Santa Clara Valley Water District
Board Audit Committee Meeting

Via Zoom Teleconference

3:00 PM SPECIAL MEETING
AGENDA

Wednesday, January 13, 2021
3:00 PM

District Mission: Provide Silicon Valley safe, clean water for a healthy life, environment and economy.

BOARD AUDIT COMMITTEE

Barbara Keegan, Chair, District 2
Gary Kremen, Vice Chair, District 7
Linda J. LeZotte, District 4

All public records relating to an item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body will be available for public inspection at the Office of the Clerk of the Board at the Santa Clara Valley Water District Headquarters Building, 5700 Almaden Expressway, San Jose, CA 95118, at the same time that the public records are distributed or made available to the legislative body. Santa Clara Valley Water District will make reasonable efforts to accommodate persons with disabilities wishing to attend Board of Directors' meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 265-2600.

DARIN TAYLOR
Committee Liaison

MAX OVERLAND
Assistant Deputy Clerk II
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(408) 630-2749
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Note: The finalized Board Agenda, exception items and supplemental items will be posted prior to the meeting in accordance with the Brown Act.

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Santa Clara Valley Water District
Board Audit Committee

3:00 PM SPECIAL MEETING
AGENDA

Wednesday, January 13, 2021	3:00 PM	Via Zoom Teleconference

IMPORTANT NOTICES

This meeting is being held in accordance with the Brown Act as currently in effect under the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20 issued on March 17, 2020 that allows attendance by members of the Committee, staff, and the public to participate and conduct the meeting by teleconference, videoconference, or both.

Members of the public wishing to address the Committee during a video conferenced meeting on an item not listed on the agenda, or any item listed on the agenda, should use the "Raise Hand" or "Chat" tools located in Zoom meeting link listed on the agenda. Speakers will be acknowledged by the Committee Chair in the order requests are received and granted speaking access to address the Committee.

Santa Clara Valley Water District (Valley Water) in complying with the Americans with Disabilities Act (ADA), requests individuals who require special accommodations to access and/or participate in Valley Water Committee meetings to please contact the Clerk of the Board's office at (408) 630-2711, at least 3 business days before the scheduled meeting to ensure that Valley Water may assist you.

This agenda has been prepared as required by the applicable laws of the State of California, including but not limited to, Government Code Sections 54950 et. seq. and has not been prepared with a view to informing an investment decision in any of Valley Water's bonds, notes or other obligations. Any projections, plans or other forward-looking statements included in the information in this agenda are subject to a variety of uncertainties that could cause any actual plans or results to differ materially from any such statement. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water's bonds, notes or other obligations and investors and potential investors should rely only on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures and Valley Water's Investor Relations website, maintained on the World Wide Web at https://emma.msrb.org/ and https://www.valleywater.org/how-we-operate/financebudget/investor-relations, respectively.

Under the Brown Act, members of the public are not required to provide identifying information in order to attend public meetings. Through the link below, the Zoom webinar program requests entry of a name and email address, and Valley Water is unable to modify this requirement. Members of the public not wishing to provide such identifying information are encouraged to enter "Anonymous" or some other reference under name and to enter a fictional email address (e.g., attendee@valleywater.org) in lieu of their actual address. Inputting such values will not impact your ability to access the meeting through Zoom.

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Meeting ID: 943 3132 3312
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1 (669) 900-9128, 94331323312#

1. CALL TO ORDER:

1.1 Roll Call.

2. TIME OPEN FOR PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA.

Notice to the Public: Members of the public who wish to address the Committee on any item not listed on the agenda should access the "Raise Hand" or "Chat" tools located in Zoom meeting link listed on the agenda. Speakers will be acknowledged by the Committee Chair in order requests are received and granted speaking access to address the Committee. Speakers comments should be limited to three minutes or as set by the Chair. The law does not permit Committee action on, or extended discussion of, any item not on the agenda except under special circumstances. If Committee action is requested, the matter may be placed on a future agenda. All comments that require a response will be referred to staff for a reply in writing. The Committee may take action on any item of business appearing on the posted agenda.

3. APPROVAL OF MINUTES:

None.

4. ACTION ITEMS:

4.1. Board Audit Committee's 2020 Annual Self-Evaluation. 20-1209

Recommendation:
A. Conduct the Annual Self-Evaluation;
B. Direct staff to prepare a formal report; and
C. Direct staff to return to the Board Audit Committee for approval to present the report to the full Board.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: BAC Self-Evaluation Framework

Est. Staff Time: 5 Minutes

4.2. Discuss Options to Evaluate Risk Management Organizational Alignment; and Direct Staff to Present the Recommended Option to the Full Board for Approval to Update the Annual Audit Work Plan. 20-1221

Recommendation: A. Discuss the options to evaluate Risk Management Organization alignment; and
B. Direct staff to present the recommended option to the full Board for approval to update the Annual Audit Work Plan.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: Risk Management Estimates

Est. Staff Time: 5 Minutes

4.3. Request Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance. 20-1097

Recommendation: Request Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance.

Manager: Darin Taylor, 408-630-3068

Est. Staff Time: 5 Minutes

4.4. Receive and Discuss the Safe, Clean Water Program Grant Management Audit Draft Report and Management Response; and Approve the Safe, Clean Water Program Grant Management Audit Draft Report for Presentation to the Board. 20-1223

Recommendation: A. Receive and discuss the Safe, Clean Water Program Grant Management Audit Draft Report and Management Response; and
B. Approve the Safe, Clean Water Program Grant Management Audit Draft Report and direct staff and subconsultants to present to the Board at a future Board meeting.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: Grant Management Audit Draft Report

Est. Staff Time: 10 Minutes

4.5. Recommended Updates to Annual Audit Work Plan. 20-1220

Recommendation: Discuss the Annual Audit Work Plan and approve any updates to recommend to the Board, if necessary.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: Annual Audit Work Plan

Est. Staff Time: 5 Minutes

4.6. Review and Approve the Updated 2021 Board Audit Committee Work Plan. [20-1219]

Recommendation:
A. Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan; and
B. Approve the updated 2021 BAC Work Plan.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: Updated 2021 BAC Work Plan

Est. Staff Time: 5 Minutes

5. INFORMATION ITEMS:

5.1. Valley Water Policy Discussion Related to Financial Auditor Responsibility. [21-0031]

Recommendation:
A. Discuss Valley Water Policy issues related to Financial Auditor responsibilities; and
B. Recommend to the full Board that this policy issue be referred to the Board Policy and Planning Committee for further discussion and refinement.

Manager: Darin Taylor, 408-630-3068

Est. Staff Time: 5 Minutes

5.2. Discuss Scope of Annual Audit Training from Board Independent Auditor. [20-1211]

Recommendation: Discuss Scope of Annual Audit Training from Board Independent Auditor.

Manager: Darin Taylor, 408-630-3068

Est. Staff Time: 10 Minutes

5.3. Valley Water Comprehensive Annual Financial Report for the Fiscal Year Ending on June 30, 2020. 20-1090

Recommendation: Discuss the Valley Water Comprehensive Annual Financial Report (CAFR) for the Fiscal Year (FY) Ending on June 30, 2020, that staff will be recommending for Board acceptance and provide direction as needed.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: FY 2020 CAFR
Attachment 2: Director Kremen Comments
Attachment 3: Review Comments Response Tracker
Attachment 4: FY20 CAFR Statements with Water as Inventory

Est. Staff Time: 15 Minutes

5.4. Receive an Update on the Status of the Permitting Best Practices Audit. 20-1222

Recommendation: Receive an update on the status of the on-going Permitting Best Practices Audit.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: CPRU Progress Report

Est. Staff Time: 5 Minutes

5.5. Receive and Discuss a Status Update on the Implementation of Audit Recommendations. 20-1108

Recommendation: Receive and discuss a status update on the implementation of audit recommendations.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: Audit Recommendations Tracking Table

Est. Staff Time: 20 Minutes

6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.

7. ADJOURN:

7.1. Adjourn to Regular Meeting at 2:00 p.m., on February 17, 2021, to be called to order in compliance with the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20.

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Santa Clara Valley Water District

Valley Water

File No.: 20-1209 **Agenda Date:** 1/13/2021
Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Board Audit Committee's 2020 Annual Self-Evaluation.

RECOMMENDATION:
A. Conduct the Annual Self-Evaluation;
B. Direct staff to prepare a formal report; and
C. Direct staff to return to the Board Audit Committee for approval to present the report to the full Board.

SUMMARY:
The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

On August 27, 2019, the Board approved the BAC Audit Charter to provide detailed guidance regarding how the BAC should carry out its functions and to guide the work of TAP International, Inc.

According to Article 9, paragraph 4 of the BAC Audit Charter, the BAC shall conduct a self-evaluation of its performance annually. The Committee shall conduct the evaluation of its performance to determine whether it is functioning effectively and to discuss with the Independent Auditor any observations related to the effectiveness of the Committee. The Committee shall prepare a formal report based upon each such self-evaluation and shall provide such report to the full Board following its adoption by the Committee.

The Annual Board Audit Committee Self-Assessment template is provided to serve as a framework for the BAC to conduct a self-evaluation.

ATTACHMENTS:
Attachment 1: BAC Self-Evaluation Framework.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Annual Board Audit Committee Self-assessment

This self-assessment to be completed by Board Audit Committee (BAC) members and BAC invited stakeholders provides a basis for evaluating the performance of the BAC. Follow-up action should be taken as appropriate.

This assessment evaluates BAC governance, composition, operations and relationships.

Assessment (Please check Yes, No, and/or needs Enhanced Performance)

BAC Governance	**Yes**	**No**	**Needs Enhanced Performance**
1. BAC operates pursuant to a written charter and assesses its charter annually?			
2. BAC Members has a clear understanding of the roles and responsibilities of the BAC?			
3. BAC Members obtain the information required for decision-making?			
4. BAC operates openly and with trust among members to resolve issues fully and completely?			
5. BAC reports regularly to the Board of Directors on its activities?			
BAC Composition			
6. BAC acts independently of Valley Water executive management.			
7. BAC is the right size with adequate representation of diverse knowledge, skills and abilities?			
Meetings			
8. BAC holds an adequate number of meetings and scheduled appropriately to facilitate the audit process?			

9. BAC plans meetings of adequate length and all issues are discussed fully.			
10. BAC ensures the right individuals attend to provide input on agenda items.			
Interaction with Stakeholders (Commingled Responsibilities)			
11. BAC maintains open lines of communication with the Valley Water Board and the Independent Auditor?			
12. BAC reviews annual audit work plans, ensuring attention to Board priority areas.			
13. Board external financial auditors communicate routinely with the BAC.			
14. BAC does not provide management direction to Valley Water staff.			
15. BAC allows independent auditor and external auditors to raise sensitive issues in compliance with the Brown Act and the information is received constructively.			
16. BAC discusses the audit process, encouraging candid discussions for continuous process improvement.			
17. BAC reviews key decisions made by management that may impose material risk to Valley Water business areas.			
18. BAC discusses the audit results with the Independent Auditor and External Auditor and reviews management's response for proposed implementation of audit recommendations to ensure alignment to Board priorities, financial feasibility, strategic objectives, and efficiency and effectiveness of operations.			
19. BAC reviews the audit results with the independent auditor and external auditors.			

Continuous Monitoring			
20. BAC has enough resources and availability to carry out responsibilities defined by the BAC Charter.			
21. BAC determines whether audit recommendations have been implemented by Valley Water management.			

Comments

Suggestions:

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File No.: 20-1221 **Agenda Date:** 1/13/2021
Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Discuss Options to Evaluate Risk Management Organizational Alignment; and Direct Staff to Present the Recommended Option to the Full Board for Approval to Update the Annual Audit Work Plan.

RECOMMENDATION:

A. Discuss the options to evaluate Risk Management Organization alignment; and
B. Direct staff to present the recommended option to the full Board for approval to update the Annual Audit Work Plan.

SUMMARY:
The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

The District Counsel Audit Final Report was provided to the BAC for review and discussion at the December 16, 2020, Committee meeting. Recommendation #5 from the District Counsel Audit provides that: "The Board Audit Committee should ensure that the scope of the audit currently proposed in the annual audit work plan for the risk management function, include an evaluation of the advantages and disadvantages of implementing alternative organizational alignments for the Risk Management Unit and the Workers' Compensation programs."

As referenced in Recommendation #5 from the District Counsel Audit, there is an existing Risk Management audit listed on the FY 18/19 - FY 20/21 Annual Audit Work Plan (Audit ID 4). The audit objective for the Risk Management audit will evaluate whether risk management business processes can be implemented more effectively, i.e., contract claims, workers' compensation, small claims.

The following options may be considered to evaluate Risk Management Organization alignment:

1) TAP International could add an objective to the existing risk management audit objectives to include evaluation of the organizational alignment of the risk management function; or

2) TAP International could develop a separate audit scope of work to evaluate the organizational alignment of the risk management function that could be conducted quicker than the existing

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risk management audit.

For Option 1, TAP International has estimated a period of 9 - 15 months to complete the expanded audit for an estimated cost of $101,600 - $199,750. For Option 2, TAP International has estimated a period of 4 - 6 months to complete the separate audit for an estimated cost of $38,050 - $82,250. A detailed outline of time and costs estimates for the options listed above is provided in Attachment 1.

ATTACHMENTS:
Attachment 1: Risk Management Estimates

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Risk Management Unit Audit (Options for BAC Consideration)
Cost Assumptions:

- Estimated maximum time and cost estimates based on potentially outsourcing the audit (e.g. time for onboarding, learning curve, additional time for required project risk assessment, administrative and contract management fee)
- Estimated minimum costs are based on TAP International, Inc. hourly rates: $185-200/hr.
- Estimated maximum costs are based on potentially outsourcing the audit: $235/hr.
- Option C factors in efficiencies that could occur if audits are consolidated.

Option	Activity	Range of Hours	Range of Costs (Minimum and Maximum)		Estimated Timeframe
A – Scope of Work Assumption: Performance audit and cost effectiveness analysis on operations performance, claims administration and management, workers compensation administration, and all risk management activities, including insurance & self-insurance	Risk management audit **without** organizational analysis	410-550	$77,950	$129,250	7-11 months
B – Scope of Work Assumption: Examines advantages and disadvantages of realigning business functions (i.e. all risk management activities, workers compensation administration, and claim administration	Organizational analysis only	200-350	$38,050	$82,250	4-6 months
C – Scope of Work Assumption: Combines A and B.	Risk management audit **with** organizational analysis e	535-850	$101,600	$199,750	9-15 months

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Valley Water

File No.: 20-1097 **Agenda Date:** 1/13/2021
Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Request Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance.

RECOMMENDATION:
Request Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance.

SUMMARY:
The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

On May 23, 2017, the Board, approved an on-call consultant agreement with TAP International, Inc. (TAP) for Board independent auditing services. Per the BAC Charter, the BAC is tasked annually with evaluating Board Auditor performance. The purpose of this agenda item is to request the Board Auditor Activity Report from TAP to perform the evaluation.

The 2019 Independent Auditor Annual Performance Report provided a summary of accomplishments and activities, meeting attendance, task order completion, and a financial overview. The Committee may request TAP to report on those same areas as addressed in the prior year’s report or areas as determined by the Committee.

ATTACHMENTS:
None.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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Valley Water

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Receive and Discuss the Safe, Clean Water Program Grant Management Audit Draft Report and Management Response; and Approve the Safe, Clean Water Program Grant Management Audit Draft Report for Presentation to the Board.

RECOMMENDATION:

A. Receive and discuss the Safe, Clean Water Program Grant Management Audit Draft Report and Management Response; and
B. Approve the Safe, Clean Water Program Grant Management Audit Draft Report and direct staff and subconsultants to present to the Board at a future Board meeting.

SUMMARY:
On January 14, 2020, the Board of Directors approved TAP International's updated FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan, as recommended by the Board Audit Committee (BAC), to include a desk review on key controls and financial management regarding the extension of grants under the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program).

On February 19, 2020, the BAC discussed the status of the Safe, Clean Water Program Grant Management ad-hoc desk review. The Board's Independent Auditor, TAP International, recommended that an auditor with expertise on grant management, conduct a performance audit of the Safe, Clean Water Grant Program.

At its regular meeting on July 15, 2020, the Board Audit Committee voted to recommend that the Board approve a Board audit of the Grant Management Program and further recommended that the services be provided through the existing agreement with TAP - a sub-consultant with subject matter expertise in grants management would be utilized to provide this service. On July 21, 2020, the Board approved this performance audit to be placed on the Board Audit Committee's Annual Audit Work Plan. The BAC received additional information at its August 2020 BAC meeting to facilitate a discussion of audit objectives for a proposed scope of work based on the desk review.

On September 2, 2020, independent contractors, Greta MacDonald and Drummond Kahn, initiated the Grant Management Performance Audit to assess whether Valley Water can provide assurance that risks are being managed appropriately and whether the department's internal control environment is operating effectively to ensure the safeguarding of public funds, with the focus on improving grant management operations and aligning current processes with best practices. Additionally, it will assess the timeliness of grant/contract approvals, and grant payments.

The Safe, Clean Water Program Grant Management Audit Preliminary Draft Report was formally issued to staff on December 14, 2020, for formal comment. Staff provided the management response to audit recommendations on December 30, 2020. The Safe, Clean Water Program Grant Management Audit Draft Report (Attachment 1) is attached for the Committee to review and discuss. Upon vote and approval, the Committee shall direct staff to present the approved draft audit report to the Board of Directors.

ATTACHMENTS:
Attachment 1: Safe, Clean Water Program Grant Management Audit Draft Report

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

PERFORMANCE AUDIT OF VALLEY WATER –

GRANTS MANAGEMENT AND ADMINISTRATION

Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water)

FINAL DRAFT REPORT

JANUARY 6, 2021

Submittal Letter

January 6, 2021

Director Keegan, Board Audit Committee Chair
Director LeZotte, Board Audit Committee
Director Kremen, Board Audit Committee
Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, CA 95118

We are pleased to present the results of our performance audit of grants management and administration in the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water). The objectives of our engagement were to:

(1) Determine the extent to which Valley Water's grants management and administration program is operating effectively, and
(2) Determine if opportunities exist to better align Valley Water's grant management and administration program and processes with best practices for grants management internal controls.

This draft report presents our findings and recommendations related to these objectives.

We appreciated Valley Water's cooperation throughout the audit process, and their review and response to our recommendations. Their response letter is included as Attachment A in this report.

Sincerely,

Drummond Kahn

Greta MacDonald

WHY WE CONDUCTED THIS AUDIT

The Santa Clara Valley Water District (Valley Water) Board Audit Committee (BAC) requested this performance audit to assess current grants management and administration practices. Valley Water's Independent Monitoring Committee (IMC) provides oversight of the Safe Clean Water and Natural Flood Protection Program, which funds the grant program. In their February 2020 Letter to the Board, IMC reported that grantees raised concerns such as long negotiation times to sign grant agreements, long delays in payments after projects have finished, and excessive reporting requirements. A desk review performed by Valley Water's independent auditor resulted in recommending a performance audit of grants management and administration.

Our audit objectives were to:

(1) Determine the extent to which Valley Water's grants management and administration program is operating effectively, and
(2) Determine if opportunities exist to better align Valley Water's grant management and administration program and processes with best practices for grants management internal controls.

WHAT WE FOUND

Overall, Valley Water's grants management and administration program has many opportunities to better match its level of oversight to the level of risks the program faces, while strengthening some internal control activities related to monitoring. These opportunities can better align Valley Water's efforts with best practices in grants management. We report current performance and potential improvements throughout the four phases of Valley Water's grants management process -- pre-award, award, post-award, and closeout.

Grantee concerns included in the IMC's letter to the Board in February 2020 regarding lengthy grant agreement execution timelines, delays in receiving reimbursements, and extensive reviews were supported by our grant file testing. We found:

- The Safe, Clean Water program's grant funding led to positive community outcomes, including improved water quality, education centers, habitat restoration and trash removal from coordinated volunteer clean-up activities.
- Valley Water has a lengthy grant agreement execution process that grantees reported can negatively impact projects. Grant awards are taking, on average, just under six months, two to three months longer than intended. Once awarded, grant agreement execution in our sample took 152 days, compared to Valley Water's goal of 60-90 days.
- We found that Valley Water took longer to pay invoices than its 60-day goal. Within the three years we reviewed, invoice payments took an average of 119 days. This occurred because there was no mechanism in place to monitor invoice receipt for review and response to grantees, or the timeliness of payments per the grant agreement. While Valley Water carefully reviews grantee invoices for compliance and accuracy, and requires reports and supporting documentation prior to authorizing payments for reimbursement, its current practice is to treat all standard grants and partnerships equally in the review process, which involves heavy scrutiny of grantee documentation and reports. These lengthy review processes, compounded with turnover and staffing challenges and a lack of monitoring activities, resulted in a backlog of invoices to process. As an increasing number of active grants were awarded each year, Valley Water took longer to perform these basic functions.

Staff positions filled by mid-FY2020 addressed the retrospective staffing need. However, in order to continue managing the program's growth with current staffing levels, additional changes to roles and responsibilities, dedication levels and organizational structure may be necessary.

WHAT WE RECOMMEND

Our report includes eleven recommendations for Valley Water to consider once the backlog of invoices is addressed; nine rooted in best practices, each related to right-sizing components and strengthening internal controls within the grant pre-award, award, post-award and closeout cycles. Another recommendation is related to strengthening the control environment to align with best practices through the development of a standardized operating manual to cover the grants process from end-to-end. Our final recommendation is to consider options to augment staffing assignments to better align roles and responsibilities with grant management functions according to best practices and provide better accountability.

1. Valley Water should consider developing clear guidelines for "right-sized" application and reporting processes, meaning that application and reporting requirements should be scaled to fit the size, risk, and complexity of each individual grant:

- Valley Water should develop a formal due diligence policy and perform a due diligence review for high-risk grant projects. A due diligence review of applicants determines the reasonableness of the grant and grantee's ability to perform and assess the extent of the grantee's reliance on grant funds. This would include analysis of managerial and fiscal capacity and past performance. For example, verify grantees have the requisite financial management systems that will produce invoice detail required by the grant agreement, or gain an understanding of the type of system capabilities the non-profit has to assess whether they can comply with financial reporting required by the grant agreement.
- For high-risk grants where financial statements are required, analyze fiscal health indicators of the entity and formalize the analysis within the grant file. For areas where Valley Water already implements a number of best practices such as checking GuideStar to verify the non-profits current status and to view the grantee's IRS Form 990, staff should also memorialize its analysis in the grant file.
- For smaller non-profits or community groups, based on risk, Valley Water should consider simplifying reporting requirements or developing alternative requirements for projects under a dollar threshold, like $25,000, or establish a tiered structure and treat smaller projects similar to mini-grants.

2. As new grants are awarded, an orientation for new grantees should be mandatory, and Civic Engagement should provide an electronically accessible grantee guide, outlining all requirements for programmatic and financial reporting compliance. This can be as simple as compiling existing documents, developing reporting templates and developing a process map and including instructions on who to call based on the nature of the question.
3. Best practices suggest utilizing a grant management information system to run regular reports to track timeliness and to conduct other monitoring activities. While many monitoring functionalities for FLUXX remain in progress, we recommend, at a minimum, adding another column to the Grant Tracker spreadsheet to track the 45-calendar day payment window once initial contact has been made with the grantee. These payment cycle time metrics should be tracked and reported internally monthly, and to the Board Audit Committee quarterly.
4. Monitoring should be conducted, either manually or through automated reminder emails in FLUXX, to ensure that a progress report, or another form of communication from a

grantee, is submitted quarterly ensure that Valley Water is kept apprised of project status and to ensure that work is aligned with the grant agreement.

5. In addition to right-sizing invoicing requirements based on the grant's risk level, Valley Water should right-size the level of progress reporting detail required for smaller dollar value standard grants, for example, under $25,000.
6. Valley Water should explore where, within existing District policies, it can augment grant requirements for grant agreements and invoicing for certain grantees based on risk: partnerships, repeat grantees, establish grant value thresholds, and determine whether the number of approvals and signatures for payments are appropriate. At a minimum, for smaller, lower risk grants, Valley Water should re-assess its reporting and invoicing requirements based on risk, dollar value, and project complexity.
    a. For example, Valley Water could treat grant agreements up to $25,000 like mini-grants and expedite payment for low-risk grants and low dollar amount invoices from trusted long-term grantees. Valley Water could consider paying unquestioned amounts earlier, and focus more scrutiny on riskier, larger dollar amount invoices from new grantees.
    b. Valley Water could also consider reimbursing expenses when invoiced and then using the closeout process to reconcile remaining amounts below a reasonable threshold. For example, if a grantee bills $10,000 for its performance, and Valley Water questions $500 of that amount, it could consider paying the unquestioned amount first, then resolve the questioned amount by project.
    c. Staff should focus their review on whether grantee costs are reasonable, allocable and allowable in accordance with the project budget and grant agreement guidelines. Spot checks would be performed to ensure calculations are correct and that receipts match the totals. The level of scrutiny applied and depth of review would be based on the grant and grantee risk factors, as determined by management.
7. Should Valley Water decide to continue to require the same information for progress and invoice submission, they should:
    a. Confirm the integrity of grantee financial management system data used for review before award.
    b. Include language in the grant agreement such as, "Failure to submit an accurate financial invoice in a timely manner may result in payments being withheld, delayed, or denied, and will result in payment delays".
8. Valley Water should solicit grantee and partnership feedback regularly, conducted by an independent third party, as best practices suggest. In addition to assessing satisfaction with the program, inquiries should be made to determine the extent to which partial funding has impacted the grantee and the project.
9. Valley Water should determine a reasonable goal and timeline for final closeout and final payment, including the release of retention. The established dates and timelines should be monitored in the Grant Tracker and when possible, included in any automated flags and alerts that FLUXX can provide.
10. Valley Water should prioritize developing a grants management operations manual containing all relevant policies and procedures.
11. To ensure that staff understand and carry out their internal control responsibilities, and to promote accountability, Valley Water should consider reconfiguring job assignments to enhance the grants management function once the backlog has been addressed and policies and procedures are developed:

- Option 1: Assign Staff by Priority Area and Specific Grants. This would allow staff to become familiar with the priority area, programs and grantees, as well as create a balanced number of programs a grant manager is expected to manage. This would benefit the grantee with the assignment of a single point of contact for questions at any phase of the project. This would allow for important information concerning a grantee, and project details learned in the application stage to transfer to active project management and throughout the life of the project. The downside to this option is that grant managers would still be required to perform duties that they might not have the technical capacity, knowledge or authorization to properly perform, such as a subject expert having responsibility for invoice processing, or a finance and accounting expert having responsibility for program oversight.
- Option 2: Split Application and Active Grant Management Duties. Civic Engagement may consider dividing the work performed during the application cycle and work performed during the active project management cycle into two separate positions or teams. From an efficiency perspective, this delineation could improve overall workflow by decreasing bottlenecks that occur during certain times of the year (e.g., the allocation/application cycle) and ensure that a sufficient number of staff remains focused on active grant management, such as invoice review processing and monitoring. Additionally, with such a delineation of duties, one individual could be assigned to or specialize in contracts and billings for all grants.
- Once job assignments are determined, the Supervising Program Administrator and Unit Manager should develop a training manual and schedule that clearly identifies the type of training needed to effectively perform specified job duties to address any gaps in staff knowledge, skills and abilities.
- As the Safe, Clean Water grants program grows, and the grants management function within Civic Engagement expands, develop grants management position descriptions.

Civic Engagement and Office of External Affairs management reviewed a draft of this report and generally agreed with our findings and recommendations. Their response is included in Attachment A to this report.

Objectives, Scope and Methodology

Objectives

The objectives of our audit were to:

- Determine the extent to which Valley Water's grants management and administration program is operating effectively.

- Determine if opportunities exist to better align Valley Water's grants management and administration program and processes with best practices.

Scope

The scope of this audit covered Valley Water's Safe, Clean Water grants program activity for Fiscal Years 2017-18, 2018-19, and 2019-20. We concentrated on grants that were both awarded and for which payments were made during that time period, and examined processes currently in place. Specifically, we reviewed Civic Engagement's management and administration activities within the grants lifecycle through the lens of internal control and considering Valley Water's processes and program results.

Methodology

Our audit methodology included gaining an understanding of Valley Water's grant awarding, monitoring, and payment processes; reviewing grant agreements, grantee invoices, and monitoring supporting documentation; reviewing grant requirements, grantee disbursement data and Valley Water's policies and procedures; and performing tests and other procedures on the information obtained. Additionally, we surveyed grantees for their input on strengths and weaknesses of the grant program and their anonymized responses are included in Attachment B of this report.

<u>Sampling Methodology:</u>

To test grant awards, grant monitoring, and grant payments at Valley Water, we stratified the population of grant expenditures by the four grant priority areas in the Safe, Clean Water program. We used professional judgment to select a sample of payments to grantees in the same proportion of each priority area as the total population. Our sample of 33 grants (including partnerships and mini-grants) represented $4.6M of $10.9M in awarded grants, or 43 percent of total dollar amount awarded, open and closed grants within our review period. Our audit testing focused on timeliness in two key timeframes: (1) days from grantee award date to grant agreement execution, and (2) days from invoice submission date to payment date (the date Valley Water issued a check to the grantee). The selected sample items do not necessarily represent the entire population of all grants; therefore, it would not be appropriate to project the test results to the population. We also tested selected grant payments and the associated grants for appropriate approvals and compliance with internal procedures, and assessed the reasonableness of project activities and results, compared to the requirements in the grant agreement.

<u>Procedures and Tests Conducted:</u>

- We conducted a risk assessment to identify the threats facing the grants program and to identify the controls or procedures VW has in place to prevent, eliminate or minimize those threats. The risk assessment allowed us to focus our testing areas most vulnerable to unmitigated risks.

- We reviewed Valley Water's grant management policies and procedures and processes to determine whether they aligned with national guidance. Both the National Grants Management Association's (NGMA) Grants Management Body of Knowledge (GMBoK Guide) and the Government Finance Officers Association (GFOA) have organized best practice steps for grant internal control into the five essential components of a comprehensive framework of internal control: 1) Control Environment; 2) Risk Assessment; 3) Control Activities; 4) Information and Communication; and 5) Monitoring. These components are consistent with the internal control framework provided by the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government, also known as the Green Book. The GAO bases the Green Book on a model of internal control created by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)[1]. We then performed a gap analysis to compare Valley Water's current practices to national best practices.
- We interviewed Valley Water Civic Engagement management and employees to assess roles and responsibilities and identify the unit's processes, and to identify controls in place. This included comparing best practices for staffing a grants management function to existing staff job specifications.
- We tracked processing time for invoice payment and compared to internal guidelines, and reviewed for internal controls over the review, approval, and authorization of payments.

While we remained attentive to indications of fraud, waste, and abuse, we did not specifically design audit objectives to search for it.

We did not include any testing for grantee compliance with provisions of the grant agreement as it was not included in our audit objectives.

Our work was conducted between September 1 and November 19, 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

In 2012, Santa Clara County voters approved Measure B, the Safe, Clean Water and Natural Flood Protection Program, as a countywide special parcel tax for 15 years with a sunset date of June 30, 2028. It identified five priorities:

- Priority A: Ensure a Safe, Reliable Water Supply
- Priority B: Reduce Toxins, Hazards and Contaminants in our Waterways
- Priority C: Protect our Water Supply from Earthquakes and Natural Disasters
- Priority D: Restore Wildlife Habitat and Provide Open Space
- Priority E: Provide Flood Protection to Homes, Businesses, Schools and Highways

[1] The Green Book may also be adopted by state, local and non-federal entities and non-profit organizations.

