central Utah Water Conservancy District ("CUWCD"), Jordan Valley Water Conservancy District ("JVWCD"), and Provo Reservoir Water Users Company. Under the District's amended subscription agreements the District is entitled to a permanent aqueduct capacity right of 187 cubic feet per second (cfs), conditioned on the District paying agreed capital, operation and maintenance costs. The District is obligated to pay to the Association 187/302 of the Association's share of the PRCEP construction costs. Those payments are expected to be as follows:

Year Ended June 30,	Assessment Payments
2019	$ 1,503,315
2020	1,241,525
2021	1,441,384
2022	1,441,507
2023	1,441,167
2024-2028	7,205,311
2029-2033	7,206,547
2034-2036	4,323,780
Total	$ 25,804,536

The District is obligated to pay Association aqueduct maintenance assessments representing 187/302 of the Association's share of the aqueduct maintenance costs. The District is obligated to pay a pro rata portion of the Association's share of the operation costs based on volume of water carried in the aqueduct annually. The District payments for Provo River Aqueduct operation and maintenance costs to the Association for the District's fiscal years ended June 30, 2018 and 2017 were $125,736 and $169,461, respectively.

Central Utah Project Municipal and Industrial (M&I) System Petition

Pursuant to repayment contracts, CUWCD is repaying to Reclamation reimbursable construction costs of the Municipal and Industrial (M&I) System of the Bonneville Unit of the Central Utah Project (the Bonneville Unit is referred to here as the "CUP"), together with interest. CUWCD is obligated to operate, maintain, repair and replace M&I System facilities. Conditioned on meeting its obligations under its repayment contract, CUWCD has a permanent right to the use of M&I System facilities and water rights for the benefit of CUWCD's petitioners. Pursuant to a 1986 M&I System petition the District is committed to pay to CUWCD a pro rata portion of CUWCD's construction repayment obligation in return for a permanent right to the use of 20,000 AF of M&I System water annually.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Central Utah Project Municipal and Industrial (M&I) System Petition (Continued)

The District's repayment commitment is shown below and is based on $148.56 per acre foot:

Year Ended June 30,	Repayment Commitment
2019	$ 2,971,200
2020	2,971,200
2021	2,971,200
2022	2,971,200
2023	2,971,200
2024-2028	14,856,000
2029-2033	14,856,000
2034-2038	14,856,000
2039-2043	14,856,000
2044-2048	8,913,600
Total	$ 83,193,600

The District also pays to CUWCD a pro rata, per volume of right to use M&I System water, of CUWCD's M&I System operation, maintenance, repair, replacement, and reserve costs as determined by CUWCD's Board of Trustees. The District's commitments for payments to CUWCD as described do not vary depending upon the amount of M&I System water the District actually takes or uses. District payments for M&I System operation, maintenance, repair, replacement and reserve costs to CUWCD for the District's fiscal years ended June 30, 2018 and 2017 were $400,000 ($20.00 per acre foot) and $286,200 ($14.31 per acre foot), respectively. The petition and applicable state statute describe CUWCD's ability to tax properties benefited by the District's petition to cover any failure of the District to meet its commitments. While not described in the petition, CUWCD may also be entitled to withhold M&I System water upon any District failure to meet its commitments under the petition. CUWCD repayment obligations to Reclamation, and the District's repayment commitment to CUWCD, are subject to a final Reclamation allocation of construction costs, and are dependent upon a conditional statutory cap on CUWCD's repayment obligation.

Jordan Aqueduct (JA) System

The District is entitled to 2/7ths of the JA system capacity (including the JA, the Jordan Valley Water Treatment Plant, and the JA Terminal Reservoir). Pursuant to contract, the JA system is operated, maintained, repaired and replaced by JVWCD at the direction of committees that the District appoints members to. Failure of the District to meet its commitments relating to JA could result in capacity being withheld. The District is obligated to pay for 2/7ths of the capital improvement costs related to the JA system. The District payments for capital improvements for the District's fiscal years ended June 30, 2018 and 2017 were $1,338,915 and $3,336,572, respectively. The District is obligated to pay maintenance costs pro rata based on capacity. The District is also obligated to pay a pro rata portion of the operation costs based on volume of water conveyed. The District payments for operation and maintenance costs for the District's fiscal years ended June 30, 2018 and 2017 were $575,849 and $575,641, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

150th South Pipeline

The District is entitled to 50% of the 150th South Pipeline capacity. Pursuant to contract, the 150th South Pipeline is operated, maintained, repaired and replaced by JVWCD at the direction of a committee that the District appoints members to. Failure of the District to meet its commitments relating to the 150th South Pipeline could result in capacity being withheld. The District is obligated to pay 50% of the capital improvement costs related to the 150th South Pipeline. The District payments for capital improvements for the District's fiscal years ended June 30, 2018 and 2017 were $0 and $0, respectively. The District is obligated to pay maintenance costs pro rata based on capacity. The District is also obligated to pay a pro rata portion of the operation costs based on volume of water conveyed. The District payments for operation and maintenance costs for the District's fiscal years ended June 30, 2018 and 2017 were $41,880 and $39,791, respectively.