Eight unique grant programs exist in three priority areas within the Safe, Clean Water grants and partnerships program as follows:

- A2: Water Conservation, Water to Go, and Pilot Mini-Grants
- B3: Pollution Prevention and Partnerships Grants
- B7: Support Volunteer Cleanup Efforts and Education Grants
- D3: Grants and Partnerships to Restore Wildlife Habitat, Grants and Partnerships to Access Trails & Open Space, and Mini-Grants

Valley Water's 63 grantees and partners are a mix of non-profit organizations, municipalities, educational institutions, special districts and other community stakeholders. Grant opportunities are made available on a rolling basis for each priority area, except for A2 and D3 mini-grants, which accept applications on a year-round basis. As of September 2020, there have been 135 individual grant projects, representing $13,120,529 in total awarded funds, with a balance of $4,845,560.[2]

The Safe, Clean Water grant management and administration is performed by the Office of Civic Engagement, which is part of the External Affairs Division of Valley Water. Staffing is comprised of 2.25 full time equivalent employees (FTEs): Unit Manager (.25 FTE), Supervising Program Administrator (.60 FTE), Senior Management Analyst (1.0 FTE), and Management Analyst I (.40 FTE). Three of the four individual employees have duties in other Valley Water programs and departments in addition to their grant management duties.

[2] As of September 15, 2020. This differs from the amount of awarded grants within our audit period, which excluded grant awards in progress (not yet executed), cancelled grants, or grants that closed out prior to FY 2017-18.

Principal Findings

Finding 1: Valley Water Needs to Right-size Oversight in all Phases of the Grants Management Cycle

The GMBoK describes risk-based approaches in grants management to identify grantees in greatest need of oversight as a solution to prioritize the highest risk first. Without a risk-based approach to all phases of the grants management cycle, a large investment in resources would be required. Although all grants are unique in their scope, size, goals, and outcomes, Valley Water applies a standard approach to grants management and administration, causing mis-matches between its level of oversight and the level of risk in specific grants. The time and other resources applied to manage a particular grant should be proportional to the size, scope, complexity, duration, risk, and strategic importance of that project. Further, the grantee's status should be considered, e.g. whether the grantee is a repeat, successful partner. For example, a routine B7 project for volunteer clean-up normally requires minimal grant management efforts. On the other hand, a high-value, construction project in B3 or D3 grants that requires California Environmental Quality Act (CEQA) review, permits, and that is strategically important to Valley Water will need a dedicated grant management team (including subject matter experts), greater monitoring, evaluation, risk management, sound decision making and relationship management. First-time grantees may need more substantial review of invoices and support documentation to ensure compliance within the first reporting periods.

A "one size fits all" approach can delay decision making, impede grantee payments and overburden staff, both at Valley Water and the grantee. Because Valley Water wishes to expand the Safe, Clean Water program to work with smaller community partners and non-profits who may have less fiscal capacity, this underscores the need for right-sizing requirements in all phases.

Below, we discuss our findings on operating effectiveness within the standard grants management cycle: Pre-Award, Award, Post-Award and Closeout; and where Valley Water can align its current efforts with best practices within these phases of the grants management cycle.

1.1 PRE-AWARD

Grant Applications (Standard Grants)

Valley Water is already applying some best practices to the grants management function, mainly in the areas of automating manual, paper-based processes in the pre-award process. To streamline the grant application process, staff implemented a pilot grants management system in 2018 to allow applicants to submit proposals online. The system also allows Valley Water staff to conduct grant application reviews online. Best practices call for developing clear guidelines for "right sized" application and reporting processes, meaning that application requirements should be scaled to fit the size, risk, and complexity of each individual grant. In this area, however, Valley Water has a "one size fits all" approach used for application requirements and grant reporting (with the exception of mini-grants). Valley Water uses the same general requirements for all sizes and types of grants, and generally uses standard terms in its grant agreements, with the exception of Mini-grants.

Per the GMBoK, risk-based monitoring is a technique used by federal awarding agencies to identify the grantees in greatest need of oversight. Employing an effective risk scoring process saves valuable resources by lending specific focus to safeguarding public funds. An effective risk-based plan can be regarded as a due diligence exercise prior to award.[3] Once a grantee's overall risk has been assessed, Valley Water can then determine the level of scrutiny that should be applied for reporting purposes. For example, Valley Water could perform due diligence reviews of grantees to verify that they have the requisite financial management systems that will produce invoice detail required by the grant agreement, or collect information on the type of system capabilities the non-profit has to assess whether they can comply with financial reporting required by the grant agreement. If a grantee cannot, Valley Water could consider adjusting reporting requirements or to treat agreements below a dollar threshold similarly to a mini-grant.

Due diligence can protect the District's ratepayer funds as it advances its mission through this grant program. Valley Water performs due diligence activities in the grant application process by requesting financial information to assess capacity, but lacks a specific policy or formal list of documents to collect and a method for evaluation. Within the last year, to address risks related to grantees' financial capacity, Valley Water began requesting financial statements with applications for standard grants. Valley Water reviews assets and liabilities, but does not assess other fiscal health indicators or formalize their analysis in the grant file. Valley Water also checks GuideStar to verify the non-profit's current status and viewing the grantee's IRS Form 990, an important federal filing for many non-profit organizations, but does not yet memorialize this review in each grant file. Another risk-mitigation method at the federal grant level is a requirement that awarding agencies establish conflict of interest policies specifically related to grants to address conditions under which outside activities, relationships or financial interests are proper and improper; provide for advance notification of such activities; and outline how financial conflicts of interest may be addressed[4]. Such a policy at Valley Water could mitigate reputational risk to ensure that any relationships with Valley Water employees or officials, past or present, are disclosed and assessed prior to awarding a grant. Valley Water may wish to consider similar policies.

Please see Recommendation 1 above.

1.2 AWARD

<u>Grant Agreement Execution (Standard Grants)</u>

In the immediate post-award phase, there may be substantial time lags between when the grant is awarded and when the agreement is executed, depending on the level of funding, type of project, and level of project complexity. Six grantees responded to our survey expressing concerns with delays between award and the grant agreement execution. The agreement and project scope negotiation process, requirements for CEQA, permits and number of signatures of Valley Water reviewers (up to nine signatures may be required), create significant time lags in the grant agreement execution process once the grant has been awarded. Based on grantees' feedback and our file review, the execution of agreements can take several months and as long as a year. In our file review sample of 29 competitive grants, we found that it took an average of 152 days from grantee award to contract execution, compared to Valley Water's goal of 60-90 days[5] . One grantee surveyed explained that it took 18 months to sign the contract after Valley Water had agreed in principle to the grant, after the grantee had confirmation on matching grants from other funding partners on the project, and that delays could impact the viability of a project.

These lags stem from both internal and external factors: First, for some grants, resolutions from governing bodies like city councils must be in place before contracts are executed, which could

[3] GMBoK page 184.
[4] 2 CFR 200.112 Conflict of Interest.
[5] Per the RFP guidance for grant cycles, time between the projected District Board approvals and the execution of grant agreements ranges between two and three months, or 60-90 days.

also delay the process. Project complexity is also a factor; for projects where the grantee needs to secure permits to perform the work, that process can take several months, just as those projects requiring CEQA review can also take more time from award to execution. Finally, Valley Water's Agreement execution routing signatures include: Accounting, Risk Management, Legal, Chiefs (as applicable), Assistant CEO, CEO.

Community Resource Planning Unit (CRPU) must also review the agreements. While Valley Water has improved the signature routing process through the use of an electronic signature application, the process can still take weeks due to the review required, and the potential re-routing that must occur if the agreement changes during the review process. Also, not all grantees are awarded the full amount of funding they applied for. Valley Water funds projects based on evaluation criteria and may choose to partially fund multiple projects, which allows them to expand the number of grants in a priority area. For example, in 2018, among the twelve proposals submitted for priority area B7, supporting volunteer clean-up efforts and education, staff recommended funding nine grant proposals -- six at 70 percent, and three at 30 percent of their funding requests. Given the total funding available, the number of qualified projects, and concerns regarding some of the projects' scope, staff determined the funding formula provided the most equitable distribution of available grant dollars and extended Valley Water's ability to provide support to projects throughout the County[6]. Partial funding of a grant project can prolong the contract negotiation process because the grantee has to revise the project budget and workplan accordingly; or may need to secure additional funding to pursue the original project prior to contract execution.

During the grant award process, Valley Water also works with the grantee to become familiar with the program and requirements. Due to the back and forth nature during the post-award invoicing and reporting process, which we found to delay invoice payments to grantees, we determined that Valley Water could do more to orient grantees on the requirements to submit status reports and invoices -- a best practice. For the most recent grant award cycle, Civic Engagement began to provide more orientation for new grantees, which includes instructions on submission of invoices and reports on its new grants management system, FLUXX.

Please see Recommendation 2 above.

1.3 POST-AWARD

Monitoring and Grantee Reimbursement

At the program level, Valley Water has a robust monitoring system of the overall Safe, Clean Water grant program. The ballot measure that created Safe, Clean Water also created an Independent Monitoring Committee, which annually reviews the program's progress to ensure the outcomes are achieved, and reports its findings to the Board. To the extent that program deficiencies are found, they are communicated in a timely manner to responsible parties, including senior management and elected officials, for corrective action -- a strong internal control.

At the operational level, a control activity for the payment of grantee invoices -- monitoring for payment timeliness -- was not in place during the audit period. Invoices were emailed to a grants inbox that was not reliably staffed due to turnover and lack of coverage. Once available, grantees began to upload their invoices to the grants management system, FLUXX, which is now regularly checked by all staff. More controls are now in place, and the current method of managing and monitoring grants is through Valley Water's Grant Tracker spreadsheet. This spreadsheet is the primary tool for staff to track projects, incoming invoices, address delayed projects, and assign and perform general job duties. The tracker is updated during a weekly monitoring meeting and provides information on all grants in every stage.

[6] File No.:18-0160, Agenda Date 3/13/18, Item No.:*7.1.

As a grantor, Valley Water can make payments to grantees in two ways, either through advances or through reimbursement. Smaller non-profits told us that they can be adversely impacted if reimbursements are untimely. Valley Water pays its standard grantees and partnerships[7] through a reimbursement process, where grantees are required to submit the following documents to receive payment:

- Payment request form
- Invoice form
- Status report form
- Direct expenses, including receipts
- Timesheets for labor costs
- Benefits Rate Calculation
- Documentation of all accomplishments

Valley Water's standard contract includes this language to describe the review process:

> *"Valley Water will review Grantee's invoice within ten working days from receipt and advise Grantee of any disputed items. Valley Water will review and approve undisputed invoices within ten working days from receipt and issue payment within forty-five (45) calendar days from receipt. Valley Water will pay invoices within forty-five (45) calendar days from date invoice is approved by Valley Water's Program Administrator."*

We reviewed the dates on invoice requests grantees sent and compared them with the dates checks were cut as shown in Valley Water disbursement reports. On average, it took 119 days for grantees in our sample to be paid, with a low of 10 days and high of 401 days. This average is nearly double the 60-day time to pay invoices in Valley Water policy. This timing was consistent with survey respondents reporting concerns with reimbursement timeliness. In our testing, almost three-quarters of grantees (21 of 29) were paid later than the intended 60-day time frame, while 8 out of 29 grantees were paid within the 60 days. Valley Water's policy is to pay invoices within 60 days, as shown in Figure 1.0 below. We found that actual invoice payment from our sample of invoices took much longer, as shown in Figure 2.0.

Figure 1.0: Invoice Payment Timelines in Valley Water Grant Agreement and Policy

Time to Respond to Grantee (standard grant agreement)	Time to Pay Invoice once Complete (standard grant agreement)	Total Time	**Valley Water Invoice Payment Policy**
10 working days	45 Calendar Days	~55-60 Calendar Days	**60 Calendar Days**

Figure 2.0: Actual Invoice Payment Timelines (FY 2018-2020)

Valley Water Invoice Payment Policy	Actual Low	Actual Average	Actual High
60 Calendar Days	10 Calendar days	119 Calendar Days	401 Calendar Days

Valley Water maintains a detailed process to review invoices and supporting documents in order to authorize payments to grantees. Once the invoices were reviewed and processed for payment, we

[7] Mini-grants are paid with an advance of $2,500 and the remainder at close out.

observed that key internal controls for accounts payable processing were appropriately in place: separation of duties, authorization and approval, and review and reconciliation. While we recognize that this authorization process is central to internal controls over disbursements, the process lacked the mechanism to monitor payment timeliness in accordance with the grant agreement. With historically inconsistent staffing levels, these combined factors caused Valley Water to exceed the grant agreement timelines for payments:

- First, Valley Water staff explained, and we observed in the grant files, that grantees may not submit the required information completely, and there can be multiple back and forth conversations, emails, resubmissions and reviews over prolonged periods of time before the invoice is deemed responsive and complete in order to authorize for payment. One grantee interviewed explained that they submitted an invoice, and five months later, Valley Water called back to say something was missing from their invoice.
- Second, 10 of the 29 grantees responding to our survey expressed concerns with untimely invoice payments, explaining that in some cases, it took months to hear back from Valley Water on submitted invoices and reports, including requests for additional documentation. Grantees suggested, and Valley Water staff confirmed, that these delays were likely due to Valley Water staff turnover. Additionally, during the period of our audit, no tracking mechanism was in place to monitor when invoices were submitted by the grantee and when a response was required, nor did we find evidence that Valley Water responded to grantees within the 10 working days to request follow up information. However, we observed that once the invoice and supporting documentation in the files we reviewed were complete, and the program administrator approved the invoice for payment, the grantee was issued a check immediately, within the 45 days required in the grant agreement.

Lastly, some grantees and partners cannot be paid if an agreement has expired, and the agreement term extensions and subsequent amendment process are holding up payment. When an amendment is needed, it must go through the whole agreement review and approval process as if it were a new agreement. One example was the City of San Jose, where four invoices exceeded one year from receipt as Valley Water and the City continued to work on an amendment to the agreement prior to payment authorization. During the current invoice review process, Valley Water staff are reviewing agreement expiration dates to ensure that the amendment extension process occurs in advance of agreement expiration.

Valley Water is now working through the backlog of invoices that accumulated during periods of turnover and inconsistent staffing. Due to this backlog, Valley Water applied a triage approach to assignments, and this practice allowed grants managers to prioritize tasks and determine which projects need the most attention. Project status is updated weekly using the Grant Tracker, also assigning staff to manage the Grants Inbox, which ensures accountability and monitoring of grantee communication. Valley Water also has an internal practice to respond to grantee questions and communications within 48 working hours.

New management practices and review of invoice data suggests that Valley Water may be better able to meet its grant agreement reimbursement timelines once the backlog is cleared. As of November 5, 2020, Valley Water had 25 invoices to be paid with an average of 243 days outstanding from date of receipt. By November 12, 11 of these invoices had been paid, and the remaining average age of the invoices outstanding was 128 calendar days, indicating older invoices are being paid. Other indications that invoice processing timeliness might be improving were reported in our grantee survey. One grantee explained that for a recent contract signed in April 2020, the process for submission and approval of invoices was set up well and that their invoices are being currently paid in a timely manner.

Most notably, staff are now monitoring the 10-calendar day response time required by the grant agreement on invoices and reports, but are not tracking the 45 calendar days to payment.[8] The grants management system, FLUXX, will be able to run reports regularly to track metrics such as payment cycle times, and ensure that insurance expirations or contract expirations are tracked to ensure that expirations do not impact Valley Water's ability to pay grantees.

Please see Recommendation 3 above.

Status Reports

Status reporting may be overly burdensome for some grantees. In our survey, three grantees explained that Valley Water progress reporting requirements and documentation may be overly detailed and burdensome to complete, especially for mini-grants. Best practices suggest using a streamlined reporting form for less complex and small dollar value grants, such as mini-grants, to ensure that grantseekers not expend more time and money getting the grant than they receive in funding, and to incorporate grantees' perspectives and their operating environment into the status report requirements.

The grant agreement requires grantees to submit written quarterly reports using Valley Water's standard form and in conjunction with invoicing. Status reports include an update for each task in the grants. In our file review, we found that grantees do not typically submit status reports unless they accompany the invoice. Partnerships frequently submit invoices and progress payments at the same time once significant amounts of work have been completed, but this may not meet the quarterly reporting requirement. This leaves Valley Water without regular information on ongoing projects and is not aligned with the quarterly reporting requirement in the grant agreement. Valley Water staff told us that this occurs because unlike non-profits, cities and other public agencies do not have cash flow issues and can float the costs while the project is ongoing, even if they don't report or invoice each quarter.

Please see Recommendations 4, 5, 6 and 7 above.

1.4 CLOSEOUT

Final Payment

Similar to invoice processing, closeouts had long lag times due to lack of monitoring timelines. The closeout process is triggered once the grantee submits the final invoice, along with the required final reports and documentation. To process final invoices, Valley Water uses a Final Invoice Review Worksheet with a checklist for project completion including:

- Final payment request form
- Final invoice
- Project fact sheet
- Final status report form including documentation of all accomplishments
- Notice of Completion for public works construction projects
- Project completion communication with authorized signature

[8] Civic Engagement includes in their 2021 workplan within goal 2.1 (b) to complete invoice submittal reviews and request any follow-up items within ten days of receipt, and to process 100% of invoices within 45 days from when the invoice has been approved.

- Presentation to Board of Directors upon request

While no formalized goal or timeline for project closeout is currently documented for Valley Water, federal granting agencies require final reports within 90 calendar days after the end date of the performance period[9]. Of the seven grants in our sample with closed out status, we found two had not yet been paid. We found in our sample that closeouts and the subsequent final invoice payment take an average of 173 days, and final payments can occur beyond six months after the agreement ends. The closeout process involves not only final invoice review and approval but, as noted above, the review, approval and presentation upon request of a final report of the project before the Agreement Status Change Request (ASCR) is submitted to the contracts department, where the project is formally closed. Examples include:

- One grantee's agreement closed out in 2019, but the grantee submitted invoices in August 2020, and was paid in October 2020. Although payments to this grantee occurred within 44 days of the invoice, the payments, including the final payment, occurred 282 days from the agreement end date.
- Another grantee completed work a year prior to the agreement end date, and was paid within 69 days of the agreement end date, but did not receive their retention until 343 days after the last invoice was paid.
- Finally, one grantee with an agreement end date of June 30, 2019 submitted their final invoice in July 2019, but the ASCR was not prepared until July 2020 and payment occurred in August 2020, 381 days from the date of the final invoice submission.

Valley Water is currently tracking closeouts in the Grant Tracker, but due dates related to the necessary activities, forms and actions are not captured.

Please see Recommendation 8 above.

<u>Project Delivery Reporting</u>

The ASCR and completion of the closeout packet triggers the release of any retention and final payment, but is not prepared until after the agreement end date. Then, a memo is prepared by Civic Engagement staff describing the project, its outcomes and other results. This memo is sent to the Chief of External Affairs. The memo is then submitted to the Board in the CEO Bulletin upon request.

<u>Feedback from Grantees</u>

Valley Water has worked with over 60 different grantees and partners in the Safe, Clean Water program. As part of a sound internal controls system, information and communication between grantor and grantee are key to ensure there is a consistent flow of communication and feedback to allow the grantor to evaluate their practices and strive for continuous improvement. While grantees in our survey were pleased with the new level of communication from Civic Engagement, we noted there was no formal feedback elicited from grantees on regular basis. In the past, grantees have aired their concerns with Board members and the IMC. We recognize that Civic Engagement's Workplan contains their intent to survey grantees, which is a best practice.

Please see Recommendation 9 above.

<u>Finding 2: Valley Water Needs to Standardize Internal Policies and Processes</u>

Valley Water oversees grants with positive community results, but its operating effectiveness during the past three fiscal years was hampered by a lack of formalized grants management

[9] 2 CFR 200.343: Closeout - describes the actions that the non-Federal entity and the Federal awarding agency or pass-through entity must take in order to complete the closeout process at the end of the period of performance (codified 29 CFR Part 95.71 and 97).

policies and inconsistent staffing structure. After the 2017 performance audit of the Safe, Clean Water program recommended that grants management be consolidated under Civic Engagement, the function became centralized, but staffing deficiencies raised by that audit remained. Further, past management did not develop basic operational components to develop a grants management function, like an operations manual and position descriptions for grants managers, leaving the program dependent on institutional knowledge and practices of a few staff. At present, Civic Engagement staff roles and responsibilities could be enhanced with end-to-end policies and procedures and job specifications.

Grant program management should be guided by written policies and procedures accessible to all staff. A good organizational structure includes a clear delineation of roles and responsibilities, as well as explicit timelines to accomplish key tasks necessary for effective program implementation. The lack of policies and procedures, coupled with inconsistent levels of dedicated staffing and turnover, contributed to the invoice payment backlog and other concerns voiced by grantees. A formalized policies and procedures manual can help ensure consistency in operations and can act as a training tool during transition due to turnover, as it helps an organization retain institutional knowledge, and navigate project and grantee issues, as well as provide guidance for the work flow – all of which were lacking during the audit period. New staff hired in FY 2020, although trained on the job, did not have a formal set of standard operating procedures or a manual for managing grants.

Please see Recommendation 10 above.

Finding 3: Valley Water can Change Staffing Assignments to Enhance the Grant Management Function

Reconfiguring job assignments should also be considered to enhance the grants management function once the backlog has been addressed and policies and procedures are developed. As the Grants Management Book of Knowledge (GMBoK) states, “success in grants management begins with good relationships. Both awarding agency and the recipient (grantee) should make efforts to keep communication open and collegial. Good communication, in turn, requires the grantee knowing the individual in key roles and holding key responsibilities within the awarding organization.”

Presently, Civic Engagement staff are not assigned to particular grants or priority areas. Rather, they are assigned tasks performed across all priority areas. Generally, a Management Analyst (0.4 FTE) handles the mini-grants and closeout documentation, and the Senior Management Analyst (1.0 FTE) handles the standard grants. While the Program Administrator always performs invoice authorization, at any stage, a grant invoice, application or agreement may be handled by any one of the other three Civic Engagement staff. Because staff each maintain a wide range of duties, grantees do not always have a specific point of contact for questions. When information was needed or follow up conducted on unpaid invoices, grantees told us that different staff members had varying levels of familiarity with their particular grant, and individual staff familiarity could impact the answer to the grantees’ question. Because staff are not assigned to specific grants and could be called upon to field questions from any grantee, the current staffing structure requires staff to work with four priority grant programs, consisting of eight unique grant categories. Ten of 29 grantees taking our survey were complimentary of current communications with Civic Engagement staff, but seven generally thought the communication was poor.

The Grants Manager’s Network, in their Staffing Grants Management Report, provides a description of staffing needs necessary for a grants management function – positions, competencies and duties, which aligns job descriptions with grant operations. Similar to what is described in the GMBoK, programmatic functions are separated from the administrative and financial functions. This is also a key element of the control environment in the assignment of authority and responsibility, necessary to ensure that staff understand their internal control responsibilities and promote accountability of staff. Based on our review and comparison with Valley Water Civic Engagement staff job specifications, with the exception of the Supervising Program Administrator position, current position descriptions do not adequately address the grants management functions, competencies and duties. All four staff members (whose time dedicated to grants management is 2.25 full-time equivalents) have a full-range of administrative and financial duties including managing active projects, and also comprise assisting applicants and preparing application materials, preparing reports for Board meetings and workshops, reviewing status reports and invoicing documentation, addressing compliance concerns, and closeouts. In addition to historical staff turnover, these tasks are compounded by the release of new grant cycles multiple times a year.

Funding for the Safe, Clean Water program continues to grow with Measure S's passage in November 2020. If current organization and staffing assignments remain the same, it is reasonable to expect that either additional grant management staff may be needed to assume the workload[10] generated by new projects, or that the workload of existing staff could be focused (or more fully dedicated in terms of FTE levels) to manage the increased responsibilities and grant volume. For Civic Engagement to maintain its current service levels and manage more grants, adequate staffing – and/or a clearer staff focus – will be critical. Whether Valley Water considers expanding or maintaining staffing levels, it should match expected workload with its capacity.

Please see Recommendation 11 above.

[10] There is no benchmark or formula that we determined could be applied to set an appropriate grant manager workload due to variations in project complexity, grantee type, and level of staff experience. Best practices research showed a range of projects per grant manager due to differences in granting agencies and programs. Currently, Civic Engagement does not track the number of projects assigned to a grant manager.

Valley Water

MEMORANDUM

FC 14 (08-21-19)

TO: Greta MacDonald and Drummond Kahn

FROM: Marta Lugo, External Affairs Assistant Officer

SUBJECT: Management Response to Grants Management Performance Audit

DATE: December 30, 2020

The purpose of this memorandum is to provide the management response to the Grants Management Performance Audit conducted by TAP International's subcontractors Greta MacDonald and Drummond Kahn. Management appreciates the opportunity to undergo a grants management performance audit and understands the value in the process to identify efficiencies and improvements to enhance the program. Despite challenges the program has experienced in the past, program staff has implemented numerous process improvements prior to the audit, which the auditor has highlighted in the report. These improvements include the following:

- Implementation of a grants management system that: manages grant projects through the full life cycle, from application to closeout, produces tracking reports, includes a grantee project management portal for invoicing and reporting, and generates automated email reminders
- Payment of invoices within 45-days upon receipt of supporting documentation from grantees
- Establishment of internal metrics for response time for grantee invoice submissions and inquiries
- Immediate payout of unquestioned and completed invoice items

Management would like to highlight the acknowledgement from the auditor that through a performance audit of the comprehensive Safe, Clean Water Program, the grants program was consolidated under the Office of Civic Engagement in 2017, and though the functions were centralized through the consolidation, adequate staffing levels raised by that audit remained unaddressed at that time. In addition, when the program transitioned over to Civic Engagement, there were no basic operational components that had been developed for grants management, such as an operations manual, so incoming program staff relied heavily on the institutional knowledge and inherited practices and procedures of previous program staff.

To help address these historical issues, additional FTEs have been allocated to the grants program, but as highlighted by the auditor, the program continues to expand and will grow further with the passage of Measure S. In 2014, staff managed 17 open/active grant projects and in 2017, 33 projects. This grew to 70 open/active grant projects in 2018 and currently 79 projects in 2020. The grants program has grown quickly in a relatively short amount of time, and learning and adapting is part of the growth process. Management appreciates that the auditor provides recommendations on how to address this ongoing challenge, to which staff has responded below.

Additionally, management appreciates that the recommendations for improvement are timely as the grants program is undergoing a redesign to meet the expanded program under Measure S.

Management addresses all eleven of the auditor's recommendations below, with the intention to include the final recommendations into the new program.

Recommendations and Management Response

<u>Auditor Recommendation</u>:

1. Valley Water should consider developing clear guidelines for "right-sized" application and reporting processes, meaning that application and reporting requirements should be scaled to fit the size, risk, and complexity of each individual grant:
   a. Valley Water should develop a formal due diligence policy and perform a due diligence review for high risk grant projects. A due diligence review of applicants determines the reasonableness of the grant and grantee's ability to perform and assess the extent of the grantee's reliance on grant funds. This would include analysis of managerial and fiscal capacity and past performance. For example, verify grantees have the requisite financial management systems that will produce invoice detail required by the grant agreement, or, gain an understanding of the type of system capabilities the non-profit has to assess whether they can comply with financial reporting required by the grant agreement.
   b. For high-risk grants where financial statements are required, analyze fiscal health indicators of the entity and formalize the analysis within the grant file. For areas where Valley Water already implements a number of best practices such as checking GuideStar to verify the non-profits current status and to view the grantee's IRS Form 990, staff should also memorialize its analysis in the grant file.
   c. For smaller non-profits or community groups, based on risk, Valley Water should consider simplifying reporting requirements or developing alternative requirements for projects under a dollar threshold, like $25,000, or establish a tiered structure and treat smaller projects similar to mini-grants.

Management Response: Management agrees with this recommendation.
Management agrees with the concept of "right-sizing" the application and reporting processes.

a. Management agrees that assessing the risk for grant projects would increase the agency's due diligence to prevent fraud and waste. An initial risk assessment would also help staff evaluate if any additional special provisions or tailored invoicing requirements and/or review are recommended in the agreement and during the grant monitoring.

   Management recommends that the risk assessment be conducted after the grant is awarded and before grant agreement is executed, and reviewed with the grantee at the mandatory kick-off/orientation meeting. The development and implementation of a risk assessment review and financial reporting system compliance review could also lengthen the time between award and execution of the agreement. These processes would require collaboration with subject matter experts in Risk Management and Finance.

   Staff will continue to review each invoice as it is submitted, in addition to conducting the risk assessment. Management also recommends that the grant agreement include a clause that grantees are still responsible and accountable for the proper use and management of public funds throughout the duration of the grant agreement. This agreement language would help assure that grantees understand and are held accountable for being responsible stewards of public funds, especially if they know staff is not reviewing invoices.

b. Management agrees with requiring financial statements from applicants. Currently, all standard grant applicants are required to submit audited financial statements or Form 990 as part of the standard grant application. This is not required for mini-grants or partnerships. Applicants and grantees have expressed that audited financial statements are costly and not feasible for smaller non-profit organizations. Therefore, Valley Water accepts the Form 990 as an alternative to audited financial statements. The audited financial statements and Form 990 are memorialized in the grantee's project application, which turns into the project file, in the Fluxx grants management system.

Staff will continue to review each invoice as it is submitted, in addition to requiring the audited financial statements. This financial review would be completed during the application process to serve as another due diligence check to ensure public funds are awarded to organizations with financial capacity and sustainability to carry out the requirements of the project. Invoice review levels would be determined during the risk assessment after the funding is approved by the Board.

c. Management agrees with simplifying reporting requirements and recommends using the risk assessment to identify the tiered thresholds, instead of setting a dollar amount. While the dollar amount is identified per project, the collective number of projects within that dollar amount could add up to be a high dollar amount granted with minimal oversight.

Target Implementation: July 2021

Auditor Recommendation:

2. As new grants are awarded, an orientation for new grantees should be mandatory, and Civic Engagement should provide an electronically accessible grantee guide, outlining all requirements for programmatic and financial reporting compliance. This can be as simple as compiling existing documents, developing reporting templates and developing a process map and including instructions on who to call based on the nature of the question.

Management Response: Management agrees with this recommendation.
Management agrees with requiring a mandatory orientation for new grantees. Staff began implementing kick-off/orientation meetings with grantees after agreement execution in early FY21. During the kick-off meeting, staff review and explain all expectations and requirements as specified in the agreement, as well as provide an orientation on the Fluxx grants management system. The agreement templates for standard and mini-grants include the invoicing and reporting templates and staff contact information. Staff will develop process maps and instructions for grantees.

Staff utilize this opportunity to set clear expectations on the reporting dates, which includes reporting even if there are no invoices; invoice documentation requirements; and timeline for reimbursements. Management recommends that this orientation also include a review of the assessment of the grantees' financial management systems and the risk assessment outcomes once those processes and criteria are developed.

Staff will continue to meet with grantees after their agreement is executed, and program staff will remain available and accessible to all grantees throughout the process. Staff will update the agreement template to include the kick-off/orientation meeting as a mandatory activity.

Target Implementation: January 2021

Auditor Recommendation:

3. Best practices suggest utilizing a grant management information system to run regular reports to track timeliness and to conduct other monitoring activities. While many monitoring functionalities for FLUXX remain in progress, we recommend, at a minimum, adding another column to the Grant Tracker spreadsheet to track the 45-calendar day payment window once initial contact has been made with the grantee. These payment cycle time metrics should be tracked and reported internally monthly, and to the Board Audit Committee quarterly.

Management Response: Management agrees with this recommendation.
Management agrees and staff has begun implementing a new column in the grant tracking spreadsheet to track the 45-calendar day payment window once a complete invoice is submitted by the grantee.

Staff began utilizing the Fluxx grants management system in FY20, starting with the grant application cycle, and continues to build out and customize the system functionalities. In FY20, staff began accepting status reports and payment requests on Fluxx. Staff is in the process of migrating active grants data, documentation and files into the Fluxx system to more effectively utilize Fluxx's robust reporting capabilities.

Staff recommends preparing the payment cycle time metrics report monthly to the Chief of External Affairs and Chief Executive Officer and annually to the Safe, Clean Water Independent Monitoring Committee (IMC) as they are the independent oversight committee that reviews all Safe, Clean Water projects. Staff will present the report to the IMC during its annual review. Staff will begin this reporting schedule with the development of the new grants program under Measure S, which will begin in FY22.

In addition, pursuant to Valley Water's practice, staff will provide an update on the audit recommendations to the Board Audit Committee in approximately six months.

Target Implementation: January 2021

Auditor Recommendation:

4. Monitoring should be conducted, either manually or through automated reminder emails in FLUXX, to ensure that a progress report, or another form of communication from a grantee, is submitted quarterly ensure that Valley Water is kept apprised of project status and to ensure that work is aligned with the grant agreement.

Management Response: Management agrees with this recommendation.
Management agrees with this recommendation and staff is currently working on setting up the automatic reminders for grantees to submit their quarterly reports in the Fluxx grants management system to improve efficiency. Fluxx will also send automatic email reminders on upcoming expiration dates for insurance and agreement terms.

Target Implementation: January 2021

Auditor Recommendation:

5. In addition to right sizing invoicing requirements based on the grant's risk level, Valley Water should right-size the level of progress reporting detail required for smaller dollar value standard grants, for example, under $25,000.

Management Response: Management agrees with this recommendation.
Management agrees and staff will develop "right sized" reporting guidelines and criteria along with the development of the new grants program under Measure S, which will begin in FY22.

Currently, progress reporting is based on the scope and deliverables identified by the grantees and outlined in the executed grant agreement. Staff refers to the original grant agreement and ensures that what is in the grant agreement is being reported in the progress report. Staff does not request additional reporting outside of what is listed in the agreement.

Target Implementation: July 2021

<u>Auditor Recommendation</u>:

6. Valley Water should explore where, within existing District policies, it can augment grant requirements for grant agreements and invoicing for certain grantees based on risk: partnerships, repeat grantees, establish grant value thresholds, and determine whether the number of approvals and signatures for payments are appropriate. At a minimum, for smaller, lower risk grants, Valley Water should re-assess its reporting and invoicing requirements based on risk, dollar value, and project complexity.
    a. For example, Valley Water could treat grant agreements up to $25,000 like mini-grants and expedite payment for low-risk grants and low dollar amount invoices from trusted long-term grantees. Valley Water could consider paying unquestioned amounts earlier, and focus more scrutiny on riskier, larger dollar amount invoices from new grantees.
    b. Valley Water could also consider reimbursing expenses when invoiced and then using the closeout process to reconcile remaining amounts below a reasonable threshold. For example, if a grantee bills $10,000 for its performance, and Valley Water questions $500 of that amount, it could consider paying the unquestioned amount first, then resolve the questioned amount by project.
    c. Staff should focus their review on whether grantee costs are reasonable, allocable and allowable in accordance with the project budget and grant agreement guidelines. Spot checks would be performed to ensure calculations are correct and that receipts match the totals. The level of scrutiny applied and depth of review would be based on the grant and grantee risk factors, as determined by management.

Management Response: Management agrees with this recommendation.
Management agrees that assessing the risk for grant projects would increase the agency's due diligence to prevent fraud and waste. An initial risk assessment would also help staff evaluate if any additional special provisions or tailored invoicing requirements and/or review are recommended in the agreement and during the grant monitoring.

Staff recommend that the risk assessment be conducted after the grant is awarded and before the grant agreement is executed, and reviewed with the grantee at the mandatory kick-off/orientation meeting.

The development and implementation of a risk assessment review and financial reporting system compliance review could also lengthen the time between award and execution of the agreement. These processes would require collaboration with subject matter experts in Risk Management and Finance.

The risk assessment would supplement staff's review of each invoice. Management also recommends that the grant agreement include a clause that grantees are still responsible and accountable for the proper use and management of public funds throughout the duration of the grant agreement. This agreement language would help assure that grantees understand and are held accountable for being responsible stewards of public funds, especially if they know staff is not reviewing invoices.

Management recommends considering equity and inclusion in the development of the risk assessment guidelines and criteria. Applying varying standards for returning grantees would result in inequitable treatment and would disproportionately provide privilege to grantees who are already familiar with the grants program. The grants program continues to improve and be updated, so meeting the prior requirements may or may not mean that a returning grantee meets and understands the current program requirements. Additionally, varying guidelines and criteria per grantee agency could deter new agencies from applying if they feel that returning grantees have an advantage.

a. While management agrees with the concept of streamlining the invoicing process, management feels that this approach may also expose Valley Water to potential complaints of disparate and inequitable treatment.

Management recommends the following alternative as a consideration to avoid being vulnerable to such complaints. Management recommends developing and implementing a spot check process to review and/or audit grantees using an outside consultant, if the Board adopts this recommendation.

While some grantee agencies are returning applicants and grantees, those agencies may have new staff managing the projects. Therefore, even though the grantee agency is not new, the agency staff changes does not guarantee that the projects are carried forward consistently.

Staff agrees with simplifying reporting requirements and recommends using the risk assessment to identify the tiered thresholds, instead of setting a dollar amount. While the dollar amount is identified per project, the collective number of projects within that dollar amount may add up to be a high dollar amount granted with minimal oversight.

b. Management agrees with this recommendation and will formalize this process. Staff currently implements this practice informally, depending on the type of outstanding items are included in the invoice. Staff will develop “right sized” invoicing guidelines and criteria along with the development of the new grants program under Measure S, which will begin in FY22.

c. Management agrees, and staff currently focuses their review on grantee costs that are not reasonable, allocable and allowable in accordance with the project budget and grant agreement guidelines, such as items that were not included in the budget; costs that are not related to any identifiable/reportable work in the grant scope; costs that have no supporting documentation; overspending on a specific task without prior approval; and submitting reimbursement requests for activities that have already been paid out. These improper payment requests are sometimes due simply to grantee staff turnover, among other factors.

Target Implementation: July 2021

Auditor Recommendation:

7. Should Valley Water decide to continue to require the same information for progress and invoice submission, they should:
    a. Confirm the integrity of grantee financial management system data used for review before award.
    b. Include language in the grant agreement such as, “Failure to submit an accurate financial invoice in a timely manner may result in payments being withheld, delayed, or denied, and will result in payment delays”.

Management Response: Management agrees with this recommendation.
Management will develop “right sized” invoicing guidelines and criteria along with the development of the new grants program under Measure S, which will begin in FY22. The items recommended below will be analyzed in the development of the new guidelines.

a. Management agrees that confirming the integrity of the grantee financial management system data before award is warranted. One caveat is that these additional steps of both developing and implementing a risk assessment and financial reporting system compliance review could lengthen the time on the front end of the process, between the award period and the final execution of the agreement. The development and implementation of these processes would require collaboration with subject matter experts in Risk Management and Finance.

b. Management agrees with this recommendation to clearly state that an accurate financial invoice is required to complete the payment request. Staff also recommends including language in the template grant agreement for grantees to consent to still being responsible and accountable for the proper use and management of public funds throughout the duration of the grant agreement. This agreement language would help assure that grantees follow through with being responsible stewards of public funds, especially if they know staff is not reviewing invoices. These expectations would be reviewed with the grantee during the kick-off/orientation meeting after the agreement is executed.

Target Implementation: July 2021

Auditor Recommendation:

8. Valley Water should solicit grantee and partnership feedback regularly, conducted by an independent third party, as best practices suggest. In addition to assessing satisfaction with the program, inquiries should be made to determine the extent to which partial funding has impacted the grantee and the project.

Management Response: Management agrees with this recommendation.
Management agrees with this recommendation to solicit grantee feedback using an independent third party. The solicitation of grantee feedback will be timed so that it can be incorporated into the development of the new grants program under Measure S, which will begin in FY22.

Target Implementation: January/February 2021

Auditor Recommendation:

9. Valley Water should determine a reasonable goal and timeline for final closeout and final payment, including the release of retention. The established dates and timelines should be monitored in the Grant Tracker and when possible, included in any automated flags and alerts that FLUXX can provide.

Management Response: Management agrees with this recommendation.
Management agrees and staff will develop closeout timeframes and track them in the grants tracking sheet. The final invoice is held to the same tracking and reporting standards as all other invoices. The retention is only held from the final invoice when documentation of deliverables is still being submitted by the grantee. Once submitted, then the retention is released. The closeout timeframes will be established along with the development of the new grants program under Measure S, which will begin in FY22.

Target Implementation: July 2021

Auditor Recommendation:

10. Valley Water should prioritize developing a grants management operations manual containing all relevant policies and procedures.

Management Response: Management agrees with this recommendation.
Management agrees with this recommendation and believes it will help streamline the overall grants process and enhance grantee understanding of and compliance with all procedures. A grants management operations manual will be developed prior to the implementation of the new grants program under Measure S, which will begin in FY22.

Target Implementation: March 2021

<u>Auditor Recommendation</u>:

11. To ensure that staff understand and carry out their internal control responsibilities, and to promote accountability, Valley Water should consider reconfiguring job assignments to enhance the grants management function once the backlog has been addressed and policies and procedures are developed:
    a. Option 1: Assign Staff by Priority Area and Specific Grants. This would allow staff to become familiar with the priority area, programs and grantees, as well as create a balanced number of programs a grant manager is expected to manage. This would benefit the grantee with the assignment of a single point of contact for questions at any phase of the project. This would allow for important information concerning a grantee, and project details learned in the application stage to transfer to active project management and throughout the life of the project. The downside to this option is that grant managers would still be required to perform duties that they might not have the technical capacity, knowledge or authorization to properly perform, such as a subject expert having responsibility for invoice processing, or a finance and accounting expert having responsibility for program oversight.
    b. Option 2: Split Application and Active Grant Management Duties. Civic Engagement may consider dividing the work performed during the application cycle and work performed during the active project management cycle into two separate positions or teams. From an efficiency perspective, this delineation could improve overall workflow by decreasing bottlenecks that occur during certain times of the year (e.g., the allocation/application cycle) and ensure that a sufficient number of staff remains focused on active grant management, such as invoice review processing and monitoring. Additionally, with such a delineation of duties, one individual could be assigned to or specialize in contracts and billings for all grants.
    c. Once job assignments are determined, the Supervising Program Administrator and Unit Manager should develop a training manual and schedule that clearly identifies the type of training needed to effectively perform specified job duties to address any gaps in staff knowledge, skills and abilities.
    d. As the Safe, Clean Water grants program grows, and the grants management function within Civic Engagement expands, develop grants management position descriptions.

Management Response: Management agrees with this recommendation.
Management agrees with this recommendation. With the development of the new grants program under Measure S, staff and the Board have an opportunity to update the current grants program and begin implementing new criteria, policies and procedures. Once the new program is developed, job assignments may be restructured to best meet the needs of the program as the auditor has suggested here.

a. With the development of the new grants program under Measure S, the grants will not have defined priority areas to accommodate multi-benefit projects and provide flexibility for new and innovative projects that still achieve Valley Water's mission. Therefore, Option 1 may be more challenging to implement due to the types of grants being more integrated and some grant types receiving more interest than others which would leave the workload unbalanced. Management recommends pursuing Option 2, as described below, to meet the needs of the new grants program.

b. Management agrees with this recommendation. As the grants staff continue to clean-up the inherited backlog, the team is adopting this model to assign roles. The Program Administrator (0.6 FTE) is managing the new grant cycle process, including applications, and partnerships, and continues to authorize invoice payment. The Senior Management Analyst (1.0 FTE) manages the day-to-day support for all standard grants. The Management Analyst I (0.4 FTE) manages all aspects of the mini-grants, including application, award and monitoring. The grants team meets weekly to ensure sufficient cross-training on all grants management tasks and active items to ensure cohesive customer service to all grantees.

Management agrees with the audit report that “to maintain current service levels and manage more grants, adequate staffing – and/or a clearer staff focus – will be critical.” As the grant portfolio increases every year, which results in a continually increasing workload, management agrees with the audit report that “Valley Water should ensure the expected workload matches its capacity.”

c. Management agrees with this recommendation and believes it will help ensure the grants program continues to be aligned with industry best practices as they evolve.

d. Management agrees with this recommendation to provide clearly defined roles and structure to the grants program. The development and implementation of new grants management position descriptions would require collaboration with subject matter experts in Human Resources and consultation with the unions. While the grants team currently does not have the authority to develop and adopt these position descriptions, this idea will be further explored with the Chief of External Affairs and Human Resources department. Establishing processes and procedures in an operations manual will assist with the development of the position descriptions.

Target Implementation: July 2021

Marta Lugo, Assistant Officer
Office of External Affairs

cc:
K. Yasukawa, A. Fonseca, P. Lam, S. Tran, R. Gibson, D. Taylor, A. Blackmon

Attachment B – Anonymized Survey Responses

We sent a survey to 63 grantees in September and October, 2020. Anonymized responses of the 29 grantees who responded to the survey follow. Numbered responses match for each of two questions, so for example, answer 1 in both lists is from the same grantee responding to the survey.

Anonymized Survey Results:

Answers to: What are the Strengths of Valley Water's grants process, e.g. what is working well?

1. The application process is clear. It seems as though recently, the turnover has been limited which made the process clearer and has improved response time. I also appreciated how Valley Water set up phone conversations to address questions and concerns, rather than sending multiple emails back and forth.
2. Fluxx management system is well organized and easy to understand, staff are knowledgeable
3. Staff is available to answer questions and provide technical support.
4. VW staff has been very responsive in helpful in guiding us through the grants process, as well as being flexible and understanding of our institutional processes and special circumstances.
5. The staff are very friendly and professional during communications. They work with us closely to resolve any issues
6. Program Managers are typically well informed of the grant rules. Program Managers are typically very timely and responsive.
7. Personnel are extremely professional, punctual and efficient when available.
8. They fund environmental programs.
9. (Respondent skipped)
10. One of the four contact people assigned to the process was very helpful, providing feedback and guidance
11. Being locally based, applicants have a good chance of success (as opposed to competing for state-wide grants). This program provides funding that has truly amplified our organization's impact in the region. Also, although I know the program has received feedback that the application process is onerous, I would actually say that the application itself is on par and in some ways easier than other programs we have applied to.
12. Information
13. Notification of when grants are open Notification of when my application is incomplete or that they lost some information
14. Their trash efforts along the Creeks
15. Process-driven with explanations on decision - appreciate the thoroughness Grants important issues that don't see a lot of funding opportunities Grants team is very helpful and approachable
16. good intentions to replace lawn with water saving plants
17. there was good coordination with various departments within the Agency
18. Multi-year grants and the ability to plan on the next round of grant funding are strengths of the process. At a high level, the biggest strength of this program is that it encourages cities to invest in watershed restoration in order to unlock the funding through the match requirement. Once this starts, the city usually sees the benefit and continues beyond the grant period. If we want to continue to restore watershed habitat and maintain these habitats for fire, we need to keep this program going with the promised level of investment. The impact for the amount of investment is a great achievement for Valley Water, and they could highlight it more.
19. Good client service from the Valley Water staff.
20. Information session and application process was informative and easy.
21. Flexibility/ nimbleness -- relatively efficient application and amendment processes.

22. Once the contract was signed in April 2020, the process for submission and approval of invoices was set up well. For the last 3 months it has been working well and our invoices are being paid in a timely manner.
23. Personalized feedback and responsiveness from staff that guided me through the application and fulfillment process.
24. Valley Water is very easy to contact and get feedback.
25. The new team handling the process has helped things go smoother
26. Instructions are generally very clear, the staff is professional & personable, and there's a lot of support during the application process.
27. The one-to-one interaction we were able to have with the grants officer to answer questions and field ideas and updates along the way.
28. Grants program staff are extremely collaborative and willing to work through issues that arise with existing grants. We have new staff, so are not experienced with prior grant application process details with Valley Water. The move toward standardized forms and practices across grant programs at Valley Water is very positive. The opportunity to participate in workshops ahead of grant applications is very helpful. - The availability of prior grant award information on the website is helpful. Staff continuity and team capacity is very helpful and has been a positive for recent work with Valley Water.
29. The online application process makes it a little easier to keep track of everything and reduces the need for paper, which is great.

Answers to: What are some of the weaknesses of Valley Water's grant process, e.g. what could be improved in the grants management process?

1. Admittedly, the repeated turnover mid-grant term was quite challenging. There was different information given to our organization at different times, which caused a lot of back and forth on both ends. Additionally, we had challenges receiving payments punctually which can be difficult for a non-profit organization. There was a lot of confusion with deadlines. We had deadlines outlined by the original grant representative, which conflicted with the contract that stated we had three years. This was eventually cleared up with the new grant team, which we appreciated! I understand that Valley Water needs detailed information about money spent. That said, it would be helpful to have the grant reimbursement request process somehow more streamlined, consistent, and concise.
2. Process to get final grant agreements in place is very cumbersome and lengthy, due to governance requirements
3. Communication about timeline for decisions.
4. None that I can think of. This is our first grant award from VW, so this has been a new learning process for us.
5. Communications greatly delayed. One of our grants was submitted in 2019, but still no result provided. Often it takes weeks to communicate with staff and 4-6+months for payment on invoices
6. The execution of agreements can take several months and sometimes over a year.
7. Delays, below average communication and high rate of staff turnover. From our experience it has been difficult to get a hold of grant managers and sometimes other personnel through email or phone, and when we do come in contact, it is often weeks later. Due to turn over of grant managers, some agreements have not held over to new staff, or have to be renegotiated or re-explained. Finally, the grants system doesn't seem to be being used to its full potential, at least for submitting reports (which we still are doing by email).
8. The tracking is disproportionate to the amount of money distributed an was not well-explained up front. Our agency manages grants from the state, several counties, the air district, DOE, NHLBI, and foundations, and this is the most tedious of them all. We have decided not to apply for another grant from Valley.
9. Four different Valley Water contact people were involved over a 3year period, follow-up contact was not very good, upon completion it took nearly three months before I heard back from someone from Valley Water and the issue is still not resolved.

10. Constant staff turnover Overly administrative Only ever received partial funding. Difficult to find funding to complete projects.
11. The process seems to be extremely rigid and bureaucratic. Staff are always very friendly and easy to talk to, but they don't seem to be empowered to make decisions. Processing of contracts and invoices takes forever; is it because of routing to various departments? Could this be streamlined? Also, the program could be more forgiving of applications that miss a technicality - we know of at least one instance where an application was not considered because it was missing some piece (I can't remember the details). In a program where you are not being overwhelmed by applications, it seems like it would be possible to be more flexible in these situations. We recently submitted a proposal to OSA and forgot an attachment -- the grant program staff caught this oversight and alerted us to it! Finally, the mini-grants were a great idea and did at first provide quick funding for small projects and accessible to a wider audience. Recently it seems this has become bogged down as well with things like insurance requirements and just an inordinate amount of review. These small projects will often move on without quicker decisions.
12. None
13. High staff turnover (4 grant contacts over 1-year grant) Grant system reflects incomplete information on my grant that was completed. Communications is through many people or non-existent Slow payment Slow to reply to application status Non-friendly format for application and for report submission in Flux
14. It is painful to work thru Staff, slow turnaround on invoices up to 15 months, permits required to execute grants sourced thru District take 7-24 months to receive. Some of it may track back to turnover in these Depts but as a grantee this shouldn't be such a problem. our organization will not seek additional grants via Valley Water.
15. Process to formalize grant agreements and process payments is way too long - to the point where it impacts organization finances long-term planning. The grant reimbursement requirements are unnecessarily specific and detailed, especially given the fund amounts. For long term partnerships - grant needs to consider general operating support for nonprofits with mission alignment
16. When I applied for the grant, I thought it would be simple and easy. I started out fine, talked to interns, to contractor on list, and though I was doing everything right. Then communication stopped from Valley Water interns helping with grant program.
17. during my grant contract, there were several staff changes acting as the grant manager and changes to reporting formats. That was a bit time consuming
18. The process is overly burdensome both on the grant application side but mainly on the payment side. Payments are often delayed for over 6 months, and Valley Water does not live up to its own contractual commitments to point out any issues with the invoices within a few weeks of receiving the invoice. Furthermore, there is so much staff time wasted on very small costs. We also get paid through a PO process with other departments, and we can get paid within two weeks of submitting the invoices. The amounts are similar and the PO process does not require nearly the amount of proof that the grants process requires. It's like the grants program assumes non-profits are out to cheat them whereas the PO process assumes that private industry wouldn't do such a thing. On the grant application side of things, the mini grant idea has really been lost. Our first mini grant (~4 years ago) was approved within a month and paid out without a lot of documentation. Our last mini grant took over 6 months to get reimbursed, and new requirements were added after the project was completed. Our current mini grant application has been sitting in review mode for over a year. I can't help but think that the amount of staff time to review these $5K grants exceed the cost of the grant.
19. None that I observed.
20. Once the grant was awarded, it took a very long time to draw up and finalize the get the agreement. Since we applied to a mini-grant, the awarded funds just narrowly exceeded the cost of administering the grant on our side. Part of the problem was that we were first time applicants, so I had a lot to learn about the process of grant receipt and administration with Valley Water. However, for small grants in particular, I think it would be appropriate to streamline the process of awarding grant funds in order to increase the impact of grant dollars.

21. We have experienced very slow processing of grant invoices -- this imposed a significant financial hardship on our organization -- even though it is a relatively large national one.
22. It took 18 months to sign the contract after Valley Water was agreed in principle to the grant. Valley Water's in principle agreement came in October 2018 after we had confirmation on matching grants from other cities. Delays like this can impact the very viability of a project.
23. It could be helpful to have specific examples of ways to accomplish goals.
24. Getting a contract processed takes a long time.
25. They had a lot of turn over and grant invoices have gone unpaid for more than a year. As a nonprofit who runs on a small budget that puts us in a really difficult spot. The grants also require a lot of specific fulfillment details that can be quite involved for the size of the grant. If the grants were larger amounts the grant requirements would be relative but sometimes the grant is small and the amount of work we have spent trying to fulfill the requirements and get the invoices paid has surpassed the value of the grant. We have limited resources and capacity so having to spend a lot of time following up on unpaid grants is taxing for us.
26. There is a very long lag time between submitting reports and hearing back about additional info that needs to be submitted; reimbursements took months longer than expected.
27. We felt that there was quite a bit of documentation and reporting required for the mini grants. This can place a burden on smaller organizations who do not have dedicated development staff.
28. Legacy issues have been a challenge for budgets and forms for existing Valley Water grants. Length of time for processing grant agreements to be executed has been a challenge.
    a. Length of time for processing grant reimbursement requests of more than 6 months has been a significant issue.
    b. Staff changes and/or capacity for work load may be impacting Valley Water effectiveness in grant management. This seems to be an issue Valley Water is actively trying to address.
    c. When issues arise for natural resources (heavy rain years, drought, plant survival outcomes), there are needs for changes to original budgets that may be made more difficult with staff turn-over.
    d. Staff changes resulted in delays and poor communication for some existing grants, this again may be a legacy issue.
    e. 30-day review is not what our organization has seen. Delays cause difficulty for project team members involvement in the field and time to discussion for any questions months later on reimbursements.
29. We totally understand current circumstances but even before, it would take a long time to get invoices paid from the time we submit all our paperwork and reports. Granted, we haven't had to submit anything in FLUXX yet, but that will hopefully help with keeping track of the status of reports and payments.

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Santa Clara Valley Water District

REQUEST TO SPEAK

FC 244 (06-13-11)

Meeting Date: 1/13/2021

- Complete this form and return to Clerk.
- Comments may be limited to a specified time allotment.
- If you elect to distribute informational items to the Board/Committee, the Clerk is required to obtain a copy and keep it as part of the public record. Fifteen (15) copies of informational handout items should be supplied to Clerk for distribution to the Board/Committee, executive staff, and for the public record and public information copy.

Personal Information: Except for your name and city of residence, the information requested below is voluntary and used by staff to contact you if necessary. When you request to speak before the legislative body, your name and city of residence are included in the Santa Clara Valley Water District's official minutes.

Name: Trish Mulvey	Address: 527 Rhodes Drive, Palo Alto, CA 94303
Phone: (650) 326-0252	
Email: mulvey@ix.netcom.com	
Organization/Business Name (if applicable):	
☒ Item **LISTED** on the Agenda **(Item No. 4.4)**	☐ Item **NOT LISTED** on the Agenda **(Public Comment)**
Subject: Receive and Discuss the Safe Clean Water Program Grant Management Audit	**Subject**:

Note: The law does not permit Board/Committee action on or extended discussion of any item not on the agenda, except under special circumstances. If Board/Committee action is requested, the matter can be placed on a future agenda.

☒ I do not wish to address the Board/Committee; however, I would like to have the following question(s) answered:

How can these questions and concerns posed to the Valley Water Board by a colleague regarding the next Safe Clean Water Grants Program be addressed before the first Measure S grant cycle? What are the best practices for grants to individuals? Can a management response be included when this audit is presented to the Board?

"Grants for individuals will get really messy and will create a large load on the grant administration. There could be thousands of applications. Please limit the language for grants for individuals to state that there needs to be a public benefit or remove the word "individual." The way this is written the public will expect opportunity for grants for all these topics. Would this really fund someone's private well? I see several concerns with flood protection grants. How to differentiate between debris and habitat? Who [is] to decide if the debris is a flood risk? Who is liable should an area flood where VW denied grant? Should the public pay for lack of maintenance or illegal work by private residents? My neighbor dumped loads of brush cuttings in the creek, should the public pay to remove?"

☐ I do not wish to address the Board/Committee; however, I would like to have the following statement(s) read into the record:

Notice to Lobbyist: In compliance with the District's Lobbyist Ordinance (Ord. 10-01) you ***must*** identify yourself as a lobbyist and the client(s) or business or organization on whose behalf your are representing.

I am a ☐ Registered Lobbyist and I represent: ______

I am an ☐ Unregistered Lobbyist and I represent: ______

Information about lobbying the Santa Clara Valley Water District may be found on the Internet by accessing the Board of Directors' website on the District's home page at http://www.valleywater.org.

TIPS FOR ADDRESSING THE BOARD OR COMMITTEE

- Approach the public podium as soon as your name is called.
- Speak directly into the microphone.
- Clearly state your name for the record.
- If you are a lobbyist, identify yourself and your clients.
- You are limited to the time allotted. Please watch the speaker clock on the podium.
- If you wish to speak to the Board/Committee on an item that is ***not on the agenda***, there will be an opportunity under the section "Time Open for Public Comment on any item not on the Agenda." Complete a *Request to Speak* form and provide it to the Clerk. The Board/Committee Chair will call your name and indicate the allotted speaking time.
- If you wish to speak to the Board/Committee on an item on that is ***on the agenda***, complete a *Request to Speak* form and provide it to the Clerk. When the specific item is considered, the Board/Committee Chair will call your name and indicate the allotted speaking time.

Santa Clara Valley Water District

File No.: 20-1220

Agenda Date: 1/13/2021
Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Recommended Updates to Annual Audit Work Plan.

RECOMMENDATION:
Discuss the Annual Audit Work Plan and approve any updates to recommend to the Board, if necessary.

SUMMARY:
On January 14, 2020, the Board approved updates to the Annual Audit Work Plan to include the FY 2020-2021 Property Management Audit, to audit whether Valley Water is implementing the encroachment program consistent with the Board's guiding principles, and to include three desk reviews to be performed by TAP International, Inc. (TAP): key controls and financial management regarding the extension of grants; risk management review of Valley Water hiring practices; and review of the Board Agenda preparation process.

On July 21, 2020, the Board approved an update to the Annual Audit Work Plan to include the FY 2020-2021 Grants Management Audit, for a performance audit of the efficiency and effectiveness of grant management and administration.

On October 13, 2020, the Board approved the following updates to the Annual Audit Work Plan as recommended by the Board Audit Committee (BAC):

1. Approve the Permitting Best Practices Audit as the next audit to be undertaken by TAP;
2. Approve modifying the Annual Audit Work Plan such that the two community engagement audits (ID 21 and ID 30) are combined into one audit (ID 21); and
3. Approve modifying the Annual Audit Work Plan to note that the SCADA audit (ID 2) will be deferred and reconsidered during the next Risk Assessment given the master planning efforts underway for Valley Water's SCADA systems.

As briefly discussed during the December 16, 2020 Committee meeting, the Board Chairperson is interested in knowing how well the lease agreement option that was put in place for homeowners encroaching on Valley Water property near Saratoga Creek was working and how other cities have dealt with homeowners encroaching on public parks. To address Board Chairperson interests, TAP has developed the following options for the BAC to consider related to the FY 2020-2021 Property

Management Audit:

1. Initiate the Property Management audit which was designed to evaluate if the program's implementation was consistent with the guiding principles established by the Board, but add to the audit objectives to assess effectiveness of the lease agreement solution implemented for Saratoga Creek encroachment issues;

2. Implement a desk review that focuses on whether the lease agreement solution is working as intended;

3. Add a desk review to the audit work plan to be completed at a later date; or

4. Elect not to evaluate the issue.

The BAC is requested to identify any potential changes to the Annual Audit Work Plan (Attachment 1) to recommend to the Board for approval.

ATTACHMENTS:
Attachment 1: Annual Audit Work Plan.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

2019

Santa Clara Valley Water District Annual Audit Work Plan, FY 18/19 to FY 20/21.

DRAFT AUDIT WORK PLAN – OCTOBER 13, 2020

SANTA CLARA VALLEY WATER DISTRICT BOARD OF DIRECTORS DRAFT ANNUAL WORK PLAN, FY 18/19 TO FY 20/21

OVERVIEW

The selection of audits is an important responsibility of the Audit Committee. The formulation of this audit work began in 2018 when the Valley Water's Board of Director provided input and approved the enterprise risk assessment that was administered across agency operations. The audit work plan is a culmination of a comprehensive effort to consider input on auditable areas from Valley Water employees, mid-level management, executive management, and Board Directors.

The proposed audit work plan considers factors that, if addressed, will provide opportunities to mitigate those risks and improve operations. These factors include:

- **Operational** – Are Valley Water programs/activities performed and services delivered in the most efficient, effective, and economical manner possible, and do they represent sound business decisions, including appropriate responses to changes in the business environment?
- **Financial** – Is there an opportunity to improve how Valley Water manages, invests, spends, and accounts for its financial resources?
- **Regulatory** – Do Valley Water programs and activities comply with applicable laws and regulations?
- **Health and Safety** – Are Valley Water services delivered in a manner that protects our residents and employees from unnecessary exposure to environmental factors?
- **Information Security** – Are Valley Water's information systems and networks protected against unauthorized access, use, disclosure, disruption, modification, inspection, recording, or destruction?