Ontario Drain Tunnel

The District entered into a separate agreement with Sandy City for the District to purchase water rights in the Ontario Drain Tunnel. The rights are owned by the District and were purchased using water revenue bond proceeds. As part of the agreement, Sandy City will pay special assessments to cover the portion of the bond payments corresponding to the purchase. The expected flow of cash from these assessments is as follows:

Year Ended June 30,	Assessment Payments
2019	$ 1,017,472
2020	1,019,799
2021	1,024,874
2022	1,024,028
2023	1,038,620
2024-2028	5,220,344
2029-2031	3,289,054
Total	$ 13,634,191

Salt Lake City and Sandy City Assessments

The District has an agreement with Salt Lake City and Sandy City to pay special assessments related to capital improvements for the cities' respective share of capacity in the Point of the Mountain Water Treatment Plant, Point of the Mountain Aqueduct, and improvements to Little Cottonwood Water Treatment Plant. The expected flow of cash from these assessments is as follows:

Year Ended June 30,	Assessment Payments
2019	$ 11,232,214
2020	11,232,214
2021	11,232,214
2022	11,232,214
2023	11,232,214
2024-2028	56,161,070
2029-2033	56,161,070
2034-2035	16,848,321
Total	$ 185,331,531

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Major customers

The District has 2 major customers that make up 96.33% and 95.08% of the District's water sales for 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the percentages of water sales are as follows:

	2018	2017
Salt Lake City	70.32%	69.41%
Sandy City	26.01%	25.67%
Total	96.33%	95.08%

Agreement with Central Utah Water Conservancy District

The District has an agreement with Central Utah Water Conservancy District ("CUWCD") regarding the Point of the Mountain Water Treatment Plant. CUWCD has possible future need for 30 million gallons per day ("mgd") of the raw water conveyance capacity. Accordingly, CUWCD has asked the District to reserve up to 30 mgd of conveyance capacity. CUWCD agreed to pay, and has paid, the District 30/151 (19.868%) of the costs related to land acquisition, development and the cost of design and construction of the treatment plant, which share totaled $10,000,000. The agreement states that if in the future CUWCD determines that it does not require the use of the described capacities, the money paid by CUWCD for its share of the costs will be refunded by the District to CUWCD, without interest, as further outlined in the agreement. The term of the agreement is until December 31, 2020.

In accordance with accounting standards, management has not recorded a liability on the accompanying financial statements but has disclosed the nature and possible range of the contingency. If repayment were to occur, the District would make an assessment to its member cities equal to the obligation. Management's conclusions are based on facts and circumstances that existed as of the date these financial statements were issued.

NOTE 11 - SUBSEQUENT EVENTS

The District evaluated all events or transactions that occurred after June 30, 2018 through September 24, 2018, the date the financial statements were available to be issued. During this period, the District did not have any material recognizable subsequent events.

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
Last 10 Fiscal Years*

Noncontributory Retirement System	2018	2017	2016	2015
Proportion of the net pension liability (asset)	0.4088446%	0.4156324%	0.4246631%	0.4181298%
Proportionate share of the net pension liability (asset)	$ 1,791,271	$ 2,668,869	$ 2,402,950	$ 1,815,618
Covered-employee payroll	$ 3,631,661	$ 3,732,587	$ 3,687,022	$ 3,596,140
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	49.32%	71.50%	65.17%	50.49%
Plan fiduciary net position as a percentage of the total pension liability (asset)	91.9%	87.3%	87.8%	90.2%

Tier 2 Public Employees Retirement System	2018	2017	2016	2015
Proportion of the net pension liability (asset)	0.0428754%	0.0350673%	0.0400407%	0.0042126%
Proportionate share of the net pension liability (asset)	$ 3,780	$ 3,912	$ (87)	$ (1,277)
Covered-employee payroll	$ 419,486	$ 287,582	$ 258,670	$ 206,757
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.90%	1.36%	-0.03%	-0.62%
Plan fiduciary net position as a percentage of the total pension liability (asset)	97.4%	95.1%	100.2%	103.5%

** The amounts presented for each fiscal year were determined as of December 31. In accordance with paragraph 81.a of GASB 68, employers are required to disclose a 10-year history of their proportionate share of the Net Pension Liability (Asset) in their RSI. The 10-year schedule will be built prospectively from the implementation date of GASB 68.*

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
SCHEDULE OF CONTRIBUTIONS

System	As of Fiscal Year Ended June 30,	Actuarial Determined Contributions	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
Noncontributory System	2014	$ 616,818	$ 616,818	$ -	$ 3,577,880	17.24%
	2015	668,520	668,520	-	3,629,089	18.42%
	2016	687,003	687,003	-	3,728,361	18.43%
	2017	684,517	684,517	-	3,714,902	18.43%
	2018	659,576	659,576	-	3,583,233	18.41%
Tier 2 Public Employees System*	2014	$ 28,065	$ 28,065	$ -	$ 200,605	13.99%
	2015	35,901	35,901	-	240,301	14.94%
	2016	39,707	39,707	-	266,311	14.91%
	2017	51,473	51,473	-	345,227	14.91%
	2018	68,505	68,505	-	453,376	15.11%
Tier 2 Public Employees DC Only System*	2014	$ 2,839	$ 2,839	$ -	$ 50,871	5.58%
	2015	2,280	2,280	-	33,927	6.72%
	2016	3,146	3,146	-	47,020	6.69%
	2017	2,301	2,301	-	34,396	6.69%
	2018	6,383	6,383	-	95,402	6.69%

** Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in Tier 1 systems.*
Tier 2 systems were created effectively July 1, 2011.