In addition, the proposed audit work plan considers several other factors in the selection of audits.

- **Relevance** – Does the audit have the potential to affect Board decision-making or impact Valley Water customers and residents?
- **Best Practices** – Does the audit provide the opportunity to compare current performance to best practices?
- **Return on Investment** – Does the audit have the potential for cost savings, cost avoidance, or revenue generation?
- **Improvement** – Does the audit have the potential to result in meaningful improvement in how Valley Water does its business?
- **Risk** - The audit work plan also considers risks related to major functions, as identified through a 2017 enterprise risk assessment conducted by TAP International.
- **Audit Frequency** – Individual Divisions at Valley Water should not be subject to more than two audits per year.

AUDIT WORK PLAN, FY 18/19 TO FY 20/21

This proposed audit work plan is divided into section. Section A describes ongoing non-audit (e.g. advisory) responsibilities of the Independent auditor and well as other quality assurance activities planned by executive management. Section B describes the audits planned for implementation by the Independent Auditor and other audits planned by Valley Water's executive management.

SECTION A

NON-AUDIT SERVICES AND SPECIAL PROJECTS

The following table lists non-audit services and special projects for the FY 2019-20 audit work plan:

Project	Scope	Planned Hours
Board of Director/Audit Committee Requests for Information	**Ongoing.** Should the Board of Directors request information on activities implemented by other public agencies or on other matters of interests applicable to enhancing the efficiency and effectiveness of operations, the independent auditor will collect and summarize information.	80
Audit Training	**Annual**. The Board Audit Committee Charter describes a requirement to provide audit training to BAC committee members at least annually.	2
Support services	**Ongoing.** Provide support services to Board Directors and Valley Water staff applicable to specific initiatives or planning projects to prevent potential service delivery risks, such as the planning of a new ERP system.	40
QEMS – Independent Auditor	**Ongoing.** Provide services to ensure proper oversight and accountability.	As needed
Management reviews	**Ongoing.** Valley Water 's CEO as needed will initiate internal quality assurance reviews of business practices and operations. These reviews are to be shared with the audit committee.	As needed

Section B: Audit Services

Audit Work Plan – Independent Auditor

FY 2018-19

The following audits have been approved in FY 2018-19 by the Board of Directors and will continue into the FY 2019-20 audit work plan.

ID	Audit	Audit Objectives	Planned Hours
1	District Counsel Office Review	Are there structural, organizational, and process improvement opportunities for the District Counsel's Office?	664
5	Contract Change Order Processing	What types of business process improvements are necessary for contract change order processing?	429
6	Real Estate Review	How can the Real Estate improve its financial and service delivery performance?	574
Total	3 audits		1,667

FY 2019-20

The following audits have been selected for approval for the FY 2019-20 audit work plan.

ID	Audit Name	Audit Objectives	Planned Hours	Factors Considered
	Ad-hoc Board Audits	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	Sub Total		**620-800**	
13	Construction project management	What areas of Valley Water's capital project budgeting practices can benefit from adopting best practices?	314-371	Financial Improvement Risk Best practices
2	SCADA audit*	Does Valley Water's Supervisory Control and Data Acquisition (SCADA) systems meet established SCADA security frameworks?	714-857	Information Security Relevance Improvement Risk
7	Permitting best practices	How does Valley Water's permitting process compare with other agencies? Can alternative permit processing activities benefit Valley Water?	171-229	Operational Best practices Improvement

4	Risk Management	Can risk management business processes be implemented more effectively? (i.e. contract claims, workers compensation, small claims).	143-260	Relevance Financial Operational Best practices
3	Billing and Collections audit	Are there opportunities to enhance Valley Water's billing and collection processes?	343-429	Relevance Financial Regulatory Improvement Risk Return on Investment
11	Accountability audit	Are there opportunities to enhance safe clean water audits?	115-171	Health and Safety Relevance Improvement
Sub Total	**5**		**1,800-2,317**	

*The SCADA audit (ID 2) will be deferred and reconsidered during the next Risk Assessment given the master planning efforts underway for Valley Water's SCADA systems.

FY 2020-21

The following audits have been selected for approval for the FY 2020-21 audit work plan.

ID	Audit Name	Audit Objectives	Planned Hours	Factors Considered
	Ad-hoc Board Audits**	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	Subtotal		**620-800**	
	<u>Grants Management</u>	<u>Performance audit of the efficiency and effectiveness of grant management and administration</u>	<u>Outsourced-TBD</u>	<u>Financial improvement</u> <u>Operational</u> <u>Best practices</u>
21	Community engagement	Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities? What are the best practices in planning and facilitating community engagement?	417-543	Financial Improvement Operational Best practices

	Property Management	Is Valley Water implementing its encroachment licensing program consistent with the Board's guiding principles?	400	Operational
20	Homelessness analysis	How can the Valley Water enhance its homelessness encampment clean-up activities that protect health and safety?	290-371	Health and Safety Relevance Financial Operational
8	Classified information***	To what extent does the Valley Water's Counsel's office appropriately classify confidential information?	143-200	Relevance Operational
26	Local workforce hiring	What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?	200-229	Operational
27	Equipment maintenance	Is Valley Water adequately meeting the needs of equipment maintenance?	143-229	Health and safety Operational Financial
33	Water Fix	What potential financial risks could occur on the California Water Fix project?	160-286	Financial Relevance
Sub Total	**8**		**1,125 -1,661**	

**Ad-Hoc Audits to be added to the Board performance plan upon identification and approval of reviews.

***This issue was included in the project plan for the performance audit of the District Counsel's office.

AUDIT WORK PLAN – VALLEY WATER RESPONSIBILITY

FY 18/19 THRU FY 19-20

QEMS

QUALITY ENVIRONMENTAL MANGEMENT SYSTEM INTERNAL AUDITS	
AUDIT DESCRIPTION AND UNIT #	
Treated Water O&M DOO: TW Survey (customer service w/ WS DOO)	*#515*
Laboratory Services Unit	#535
North Water Treatment Operations Unit	#565
South Water Treatment Operations Unit	#566
Treatment Plant Maintenance Unit (North & South WTP)	#555
Water Quality Unit	#525
Water Utility Capital Division	
Capital Program Planning and Analysis Unit	#335
Construction Services Unit	#351
Pipelines Project Delivery Unit	#385
East Side Project Delivery Unit	#375
West Side Project Delivery Unit	#376
Dam Safety & Capital Delivery Division	
CADD Services Unit	#366
Dam Safety Program & Project Delivery Unit	#595
Design and Construction Unit #3	#333
Pacheco Project Delivery Unit	#377
Water Supply Division DOO: TW Survey (customer service w/ TW O&M DOO)	*#415*
Wells & Water Measurement Unit	#475
Watersheds Design and Construction Division	
Design and Construction Unit #1	#331
Design and Construction Unit #2	#332
Design and Construction Unit #4	#334
Design and Construction Unit #5	#336
Land Surveying and Mapping Unit	#367
Real Estate Services Unit	#369
Associated Business Support Areas	
Facilities Management Unit	#887
Infrastructure Services Unit/IT	#735
Equipment Management Unit	#885
Business Support & Warehouse Unit	#775
Purchasing & Consultant Contracts Services Unit	#820

Emergency Services & Security	#219
Environmental, Health & Safety Unit	#916
Workforce Development (Training)	*#915*
Core ISO Procedures: Continual Improvement Unit	*#116*
Office of Communications (Customer Service)	*#172*
Office of the Clerk of the Board (Customer Service)	*#604*

COMPLIANCE AND FINANCIAL AUDITS

FINANCIAL AUDITS
Financial Audits
Treasurer's Report
Appropriation's Limit
Compensation and Benefit Compliance (odd years)
Travel Expenses Reimbursement (even years)
Single Audit (if applicable)
WUE Fund Audit

Valley Water

File No.: 20-1219

Agenda Date: 1/13/2021
Item No.: 4.6.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Review and Approve the Updated 2021 Board Audit Committee Work Plan.

RECOMMENDATION:

A. Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan; and
B. Approve the updated 2021 BAC Work Plan.

SUMMARY:
Under direction of the Clerk, Work Plans are used by all Board Committees to increase Committee efficiency, provide increased public notice of intended Committee discussions, and enable improved follow-up by staff. Work Plans are dynamic documents managed by Committee Chairs and are subject to change. Committee Work Plans also serve as Annual Committee Accomplishments Reports.

The following updates were applied to the Work Plan as directed by the Board Audit Committee at the December 16, 2020 meeting:

(1) the discussion of Risk Management Organization (Line Item 14) was added to the January 13, 2021, Committee meeting;
(2) the discussion of Valley Water Policies Related to Financial Auditor Responsibility (Line Item 15) was added to the January 13, 2021, Committee meeting; and
(3) the discussion of the Navigant Consultant Contracts Audit Update (Line Item 19) was moved to the February 17, 2021, Committee meeting.

Attachment 1 is the updated 2021 Board Audit Committee Work Plan. Upon review, the Committee may approve the updated 2021 Board Audit Committee Work Plan and/or make changes, as determined by the Committee.

ATTACHMENTS:
Attachment 1: Updated 2021 BAC Work Plan

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

BOARD AUDIT COMMITTEE 2021 WORKPLAN
January 1, 2021 to December 31, 2021

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
	Board Audit Committee Meeting Dates													
	Number of Agenda Items per Meeting Date	12	6	3	2	3	2	4	3	2	3	4	3	Note: For informational purposes only.
	Meeting Dates	•	•	•	•	•	•	•	•	•	•	•	•	Note: The BAC approved a regular meeting schedule for 2021, to meet monthly, on the third Wednesdays at 2:00 p.m.
	Board Audit Committee Management													
1	Election of 2021 BAC Chair and Vice Chair	•												Recommendation: Nominate and elect the 2021 Board Audit Committee Chair and Vice Chair.
2	Board Audit Committee Audit Charter													Recommendation: Propose modifications to the Board Audit Committee Audit Charter to be presented to the full Board.
3	Review and Update 2021 BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	Recommendation: A. Review and Discuss topics of interest raised at prior Board Audit Committee Meetings and make any necessary adjustments to the Board Audit Committee Work Plan; and B. Approve the updated 2021 Board Audit Committee Work Plan.
4	Discuss Scope of Annual Audit Training from Board Independent Auditor	•												Recommendation: Discuss scope of Annual Audit Training from Board Independent Auditor.
5	Receive Annual Audit Training from Board Independent Auditor		•											Note: Training will be given to the full Board. Management to identify staff to attend the training. Recommendation: Receive Annual Audit Training from Board Independent Auditor.
6	Conduct Annual Self-Evaluation	•												Recommendation: A. Conduct Annual Self-Evaluation; and B. Prepare Formal Report to provide to the full Board.
7	Receive and Discuss Board Auditor Activity Report to Evaluate Board Auditor Performance	•												Recommendation: Receive and discuss Board Auditor Activity Report from TAP International, Inc. to evaluate Board Auditor Performance.
8	Discuss Extension or Termination of Board Independent Auditor Contract for Board Independent Auditing Services Prior to Expiration of the Agreement Effective June 30, 2021.		•											Recommendation: A. Discuss option to extend Board Independent Auditor Contract with TAP International, Inc. for Board Independent Auditing Services currently scheduled to expire effective June 30, 2021; and B. Approve recommendation to the full Board to: 1. Allow the expiration of the Board Independent Auditor Contract with TAP International; or 2. Exercise option to extend Board Independent Auditor Contract with TAP International, Inc.
	Board Audit Committee Special Requests													
9	External Financial Auditor Meeting with Individual Board members													Note: Schedule as needed.
10	Provide status report to full Board quarterly													Note: Report to be provided to Board in non-agenda the month after each BAC meeting.

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed.

BOARD AUDIT COMMITTEE 2021 WORKPLAN
January 1, 2021 to December 31, 2021

#	*ACTIVITY/SUBJECT*	Q1			Q2			Q3			Q4			*NOTES/RECOMMENDATIONS*
		13-Jan	*17-Feb*	*17-Mar*	*21-Apr*	*19-May*	*16-Jun*	*21-Jul*	*18-Aug*	*15-Sep*	*20-Oct*	*17-Nov*	*15-Dec*	
11	Discuss the Scope and Approach of the Ad-hoc Desk Reviews													Recommendation: Discuss the scope and approach of the ad-hoc Desk Reviews.
12	Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract		•											Recommendation: Receive and discuss Financial Analysis regarding the Board Independent Auditing Services Contract with TAP International, Inc.
13	QEMS & ISO Overview and Continuous Improvement Methodology Benchmarking Analysis													Note: At the Dec '19 BAC meeting, the BAC approved new PO for $25K min for Tanner Pacific, Inc. to prepare QEMS Methodology Benchmarking Analysis. Recommendation: Review and discuss overview of QEMS Process Improvement post ISO de-certification, and Benchmarking Analysis for 2020.
14	Risk Management Organization	•												Note: At the Dec '20 BAC meeting, the BAC requested this item to be brought forth at the 1/13/2021 Committee meeting. Recommendation: Review and discuss Risk Management Organization.
15	Valley Water Policies Related to Financial Auditor Responsibility	•												Note: At the Dec '20 BAC meeting, the BAC requested this item to be brought forth at the 1/13/2021 Committee meeting. Recommendation: Review and discuss Valley Water Policies Related to Financial Auditor Responsibility.
	Management and Third Party Audits													
16	Review Draft Audited Financial Statements	•										•		Recommendation: A. Review draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2021; and B. Direct staff to have Financial Auditor to contact Board Members and present, if necessary.
17	Audit Report of the Water Utility Enterprise Funds for the Fiscal Year							•						Recommendation: Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year.
18	Receive QEMS Annual Internal Audit Report								•					Recommendation: Receive information regarding the Quality and Environmental Management System.
19	Status Update on the Implementation of Recommendations from the 2015 Consultant Contracts Management Process Audit Conducted by Navigant Consulting, Inc. and the Consultant Contracts Improvement Process.		•					•						Note: Staff CAS update every 6 months. Recommendation: Receive and discuss a status update on the implementation of the recommendations made by Navigant in the 2015 Consultant Contracts Management Process Audit and on the Consultant Contracts Improvement Process.

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed.

BOARD AUDIT COMMITTEE 2021 WORKPLAN
January 1, 2021 to December 31, 2021

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	*17-Feb*	*17-Mar*	*21-Apr*	*19-May*	*16-Jun*	*21-Jul*	*18-Aug*	*15-Sep*	*20-Oct*	*17-Nov*	*15-Dec*	
20	Review Contract Change Order Audit Report					•						•		Note: Staff periodic update. Recommendation: Receive and discuss a status update on the implementation of the recommendations made by TAP International, Inc. in the Contract Change Order Audit Report.
21	Audit Recommendations Implementation Status	•											•	Recommendation: Receive and discuss a status update on the implementation of audit recommendations.
	Board Independent Auditor - TAP International, Inc. Items													
22	Review and Update Annual Audit Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	Recommendation: Discuss the Annual Audit Work Plan and update, if necessary.
	Audit - Grants Management													
23	Receive notification of initiated Grants Management Audit													Note: Audit Objectives - Performance audt of the efficiency and effectiveness of grant management and administration.
24	Review Grants Management Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
25	Review Grants Management Audit Draft Report Presentation	•												Recommendation: Receive and discuss the Final Draft Audit Report.
26	Review Response to Grants Management Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Permitting Best Practices													
27	Receive notification of initiated Permitting Best Practices Audit													Note: Audit Objectives - How does Valley Water's permitting process compare with other agencies? Can alternative permit processing activities benefit Valley Water?
28	Review Permitting Best Practices Audit Progress Report	•												Recommendation: Receive an update on the status of the on-going audit.
29	Review Permitting Best Practices Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
30	Review Response to Permitting Best Practices Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Construction Project Management (Tentative)													
31	Receive notification of initiated Construction Project Management Audit													Note: Audit Objectives - What areas of Valley Water's capital project budgeting practices can benefit from adopting best practices?
32	Review Construction Project Management Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed.

BOARD AUDIT COMMITTEE 2021 WORKPLAN
January 1, 2021 to December 31, 2021

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
33	Review Construction Project Management Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
34	Review Response to Construction Project Management Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Supervisory Control and Data Acquisition (Tentative)													
35	Receive notification of initiated Supervisory Control and Data Acquisition Audit													Note: Audit Objectives - Does Valley Water's Supervisory Control and Data Acquisition (SCADA) systems meet established SCADA security frameworks?
36	Review Supervisory Control and Data Acquisition Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
37	Review Supervisory Control and Data Acquisition Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
38	Review Response to Supervisory Control and Data Acquisition Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Risk Management (Tentative)													
39	Receive notification of initiated Risk Management Audit													Note: Audit Objectives - Can risk management business processes be implemented more effectively? (i.e. contract claims, workers compensation, small claims).
40	Review Risk Management Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
41	Review Risk Management Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
42	Review Response to Risk Management Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Billing and Collections (Tentative)													
43	Receive notification of initiated Billing and Collections Audit													Note: Audit Objectives - Are there opportunities to enhance Valley Water's billing and collection processes?
44	Review Billing and Collections Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
45	Review Billing and Collections Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed.

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
46	Review Response to Billing and Collections Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Accountability (Tentative)													
47	Receive notification of initiated Accountability Audit													Note: Audit Objectives - Are there opportunities to enhance safe clean water audits?
48	Review Accountability Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
49	Review Accountability Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
50	Review Response to Accountability Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Community Engagement (Tentative)													
51	Receive notification of initiated Community Engagement Audit													Note: Audit Objectives - Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities? What are the best practices in planning and facilitating community engagement?
52	Review Community Engagement Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
53	Review Community Engagement Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
54	Review Response to Community Engagement Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Property Management (Tentative)													
55	Receive notification of initiated Property Management Audit													Note: Audit Objectives - Is Valley Water implementing encroachment licensing program consistent with the Board's guiding principles?
56	Review Property Management Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
57	Review Property Management Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed.

BOARD AUDIT COMMITTEE 2021 WORKPLAN
January 1, 2021 to December 31, 2021

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
58	Review Response to Property Management Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Homelessness Analysis (Tentative)													
59	Receive notification of initiated Homelessness Analysis Audit													Note: Audit Objectives - How can Valley Water enhance its homelessness encampment clean-up activities that protect health and safety?
60	Review Homelessness Analysis Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
61	Review Homelessness Analysis Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
62	Review Response to Homelessness Analysis Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Classified Information (Tentative)													
63	Receive notification of initiated Classified Information Audit			•										Note: Audit Objectives - To what extent does Valley Water's Counsel's Office appropriately classify confidential information?
64	Review Classified Information Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
65	Review Classified Information Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
66	Review Response to Classified Information Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Local Workforce Hiring (Tentative)													
67	Receive notification of initiated Local Workforce Hiring Audit													Note: Audit Objectives - What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?
68	Review Local Workforce Hiring Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
69	Review Local Workforce Hiring Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
70	Review Response to Local Workforce Hiring Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.

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BOARD AUDIT COMMITTEE 2021 WORKPLAN
January 1, 2021 to December 31, 2021

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
	Audit - Equipment Maintenance (Tentative)													
71	Receive notification of initiated Equipment Maintenance Audit													Note: Audit Objectives - Is Valley Water adequately meeting the needs of equipment maintenance?
72	Review Equipment Maintenance Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
73	Review Equipment Maintenance Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
74	Review Response to Equipment Maintenance Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	Audit - Delta Conveyance (Tentative)													
75	Receive notification of initiated Delta Conveyance Audit													Note: Audit Objectives - What potential financial risks could occur on the California Water Fix project?
76	Review Delta Conveyance Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
77	Review Delta Conveyance Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
78	Review Response to Delta Conveyance Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
	BAC Work Plan Items Outside of the Current Term													
79	BAC Self-Evaluation Report													Note: Per the February 19, 2020 BAC meeting, the 2019 BAC Self-Evaluation form is to be completed and a formal report provided to the full Board at a future meeting.
80	Sponsorship Program													Recommendation: Discuss the potential for a desk review or audit of the Sponsorship Program.
81	Prepare risk assessment tri-annually										•			Note: Next Risk Assessment scheduled to be completed in October 2021.
82	Establishment of Additional Board Auditors													Recommendation: Discuss the potential master services agreement to recommend to the full Board for the establishment of additional Board Auditors.
83	Participate in financial statement audit procurement process													Note: Next procurement scheduled for January 2022.

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Santa Clara Valley Water District

REQUEST TO SPEAK

FC 244 (06-13-11)

Meeting Date: 1/13/2021

- Complete this form and return to Clerk.
- Comments may be limited to a specified time allotment.
- If you elect to distribute informational items to the Board/Committee, the Clerk is required to obtain a copy and keep it as part of the public record. Fifteen (15) copies of informational handout items should be supplied to Clerk for distribution to the Board/Committee, executive staff, and for the public record and public information copy.

Personal Information: Except for your name and city of residence, the information requested below is voluntary and used by staff to contact you if necessary. When you request to speak before the legislative body, your name and city of residence are included in the Santa Clara Valley Water District's official minutes.

Name: Trish Mulvey	Address: 527 Rhodes Drive, Palo Alto, CA 94303
Phone: (650) 326-0252	
Email: mulvey@ix.netcom.com	
Organization/Business Name (if applicable):	

☒ Item **LISTED** on the Agenda **(Item No. 4.6)**

Subject: Review and Approve the Updated 2021 Board Audit Committee Work Plan

☐ Item **NOT LISTED** on the Agenda **(Public Comment)**

Subject:

Note: The law does not permit Board/Committee action on or extended discussion of any item not on the agenda, except under special circumstances. If Board/Committee action is requested, the matter can be placed on a future agenda.

☐ I do not wish to address the Board/Committee; however, I would like to have the following question(s) answered:

☒ I do not wish to address the Board/Committee; however, I would like to have the following statement(s) read into the record:

Thank you for including this inquiry (Line 80): "Recommendation: Discuss the potential for a desk review or audit of the Sponsorship Program." I hope an audit is approved and will start soon.

Notice to Lobbyist: In compliance with the District's Lobbyist Ordinance (Ord. 10-01) you ***must*** identify yourself as a lobbyist and the client(s) or business or organization on whose behalf your are representing.

I am a ☐ Registered Lobbyist and I represent: ______

I am an ☐ Unregistered Lobbyist and I represent: ______

Information about lobbying the Santa Clara Valley Water District may be found on the Internet by accessing the Board of Directors' website on the District's home page at http://www.valleywater.org.

TIPS FOR ADDRESSING THE BOARD OR COMMITTEE

- Approach the public podium as soon as your name is called.
- Speak directly into the microphone.
- Clearly state your name for the record.
- If you are a lobbyist, identify yourself and your clients.
- You are limited to the time allotted. Please watch the speaker clock on the podium.
- If you wish to speak to the Board/Committee on an item that is ***not on the agenda***, there will be an opportunity under the section "Time Open for Public Comment on any item not on the Agenda." Complete a *Request to Speak* form and provide it to the Clerk. The Board/Committee Chair will call your name and indicate the allotted speaking time.
- If you wish to speak to the Board/Committee on an item on that is ***on the agenda***, complete a *Request to Speak* form and provide it to the Clerk. When the specific item is considered, the Board/Committee Chair will call your name and indicate the allotted speaking time.

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File No.: 21-0031 **Agenda Date:** 1/13/2021
Item No.: 5.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Valley Water Policy Discussion Related to Financial Auditor Responsibility.

RECOMMENDATION:

A. Discuss Valley Water Policy issues related to Financial Auditor responsibilities; and
B. Recommend to the full Board that this policy issue be referred to the Board Policy and Planning Committee for further discussion and refinement.

SUMMARY:
On December 4, staff submitted information to the Board via CEO bulletin related to financial accounting issues that have recently been publicized at the City of Manteca. The City of Manteca is facing extensive financial accounting issues that go back several years. Roughly $67 million in cash deficits have been identified. The Interim Finance Director for the City of Manteca believes that it may take several years before all issues are cleared up and addressed. Of importance to Valley Water is that Maze and Associates - Valley Water's current financial auditor - has been the financial auditor for the City of Manteca for the past several years. Valley Water will be monitoring the situation in Manteca especially as it relates to the role that Maze and Associates may have played with regard to the accounting crisis, and for lessons learned that can be applied to Valley Water. Valley Water understands that Maze and Associates has been voicing deficit spending concerns to City of Manteca management for years, and that a key reason that the City has not produced a Fiscal Year 2019 Comprehensive Annual Financial Report is due to questions raised by Maze and Associates.

The article can be found at the following URL:

https://www.mantecabulletin.com/news/local-news/67m-manteca-cash-deficits/

The purpose of this item is to discuss potential recommendations to the full Board from the Board Audit Committee that would help bolster financial controls at Valley Water. Staff offers the following potential policy considerations:

1. The Board could adopt a policy that all management letters received from the external financial auditor following an audit must be shared with the Board. Staff currently follows

this practice.

2. The Board could adopt a policy that any Request for Proposal (RFP) for a new external financial auditor going forward must require the external financial auditor to provide written notification of any deficiency found during a financial audit (referred to as full disclosure) as opposed to only providing written notification of material deficiencies (referred to as material disclosure).

Another consideration is for the Board Audit Committee to recommend referring this issue to the Board Policy and Planning Committee for further discussion and refinement of any recommendations to the full Board.

ATTACHMENTS:
None

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Santa Clara Valley Water District

File No.: 20-1211

Agenda Date: 1/13/2021
Item No.: 5.2.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Discuss Scope of Annual Audit Training from Board Independent Auditor.

RECOMMENDATION:
Discuss Scope of Annual Audit Training from Board Independent Auditor.

SUMMARY:
The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

On August 27, 2019, the Board approved the BAC Audit Charter to provide detailed guidance regarding how the BAC should carry out its functions and to guide the work of TAP International, Inc.

Per Article 9, paragraph 3 of the BAC Audit Charter, the Board Independent Auditor shall provide the Committee with annual training related to Audit Principles, Practices, or Standards.

The purpose of this item is to discuss the scope of the training to be provided by the Board Independent Auditor. Audit Training may include training on auditing standards as well as the audit process. The Annual Audit Training is currently scheduled to occur at the February 2021 BAC meeting.

ATTACHMENTS:
None.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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Valley Water

File No.: 20-1090 **Agenda Date:** 1/13/2021
Item No.: 5.3.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Valley Water Comprehensive Annual Financial Report for the Fiscal Year Ending on June 30, 2020.

RECOMMENDATION:
Discuss the Valley Water Comprehensive Annual Financial Report (CAFR) for the Fiscal Year (FY) Ending on June 30, 2020, that staff will be recommending for Board acceptance and provide direction as needed.

SUMMARY:
The purpose of this agenda item is to discuss the Valley Water FY 20 CAFR including the possible addition of adding Water Inventory as an asset on the balance sheet assuming a policy recommendation from the Board Audit Committee to the full Board.

The CAFR for the fiscal year ending on June 30, 2020 was audited by Valley Water's external auditor, Maze and Associates. During the audit, no material financial findings or internal control weaknesses were reported. It is anticipated that the auditor will issue an unmodified ("clean") opinion stating that Valley Water's financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP), as established by the Governmental Accounting Standards Board (GASB).

Currently, Valley Water does not recognize Water Inventory on the balance sheet. A review of California Water Enterprise Special Districts shows that some agencies carry water inventory on the Statement of Net Position and some do not.

Agencies that do include:

- Metropolitan Water District
- Easter Municipal water District
- Irvine Ranch Water District
- San Diego County Water Authority

- Santa Margarita Water District

Agencies that do not include:

- East Bay Municipal Utility District
- Contra Costa Water District
- Alameda County Water District
- Orange County Water District
- Marin Municipal Water District

As of June 30, 2020, Valley Water had 344,662 acre-feet (out of a 350,000 acre-feet allocation) in Semitropic groundwater reserves. Utilizing a three-year average rate of $331 acre-foot cost, the current valuation is approximately $114 million. In addition, there was 61,462 acre-feet in local reservoir storage as of June 30, 2020. The vast majority of the water stored in local reservoirs comes from local runoff, as opposed to purchased imported water. As a proxy, applying the same per acre-foot cost results in a current valuation of $20 million.

Groundwater in Santa Clara County is not owned by Valley Water, and therefore would not be inventoried, and other types of water inventory, such as water at treatment plants are relatively small, and therefore would be immaterial.

Per discussion with Valley Water's Bond Counsel and Financial Advisor, increasing assets on the balance sheet is likely to have minimal impact on Valley Water's credit ratings since Valley Water debt is secured by current revenues, not assets on the balance sheet which may be more typical for corporations. Instead, Valley Water's financial strengths for credit rating purposes are heavily dependent upon its management experience, Board willingness to raise rates to generate current revenues for current expense, debt service coverage ratio (two times net revenues or better), strength of local economy, and cash reserve balances (days cash on hand to cover operating expense).

Given that there is no legal or accounting rules board requirement to value water as inventory, doing so could be a policy recommendation from the Board Audit Committee to the full Board.

The following documents are attached to this agenda memo:

Attachment 1: FY20 CAFR, financial presentation rounded to millions

Attachment 2: Review comments from Director Kremen received on November 22 based on a first draft sent on November 9

Attachment 3: Staff's response to review comments noted above, organized with reference to the revised FY20 CAFR by page number

Attachment 4: Updated Government-wide and Proprietary Fund Statements of Net Position and Statements of Activities, reflecting $134 million in Water Inventory.

FINANCIAL IMPACT:
Audit service costs are included in Valley Water's FY 2020-21 budget.

ATTACHMENTS:
Attachment 1: FY20 CAFR
Attachment 2: Review Comments from Director Kremen
Attachment 3: Review Comments Response Tracker
Attachment 4: FY20 CAFR Statements with Water as Inventory

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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DRAFT

01/04/2021

Santa Clara Valley Water District

now referred to as

Valley Water

San Jose, California

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2020

Prepared by the General Accounting Services Unit

Darin Taylor, Chief Financial Officer
Gloria del Rosario, Accounting Manager

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VALLEY WATER
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2020

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Financial Section

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REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTAL INFORMATION

Statistical Section

Valley Water

Clean Water • Healthy Environment • Flood Protection

January XX, 2021

TO THE BOARD OF DIRECTORS OF VALLEY WATER:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Santa Clara Valley Water District, now referred to as Valley Water, for the fiscal year ended June 30, 2020. The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with Valley Water. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities of Valley Water. All disclosures necessary to enable the reader to gain an understanding of Valley Water's financial activities have been included.

To provide a reasonable basis for making these representations, management of Valley Water has established a comprehensive internal control framework that is designed both to protect Valley Water's assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of Valley Water's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, Valley Water's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Valley Water's financial statements have been audited by Maze and Associates, a firm of licensed certified public accountants. The purpose of the independent audit was to provide reasonable assurance that the financial statements of Valley Water for the fiscal year ended June 30, 2020, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on Valley Water's financial statements for the fiscal year ended June 30, 2020. The opinion rendered concluded that the financial statements are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of Valley Water is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements but also on Valley Water's internal controls and compliance over the administration of federal awards. The single audit review is applicable when Federal funded expenditures exceed $0.8 million and is typically completed after the audit of the financial statements and will be issued separately for the Board's acceptance.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Valley Water's MD&A can be found immediately following the report of the independent auditor.

District Profile

The mission of Valley Water is to provide Silicon Valley safe, clean water for a healthy life, environment, and economy.

Valley Water operates as a State of California special district under the authority of the District Act (Wat. Code, § Ch. 60, Refs & Annos). Valley Water is the primary water resources agency for Santa Clara County, California. It is the largest multi-purpose water supply, watershed stewardship, and flood management special district in California. It acts not only as the County's primary water wholesaler but also as its flood protection agency and is the steward for its streams and creeks, underground aquifers, and district-built reservoirs. The District Act governs the structure, function, and operations of the Valley Water's Board of Directors (Board), which governs Valley Water and directs the Chief Executive Officer.

Valley Water is the primary water resources agency for the two million residents of the County. It encompasses all of the county's approximately 1,300 square miles and serves the area's 15 cities and towns: Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale. Valley Water also serves certain unincorporated areas of the County.

Valley Water sells treated water to 8 water retail companies, cities, and towns that service communities within the County via their own distribution systems. There are also private well owners in the County, for which Valley Water levies a groundwater production charge for water pumped. This water demand requires Valley Water to operate and maintain a complex delivery and treatment system that includes 3 water treatment plants, an advanced water purification center, 10 local reservoirs and dams, a state-of-the-art water quality laboratory, dozens of groundwater recharge basins, 5 pump stations and 144 miles of pipelines. Water supplies include local surface water and groundwater, imported water, and recycled water. Water conservation is also an important part of the water supply mix since it offsets water demands.

To ensure an adequate and reliable supply of high-quality water, Valley Water has partnered with cities and water retailers in the county to develop recycled water supplies. About 5% of the County's total water use currently consists of recycled water, limited primarily to landscaping and industrial uses. Recycled water use is expected to expand in coming years.

In 2010, the Board approved agreements with the City of San Jose to partner and build a facility to produce about eight million gallons per day (MGD) of highly purified water. Valley Water and the City of San Jose entered into a ground lease and property use agreement (the "Ground Lease") with respect to the City of San Jose owned site on which the Silicon Valley Advanced Water Purification Center (SVAWPC) is located. In addition, Valley Water and the City of San Jose entered into an integration agreement (the "Integration Agreement") with respect to the operation of the SVAWPC. Valley Water and the City of San Jose each have the annual option to terminate the Integration Agreement on or after June 30, 2020, in accordance with its terms. The Ground Lease provides that if the Integration Agreement is terminated, the Ground Lease will simultaneously terminate and upon such termination, Valley Water would be required to surrender the facilities of the SVAWPC to the City of San Jose. The option to terminate the Integration Agreement provides an opportunity for the City of San Jose and Valley Water to re-evaluate the continued need for integrated management of their respective facilities (i.e., Valley Water's SVAWPC and City of San Jose's Regional Wastewater Facility), financial support, and opportunities for the use of recycled water. Both parties would be required to meet and discuss potentially amending the Integration Agreement in lieu of terminating the Integration Agreement to address the parties' concerns.

The SVAWPC in North San Jose commenced full operation in March 2014. Currently, purified water produced by the Silicon Valley Advanced Water Purification Center is not used for potable (drinking) purposes and is instead blended with existing recycled water to enhance its quality for non-potable purposes such as irrigation, cooling towers and industrial applications.

In December 2019, Valley Water's Board of Directors approved a 76-year agreement with the cities of Palo Alto and Mountain View to secure a minimum of 9 MGD of wastewater effluent through an effluent transfer option. Under the agreement, Valley Water will pay $0.2 million per year for the option to receive the wastewater effluent until June 1, 2033 or the point in time when Valley Water begins to receive the wastewater effluent, whichever occurs first. If Valley Water exercises its option, 9 MGD of effluent would be delivered to a regional purification facility to be constructed and owned by Valley Water. The purified water, which would be a locally controlled drought resilient supply, could be used for either indirect potable reuse (e.g. recharge local groundwater basins) or direct potable reuse (raw water or treated water augmentation, subject to future regulatory requirements). If Valley Water exercises the option, Valley Water would pay $1.0 million per year for the effluent plus an inflation escalator for the 76-year term of the agreement. Valley Water has not made a decision as to whether it will exercise the option to receive wastewater effluent under the agreement. In addition to the foregoing option, Valley Water will contribute $16 million to be used to fund either: (1) a portion of the costs of a local salt removal facility in the City Palo Alto to provide higher quality of recycled water for irrigation and cooling towers or (2) in the event that the cities of Palo Alto and Mountain View decide not to construct the local plant within 13 years of the effective date of the agreement, to fund other recycled water or water supply projects.

In June 2020, the Board reaffirmed its intention to engage in a public-private-partnership (P3) project delivery method for the Expedited Purified Water Program through a request for qualification process. Valley Water staff plans on updating the project scope, timing, and procurement process for the project and qualification of potential P3 partner in Fiscal Year 2021.

As the primary wholesale water supplier in the County, Valley Water is dedicated to assuring a reliable supply of healthy and clean drinking water. Valley Water provides stream stewardship that encompasses managing flood and storm waters within the County and protecting watersheds and riparian corridors, thereby providing for public safety, and the protection of property and the natural environment along creeks and rivers, and at the edge of the San Francisco Bay.

Factors Affecting Financial Condition

Local Economy

Located south of San Francisco Bay, Santa Clara County is the sixth largest county in California, with a population of 1.78 million and measures approximately 1,315 square miles.

The COVID-19 pandemic has created a public health crisis that is affecting the Valley Water community and economy in ways that have not been previously experienced. Several industries including the airline, restaurant, and tourism industries were deeply affected by shelter in place mandates and ten months into the COVID-19 crisis, economies across the U.S. are recovering jobs in some areas, while continuing to see losses in others. In Santa Clara County, the unemployment rate of 7% remains one of the lowest in the Bay Area.[1] In comparison, California's unemployment rate is currently 11%. While the U.S. economy has been hit hard during the coronavirus pandemic, the technology industry and its hub in Santa Clara County continue to fare better than other large regions across California and the nation.[2]

Pre-COVID, Silicon Valley's regional GDP continued to grow, with estimated gains of nearly 5% year-over-year. Since 2001, the number of patents registered to Silicon Valley inventors each year more than doubled and venture capital investments flowing into the region's companies have been high over the past two years. While job growth in Silicon Valley slowed over the past two years, the pace remains higher that the state or nation as a whole. However, more people are leaving the region than coming in, with a marked outflow to the greater Bay Area, other parts of the state, Washington, Texas, Arizona, and Nevada.

The County has one of the highest personal income levels in the Bay Area and in California, and the workforce is highly educated. Businesses located in Santa Clara County are able to take advantage of the highly educated and skilled workforce in the fields of science and engineering, its high rate of venture capital investment, and dynamic culture of cutting-edge innovation. The region is also emerging as a worldwide leader in the clean technology industry, and Santa Clara County accounts for 34% of total clean technology investment in the state and 15% in the country.[3] Other major industry clusters include life sciences and financial and professional services.

The total amount of new commercial space completed in the region hit an 18-year high in 2019, bolstered by significant industrial space development, plus new office and R&D space. In addition to booming commercial space completions, the amount under construction reached a 19-year high in 2019. Among other projects, large Silicon Valley tech companies with office space under construction at the end of 2019 included Google, Microsoft, Adobe, and NVIDIA.

The County and its Cities are working aggressively to create affordable housing to meet the needs of residents. New home construction is recovering from the lows of the 2007-2009 recession. Home prices in the region declined slightly in 2019, yet housing costs remain the highest in the nation (with median home sale prices remaining well above $1.0 million).[4] Pre-COVID, per capita income and average wages continued their upward trend, and Silicon's Valley's poverty rate was still low compared to the rest of the country.

[1] State of CA Employment Development Department, September 2020 for Santa Clara County
[2] MarketWatch, June 2020
[3] Santa Clara County website, Economic Resource Guide
[4] 2020 Silicon Valley Index – Joint Venture Silicon Valley Network

In light of COVID-19, Valley Water has been refining project plans, prioritizing business continuity, and maintaining the operation of essential services to provide safe, clean water to Santa Clara County. The COVID-19 outbreak is currently ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, and the economic impact are uncertain. To date, Valley Water has not been notified by any retail water purveyor served by Valley Water of material delinquencies in the payment of water utility bills by customers of such retail water purveyors, despite Governor Newsom's executive order issued on March 4, 2020 that restricts water shutoffs to homes and small businesses while the state responds to the COVID-10 pandemic.

Valley Water began calendar year 2020 with groundwater storage well within the Normal range of its Water Shortage Contingency Plan. Despite well below-normal local rainfall and statewide snowpack, end of year groundwater for 2020 is projected to be well within the Normal range. The State has placed operating restrictions on five of Valley Water's ten dams due to Seismic safety concerns. In addition, on February 20, 2020, the Federal Energy Regulatory Commission ordered the drawdown of Anderson reservoir effective October 1, 2020.[5] As such, the restricted capacity is now at 62,362 acre-feet relative to 166,140 acre-feet total storage capacity. As of June 30, 2020, total local reservoir storage was 61,462 acre-feet. The estimated cost to fix all dams with seismic safety concerns is approximately $836.0 million according to the FY 21-25 Capital Improvement Program.

Valley Water's Semitropic groundwater bank reserves were at 98%, or 344,662 acre-feet for the same timeperiod.[6] Semitropic Water Storage District has reported elevated concentrations of 1,2,3 Trichloropropane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies.

The Valley Water Board of Directors continues its call for a 20% reduction and a limit of three days per week for irrigation of ornamental landscape with potable water. From the beginning of the drought response initiated in 2014, Valley Water has worked with water retailers, cities, and the County to maintain water conservation efforts and public outreach, and to implement other actions to reduce water use. Through these efforts, Valley Water has achieved a 17% reduction in water use through June 2020 compared to 2013. [6]

Long-term Financial Planning

Valley Water plans, manages, and carries out work to meet policies established by its Board of Directors. Under Valley Water's form of Policy Governance, these "Ends" policies describe the mission, outcomes, or results to be achieved by Valley Water staff. Balancing the Ends policies are Executive Limitations, which set limits on staff activities in fulfilling the Ends. Alignment of plans and resources with the Ends policies helps the Board fulfill the critical responsibility of defining, balancing, and prioritizing "what benefits, for what people, at what cost," and enhances Valley Water staff's accountability in using budgeted resources to accomplish those ends.

[5] Valley Water – Water Tracker, October 2020
[6] Valley Water – Water Tracker, August 2020

Valley Water funds activities that carry out its mission through the following three highest-level policies.[7]

- E2 - Reliable, clean water supply for current and future generations
- E3 - Healthy and safe environment for residents, businesses, and visitors, as well as for future generations
- E4 - Water resources stewardship to protect and enhance watersheds and natural resources and to improve the quality of life in Santa Clara County

Valley Water's largest revenue source is water charges, acting as a wholesaler for numerous water supply retailers in Santa Clara County. Water revenues for fiscal year 2020 were $266.9 million. In May 2020, to mitigate the impact of the COVID-19 pandemic on the communities within Valley Water's service area, the Board of Directors did not adopt any increase to water rates for fiscal year 2021. However, the Board asked staff to bring back information on the financial impacts of the pandemic on the community and on Valley Water in order to determine whether a mid-year rate increase should be pursued. On September 22, 2020, the Board decided to not pursue a mid-year rate increase for fiscal year 2021. The financial impact of no increase in water rates for fiscal year 2021 will be the need for higher water rate increases in future years in the absence of offsetting cost cutting (or reduction in CIP spending) actions.

The Five-Year Capital Improvement Plan (CIP) includes a total of 67 capital projects with an estimated cost of over $6.5 billion. Valley Water has been and continues to be successful in leveraging funding for its capital projects through partnerships with federal, state, and local agencies. Of the $6.5 billion total funding, $1.2 billion is expected from Valley Water's various partners, such as the U.S. Army Corps of Engineers (USACE), and $5.3 billion from Valley Water. Of the $1.2 billion that is expected from Valley Water's partners, $742.0 million is advanced by Valley Water and reimbursed later. This $742.0 million is included in the CIP and increases Valley Water's total funding requirement from $5.3 billion to $6.0 billion to ensure that Valley Water has adequate funding to advance the reimbursement.[8] Obtaining timely permits from regulatory agencies continues to be a challenge in the effort to carry out the CIP.

In November 2012, the voters approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax to fund projects addressing the following community priorities:

- Ensuring safe reliable water for the future;
- Reducing toxins, hazards, and contaminants in our waterways;
- Protecting water supply and local dams from the impacts of earthquakes and natural disasters;
- Restoring fish, bird, and wildlife habitat;
- Providing flood protection to homes, businesses, schools, streets, and highways.

[7] Valley Water FY2019-20 Operating and Capital Budget
[8] Valley Water – FY2021-25 Capital Improvement Program

Safe, Clean Water builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000. Safe, Clean Water replaced the Clean, Safe Creeks measure in its entirety beginning July 1, 2013. The program is funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2021, the budget includes $45.5 million of tax revenue for this program (see Note 17 - Subsequent Events for additional information on the recent ballot measure).

Relevant Financial Policies

End of Year Balances

Valley Water policies for end-of-year balance re-appropriations are as follows:

- Any remaining appropriation balances at the end of the fiscal year for capital projects are annually re-appropriated for continued use in those same projects in the following fiscal year. These amounts shall be consistent with the planned expenditure schedule identified in the 5-year CIP;

- Any variances at the end of the current fiscal year in Operating and Capital Reserves from those estimated in the budget not otherwise re-appropriated above shall result in corresponding adjustments to the estimated reserve appropriations in accordance with the Valley Water Reserve policy.

Valley Water, through the Public Facilities Financing Corporation, also maintains a commercial paper program for funding capital projects. Commercial paper is used to provide low-cost interim financing during construction. Valley Water issues long-term debt obligations to repay principal outstanding on the commercial paper over a 30-year term.

Budgetary Controls

Valley Water maintains budgetary controls, the objectives of which are to ensure compliance with legal provisions, embodied in the annually appropriated budget approved by the Board. Activities of the governmental funds and proprietary funds are included in the annual appropriated budget. Additionally, as a management tool, project-length financial plans are included in the annual Capital Improvement Plan. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, further limited by two categories - the operating budget (consisting of total operations, operating projects, and debt service) and the capital budget (consisting of capital project expenditures). Valley Water also maintains an encumbrance accounting system as one process to accomplishing budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund require Board approval. Budget and actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For governmental funds, this comparison is presented starting on pages 116 as part of required supplementary information and selected watershed activities starting on pages 124 as part of supplemental information. For proprietary funds, this comparison is presented starting on pages 128 and 134 as part of the combining and individual fund statements and schedules.

The guidelines used by Valley Water in developing this formal budget process are those recommended by the National Advisory Council on State and Local Budgeting, and the Government Finance Officers Association (GFOA).

Reserve Requirements

Valley Water's financial policies establish the levels at which reserves shall be maintained. Valley Water reserve policies address the need for both operating and capital reserves, and funding of contingency and future liabilities.

Major Initiatives

Highlights of activities and accomplishments for the fiscal year ended June 30, 2020 include the following: [9]

- In July 2019, the Department of Water Resources (DWR) approved Valley Water's Groundwater Management Plan as an Alternative to a Groundwater Sustainability Plan, confirming it satisfies the objectives of the Sustainable Groundwater Management Act (SGMA). DWR evaluated 15 submitted alternatives in total. The two large basis in Santa Clara County, the Santa Clara and the Llagas Subbasins, are now among the nine basins in the state of California with approved SGMA Alternative Plans. DWR approval of Valley Water's Alternative is a testament to the organization's comprehensive groundwater management and ongoing commitment to groundwater sustainability.

- On August 28, 2019, Valley Water hosted a groundbreaking ceremony for the upper Llagas Creek Flood Protection Project (Phase 1) in Morgan Hill. Phase 1 construction has an anticipated completion day in May 2022. The entire project consists of approximately 13.9 miles of flood protection improvements, and continues a Clean, Safe Creeks project in partnership with the U.S. Army Corps of Engineers.

- On September 21, 2019, Valley Water, in partnership with the Creek Connections Action Group (CCAG), coordinated a milestone 35th Annual Coastal Cleanup Day event in Santa Clara County. Approximately 53,297 pounds of trash was removed by 2,166 volunteers.

- On September 19, 2019, Valley Water hosted a community appreciation event at the Coyote Pumping Plant which marked the completion of major construction activities for the Main Avenue and Madrone Pipeline Restoration Project. This project installed approximately 2.6 miles of 24-inch to 36-inch diameter raw water pipelines, which are now capable of functioning at full operational capacity and conveying local and imported rate water from Anderson Reservoir and the Santa Clara Conduit to the Main Avenue Recharge Ponds and the Madrone Channel.

[9] Valley Water CEO Bulletins

- On November 20, 2019, Valley Water hosted a ribbon cutting ceremony to mark the completion of the Cunningham Flood Detention Certification project in San Jose. Lake Cunningham Regional Park serves as a detention area by storing water within the park during a storm to help prevent flooding downstream of the park. These improvements, in combination with the completed Lower Silver Creek Flood Protection Project improvements, will protect approximately 3,800 properties from a 100-year flood event.

- On December 10, 2019, Valley Water's Board of Directors approved a 76-year agreement with the cities of Palo Alto and Mountain View to secure a minimum of 9 MGD of wastewater effluent through an effluent transfer option. Under the agreement, described in detail earlier, Valley Water could obtain the source effluent for a regional purification facility to be constructed and owned by Valley Water, which would be a locally controlled drought resilient supply.

- On January 15, 2020, Valley Water joined local, regional, state, and federal agencies to unveil the first permanent X-Band radar in the San Francisco Bay Advanced Quantitative Precipitation Information (AQPI) System at a ribbon cutting event at the Penitencia Water Treatment Plant. The system will provide data for forecasting, which will assist water managers, reservoir operators, wastewater plant managers, flood, and emergency responders to make operational and safety decisions during extreme weather events.

- On February 29, 2020, Valley Water joined the City of Mountain View, Mountain View California Little League and the neighboring community for a ribbon cutting event to celebrate the completion of McKelvey Park. Valley Water's Permanente Creek Flood Protection Project reached a major milestone with the completion of the McKelvey Park flood detention basin in Mountain View. McKelvey Park was built as a dual-purpose facility, providing flood protection to downstream neighborhoods and a recreational space for residents.

- On June 3, 2020, Valley Water hosted a virtual graduation ceremony honoring the 2020 Water 101 Academy graduates. Designed to engage community leaders to become Water Ambassadors, the Water 101 Academy provided a series of sessions and networking opportunities for participants to understand local water challenges and learn about the mission and goals of Valley Water so that they could serve as advocates for their respective communities. Valley Water's commitment to engage and inform communities of current and future Valley Water projects, was reinforced at the ceremony,

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Water for its comprehensive annual financial report for the fiscal year ended June 30, 2019. This was the 23rd consecutive year that Valley Water has received this prestigious award. To be awarded a Certificate of Achievement, Valley Water must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR represents the culmination of months of concerted team effort by diverse Valley Water staff, including team members from Financial Planning and Management Services Division, Water Supply Division, Information Management Services Division, General Services Division, Human Resources Division, and Office of the District Counsel. Many team members demonstrated a high degree of personal dedication and determination in producing this exemplary document. In addition, special thanks to Valley Water staff in all groups for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Maze and Associates is also acknowledged for their significant technical contribution and assistance.

Special thanks go to Gloria del Rosario, General Accounting Unit Manager; the following Accounting staff: Jaime Salandanan, Guy Canha, Fanny Chan, Leticia Rocha, Trisha Cheung, Christine Hernandez, Ofelia Hsieh, and Gloria Chou; and Chenlei Yao of the Budget and Financial Planning Unit, for their talent and dedication in preparing this financial report.

Finally, we wish to express our sincere appreciation to Valley Water's Board of Directors and management for providing policy direction and a firm foundation of support for the pursuit of excellence in all realms of professional endeavors.

Darin Taylor
Chief Financial Officer

Rick Callender
Chief Executive Officer

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Santa Clara Valley Water District
California**

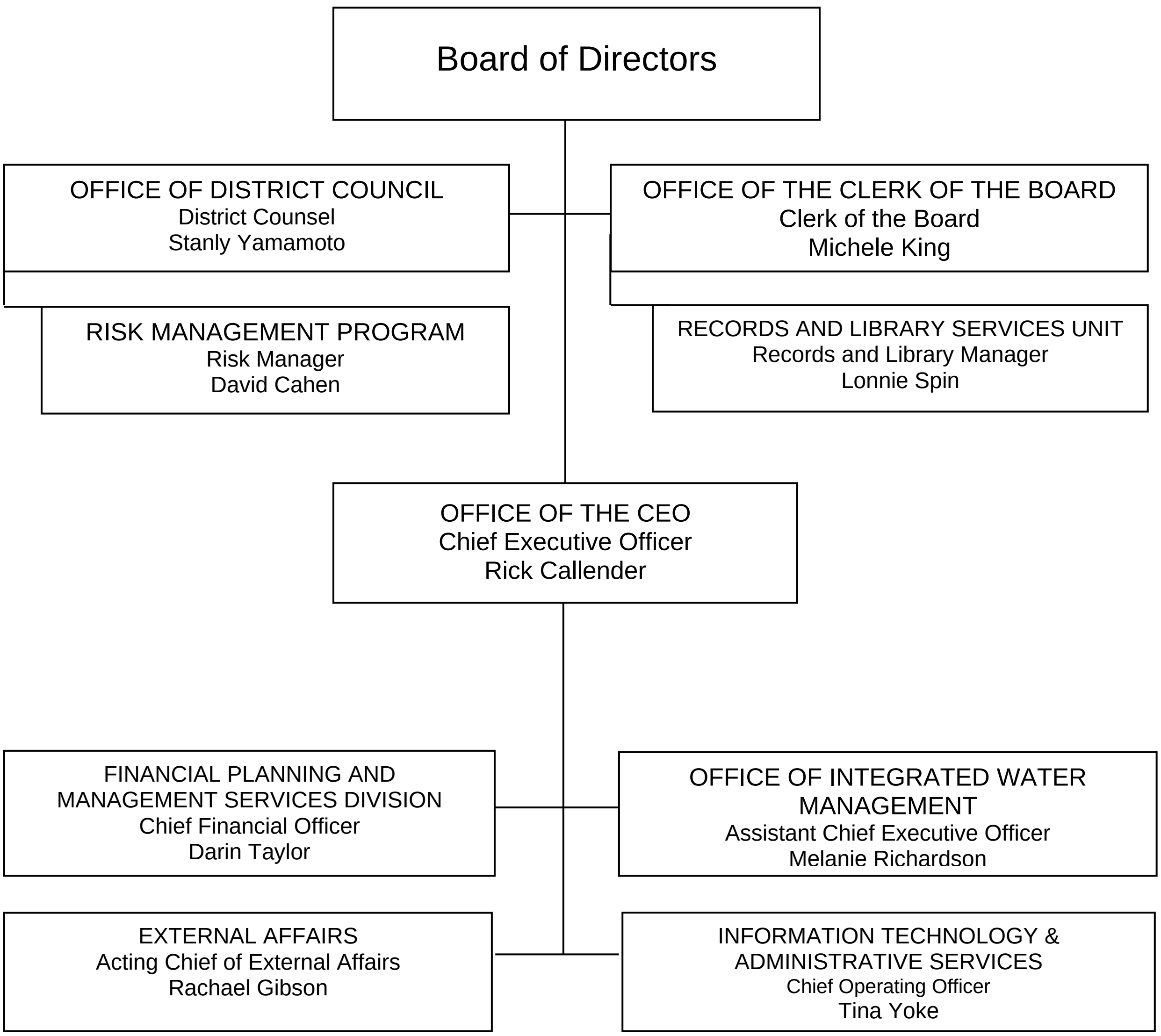
For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morrill

Executive Director/CEO

VALLEY WATER
Board of Directors
& Executive Management



VALLEY WATER
2019 – 2020
BOARD OF DIRECTORS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District 2


Richard P. Santos
District 3


Linda J. LeZotte
District 4


Nai Hsueh
District 5


Tony Estremera
District 6


Gary Kremen
District 7

Auditor Opinion

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Auditor Opinion

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Management’s Discussion and Analysis

Our discussion and analysis of Valley Water’s financial performance provides an overview of Valley Water’s financial activities for the fiscal year ended June 30, 2020. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- The net position of Valley Water was $2.6 billion as of June 30, 2020. Of this amount, $163.8 million (unrestricted, but committed and assigned net position) may be used to meet Valley Water’s ongoing obligations to citizens, businesses, stakeholders and creditors.
- Valley Water’s net position increased by $149.3 million during the current fiscal year. The net position of the governmental activities increased by $62.2 million and the net position of the business-type activities by $87.1 million.
- As of the close of the current fiscal year, Valley Water’s governmental funds reported combined ending fund balances of $350.1 million, an increase of $6.8 million in comparison with the prior fiscal year fund balances of $343.3 million.
- The fund balance for the general fund was $14.2 million, largely unchanged from the prior fiscal year. Committed and assigned fund balances were $14.2 million or 100% of the total fund balance.
- The fund balances of the Watershed & Stream Stewardship and Safe, Clean Water & Natural Flood Protection funds were $330.5 million, an increase of $8.7 million from the prior fiscal year.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The CAFR is presented in six sections:

- An introductory section that includes the Transmittal and general information
- Management’s Discussion and Analysis
- The Basic Financial Statements that include the Government-wide and Fund Financial Statements, along with the Notes to statements
- Required and Other Supplementary information
- Statistical Information

Basic Financial Statements

The Basic Financial Statements contain the Government-wide Financial Statements, the Fund Financial Statements, and the Notes to the financial statements. The financial statements presented herein include all the activities of Valley Water and its component units using the integrated approach as prescribed by Generally Accepted Accounting Principles (GAAP). This report also includes supplementary information intended to furnish additional detail to support the Basic Financial Statements.

Government-wide Financial Statements

The government-wide financial statements present the financial picture of Valley Water from an economic resources' measurement focus using the accrual basis of accounting.

They include the Statement of Net Position and the Statement of Activities:

The Statement of Net Position. The Statement of Net Position presents information on all Valley Water's assets, deferred outflow, liabilities, and deferred inflow, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Valley Water is improving or deteriorating.

The Statement of Activities. The Statement of Activities presents information showing how Valley Water's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues earned, and expenses incurred are reported in this statement even if the resulting cash flows will occur in future fiscal periods (e.g., earned but uncollected taxes and earned but unused vacation leave).

The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental and Business-type activities.

Governmental activities are principally supported by taxes and intergovernmental revenues and include general government, watershed management, and construction and debt service funding.

Business-type activities are those that are intended to recover all of a significant portion of their costs through user fees and charges and include the water utility operation fund.

The government-wide financial statements include not only Valley Water itself (known as the primary government), but also a legally separate Santa Clara Valley Water District Public Facilities Financing Corporation (the Corporation) for which Valley Water is financially accountable. Financial information for this blended component unit is reported as if it were part of the primary government because its sole purpose is to provide financing to Valley Water under the debt issuance documents of Valley Water. Additional information on this legally separate entity can be found in Note 1(b) in the notes to basic financial statements.

The Government-wide Financial Statement can be found on pages 36 and 37 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Valley Water, like other special districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of Valley Water are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Valley Water's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of Valley Water's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Valley Water's projects.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and change in fund balances to the government-wide statements are provided to facilitate this comparison between *governmental funds* and *governmental activities.*

Proprietary funds. Valley Water maintains two-different types of proprietary funds: enterprise funds and internal service funds.

Proprietary funds are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements but provide more detail and additional information. Valley Water uses enterprise funds to account for its water utility operations fund.

Internal service funds are used to accumulate and allocate costs internally among the Valley Water's various functions. Valley Water uses internal service funds to account for its fleet of vehicles and computer equipment, risk management, and information technology activities. The internal service funds have been included within governmental activities and business-type in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside Valley Water. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Valley Water's own programs.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found starting on page 49 of this report.

Other Information

The required supplementary information related to Valley Water's pension and OPEB plans is included after the Notes to the Financial Statements and can be found starting on page 112 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The balance in net position over a period of time is as a useful indicator of a government's financial position. In the case of Valley Water, assets and deferred outflows exceeded liabilities and deferred inflows by $2,569.6 million at the end of the current fiscal year.

Valley Water
Condensed Statement of Net Position
(in Millions)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Cash and investments	$ 427.9	$ 406.6	$ 288.2	$ 263.8	$ 716.1	$ 670.4
Other assets	14.9	29.1	45.0	40.1	59.9	69.2
Capital assets	1,553.8	1,504.6	1,266.3	1,163.9	2,820.1	2,668.5
Total assets	1,996.6	1,940.3	1,599.5	1,467.8	3,596.1	3,408.1
Deferred amount on refunding	-	-	0.6	0.4	0.6	0.4
Pension and OPEB related	33.0	32.7	25.4	25.3	58.4	58.0
Total deferred outflows of resources	33.0	32.7	26.0	25.7	59.0	58.4
Net pension and OBEB liabilities	167.2	166.6	126.3	126.5	293.5	293.1
Long-term debt	65.5	73.6	458.0	470.8	523.5	544.4
Other liabilities	81.2	84.1	166.5	112.1	247.7	196.2
Total liabilities	313.9	324.3	750.8	709.4	1,064.7	1,033.7
Pension and OPEB related	11.8	7.0	9.0	5.4	20.8	12.4
Deferred inflow of resources	11.8	7.0	9.0	5.4	20.8	12.4
Net position						
Net investment in capital assets	1,478.5	1,421.6	689.1	625.3	2,167.6	2,046.9
Restricted	153.5	160.6	84.7	71.5	238.2	232.1
Unrestricted	71.9	59.5	91.9	81.8	163.8	141.3
Total net position	$ 1,703.9	$ 1,641.7	$ 865.7	$ 778.6	$ 2,569.6	$ 2,420.3

The largest portion of Valley Water's net position (84.4%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment) less any related debt used to acquire those assets still outstanding. Investment in capital assets are *not* available for future spending. Although Valley Water's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For governmental activities, net investment in capital assets increased by $56.9 million or 4.0% compared to the prior fiscal year. Capital assets, net of depreciation, increased by $49.2 million. Long term liabilities, which include related debt outstanding, went down by $7.5 million.

For business type activities, net investment in capital assets increased by $63.8 million or 10.2% over the previous fiscal year. Capital asset, net of depreciation, increased by $102.4 million. Long term liabilities, which include related debt outstanding, went down by $13.0 million.

The balance of unrestricted net position may be used to meet Valley Water's ongoing obligations to citizens, customers, and creditors. Valley Water's unrestricted net position increased by $22.5 million or 15.9%, during the current fiscal year.

Valley Water
Condensed Statement of Activities
(in Millions)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Water charges	$ -	$ -	$ 266.9	$ 227.7	$ 266.9	$ 227.7
Operating grants and contributions	-	-	3.7	2.8	3.7	2.8
Capital grants and contributions	42.9	40.3	4.3	1.1	47.2	41.4
General revenues:						
Property taxes	148.4	143.8	30.2	30.4	178.6	174.2
Investment earnings	12.9	13.6	8.8	8.1	21.7	21.7
Miscellaneous	4.0	4.3	2.8	1.9	6.8	6.2
Total revenues	208.2	202.0	316.7	272.0	524.9	474.0
Expenses:						
General government	11.0	3.2	-	-	11.0	3.2
Watersheds	134.0	99.4	-	-	134.0	99.4
Interest on long-term debt	2.5	3.1	-	-	2.5	3.1
Water enterprise	-	-	228.1	222.0	228.1	222.0
Total expenses	147.5	105.7	228.1	222.0	375.6	327.7
Increase in net position before transfers	60.7	96.3	88.6	50.0	149.3	146.3
Transfers	1.5	2.7	(1.5)	(2.7)	-	-
Change in net position	62.2	99.0	87.1	47.3	149.3	146.3
Net position, beginning	1,641.7	1,542.7	778.6	731.3	2,420.3	2,274.0
Net position, ending	$ 1,703.9	$ 1,641.7	$ 865.7	$ 778.6	$ 2,569.6	$ 2,420.3

Governmental activities

Net position in governmental activities increased by $62.2 million during the fiscal year. Net revenues from operations of $60.7 million, and transfers in of $1.5 million, resulted in the increase in net position.