In accordance with paragraph 81.b of GASB 68, employers are required to disclose a 10-year history of contributions in their RSI. The 10-year schedule will be built prospectively from the implementation date of GASB 68. Contributions as a percentage of covered-payroll may be different than the board certified rate due to rounding and other administrative issues.

BP046

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2018

NOTE 1 - CHANGES IN ASSUMPTION

As a result of an experience study conducted as of December, 31, 2016, the URS 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).

K&C

Keddington & Christensen
Certified Public Accountants, LLC

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

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

Board of Trustees
Metropolitan Water District of Salt Lake & Sandy
Cottonwood Heights, Utah

Report on Compliance with General State Compliance Requirements

We have audited Metropolitan Water District of Salt Lake & Sandy's (the District) compliance with the 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, 2017, in the following areas:

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

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 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, the District complied, in all material respects, with the general compliance requirements referred to above that could have a direct and material effect on the District for the year ended June 30, 2018.

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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 our 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 the District's 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, as defined above. However, material weaknesses may exist that have not been identified.

Purpose of Report

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

Keddington & Christensen, LLC

September 24, 2018

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
SCHEDULE OF FINDINGS - COMPLIANCE - STATE OF UTAH

There were no findings as of June 30, 2018 or 2017.

K&C

Keddington & Christensen
Certified Public Accountants, LLC

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

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

Board of Trustees
Metropolitan Water District of Salt Lake & Sandy
Cottonwood Heights, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Metropolitan Water District of Salt Lake & Sandy (the District) as of and for the year ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 24, 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 opinions 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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*.

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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 result 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.

Keddington & Christensen, LLC

September 24, 2018

Metropolitan Water District of Salt Lake & Sandy
Board Meeting Information
Last Update: October 8, 2018

Agenda Item: Consider approval of participation in a second Deutsche Bank LIBOR settlement

Background: During the May 21, 2018 board meeting, Eric Hunter, with Chapman and Cutler, shared a report regarding a LIBOR interest rate manipulation class action settlement with DB. The District issued variable rate bonds through Utah Water Finance Agency (UWFA) that were impacted by the DB wrongdoing, and the District's share of the $213 million settlement was $1,347,356. UWFA has received and deposited the settlement check and has issued a check for the same amount to the District.

Recently, the District was informed of another DB LIBOR settlement for over $300 million. This is a settlement in which the District can directly participate, in contrast to the first settlement which was managed through UWFA. The District's participation in this settlement would involve the same variable rate bonds associated with the first settlement. Participation in the first settlement does not appear to preclude the District's participation in this second settlement. The District's share of the second settlement is unknown at this time.

In order for the District to participate in the second settlement, a proof of claim and release form must be completed and submitted by December 20, 2018.

Committee Activity: The Finance Committee discussed the second DB LIBOR settlement during the October 2, 2018 committee meeting and recommended approval of District participation by the full board.

Recommendation: Recommend approval of District's participation in a second Deutsche Bank LIBOR settlement.

Metropolitan Water District of Salt Lake & Sandy
Board Meeting Information
Last Update: October 3, 2018

Agenda Item: Consider approval of updates to Policies and Procedures Manual

Objective: Update P&P 3-640 Independent Audit language to reflect approved procurement practice

Background: With the conclusion of the FY 2018 Audit, the five year contract with the District's financial auditor is complete. During the Finance Committee meeting on October 2, 2018, the committee discussed authorizing the proposal (RFP) process for procurement of an independent auditor. Upon reviewing the policy language, it was discovered that the language in P&P 3-640 contradicts itself. The committee recommended rewording the language to reflect the approved procurement practice. Proposed changes are highlighted in red:

3-640 INDEPENDENT AUDIT

1) An independent annual audit shall be performed in conformity with Utah Code Ann. Title 51, Chapter 2a. The Finance Committee shall recommend actions to the Board regarding the hiring of an independent auditor, as described in P&P Section 1-14(1)(d)(vi). A request for proposal process will be used for the procurement of an independent auditor. At the end of the contract, the current auditor may be considered in the following request for proposal process. The term of the contract shall not exceed five (5) years. Consulting services shall not be provided by the independent auditor.

Deleted: The independent auditor shall be rotated periodically, and as a guideline should not serve for more than

Deleted: consecutive

Deleted: , following the request for proposal process, absent extenuating circumstances

Committee Activity: During the October 2, 2018 Finance Committee meeting, the committee recommended staff rewording the language for P&P 3-640.

Recommendation: Recommend approval of proposed changes by the full board.