The fiscal year net revenue of $60.7 million came from property tax of $148.4 million, capital grants of $42.9 million, investment earnings of $12.9 million, and other revenues of $4.0 million, less operating expenses of $147.5 million. Valley Water also reduced the value of the Lower Guadalupe Flood Improvement capital asset as it was determined that the original flood protection capacity was significantly reduced. This impairment resulted in a capital asset write down of $29.3 million.

Compared to the prior fiscal year, revenues increased $6.2 million and expenses increased by $41.8 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Capital grants and contributions were $2.6 million or 6.5% higher in the current fiscal year than the previous year as a result of capital reimbursements coming in $4.0 million higher and offsetting the $1.4 million decrease in benefit assessments. Reimbursements of capital costs were $4.0 million higher as more funding was received in the Watershed Funds from the Department of Water Resources for the Prop 1E Stormwater Project and San Francisco Bay Area Restoration Authority for the South San Francisco Bay Shoreline Project. These receipts offset the decrease in capital grants received form the Department of Water resources for other flood management programs.

- Property taxes, the largest source of revenue at $148.4 million or 71.3% of total revenues, increased by $4.5 million or 3.2%, reflective of the strong property values in the Santa Clara county and the surrounding bay area.

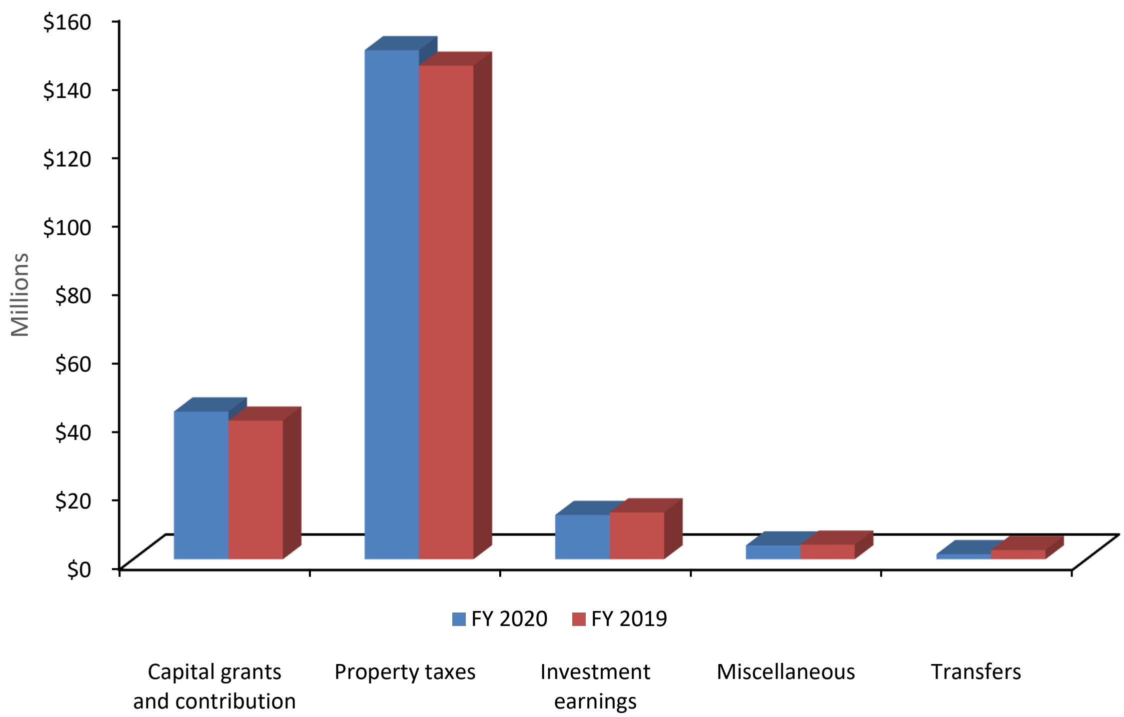
- Investment earnings of $12.9 million shows a slight drop of $0.7 million or 5.5% when compared to the prior fiscal year.

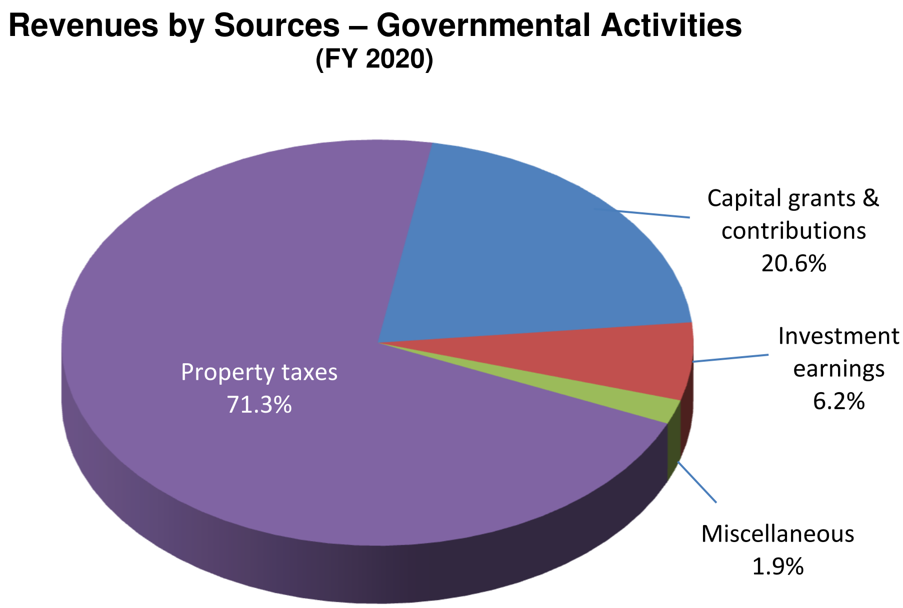
- General government expenses were $11.0 million, or $7.8 million higher due to increases in salaries, CalPERS contributions, and spending on furniture and equipment. The redirection of certain staff charges to the newly created COVID project number residing in the General Fund also added to the increase in salaries for the current fiscal year.

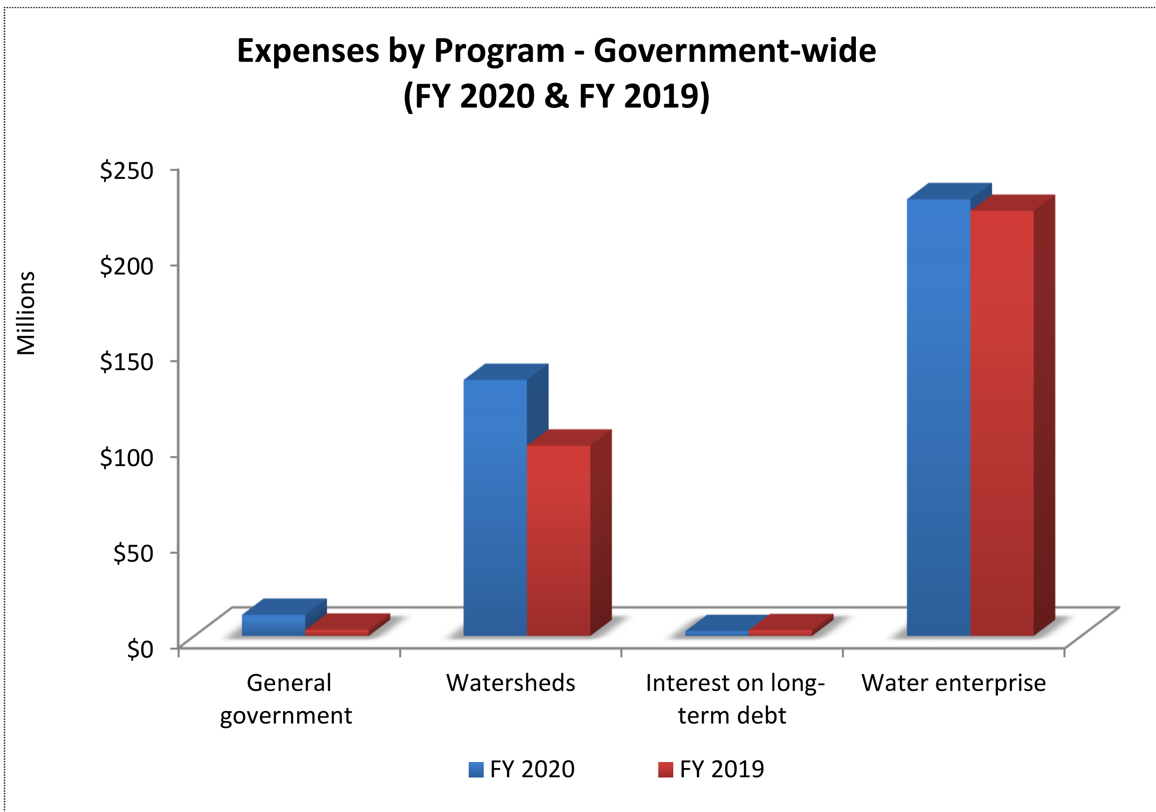
- Watersheds expenditures were $134.0 million or 34.8% higher compared to the previous fiscal year due to the asset impairment for the Lower Guadalupe Flood Improvement project noted above and to reflect payments for partnership funding agreements to the Santa Clara Valley Habitat Agency and the U.S. Army Corps of Engineers for flood protection.

Net transfers in were $1.5 million during fiscal year 2020, compared to $2.7 million in the prior fiscal year, reflecting less in transfers from the Water Enterprise Fund to the Information Technology Fund for small capital projects.

Revenue by Sources – Governmental Activities (FY 2020 & FY 2019)




Revenues by Sources – Governmental Activities
(FY 2020)
Capital grants & contributions 20.6%
Investment earnings 6.2%
Miscellaneous 1.9%
Property taxes 71.3%


Expenses by Program - Government-wide
(FY 2020 & FY 2019)
Millions
$250
$200
$150
$100
$50
$0
General government
Watersheds
Interest on long-term debt
Water enterprise
FY 2020
FY 2019

Business-type activities

Net position in business-type activities increased by $87.1 million during the fiscal year. Fiscal year revenue included water charges of $266.9 million, property taxes of $30.2 million, investment earnings of $8.8 million, operating grants and contributions of $3.7 million, capital grants and contributions of $4.3 million, and miscellaneous revenue of $2.8 million. Operating expenses, including water purchases, were $228.1 million. Net revenue before transfers was $88.6 million. Net transfers out of $1.5 million resulted in a change of net position of $87.1 million for the current fiscal year.

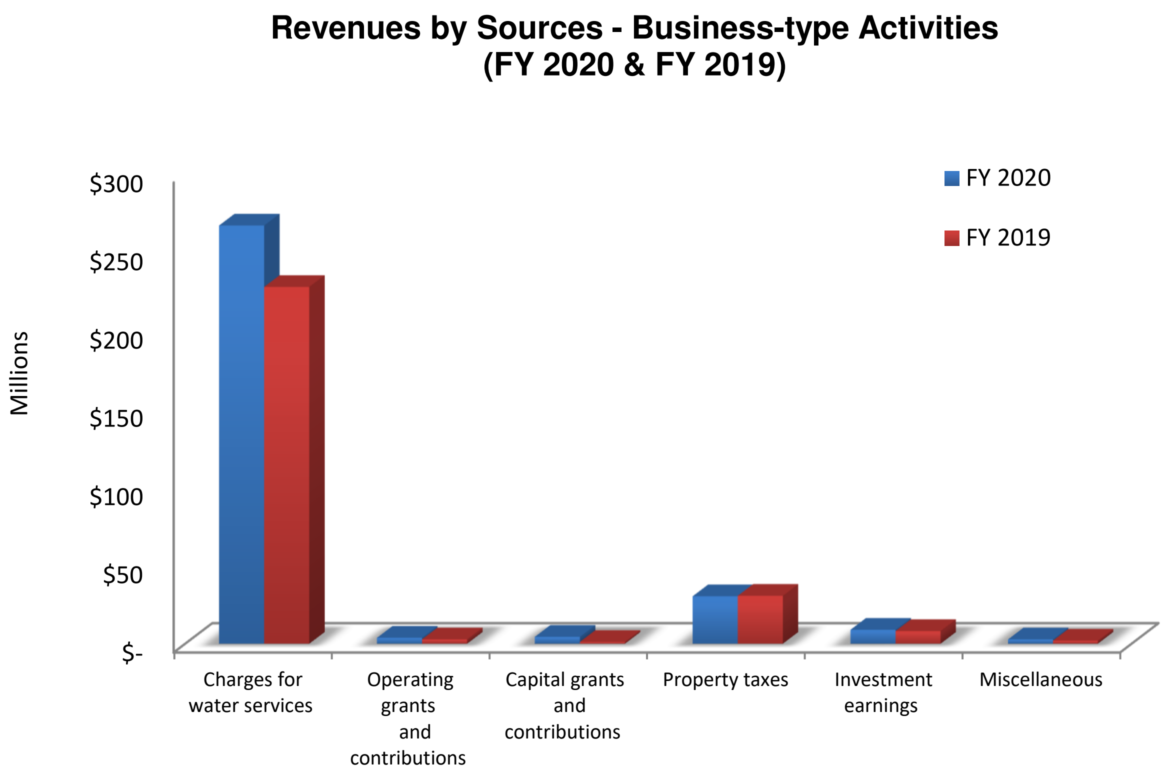
Compared to the prior fiscal year, total revenues increased by $44.7 million and expenses increased $6.1 million. Key elements of the changes in revenues and expenses from prior year are as follows:

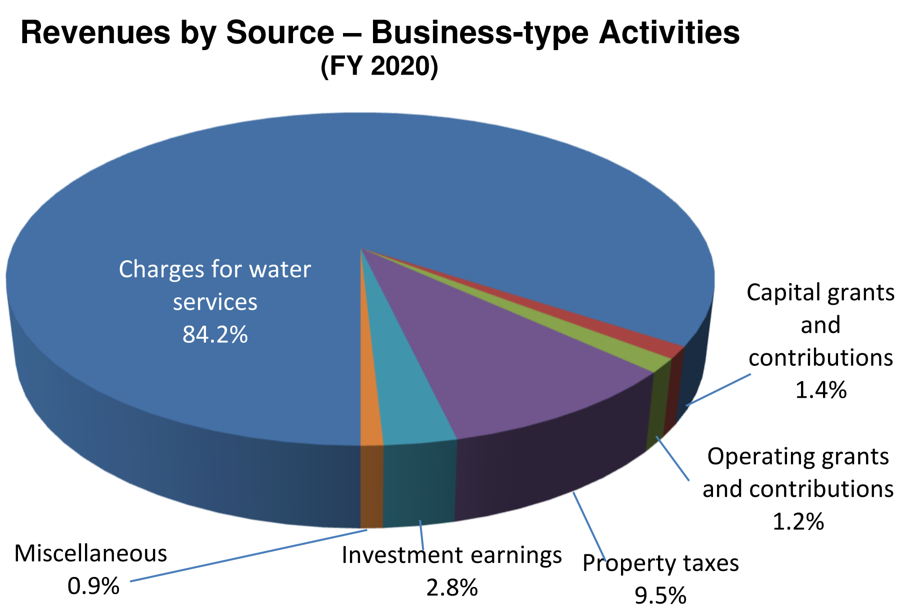
- Total water charge revenue, at 84.3% of total revenue source, was $39.2 million or 17.2% higher from the prior fiscal year. Groundwater and treated water revenues were up $30.7 million and $8.6 million, respectively. Groundwater volume was up versus prior year, and both revenue sources experienced higher rates.

- Operating grants and contributions increased $0.9 million over the prior fiscal year as more was received from the City of San Jose for its cost share payment of the Advanced Water Treatment Facility Integration agreement.

- Capital grants and contributions increased $3.2 million compared to the last fiscal year as more capital costs reimbursements from the Department of Water Resources and the California Water Commission were received for flood management programs.

- Water enterprise expenses increased by $6.1 million or 2.7% over the prior fiscal year due to increased costs for purchased water, equipment repair and replacement, utilities, and other technical services.


Revenues by Sources - Business-type Activities
(FY 2020 & FY 2019)
FY 2020
FY 2019
Millions
$300
$250
$200
$150
$100
$50
$-
Charges for water services
Operating grants and contributions
Capital grants and contributions
Property taxes
Investment earnings
Miscellaneous


Revenues by Source – Business-type Activities
(FY 2020)
Charges for water services 84.2%
Capital grants and contributions 1.4%
Operating grants and contributions 1.2%
Property taxes 9.5%
Investment earnings 2.8%
Miscellaneous 0.9%

Cash flow for the government-wide activities shows a net increase of $45.7 million for the current fiscal year. A comparative breakdown of cash flow activities for the current and prior fiscal years is shown below.

Valley Water
Condensed Statement of Cash Flow
For the year ended June 30, 2020 and 2019
(in Millions)

	June 30, 2020			June 30, 2019		
	Governmental	Business-type	Total	Governmental	Business-type	Total
Cash flow from operating activities						
Net income	$ 62.2	$ 87.1	$ 149.3	$ 99.0	$ 47.3	$ 146.3
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	10.8	34.0	44.8	11.0	32.7	43.7
(Increase) decrease in current assets	16.1	(9.1)	7.0	(17.7)	10.4	(7.3)
(Increase) decrease in internal charges	(4.1)	4.1	-	(5.5)	5.5	-
Increase (decrease) in current liabilities	3.9	56.2	60.1	(4.9)	(54.1)	(59.0)
Increase (decrease) in deferred revenues	(7.0)	(1.2)	(8.2)	7.0	-	7.0
(Increase) decrease in deferred inflows/ outflows of resources	4.5	3.2	7.7	9.5	7.5	17.0
Net cash provided by operations	$ 86.4	$ 174.3	$ 260.7	$ 98.4	$ 49.3	$ 147.7
Cash provided/(used) by the decrease/ (increase) in investments	2.1	0.1	2.2	4.3	-	4.3
Cash provided/(used) by the decrease/ (increase) in capital assets	(59.9)	(136.4)	(196.3)	(81.7)	(62.9)	(144.6)
Cash provided/(used) by the increase/ (decrease) in non current liabilities	(7.3)	(13.6)	(20.9)	(16.5)	79.9	63.4
Net increase/(decrease) in cash	$ 21.3	$ 24.4	$ 45.7	$ 4.5	$ 66.3	$ 70.8

FINANCIAL ANALYSIS OF VALLEY WATER'S FUNDS

Valley Water uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following analysis refers to the Basic Financial Statements for the Governmental and Proprietary Funds beginning on page 36.

Governmental funds

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of June 30, 2020, Valley Water's governmental funds reported combined ending fund balances of $350.1 million, an increase of $6.8 million for the fiscal year.

Compared to the prior year, revenues increased by $6.1 million and total expenditures increased by $11.5 million. Property taxes went up $4.6 million due to the upward trend of property values in the area. Reimbursements of capital cost were $4.0 million higher as more funding was received in the Watershed Funds from the Department of Water Resources for the Prop 1E Stormwater Project and San Francisco Say Area Restoration Authority for the South San Francisco Bay Shoreline Project.

Total expenditures were $11.5 million higher compared to the prior fiscal year, due to payments on cost share agreements and other agreements for the Safe, Clean Water and Natural Flood Protection Program.

Approximately $186.2 million or 53.2% of the total fund balance amount ($350.1 million) constitutes committed and assigned for specific purposes. The remainder of the fund balance is restricted to indicate that it is not available for new spending because of the external enforceable limitations on its use to: 1) fund Safe, Clean Water & Natural Flood Protection projects ($158.5 million) and; 2) pay debt service ($5.4 million).

General fund

The general fund is the chief operating fund of Valley Water supporting all administrative and strategic support services costs for the organization. It accounts for all financial resources except those required to be accounted for in another fund and is supported primarily by overhead reimbursements from other funds. At the end of the current fiscal year, the committed and assigned fund balance of the General Fund was $14.2 million. The total fund balance remained relatively flat as net revenues of $0.9 million were largely offset by net transfers out of $0.8 million.

Special revenue funds

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular watershed functions or activities of Valley Water. The available fund balances at the end of the current fiscal year for the special revenue funds were $330.5 million, which increased during the current fiscal year by $8.6 million or 2.7%.

The change in fund balance for the Watershed and Stream Stewardship fund was $18.7 million or 12.2% higher compared to last fiscal year. This was mainly due to the increase in capital cost reimbursements received and lower capital improvement project expenditures. Net revenue of $50.8 million was offset by net transfers out of $32.1 million (see Note 14).

Fund Balance for the Safe, Clean Water and Natural Flood Protection Program fund decreased by $10.0 million as operating expenditures increased and revenues fell compared to the prior fiscal year. Net expenditures of $30.9 million was mitigated by transfers in of $20.9 million (see Note 14) to account for the $10.0 million decrease in fund balance.

COP construction fund

The COP construction fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. The beginning available fund balance of $2.0 million was transferred out to the Watershed and Stream Stewardship fund ($1.5 million) and Safe, Clean Water and Natural Flood Protection Program ($0.5 million) to fund certain projects.

COP debt service fund

The COP debt service fund is used to account for resources used for debt service payments. It has a total fund balance of $5.4 million, all of which is reserved for payment of debt service.

Proprietary funds

Valley Water's proprietary funds provide a detailed breakdown of the same type of information found in the government-wide financial statements.

Water Enterprise fund

The Water Enterprise fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for to show net income or loss from operations. The fund is intended to be entirely or predominantly self-supported by user charges.

Net position of the Water Enterprise fund at the end of the fiscal year was $834.6 million, an increase of $90.7 million from the prior fiscal year. Operating revenues of $267.1 million more than offset $181.9 million of operating expenses. Year over year, operating revenues increased $39.4 million or 17.3% due to higher groundwater revenue, which was $30.6 million more as a result of the increase in volume sold and increased rates. Treated Water revenue was also higher by $8.6 million over the prior fiscal year, reflective of the increase in rates and volumes sold. Operating expenses were higher $5.7 million or 3.3%, due mainly to increased costs for purchased water, equipment repair and replacement, utilities, and other technical services.

Net non-operating income was $2.6 million for fiscal year 2020 or $1.6 million higher from the prior fiscal year. Higher operating grants revenues of $1.0 million from the City of San Jose for the Advanced Water Treatment Facility cost-share agreement and $0.5 million from well permit fees accounted for most of the increase for the current fiscal year.

State Water Project fund

The State Water Project fund was established and approved by the Board of Directors on October 26, 2010. This fund accounts for the State Water Project Tax receipts pursuant to Section 1B of Article 13A of the California Constitution to pay for county-wide voter-approved State Water Project contract obligations. Fund resources are used for the Water System Revenue Bond and other related capital expenditures billed by the State of

California Department of Water Resources and are accounted for in such a manner as to restrict the use of the resources exclusively for the State Water Project related costs.

Ending net position was $31.9 million or $0.5 million higher than the prior fiscal year. Operating expenses were $22.7 million, of which $21.8 million or 95.8% was cost associated with water purchases. Net non-operating revenues were $23.2 million, with property taxes contributing $21.8 million or 94.1% of the total.

Internal Service Funds

Valley Water has three internal service funds - the Equipment Fund, Risk Management Fund, and Information Technology Fund. Revenues to the funds are generated from fees charged for services provided to Valley Water operating programs.

The Equipment fund charges replacement and maintenance costs to all operations, operating, and capital projects based on equipment assignment and hourly usage of equipment on projects. The fund's annual reimbursement charge for the replacement and maintenance cost of equipment is determined during the budget process and varies yearly depending upon need. Ending net position for the fund was $10.2 million, or $0.6 million more than the prior fiscal year.

The Risk Management fund charges premiums based on exposure levels by project for liability, property, worker's compensation and self-insurance costs. Revenues required to properly reimburse the Risk Management Fund are determined during the budget process and varies yearly depending upon need. Ending net position for the fund was $3.8 million, or $0.9 million less than the prior fiscal year.

The Information Technology fund was established on July 1, 2014 to account for the acquisition, installation, replacement and maintenance costs of district-wide capital charges related to information technology projects. Beginning with fiscal year 2019, the fund also accounts for annual operations associated with information technology activities. The annual reimbursement charge to the Information Technology Fund is determined during the budget process and varies yearly depending upon need. Operating revenues were $15.1 million and operating expenses were $23.2 million. The fund's net position was $20.5 million or $3.3 million lower than the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The summary table below shows a final budget of $61.5 million for operating and capital expenditures for fiscal year 2020. The adopted budget was $61.3 million. There were no capital projects carried forward from the prior year capital projects budget. Current fiscal year budget adjustments increased the final budget slightly.

Adopted Budget	+ Capital Projects Budget Remaining Carry-forward	+ Current Year Budget Adjustments	= Final Budget
$61.3 million	$0.0 million	$0.2 million	$61.5 million

Total expenditures (budgetary basis) in the General Fund for fiscal year 2020 was $60.6 million, which is $5.7 million higher than the prior year.

Beginning fiscal year 2019, all project expenditures relating to the Information Technology Department were moved to the Information Technology Fund. These expenditures were previously accounted for in the General Fund.

CAPITAL ASSETS

Valley Water's capital asset balance, net of accumulated depreciation, for governmental and business-type activities amounts to $2.8 billion at June 30, 2020. Capital asset components include intangible rights and software, land, buildings, structures and improvements (which include the flood control improvement), machinery and equipment. During fiscal year 2020, the total increase in Valley Water's capital assets was $151.6 million or 5.7%. Governmental and business-type activities increased by 3.3% and 8.8%, respectively.

Detailed information on Valley Water's capital assets activity for the current fiscal year can be found in Note 6 of this report.

Valley Water
Capital Assets at June 30, 2020
(in Millions)

	2020	2019	Increase/ Decrease
Governmental Activities			
Capital Assets			
Land	$ 191.7	$ 191.7	$ -
Intangibles - easements	27.4	27.3	0.1
Construction in progress	668.1	596.1	72.0
Buildings	42.0	42.0	-
Structure and improvements	772.6	784.0	(11.4)
Equipment	21.6	21.6	-
Intangible software	-	-	-
Less accumulated depreciation	(182.9)	(172.2)	(10.7)
Internal Service Funds			
Construction in progress	-	2.1	(2.1)
Equipment	31.4	28.8	2.6
Intangible software	4.3	2.6	1.7
Less accumulated depreciation	(22.4)	(19.4)	(3.0)
Total Governmental Activities	**$ 1,553.8**	**$ 1,504.6**	**$ 49.2**
Business-type Activities			
Land	$ 20.0	$ 19.2	$ 0.8
Intangibles - easement and software	0.2	0.2	-
Construction in progress	493.8	399.6	94.2
Contract water and storage rights	226.6	216.6	10.0
Buildings	97.2	91.0	6.2
Structures and improvements	939.5	918.7	20.8
Equipment	29.9	28.3	1.6
Less accumulated depreciation	(540.9)	(509.7)	(31.2)
Business-type Activities	**$ 1,266.3**	**$ 1,163.9**	**$ 102.4**
Total			
Capital Assets			
Land	$ 211.7	$ 210.9	$ 0.8
Intangibles - easements	27.6	27.5	0.1
Construction in progress	1,161.9	997.8	164.1
Contract water and storage rights	226.6	216.6	10.0
Buildings	139.2	133.0	6.2
Structure and improvements	1,712.1	1,702.7	9.4
Equipment	82.9	78.7	4.2
Intangible software	4.3	2.6	1.7
Less accumulated depreciation	(746.2)	(701.3)	(44.9)
Total Governmental and and Business-type Activities	**$ 2,820.1**	**$ 2,668.5**	**$ 151.6**

LONG-TERM OBLIGATIONS

At the end of the current fiscal year, Valley Water had total long-term obligations of $898.1 million. Valley Water's long-term obligations outstanding at the end of the fiscal year consisted of the following:

Valley Water's Outstanding Obligations

(in Millions)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Certificates of participation	$ 65.5	$ 73.6	$ 79.1	$ 124.4	$ 144.6	$ 198.0
Revenue bonds	-	-	378.9	346.3	378.9	346.3
Compensated absences	10.3	9.0	6.3	5.4	16.6	14.4
Semitropic water banking	-	-	10.0	10.0	10.0	10.0
Bond discount	-	-	-	(0.1)	-	(0.1)
Bond premium	9.9	11.5	37.0	38.6	46.9	50.1
Claims payable	7.5	7.1	-	-	7.5	7.1
Net pension liability	134.3	125.3	100.6	94.6	234.9	219.9
Other post employment benefit	33.0	41.3	25.7	31.9	58.7	73.2
Total	$ 260.5	$ 267.8	$ 637.6	$ 651.1	$ 898.1	$ 918.9

The credit ratings for Valley Water outstanding debt reflect a high-grade investment quality debt. They are based on Valley Water's positive fiscal policy and financial strengths. The bond ratings are either the highest for a water related governmental entity in the State of California or among the highest. Bonds issued at this credit rating result in lower interest rates and corresponding lower debt service payments. Valley Water's ratings are the same on a secured and unsecured basis pursuant to the rating methodologies of the respective rating agencies.

Please see table below for current ratings.

	Water Utility		Watershed
	Senior Debt	Parity Debt	Debt
Moody's	Aa1	Aa1	Aa1
Standard & Poor's	AA-	N/A	AAA
Fitch	N/A	AA+	AA+

Valley Water's total obligations decreased by $20.8 million during fiscal year 2020. $7.3 million of the decrease were in the governmental activities and $13.5 million of the decrease was in the business-type activities.

Additional information on Valley Water's long-term debt can be found in Note 7 of this report.

NEXT YEAR'S BUDGET

Valley Water's $609.5 million budget for fiscal year 2021 will focus on the following work plan strategies:

- Actively pursue new water storage opportunities
- Actively participate in decisions regarding the California Delta Conveyance
- Lead Recycled and Purified Water Efforts with committed partners
- Engage and educate the community, elected officials and staff on future water supply strategies in Santa Clara County
- Advance Anderson Dam Seismic Retrofit Project
- Protect and maintain existing assets and infrastructure
- Pursue opportunities to improve internal capacity to acquire regulatory permits
- Attain net positive impact on the environment when implementing flood protection and water supply projects
- Promote the protection of creeks, bay, and other aquatic ecosystems from threats of pollution and degradation
- Continue the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE)
- Address future impacts of climate change to Valley Water's mission and operations
- Advance diversity and inclusion
- Maintain appropriate staffing levels and expertise
- Provide affordable and cost-effective level of services

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of Valley Water's finances, and to demonstrate Valley Water's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the General Accounting Unit as noted below.

Mail - 5750 Almaden Expressway, San Jose, CA 95118
Phone - (408) 265-2600
Email - jsalandanan@valleywater.org

BASIC FINANCIAL STATEMENTS

VALLEY WATER

Statement of Net Position
June 30, 2020
(Dollars in Millions)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments (Note 3)	$ 427.9	$ 288.2	$ 716.1
Restricted cash and investments (Note 3)	5.5	0.1	5.6
Receivables (net):			
Accounts	2.8	38.6	41.4
Interest	2.2	-	2.2
Taxes	0.2	0.1	0.3
Deposits and other assets	3.4	7.0	10.4
Total current assets	442.0	334.0	776.0
Internal balances	0.8	(0.8)	-
Capital assets (Note 6):			
Contract water and storage rights, net	-	38.5	38.5
Depreciable, net	666.6	713.8	1,380.4
Nondepreciable	887.2	514.0	1,401.2
Total assets	1,996.6	1,599.5	3,596.1
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	-	0.6	0.6
Deferred outflows of resources - pension activities (Note 11)	26.9	20.8	47.7
Deferred outflows of resources - OPEB (Note 12)	6.1	4.6	10.7
Total deferred outflows of resources	33.0	26.0	59.0
LIABILITIES			
Accounts payable	18.0	32.1	50.1
Accrued liabilities	0.5	1.8	2.3
Commercial paper, net of discount (Note 7)	30.0	72.7	102.7
Deposits payable	3.7	6.7	10.4
Accrued interest payable	1.2	-	1.2
Total current liabilities	53.4	113.3	166.7
Noncurrent liabilities (Note 7):			
Due within one year	14.5	17.1	31.6
Due in more than one year	246.0	620.4	866.4
Total liabilities	313.9	750.8	1,064.7
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension activities (Note 11)	5.2	4.0	9.2
Deferred inflows of resources - OPEB (Note 12)	6.6	5.0	11.6
Total deferred inflows of resources	11.8	9.0	20.8
NET POSITION (Note 10)			
Net investment in capital assets	1,478.5	689.1	2,167.6
Restricted:			
Debt service	4.1	0.1	4.2
Safe, Clean Water - other activities	149.4	-	149.4
Water Utility San Felipe emergency	-	3.3	3.3
GP5 Reserve	-	6.6	6.6
Water Utility rate stabilization	-	23.5	23.5
Water Utility state water project	-	16.8	16.8
Public-private partnership	-	8.0	8.0
Advanced water purification center	-	1.3	1.3
Supplemental water supply	-	15.1	15.1
Drought reserve	-	10.0	10.0
Unrestricted	71.9	91.9	163.8
Total net position	$ 1,703.9	$ 865.7	$ 2,569.6

See accompanying notes to basic financial statements

VALLEY WATER

Statement of Activities
For the Year Ended June 30, 2020
(Dollars in Millions)

Description	Governmental Activities: General Government	Governmental Activities: Watersheds	Governmental Activities: Interest on Long-term Debt	Governmental Activities: Total	Business-Type Activities	Total
Expenses:						
Operations and operating projects	$ 11.0	$ 134.0	$ 2.5	$ 147.5	$ -	$ 147.5
Water cost of production	-	-	-	-	228.1	228.1
Program revenues:						
Charges for water services	-	-	-	-	266.9	266.9
Operating grants and contributions	-	-	-	-	3.7	3.7
Capital grants and contributions	-	42.9	-	42.9	4.3	47.2
Net program revenue (expense)	$ (11.0)	$ (91.1)	$ (2.5)	(104.6)	46.8	(57.8)
General revenues:						
Property taxes (Note 8)				148.4	30.2	178.6
Unrestricted investment earnings				12.9	8.8	21.7
Miscellaneous				4.0	2.8	6.8
Transfers (Note 14)				1.5	(1.5)	-
Total general revenues and transfers				166.8	40.3	207.1
Change in net position				62.2	87.1	149.3
Net position, beginning of year				1,641.7	778.6	2,420.3
Net position, end of year				$ 1,703.9	$ 865.7	$ 2,569.6

See accompanying notes to basic financial statements.

VALLEY WATER

Balance Sheet
Governmental Funds
June 30, 2020
(Dollars in Millions)

	Special Revenue Fund	
	General	Watershed & Stream Stewardship
ASSETS		
Cash and investments (Note 3)	$ 13.6	$ 173.2
Restricted cash and investments (Note 3)	-	0.1
Receivables:		
Accounts	-	0.3
Interest	2.3	-
Taxes	-	0.2
Deposits and other assets	0.2	2.3
Total assets	$ 16.1	$ 176.1
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ 1.4	$ 1.3
Accrued liabilities	0.5	-
Commercial papers	-	-
Deposits payable	-	2.8
Total liabilities	1.9	4.1
Fund balances (Note 9):		
Restricted fund balance	-	-
Committed fund balance	8.2	160.5
Assigned fund balance	6.0	11.5
Total fund balances	14.2	172.0
Total liabilities and fund balances	$ 16.1	$ 176.1

See accompanying notes to basic financial statements.

Special Revenue Fund Safe, Clean Water & Natural Flood Protection Program	Capital Project Fund COP Construction Fund	Debt Service Fund COP Debt Service	Total Governmental Funds
$ 199.4	$ -	$ -	$ 386.2
-	-	5.4	5.5
2.5	-	-	2.8
-	-	-	2.3
-	-	-	0.2
0.9	-	-	3.4
$ 202.8	$ -	$ 5.4	$ 400.4
$ 13.3	$ -	$ -	$ 16.0
-	-	-	0.5
30.0	-	-	30.0
1.0	-	-	3.8
44.3	-	-	50.3
158.5	-	5.4	163.9
-	-	-	168.7
-	-	-	17.5
158.5	-	5.4	350.1
$ 202.8	$ -	$ 5.4	$ 400.4

VALLEY WATER

Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2020
(Dollars in Millions)

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

Fund balances of governmental funds	$	350.1
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of governmental funds.		1,540.6
Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		35.3
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.		(1.3)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds:		
Certificates of participation		(65.5)
Net original issue premium		(9.9)
Compensated absences		(9.8)
Net pension liability and related deferrals		(103.6)
Net OPEB liability and related deferrals		(32.0)
Net position of governmental activities	$	1,703.9

See accompanying notes to basic financial statements

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VALLEY WATER

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2020
(Dollars in Millions)

	General	Special Revenue Fund: Watershed & Stream Stewardship
Revenues:		
Property taxes (Note 8)	$ 9.2	$ 93.1
Benefit assessments (Note 8)	-	13.4
Use of money and property:		
Investment income (Note 5)	0.5	5.2
Rental	-	1.7
Reimbursement of capital costs (Note 4)	-	15.2
Other	0.1	1.6
Total revenues	9.8	130.2
Expenditures:		
Current:		
Operations and operating projects	5.9	51.4
Capital improvement projects	3.0	28.0
Debt service:		
Principal repayment	-	-
Interest and fiscal agent fees	-	-
Total expenditures	8.9	79.4
Excess (deficiency) of revenues over (under) expenditures	0.9	50.8
Other financing sources (uses):		
Transfers in (Note 14)	0.4	1.6
Transfers out (Note 14)	(1.2)	(33.7)
Total other financing sources (uses)	(0.8)	(32.1)
Net change in fund balances	0.1	18.7
Fund balances, beginning of year	14.1	153.3
Fund balances, end of year	$ 14.2	$ 172.0

See accompanying notes to basic financial statements.

Special Revenue Fund Safe, Clean Water & Natural Flood Protection Program	Capital Project Fund COP Construction Fund	Debt Service Fund COP Debt Service	Total Governmental Funds
$ 46.1	$ -	$ -	$ 148.4
-	-	-	13.4
5.8	-	0.1	11.6
0.4	-	-	2.1
14.3	-	-	29.5
-	-	-	1.7
66.6	-	0.1	206.7
22.9	-	-	80.2
73.9	-	-	104.9
-	-	8.1	8.1
0.7	-	3.5	4.2
97.5	-	11.6	197.4
(30.9)	-	(11.5)	9.3
20.9	-	11.5	34.4
-	(2.0)	-	(36.9)
20.9	(2.0)	11.5	(2.5)
(10.0)	(2.0)	-	6.8
168.5	2.0	5.4	343.3
$ 158.5	$ -	$ 5.4	$ 350.1

VALLEY WATER

Reconciliation of the Statement of Revenues, Expenditures and Change in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020
(Dollars in Millions)

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

Net change in fund balances - total governmental funds	$	6.8
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays, net of depreciation.		
Capital Outlay		60.4
Depreciation		(10.8)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but they do not require the use of current financial resources. This amount represents the net change in accrued interest expense not reported in governmental funds.		0.1
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.		
Certificates of participation repayment		8.1
Net original issue premium		1.6
Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The net revenue of internal service funds is reported with governmental activities.		0.5
Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds:		
Compensated absences		(1.1)
Change in net OPEB liability, deferred inflows and outflows		3.1
Change in net pension liability, deferred inflows and outflows		(6.5)
Change in net position of governmental activities	$	62.2

See accompanying notes to basic financial statements

VALLEY WATER

Statement of Net Position
Proprietary Funds
June 30, 2020
(Dollars in Millions)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments (Note 3)	$ 271.2	$ 17.0	$ 288.2	$ 41.6
Receivables:				
Accounts	38.6	-	38.6	-
Taxes	-	0.1	0.1	-
Deposits and other assets	7.0	-	7.0	0.1
Total current assets	316.8	17.1	333.9	41.7
Non current assets:				
Restricted cash and investments (Note 3)	0.1	-	0.1	-
Capital assets (Note 6):				
Contract water rights, net	23.4	15.1	38.5	-
Depreciable, net	713.8	-	713.8	13.3
Nondepreciable	514.0	-	514.0	-
Total non current assets	1,251.3	15.1	1,266.4	13.3
Total assets	1,568.1	32.2	1,600.3	55.0
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	0.6	-	0.6	-
Deferred outflows of resources - pension activities (Note 11)	20.8	-	20.8	1.6
Deferred outflows of resources - OPEB (Note 12)	4.6	-	4.6	0.4
Total deferred outflows of resources	26.0	-	26.0	2.0
LIABILITIES				
Current liabilities:				
Accounts payable	31.7	0.3	32.0	1.9
Accrued liabilities	1.8	-	1.8	-
Commercial paper (Note 7)	72.7	-	72.7	-
Deposits payable	6.7	-	6.7	-
Claims payable (Note 13)	-	-	-	2.1
Bonds payable - current (Note 7)	15.7	-	15.7	-
Compensated absence	1.4	-	1.4	0.1
Total current liabilities	130.0	0.3	130.3	4.1
Non current liabilities:				
Bonds payable - net of discounts and premiums (Note 7)	479.4	-	479.4	-
Claims payable (Note 13)	-	-	-	5.4
Compensated absence	4.9	-	4.9	0.4
Net pension liability (Note 11)	100.6	-	100.6	10.4
Other post employment benefits liability (Note 12)	25.6	-	25.6	1.5
Other debt	10.0	-	10.0	-
Total non current liabilities	620.5	-	620.5	17.7
Total liabilities	750.5	0.3	750.8	21.8
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension activities (Note 11)	4.0	-	4.0	0.3
Deferred inflows of resources - OPEB (Note 12)	5.0	-	5.0	0.4
Total deferred inflows of resources	9.0	-	9.0	0.7
NET POSITION (Note 10)				
Net investment in capital assets	674.1	15.1	689.2	13.3
Restricted:				
Cash with fiscal agents	0.1	-	0.1	-
San Felipe operations	3.3	-	3.3	-
GP5 reserve	6.6	-	6.6	-
State water project	-	16.8	16.8	-
Rate stabilization	23.5	-	23.5	-
Public-private partnership	8.0		8.0	-
Advanced water purification center	1.3	-	1.3	-
Supplemental water supply	15.1	-	15.1	-
Drought reserve	10.0	-	10.0	-
Unrestricted	92.6	-	92.6	21.2
Total net position	$ 834.6	$ 31.9	866.5	$ 34.5
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			(0.8)	
Net position of business-type activities			$ 865.7	

See accompanying notes to basic financial statements.

VALLEY WATER

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2020
(Dollars in Millions)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
Operating revenues:				
Ground water production charges	$ 112.6	$ -	$ 112.6	$ -
Treated water charges	152.6	-	152.6	-
Surface and recycled water revenue	1.7	-	1.7	-
Charges for services	-	-	-	25.7
Other	0.2	-	0.2	-
Total operating revenues	267.1	-	267.1	25.7
Operating expenses:				
Sources of supply	65.4	21.8	87.2	-
Water treatment	38.5	-	38.5	-
Transmission and distribution:				
Raw water	14.0	-	14.0	-
Treated water	1.7	-	1.7	-
Administration and general	32.0	-	32.0	6.4
Equipment maintenance	-	-	-	25.7
Depreciation and amortization	30.3	0.9	31.2	2.8
Total operating expenses	181.9	22.7	204.6	34.9
Operating income (loss)	85.2	(22.7)	62.5	(9.2)
Nonoperating revenues (expenses):				
Property taxes (Note 8)	8.4	21.8	30.2	-
Investment income (Note 5)	8.8	-	8.8	1.2
Operating grants	3.7	-	3.7	-
Rental income	0.1	-	0.1	-
Other	1.1	1.4	2.5	0.3
Interest and fiscal agent fees	(19.4)	-	(19.4)	-
Net nonoperating revenues (expenses)	2.7	23.2	25.9	1.5
Income before capital contributions and transfers	87.9	0.5	88.4	(7.7)
Capital contributions (Note 4)	4.3	-	4.3	-
Transfers in (Note 14)	1.1	-	1.1	4.1
Transfers out (Note 14)	(2.6)	-	(2.6)	-
Change in net position	90.7	0.5	91.2	(3.6)
Net position, beginning of year	743.9	31.4	775.3	38.1
Net position, end of year	$ 834.6	$ 31.9	$ 866.5	$ 34.5
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.			(0.8)	
Net position of business-type activities			$ 865.7	

Reconciliation of the Statement of Revenues, Expenses and Change in Net Position to the Statement of Activities:

Amounts reported as business-type activities in the statement of activities are different because:

Net change in net position - enterprise funds	$ 91.2
Adjustment to the net effect of the current year activity between the internal service funds and the enterprise funds	(4.1)
Change in net position of business-type activities	$ 87.1

See accompanying notes to basic financial statements.

VALLEY WATER

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020
(Dollars in Millions)

	Business-type Activities: Water Enterprise Fund	Business-type Activities: State Water Project Fund	Business-type Activities: Total Enterprise Funds	Governmental Activities: Internal Service Funds
Cash flows from operating activities:				
Receipts from customers and users	$ 254.1	$ -	$ 254.1	$ -
Payments to suppliers	(49.5)	(26.3)	(75.8)	(18.8)
Payments to employees	(88.3)	-	(88.3)	(10.1)
Receipts from interfund services provided	-	-	-	25.8
Net cash provided by (used for) operating activities	116.3	(26.3)	90.0	(3.1)
Cash flows from noncapital financing activities:				
Property taxes received	8.7	22.4	31.1	-
Operating grant	3.7	-	3.7	-
Well permits, refunds and adjustments	1.1	1.4	2.5	0.2
Transfers in from other funds	1.1	-	1.1	-
Net cash provided by noncapital financing activities	14.6	23.8	38.4	0.2
Cash flows from capital and related financing activities:				
COP/revenue bonds issuance/(payment)	(14.4)	-	(14.4)	-
Commercial papers issuance/(payment)	52.7	-	52.7	-
Capital grants	4.3	-	4.3	-
Interest and fiscal agent fees paid	(19.4)	-	(19.4)	-
Payments for contract water rights	(10.0)	-	(10.0)	-
Acquisition and construction of capital assets	(123.6)	-	(123.6)	(2.1)
Transfers in from other funds	-	-	-	4.1
Transfers out to other funds	(2.6)	-	(2.6)	-
Net cash provided by/(used for) capital and related financing activities	(113.0)	-	(113.0)	2.0
Cash flows from investing activities:				
Proceeds from sale of investments	0.1	-	0.1	-
Rental income received	0.1	-	0.1	-
Interest received on cash and investments	8.8	-	8.8	1.3
Net cash provided by/(used for) investing activities	9.0	-	9.0	1.3
Net increase (decrease) in cash and cash equivalents	26.9	(2.5)	24.4	0.4
Cash and cash equivalents, beginning of year	244.3	19.5	263.8	41.2
Cash and cash equivalents, end of year	$ 271.2	$ 17.0	$ 288.2	$ 41.6
Cash and cash equivalents are reported on the Statement of Net Position as follows:				
Cash and investments	$ 271.2	$ 17.0	$ 288.2	$ 41.6
Restricted cash and investments	0.1	-	0.1	-
Less cash and investments not meeting the definition of cash equivalents	(0.1)	-	(0.1)	-
Cash and cash equivalents, end of year	$ 271.2	$ 17.0	$ 288.2	$ 41.6
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 85.2	$ (22.7)	$ 62.5	$ (9.2)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation, amortization and asset deletion	30.3	0.9	31.2	2.8
Change in operating assets and liabilities:				
(Increase)/decrease in deposits and other assets	2.8	-	2.8	-
(Increase)/decrease in accounts receivable	(13.0)	-	(13.0)	-
Increase/(decrease) in accounts payable	14.7	(4.5)	10.2	1.2
Increase/(decrease) in accrued liabilities	(3.7)	-	(3.7)	-
Increase/(decrease) in deferred revenues	(1.2)	-	(1.2)	-
Increase/(decrease) in compensated absences	0.9	-	0.9	-
Increase/(decrease) in deposits payable	(2.8)	-	(2.8)	-
Increase/(decrease) in claims payable	-	-	-	0.4
Increase/(decrease) in other post employment benefits payable	(6.3)	-	(6.3)	(0.7)
Increase/(decrease) in deferred inflows/outflow of resources	3.4	-	3.4	0.1
Increase/(decrease) in pension liabilities	6.0	-	6.0	2.3
Net cash provided (used) by operating activities	$ 116.3	$ (26.3)	$ 90.0	$ (3.1)
Noncash investing, capital, and financing activity:				
Deletion of capital assets	$ -	$ -	$ -	$ 0.1

See accompanying notes to basic financial statements.

VALLEY WATER

Statement of Assets and Liabilities
Agency Fund
June 30, 2020
(Dollars in Millions)

ASSETS		
Cash and investments (Note 3)	$	0.2
Total assets	$	0.2
LIABILITIES		
Deposits payable	$	0.2
Total liabilities	$	0.2

See accompanying notes to basic financial statements.

NOTE 1 - THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

Valley Water is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. Valley Water encompasses all of Santa Clara County.

Valley Water is governed by a seven-member Board of Directors (District Board). Each member is elected from equally divided districts drawn through a formal process. The term of office of a director is four years.

On October 12, 2009, Assembly Bill 466 was signed by the Governor of California revising the composition of the board of Valley Water by requiring the board to transition to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. The board also would be required to adopt a resolution establishing boundaries of the seven electoral districts. On May 14, 2010, the Board of Directors adopted a resolution that officially set the boundaries of the seven electoral districts. In November 2010, two directors were elected to represent the new electoral districts constituting a new board of seven members. As required by state law, the Valley Water must redraw its boundaries to reflect 2010 Census results. On October 11, 2011, the Board of Directors adopted Resolution No. 11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

Valley Water has broad powers relating to all aspects of flood control and storm waters within the District, whether such waters have their sources within Valley Water. It is also authorized to store and distribute water for use within its jurisdictional boundaries and authorized to provide sufficient water for present or future beneficial use of the lands and inhabitants of the District. Valley Water acquires, stores, and distributes water for irrigation, residential, fire protection, municipal, commercial, industrial, and all other uses. Valley Water also directly supports the environment and the community through careful stewardship.

As required by generally accepted accounting principles (GAAP) in the United States of America, the accompanying basic financial statements present Valley Water and its component unit. The component unit discussed below is included in Valley Water's reporting entity because of the significance of its operational and financial relationship with Valley Water.

(b) Blended Component Unit

The Santa Clara Valley Water District Public Facilities Financing Corporation (PFFC) was established on December 16, 1987 for the purpose of providing assistance to Valley Water in financing the acquisition, construction and improvement of public buildings, works and equipment for Valley Water. Although legally separate from Valley Water, the PFFC is reported as if it were part of the primary government because its sole purpose is to provide financing to Valley Water under the debt issuance documents of the district, and its governing board is Valley Water's governing board. The operations of the PFFC are accounted for in the debt service and capital project funds.

Separate financial statements are not issued for the PFFC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the primary government (Valley Water) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of Valley Water. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from the business-type activity, which rely to a significant extent on fees charged to external parties.

Certain eliminations have been made in regard to interfund activities. All internal balances in the statement of net position have been eliminated except those representing balances between the government activities and business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated. However, transactions between the governmental and business-type activities have not been eliminated.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activity of Valley Water and for each function of Valley Water's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

When both restricted and unrestricted net position is available, restricted resources are used for qualified expenses before any unrestricted resources are spent.

Fund Financial Statements

The fund financial statements provide information about Valley Water's funds, including agency funds and the blended component unit. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented.

Valley Water reports the following Governmental Funds:

The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental functions of Valley Water that are not accounted for through other funds.

The *Special Revenue Type Funds* are used to account for specific revenue sources for which expenditures are restricted by law or regulation or committed by board resolutions to finance particular watershed or safe, clean and natural flood protection functions or activities of Valley Water. Valley Water has the following special revenue type funds:

- The *Watershed and Stream Stewardship Fund* is funded by Valley Water's one percent property tax allocation and benefit assessments and used to protect, restore, or enhance the watersheds, streams and natural resources therein. Starting from fiscal year 2009, this fund was redefined to consolidate all watershed stewardship activities from a portion of Valley Water's ad valorem property tax allocation.

  The Watershed and Stream Stewardship Fund includes the following watershed activities that were based on their geographic boundaries (zone funds):

  - ♦ The *Lower Peninsula Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek. The geographic area includes the Cities of Palo Alto, Los Altos, Mountain View, the Town of Los Altos Hills, and portions of Cupertino.

  - ♦ The *West Valley Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe Slough, Sunnyvale West Outfall, Sunnyvale East Outfall, Calabazas Creek, San Tomas Aquino Creek, and Saratoga Creek. The geographic area includes portions of the Cities of Sunnyvale, Cupertino, Monte Sereno, San Jose, Santa Clara, Campbell, Saratoga and the Town of Los Gatos.

  - ♦ The *Guadalupe Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe River. The major tributaries are Los Gatos Creek, Canoas Creek, Ross Creek, Guadalupe Creek, and Alamitos Creek. The geographic area includes portions of the Cities of Santa Clara, San Jose, Campbell, Monte Sereno, and the Town of Los Gatos.

  - ♦ The *Coyote Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of Coyote Creek. The major tributaries are Lower Penitencia Creek, Scott Creek, Berryessa Creek, Upper Penitencia Creek, Silver Creek, Thompson Creek, Fisher Creek, and Packwood Creek. The geographic area includes the City of Milpitas and portions of the Cities of San Jose and Morgan Hill.

- The *Safe, Clean Water & Natural Flood Protection Program* is used to account for the countywide special parcel tax approved by voters on November 6, 2012, with a sunset date of June 30, 2028. (See Note 17 - Subsequent Events regarding November 3, 2020 voter approved renewal.) This program replaces the Clean, Safe Creeks and Natural Flood Protection Plan that was approved by voters in November 2000.

- The *Capital Project Type Funds* are used to account for COP proceeds used for the construction of major capital projects with their respective watersheds. The COP Construction Fund is Valley Water's sole capital project type fund.

- The *Debt Service Type Funds* are used to account for monies being held for reserve requirements and arbitrage rebate for Valley Water's debt payments. The COP Debt Service Fund is Valley Water's sole debt service type fund.

Valley Water reports the following Proprietary Funds:

- The *Water Enterprise Fund* accounts 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 (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

- The *State Water Project Fund* accounts for all revenues and costs associated with the State Water Project.

- The *Internal Service Funds* account for the financing of goods or services provided by one department or agency of Valley Water to other departments or agencies on a cost-reimbursement basis.

    - The *Equipment Fund* accounts for the maintenance and operation of Valley Water's vehicle fleet, heavy construction, and information system equipment.

    - The *Risk Management Fund* accounts for the monies set aside to pay for all claims, judgments, and premium cost.

    - The *Information Technology Fund* accounts for the replacement, operations, and maintenance of district-wide information technology projects.

Valley Water reports *Agency Funds* (Fiduciary Fund type) to account for assets held by Valley Water as an agent for private organizations and/or other governments.

- The *Deposit Fund* is used to account for the collection and payment of funds held in trust for specific purposes.

(b) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which Valley Water gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property taxes, benefit assessments, interest, grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences are recorded when payment is due. Capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and capital leases are reported as other financing sources.

Proprietary funds are reported using the economic resource measurement focus and the accrual basis of accounting and distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water enterprise fund is the sale of water to outside customers, and of Valley Water's internal service funds are charges for services provided to internal departments. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary funds *operating* revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. *Non-operating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Agency funds are used to account for assets held by Valley Water in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds. Agency funds do not have a measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

(c) Cash and Investments

While maintaining safety and liquidity, Valley Water maximizes its investment return by pooling its available cash for investment purposes. Interest earnings are apportioned among funds based upon the average monthly cash balance of each fund and are allocated to each fund on a monthly basis.

Valley Water reported investments in nonparticipating interest earnings contracts (including guaranteed investment contracts) at cost, and all other investments at fair value. The fair value of investments is based on current market prices.

For purposes of the Statement of Cash Flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased (including restricted investments), and their equity in the cash and investment pool to be cash equivalents.

(d) Inventory

Proprietary fund inventory consists of materials and supplies held for consumption. The cost of all inventory acquired is recorded as an expense at the time of purchase. At the end of the accounting period, the inventory values of materials and supplies on hand are determined using a current cost method which approximates market value. For financial statement purposes, chemical inventories are presented under deposits and other assets.

(e) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition cost on the date contributed. Capital assets of governmental activities include pipelines, channel linings, floodwalls, levees, bridge flood proofing, box culverts and re-vegetation. Valley Water defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Water treatment facilities	50 Years
Buildings, structures, and trailers	25 - 50 Years
Flood control projects	30 - 100 Years
Dams, structures, and improvements	80 Years
Office furniture, fixtures, and equipment	5 - 20 Years
Automobiles and trucks	6 - 12 Years
Computer equipment	5 Years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

(f) Amortization of Contract Water Rights

Valley Water has contracted with the State of California for water deliveries from the State Water Project through calendar year 2035. A portion of the payments under this contract represent reimbursement of capital costs for transportation facilities (the capital cost component). The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(g) Amortization of Water Banking Rights

Valley Water has contracted with the Semitropic Water Storage District and its Improvement Districts for the water banking and exchange program. The program is in effect through calendar year 2035. Participation in the program provides Valley Water a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Water Enterprise Fund has capitalized the cost of the program and amortizes its cost over the 40-year entitlement period using the straight-line method.

(h) Amortization of Water Delivery Rights

Valley Water has contracted with the United States Department of the Interior Bureau of Reclamation for water deliveries from Central Valley through calendar year 2027. A portion of this contract represents reimbursement of capital costs for general construction in the San Felipe Division facilities. The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(i) Receivables

Receivables include amounts due from water utility customers, as well as from other miscellaneous revenue sources. All receivables are shown net of an allowance for doubtful accounts. For the current fiscal year, the allowance balance was $5.9 million. At the end of every fiscal year, a review of outstanding receivables results in the recalculation of the bad debt allowance where delinquent balances greater than 3 years are assigned a weight of 75%, up to 3 years a weight of 50%, up to 2 years a weight of 20%, and up to 1 year a weight of 5%. The totals of each of these amounts are then combined to determine the fiscal year's ending bad debt allowance.

(j) Accrued Vacation and Sick Leave Pay

It is the policy of Valley Water to permit employees to accumulate earned but unused vacation and sick leave benefits. Vested or accumulated vacation and sick leave are reported as noncurrent liabilities on the statement of net position.

Maximum vacation accruals may not exceed three times the employee's annual accrual rate, per employee. All regular full-time employees are eligible for twelve (12) days of sick leave per fiscal year. Unused sick leave may be carried forward to the following fiscal year without limitation. Upon retirement, up to 480 hours of accrued sick leave shall be paid to the eligible employee at the rate of 50% of the equivalent cash value. Upon resignation with ten or more years of service, or upon separation by layoff regardless of service, up to 480 hours of accrued sick leave shall be paid off at the rate of 25% of the cash value.

(k) Bond Premiums, Discounts and Issuance Costs

Water Enterprise and Watershed debt premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Refunding differences associated with debt refinancing are reported as deferred outflows or inflows of resources and amortized over the life of the bonds. Issuance costs are recorded as an expense of the current period.

On the statement of net position and the statement of activities, the premiums and discounts related to outstanding debt are deferred and amortized over the life of the debt. Debt payable are reported net of the applicable bond premiums or discounts. Prepaid insurance associated with the issuance of debts are reported as prepaid expenses.

(l) Accounting for Encumbrances

Valley Water employs encumbrance accounting as a significant aspect of budgetary control. Under encumbrance accounting, purchase orders, contracts and other commitments for expenditure of funds are recorded as assignment of fund balance since they are not treated as current expenditures or outstanding liabilities at year end for GAAP financial reporting.

(m) Net position

Valley Water's fund net position is classified based primarily to the extent to which Valley Water is bound to observe constraints imposed upon the use of the resources. When both restricted and unrestricted resources are available for expenses, Valley Water expends the restricted funds and then the unrestricted funds.

(n) Estimates

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

(o) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Valley Water's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019

(p) Other Post Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Valley Water's plan (OPEB Plan) and additions to/deductions from the OPEB's Plan's fiduciary net position have been determined on the same basis as reported by CalPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019

(q) Fair Value Measurement

Valley Water has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. Valley Water categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are observable inputs (other than quoted marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and Level 3 inputs are significant unobservable inputs.

(r) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows. Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

(s) New Pronouncements

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on Valley Water's financial reporting process. Current and future new standards which may impact Valley Water include the following:

Current Accounting Pronouncements:

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or fiscal year 2020. Valley Water has implemented this GASB standard.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61*. The objective of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government's holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or fiscal year 2020. This pronouncement is not applicable to Valley Water.

Future Accounting Pronouncements:

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or fiscal year 2021. Valley Water has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or fiscal year 2021. Valley Water has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, or fiscal year 2022. Valley Water has not determined the impact of this pronouncement on the financial statements.

NOTE 3 - CASH AND INVESTMENTS

Total Valley Water cash and investments reported on the financial statements at June 30, 2020 are as follows (in millions):

Statement of Net Position:		
Cash and investments	$	716.1
Restricted cash and investments		5.6
Statement of Fiduciary Net Position:		
Cash and investments		0.2
	$	721.9

Investments

At June 30, 2020, cash and investments based on fair value consist of the following (in millions):

U.S. Government Agencies	$ 300.7
U.S. Treasury Obligations	25.9
Medium Term Notes	18.6
Local Agency Investment Fund	75.0
Mutual Funds	0.1
Supranational Obligations	10.3
Municipal Bonds	65.5
Negotiable Certificates of Deposit	1.2
Time Certificates of Deposit	172.5
Money Market Funds	47.8
Total Investments	$ 717.6
Carrying amount of cash	4.3
Total Cash and Investments	$ 721.9

As of June 30, 2020, the fair value of Valley Water's investment in the State investment pool (LAIF) was $75.0 million in non-restricted cash. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. Valley Water is a voluntary participant in the pool. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of Valley Water's position in LAIF. The pool is not registered with the Securities Exchange Commission.

Authorized Investments by Valley Water

Valley Water's Investment Policy and the California Government Code allow Valley Water to invest in the following types of investments, provided the credit ratings of the issuers are acceptable to Valley Water. The following items also identify certain provisions of Valley Water and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This list does not address Valley Water's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of Valley Water, rather than the general provisions of the California Government Code or Valley Water's investment policy, when more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	(Exempt from disclosure)	None	None
U.S. Government Agency Issues (A)	5 years	(Exempt from disclosure)	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	5 years	AA-	30%	3.6%
Time Certificates of Deposit (B)	5 years	Satisfactory CRA	5%	$250,000 & FDIC Membership
Collateralized Repurchase Agreements	30 days	AA-	None	None
Medium Term Notes	5 years	AA-	15%	1.8%
Municipal Obligations	5 years	AA-	15%	1.8%
California Local Agency Investment Fund (C)	N/A	N/A	(B)	(B)
Mutual Funds	N/A	AAA	10%	- -
Supranational Obligations	5 years	AA	15%	1.8%

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation of America and the Tennessee Valley Authority.

(B) Valley Water Board of Directors approved investments in California based local banks with a threshold of a minimum of 4% invested in banks with up to $10 billion in assets and 1% in banks with up to $2 billion in assets for a limit of 5 years in the form of collateralized deposits, FDIC/NCUA insured CDs, CDARS, or any legally allowable deposits.

(C) LAIF will accept no more than $75 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of Valley Water's revenue bond resolutions and Installment Purchase Agreement for the 2012A, 2016C, 2016D, and 2017A Certificates of Participations (COPs) and Water Utility Revenue and Refunding Bonds 2006B, 2016A, 2016B, 2017A, 2019A, 2019B and 2019C, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee.

As of June 30, 2020, the amount invested in assets held by fiscal agent amounted to $5.4 million and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

Valley Water, through the PFFC, has also issued commercial paper to provide for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water. At June 30, 2020, the total balance of the taxable and the tax-exempt commercial paper certificate accounts held by fiscal agent is $0.1 million. Both account balances were cash transfers from Valley Water to fiscal agent to fund maturing interest payments on commercial papers outstanding.

Restricted Cash and Investments for Watershed Management Projects

Valley Water has entered into certain cost sharing agreements with the U.S. Army Corps of Engineers (the Corps). Under these agreements, Valley Water is required to deposit monies into escrow accounts to be used by the Corps for watershed management projects. At June 30, 2020, Valley Water's restricted deposits held in escrow for construction of the Guadalupe Watershed project amounted to $0.1 million.

Authorized Investments by Debt Agreements

Valley Water must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if Valley Water fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in instruments which, at the time of such investment, are legal investments under the laws of the State of California, Valley Water ordinances, policies, and bond indentures. The following identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations (A)	N/A	N/A
U.S. Agency Securities (B)	N/A	N/A
State Obligations (C)	N/A	A
Commercial Paper	270 days	A1
Unsecured CD's, deposit accounts, time deposits, and bankers acceptances	365 days	A-1
FDIC Insured Deposit (D)	N/A	N/A
Money Market Funds	N/A	AAA
Collateralized Repurchase Agreements (E)	N/A	A-1
Investment Agreements (F)	N/A	AA-
Investment Approved in Writing by the Certificate Insurer (G)	N/A	N/A
Local Agency Investment Fund of the State of CA	N/A	N/A
Supranational Obligations	N/A	AA

(A) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.

(B) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMAs"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMAs"); guaranteed participation certificates and guaranteed pool certificates of the Small Business

Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.

(C) Direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, “A” or better by Moody's and "A" or better by S&P.

(D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than $3.0 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

(E) Repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated “P-1” or"A3" or better by Moody's and “A-1” or “A-” or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent (“Agent”) for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50.0 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. if such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.

(F) Investment agreements, guaranteed investment contracts, funding agreement, or any other form of corporate note representing the unconditional obligations of entities or agencies with the unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody’s and S&P.

(G) Any investment approved in writing by the Certificate Insurer.

Interest Rate Risk

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Valley Water generally manages its own interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair value of Valley Water's investments to market interest rate fluctuations, summarized by the following table, shows the distribution to Valley Water's investments by maturity or earliest call date (in millions).

	Total	12 Months or less	13 to 24 Months	25 to 60 Months
U.S. Government Agencies	$ 238.9	$ 65.1	$ 57.9	$ 115.9
U.S. Government Agencies - Callable	61.8	-	-	61.8
U.S. Treasury Obligations	25.9	8.1	9.3	8.5
Medium Term Notes	6.1	3.0	-	3.1
Medium Term Notes - Callable	12.4	2.0	3.1	7.3
Local Agency Investment Fund	75.0	75.0	-	-
Mutual Funds	0.1	0.1	-	-
Supranational Obligations	10.4	7.1	-	3.3
Municipal Bonds	64.1	9.2	7.8	47.1
Municipal Bonds - Callable	1.5	-	-	1.5
Negotiable Certificates of Deposit	1.2	0.7	-	0.5
Time Certificates of Deposit	172.4	172.4	-	-
Money Market Funds	47.8	47.8	-	-
Total Investments	$ 717.6	$ 390.5	$ 78.1	$ 249.0

Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The ensuing table shows the minimum rating required by the California Government Code, Valley Water's investment policy, or debt agreements and the actual rating as of June 30, 2020 for each investment type as provided by Standard and Poor's (in millions).

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end AAA	AA+	AA	AA-	Not Rated
U.S. Government Agencies	$ 300.7	AA-	$ -	$ -	$ 259.8	$ -	$ -	$ 40.9
U.S. Treasury Obligations	25.9	AA-	25.9	-	-	-	-	-
Medium Term Notes	18.6	AA-	-	10.3	5.2	-	-	3.1
Local Agency Investment Fund	75.0	N/A	-	-	-	-	-	75.0
Mutual Funds	0.1	AAA	-	0.1	-	-	-	-
Supranational Obligations	10.4	AA	-	10.4	-	-	-	-
Municipal Bonds	65.5	AA-	-	9.2	22.0	31.1	3.2	-
Negotiable Certificates of Deposit	1.2	AA-	-	-	-	-	-	1.2
Time Certificates of Deposit	172.4	N/A	-	-	-	-	-	172.4
Money Market Funds	47.8	N/A	-	-	-	-	-	47.8
Total Investments	$ 717.6		$ 25.9	$ 30.0	$ 287.0	$ 31.1	$ 3.2	$ 340.4

Concentration of Credit Risk

Valley Water's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and Valley Water's investment policy, whichever is more restrictive. However, Valley Water is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual Valley Water Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2020, those investments consisted of the following (in millions):

Issuer	Investment Type	Reported Amount
Government-Wide		
Federal Home Loan Bank	U.S. Government Agency	$ 105.6
Federal Farm Credit Bank	U.S. Government Agency	107.9
Federal Home Loan Mortgage Corp.	U.S. Government Agency	40.9
Federal National Mortgage Association	U.S. Government Agency	42.3

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, Valley Water will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of public agencies' cash on deposit. All of Valley Water's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions but not in Valley Water's name.

Fair Value Measurement and Application

Valley Water measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as shown below:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs (other than quoted marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and
- Level 3: Unobservable inputs (not applicable to Valley Water).

Shown below is a summary of the fair value hierarchy of Valley Water's investment at fair value on June 30, 2020 (in millions):

	6/30/2020	Level 1	Level 2	Uncategorized
Investments by Fair Value Level				
U.S. Government Agencies	$ 300.7	$ 300.7	$ -	$ -
U.S. Treasury Obligations	25.9	25.9	-	-
Medium Term Notes	18.6	-	18.6	-
Mutual Funds	0.1	-	0.1	-
Supranational Obligations	10.4	-	10.4	-
Municipal Bonds	65.5	-	65.5	-
Negotiable Certificates of Deposit	1.2	-	1.2	-
Time Certificates of Deposit	172.4	-	172.4	-
Subtotal - Leveled Investments	594.8	326.6	268.2	-
Local Agency Investment Fund	75.0	-	-	75.0
Money Market Funds	47.8	-	-	47.8
Subtotal - Uncategorized	122.8	-	-	122.8
Total Investments	$ 717.6	$ 326.6	$ 268.2	$ 122.8

Deposits and withdrawals in the State Investment Pool are made on the basis of $1 and are not using fair value. Accordingly, Valley Water's investments of $75.0 million in LAIF at June 30, 2020 are classified as uncategorized input (not classified as Level 1, Level 2, or Level 3).

NOTE 4 - REIMBURSEMENT OF CAPITAL COSTS

Valley Water derives certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The table on the next page shows a summary of such reimbursements during fiscal year 2020 (in millions).

Reimbursement of Capital Costs
(In Millions)

	Governmental Funds	Proprietary Funds
Local Agencies:		
City of Gilroy	$ 0.2	$ -
City of Mountain View	0.1	-
City of Palo Alto	0.2	-
San Benito County Water District	-	0.3
San Francisco Bay Restoration Authority	14.7	-
State Agency:		
Department of Water Resources	11.3	2.8
California Water Commission	-	0.7
Federal Agency		
US Department of Agriculture	3.0	-
Other		
Apple	-	0.5
Total	$ 29.5	$ 4.3

NOTE 5 - INVESTMENT INCOME

Valley Water earns interest income from the investment of cash. Generally accepted accounting principles, as discussed in GASB 31, require reporting investment at fair value in the financial statements. Because of this requirement, interest income earned from investing activity during the current fiscal year is adjusted upwards or downwards to reflect the change in fair value of investment.

The following table represents the investment income as reported in the financial statements, the current year GASB 31 fair value adjustment, and the unadjusted interest income at June 30, 2020 (in millions).

	Interest as Reported	GASB31 Fair Value Adjustment	Unadjusted Interest Income
Fund:			
General	$ 0.5	$ 0.1	$ 0.4
Watershed & Stream Stewardship	5.2	2.1	3.1
Safe, Clean Water	5.8	2.2	3.6
COP Construction	0.1	-	0.1
Water Enterprise	8.8	3.3	5.5
Internal Service:			
Equipment	0.2	0.1	0.1
Risk Insurance	0.5	0.2	0.3
Information Technology	0.6	0.2	0.4
Total Interest	$ 21.7	$ 8.2	$ 13.5

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 was as follows (in millions):

	Balance July 1, 2019	Additions	Deletions	Transfers / Adjustments	Balance June 30, 2020
Governmental Activities					
Nondepreciable capital assets:					
Land	$ 191.7	$ -	$ -	$ -	$ 191.7
Intangibles - easement	27.4	-	-	-	27.4
Construction in progress					
Governmental funds	596.1	89.9	-	(17.9)	668.1
Internal service funds	2.1	0.3	-	(2.4)	-
Total nondepreciable capital assets	817.3	90.2	-	(20.3)	887.2
Depreciable capital assets:					
Buildings	42.0	-	-	-	42.0
Structures and improvements	784.0	-	(29.3)	17.9	772.6
Equipment:					
Governmental funds	21.6	-	-	-	21.6
Internal service funds	28.8	1.9	(0.1)	0.8	31.4
Intangible Software	2.6	-	-	1.7	4.3
Total depreciable capital assets	879.0	1.9	(29.4)	20.4	871.9
Less accumulated depreciation and amortization					
Buildings	(15.3)	(0.8)	-	-	(16.1)
Structures and improvements	(137.3)	(9.3)	-	-	(146.6)
Equipment:					
Governmental funds	(19.7)	(0.5)	-	-	(20.2)
Internal service funds	(17.3)	(2.6)	0.1	-	(19.8)
Intangible - software	(2.1)	(0.5)	-	-	(2.6)
Total accumulated depreciation and amortization	(191.7)	(13.7)	0.1	-	(205.3)
Net depreciable capital assets	687.3	(11.8)	(29.3)	20.4	666.6
Total capital assets, net	$ 1,504.6	$ 78.4	$ (29.3)	$ 0.1	$ 1,553.8
Business-type activity					
Nondepreciable capital assets:					
Land	$ 19.2	$ 0.8	$ -	$ -	$ 20.0
Intangible - easement and software	0.2	-	-	-	0.2
Construction in progress	399.6	122.2	-	(28.0)	493.8
Total nondepreciable capital assets	419.0	123.0	-	(28.0)	514.0
Depreciable capital assets:					
Contract water and storage rights	216.6	10.0	-	-	226.6
Buildings	91.0	-	-	6.2	97.2
Structures and improvements	918.7	-	-	20.8	939.5
Equipment	28.3	0.6	-	1.0	29.9
Total depreciable capital assets	1,254.6	10.6	-	28.0	1,293.2
Less accumulated depreciation and amortization					
Contract water and storage rights	(175.7)	(12.4)	-	-	(188.1)
Buildings	(10.2)	(2.1)	-	-	(12.3)
Structures and improvements	(300.3)	(15.5)	-	-	(315.8)
Equipment	(23.5)	(1.2)	-	-	(24.7)
Total accumulated depreciation and amortization	(509.7)	(31.2)	-	-	(540.9)
Net depreciable capital assets	744.9	(20.6)	-	28.0	752.3
Total capital assets, net	$ 1,163.9	$ 102.4	$ -	$ -	$ 1,266.3

During fiscal year 2020, new construction in progress increased by $89.9 million in the governmental activities. The breakdown of additions to the construction in progress was as follows: $16.9 million to the watersheds, and $73.0 million to the Safe, Clean Water & Natural Flood Protection Fund. There were 68 in progress and completed projects during the fiscal year with the major projects listed below (in millions):

- $35.9 – Upper Llagas Creek
- $13.7 - Permanente Creek
- $11.7 – San Francisco Bay Shoreline EIA Design and Part Construction
- $6.3 - San Francisco Bay Shoreline
- $4.4 - Berryessa Creek, Lower, Penitencia Phase 2
- $1.5 - San Francisquito Creek
- $1.5 - Coyote Creek, Montague to I-280
- $1.4 - Almaden Lake Improvement
- $1.3 - Lower Penitencia Creek Improvements
- $1.2 - Cunningham Flood Detention
- $1.2 - Salt Ponds A5-11 Restoration
- $1.1 - Main/Madrone Pipeline Restoration
- $1.1 – Palo Alto Flood Basin Tide Gate Improvements
- $1.0 - Sunnyvale East and West Channel

New construction in progress amounted to $122.2 million in the business-type activities. There were 50 in progress and completed projects during the fiscal year, with major projects listed below (in millions):

- $59.6 - Rinconada Water Treatment Plant Reliability Improvement
- $19.0 - 10-year Pipeline and Rehabilitation
- $17.3 - Pacheco Reservoir Expansion Project
- $11.6 - Anderson Dam Seismic Retrofit
- $6.3 - Coyote Pumping Plant Warehouse
- $3.1 - Rinconada Water Treatment Plant Residuals Remediation
- $1.0 - Dam Safety Seismic Stability

Capital asset depreciation and amortization incurred by the primary government for the current fiscal year are as follows (in millions):

General government	$ 1.6
Watershed and Stream Stewardship	8.7
Safe, clean water and natural flood protection	.7
Capital assets held by Valley Water's internal service funds are charged to the various functions based on their usage of assets.	2.8
Total depreciation expense – governmental activities	$ 13.7
Total depreciation and amortization expense – business-type activity	
Water cost of production	$ 31.2

NOTE 7 - SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

On December 17, 2002, the Valley Water Board authorized a commercial paper program, through the PFFC. The commercial paper program allows Valley Water to finance capital acquisitions while taking advantage of short term rates, and Valley Water issues tax and revenue anticipation notes on an annual basis to secure the commercial paper program. This program is used in conjunction with issuing long-term liabilities to obtain the least expensive financing for Valley Water.

On May 15, 2012, the Valley Water Board authorized the execution and delivery of certain agreements in connection with the commercial paper program in an aggregate principal amount not to exceed $100.0 million.

On January 13, 2015, the Valley Water Board took certain actions to support an increase in the commercial paper program to $150.0 million. The proceeds of the commercial paper may be used for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water.

On April 22, 2020, Valley Water issued $17.7 million of Tax Exempt and $25.0 million of Taxable commercial paper to reimburse Water Utility capital project costs incurred between May 2019 and February 2020. On June 25, 2020, Valley Water issued $10.0 million of Taxable commercial paper to prefund Water Utility costs incurred in March 2020 and in the future.

As of June 30, 2020, outstanding commercial paper was $102.7 million, consisting of $30.0 million issued through the PFFC for the benefit of the Safe, Clean Water Program and $72.7 million issued through the PFFC for the benefit of the Water Utility Enterprise.

Commercail paper activity for the year ended June 30, 2020 was as follows (in millions):

Commercial Paper Program	Authorized	Outstanding Amount
Beginning balance	$ 150.0	$ 50.0
Additions	-	52.7
Ending balance	$ 150.0	$ 102.7

(b) Long-term liabilities

Valley Water's long-term liabilities outstanding consisted of the following (in millions):

Type of indebtedness	Maturity	All-in True Interest Cost*	Authorized and Issued	June 30, 2020	Due Within One Year
Governmental activities					
Certificates of participation (COP)					
2012A COP	2024	1.41%	$ 52.9	$ 19.2	$ 4.5
2017A COP	2030	2.56%	59.4	46.3	4.0
Compensated absences				10.3	2.4
Claims payable				7.5	2.1
Net pension liability				134.3	-
Other post employment liability				33.0	-
Bond premium				9.9	1.5
Total general long-term obligations				$ 260.5	$ 14.5
Business-type activity					
2006B Water revenue bond	2035	5.39%	$ 25.6	$ 17.3	$ 0.9
2016A Water revenue bond	2046	3.25%	106.3	106.3	-
2016B Water revenue bond	2046	4.32%	75.2	75.2	-
2017A Water revenue bond	2037	3.13%	54.7	49.6	1.9
2019A Water revenue bond	2039	3.75%	15.2	15.0	0.2
2019B Water revenue bond	2034	3.81%	80.0	78.4	1.7
2019C Water revenue bond		2.76%	38.3	37.0	1.9
2016C Water revenue COP bond	2029	2.13%	43.1	34.9	3.3
2016D Water revenue COP bond	2029	3.14%	55.0	44.3	4.2
Bond discount				-	-
Bond premium				37.0	1.6
Compensated absences				6.3	1.4
Net pension liability				100.6	-
Other post employment liability				25.7	-
Semitropic water banking agreement	2035		46.9	10.0	-
Total enterprise funds debt				$ 637.6	$ 17.1

* All-in true interest cost represents the total cost of a bond financing, taking account any accrued interest, premium or discount and costs of issuance.

The following is a summary of changes in long-term liabilities as of June 30, 2020 (in millions):

	Balance 7/1/2019	Additions	Reductions	Balance 6/30/2020	Due Within One Year
Governmental activities:					
2012A COP	$ 23.5	$ -	$ (4.3)	$ 19.2	$ 4.5
2017A COP	50.0	-	(3.8)	46.2	4.0
Compensated absences	9.0	6.1	(4.9)	10.2	2.4
Claims payable (See Note 13)	7.1	0.4	-	7.5	2.1
Net pension liability (See Note 11)	125.3	9.1	-	134.4	-
Other post employment benefits (See Note 12)	41.4	-	(8.4)	33.0	-
Premium on refunded debt	11.5	-	(1.5)	10.0	1.5
Total governmental activities long-term liabilities	$ 267.8	$ 15.6	$ (22.9)	$ 260.5	$ 14.5
Business-type activity:					
2006B Water revenue bonds	$ 18.1	$ -	$ (0.8)	$ 17.3	$ 0.9
2016A Water revenue bonds	106.3	-	-	106.3	-
2016B Water revenue bonds	75.2	-	-	75.2	-
2017A Water revenue bonds	51.4	-	(1.8)	49.6	1.9
2019A Water revenue bonds	15.2	-	(0.2)	15.0	0.2
2019B Water revenue bonds	80.0	-	(1.6)	78.4	1.7
2019C Water revenue bonds	-	38.3	(1.3)	37.0	1.9
2007B Water revenue COP	38.0	-	(38.0)	-	-
2016C Water revenue COP	38.0	-	(3.1)	34.9	3.3
2016D Water revenue COP	48.4	-	(4.1)	44.3	4.2
Bond discount on refunding	(0.1)	0.1		-	-
Premium on debt issuance	38.6	-	(1.6)	37.0	1.6
Compensated absences	5.4	4.6	(3.7)	6.3	1.4
Net pension liability (See Note 11)	94.6	6.0	-	100.6	-
Other post employment benefits (See Note 12)	32.0	-	(6.3)	25.7	-
Semitropic water banking agreement (See Note 15)	10.0	-	-	10.0	-
Total business-type activity long-term liabilities	$ 651.1	$ 49.0	$ (62.5)	$ 637.6	$ 17.1

The aggregate maturities of long-term debt are as follows (in millions):

	Governmental Activities		Business-type Activities	
Bonds Payable	Principal	Interest	Principal	Interest
2021	$ 8.5	$ 3.1	$ 14.1	$ 19.5
2022	8.9	2.7	14.8	19.1
2023	9.2	2.3	15.3	18.5
2024	9.7	1.9	15.9	18.0
2025	4.3	1.5	16.4	17.4
2026-2030	24.9	3.9	93.9	76.6
2031-2035	-	-	95.4	55.7
2036-2040	-	-	76.2	35.7
2041-2045	-	-	82.1	18.8
2046-2050	-	-	33.9	2.7
Total bonds payable requirements	$ 65.5	$ 15.4	$ 458.0	$ 282.0
Compensated absences	10.3		6.3	
Premium	9.9		37.0	
Claims payable	7.5		-	
OPEB	33.0		25.7	
Pension	134.3		100.6	
Semitropic water banking agreement			10	
Total outstanding non-current liabilities at June 30, 2020	$ 260.5		$ 637.6	

Governmental Activities

The following provides a brief description of Valley Water's debt, and other long-term liabilities, for governmental activities outstanding as of June 30, 2020:

2012A Certificates of Participation

In November 2012, Valley Water issued $53.0 million of Refunding and Improvement Certificates of Participation, Series 2012A, to be executed and delivered through the PFFC. The proceeds of 2012A COPs were used to: (1) refinance $52.4 million of the 2003A Certificates of Participation; (2) finance the cost of certain flood control improvements; (3) fund a reserve fund; and (4) pay the costs of issuing the 2012A Certificates. The 2012A COPs are payable from the 1994 Installment Payments, which are payable by Valley Water, and are secured by a pledge of and lien on, the Valley Water Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the Valley Water Board on June 23, 1994.

2017A Certificates of Participation

In March 2017, Valley Water issued $59.4 million of Refunding and Improvement Certificates of Participation, Series 2017A, to be executed and delivered through the PFFC. The proceeds of the 2017A COPs were used to: (1) refinance the $5.3 million outstanding balance of the 2004A Certificates of Participation; (2) refinance the $54.2 million outstanding balance of the 2007A Certificates of Participation; (3) finance the cost of certain flood control improvements; and (4) pay the costs of issuing the 2017A Certificates. The 2017A COPs are payable from the 1994 and 1995 Installment Payments, which are payable by Valley Water, and are secured by a pledge of and lien on, the Valley Water Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the Valley Water Board on June 23, 1994.

Claims Payable

Valley Water is self-insured and reports all its risk management activities in its Risk Management Internal Service Fund. Detailed information and calculation of the claims payable account balance are explained in Note 13, Risk Management.

Business-type Activity

The following provides a brief description of Valley Water's debt, and other long-term liabilities, for business-type activity outstanding as of June 30, 2020:

2006B Water Utility System Refunding Revenue Bonds

In December 2006, Valley Water issued $99.8 million of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B, pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The proceeds of $57.4 million of the 2006A and 2006B Bonds were used to refinance $55.3 million of the remaining 2000A and 2000B and the proceeds of $42.4 million of 2006A and 2006B were used to repay approximately $40.9 million of commercial paper notes. In March 2016, Valley Water issued Series 2016A Water System Refunding Revenue Bonds to refund all 2006A outstanding principal.

2016A/B Water Systems Refunding Revenue Bonds

In March 2016, Valley Water issued $181.5 million of Water Systems Refunding Revenue Bonds comprising of Series 2016A for $106.3 million and Taxable Series B for $75.2 million, pursuant to the Water Utility Parity System Master Resolution (16-10) approved by the Board in February 2016. Proceeds of the 2016A Revenue Bonds, along with the original issue premium, were used to refinance all the currently outstanding Water Utility System Refunding Revenue Bonds Series 2006A and repay $73.0 million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2016B Revenue Bonds were used to repay $75.0 million of the balance of the outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay principal and interest of the 2016A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues.

<u>2017A Water System Refunding Revenue Bonds</u>

In May 2017, Valley Water issued $54.7 million of Water Systems Refunding Revenue Bonds to refund the $64.8 million outstanding balance of the Water Utility System Revenue Certificates of Participation Series 2007A and pay costs of issuance of the 2017A Bonds. The obligation of Valley Water to pay principal and interest on the 2017A Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility System Parity Master Resolution (16-10).

<u>2019A/B Water Systems Refunding Revenue Bonds</u>
In April 2019, Valley Water issued $95.3 million of Water System Refunding Revenue Bonds to repay the outstanding Commercial Paper Certificates to free up capacity in Valley Water's commercial paper program to finance on-going capital costs and costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019A/B Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Parity Master Resolution (16-10).

<u>2019C Water Systems Refunding Revenue Bonds</u>
In November 2019, Valley Water issued $38.3 million of Water System Refunding Revenue Bonds to refinance all the currently outstanding Water Utility Revenue Certifications of Participation Taxable Series 2007B and fund costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019C Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Parity Master Resolution (16-10)

<u>2007B Water Utility Revenue Certificates of Participation</u>

In October 2007, Valley Water issued $131.0 million of Water Utility Revenue Certificates of Participation, Series 2007A and Taxable Series 2007B, to be executed and delivered through the PFFC. The proceeds of the 2007A and 2007B COPs were used to finance capital construction projects in the Water Utility Enterprise. A 2007A Debt Service Reserve Fund was funded for the 2007A and 2007B COPs by purchasing a surety. The 2007A issuance was $77.3 million fixed rate COPs with a 30-year maturity. The 2007B issuance of $53.7 million are floating rate COPs based on the three-month LIBOR rate plus 32 basis points with a 30-year maturity. The 2007A and 2007B COPs are payable from 2007 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The 2007A COPs were refunded by the 2017A Water System Refunding Revenue Bonds in May 2017. The 2007B COPs were refunded by the 2019C Water System Refunding Revenue Bonds in November 2019.

<u>2016C/D Water Utility Revenue Certificates of Participation</u>

In March 2016, Valley Water issued $98.0 million of Water Utility Systems Improvement Projects Revenue Certification of Participation, Series 2016C for $43.4 million and Taxable Series 2016D for $55.0 million, to be executed and delivered through the PFFC. Proceeds of the 2016C and 21016D COPs, along with the original issue premium will be used to finance capital construction projects in the Water Utility Enterprise and costs of issuance. The 2016C and 2016D COPs are payable from 2016 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

Semitropic Water Banking Agreement

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is $46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering water. At June 30, 2020, Valley Water has $10.0 million outstanding liability related to water storage and banking rights.

Compensated Absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized and are charged to the different funds as part of the direct benefit rate. The compensated absences liability for the year is recognized in Valley Water's various enterprise funds and on the governmental activities column in the statement of net position.

(c) Other Debt Related Information

Valley Water has adopted master resolutions with respect to its water utility and watershed utility which contain certain events of default and remedies as described therein. Valley Water has also issued various bonds, notes or other obligations secured by such master resolutions or other revenues of Valley Water and which contain certain events of default and remedies as described therein. Valley Water has also entered into various reimbursement agreements or other financial contracts which contain certain events of default and remedies as described therein. Certain of these master resolutions, bonds, notes and other obligations and reimbursement agreement and other financial contracts contain provisions concerning the application of applicable Valley Water revenues if certain of the following conditions occur: default on debt service payments; the failure of Valley Water to observe or perform the conditions, covenants, or other agreement with respect thereto; bankruptcy filing by Valley Water; or if any court or competent jurisdiction shall assume custody or control of Valley Water, among other defaults. Certain of such master resolutions, bonds, notes and other obligations and reimbursement agreement and other financial contract contain acceleration provisions that allows a trustee, owners of bonds, notes or other obligations or the parties to such reimbursement agreements or other financial contracts to accelerate payments thereunder to the extent and as provided therein.

Resolutions and other financing agreements associated with Valley Water's and PFFC's bonds and certificates of participation contain a number of covenants, limitations, and restrictions. Valley Water believes it is in compliance with all significant covenants, limitations, and restrictions.

Financial obligations incurred under the commercial paper program, issued through the PFFC, currently include the obligations to reimburse the bank issuing direct pay letter of credit supporting the commercial paper program and to pay letter of credit fees to the bank. Valley Water's failure to comply with certain such obligations could result in an event of default. If an event of default occurs, the bank may exercise one or more rights and remedies. In addition to rights and remedies provided for under the law, the bank can declare all financial obligations with respect to such letter of credit to be immediately due and payable, cause the issuance of commercial paper to be temporarily ceased, or terminate the letter of credit which would cause the issuance of commercial paper to be permanently ceased. Commercial paper certificates are not subject to acceleration.

Valley Water has pledged future flood control system revenues to repay $65.5 million in long-term debt outstanding as of June 30, 2020, that was issued to finance the cost of flood control improvements. The certificates of participation (COPs) are payable from installment payments that are secured by flood control system revenues and are payable through fiscal years 2024 (2012A) and 2030 (2017A). The total principal and interest remaining to be paid on the combined debt is $80.8 million. A ten-year comparison of flood control system revenues to related debt service titled "Flood Control System Historical Operating Results – Combined Statements of Revenues and Debt Service Coverage – Last Ten Fiscal Years" can be found in the Statistical Section.

Valley Water has also pledged water utility system revenues, net of specified maintenance and operating expenses, to repay $458.0 million in long-term debt outstanding as of June 30, 2020, that was issued to finance the cost of capital construction projects for the water utility enterprise. The secured debt includes revenue bonds and COPs. The revenue bonds are payable from net water utility system revenues and the revenue COPs are payable from installments that are secured by net water utility system revenues. The long-term debt is payable through fiscal year 2049. Total principal outstanding and interest costs remaining to be paid on the combined debt is $740.1 million.

NOTE 8 - PROPERTY TAXES AND BENEFIT ASSESSMENTS

Valley Water derives certain revenues from the assessment of property tax parcel levies and the levy of benefit assessments and a special parcel tax. The property tax levy is composed of two categories: (1) an allocation of the County of Santa Clara's 1 percent tax; and (2) voter approved levy to repay capital and operating costs related to imported water from the State Water Project. Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments. In November 2000, voters approved a 15-year special parcel tax to fund the countywide Clean, Safe Creeks & Natural Flood Protection Program. The levy became effective July 1, 2001 and is based on the proportionate storm water runoff for each property.

In November 2012, the voters approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax. The Safe, Clean Water program builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000. The Safe, Clean Water program replaced the Clean, Safe Creeks measure in its entirety beginning July 1, 2013 (see Note 17 - Subsequent Events for additional information on the recent ballot measure). The Safe, Clean Water special parcel tax will provide an estimated total of $723.0 million of revenue for operations and capital projects. The program will be funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2020, the budget includes $45.5 million of special parcel tax for this program.

Property tax and benefit assessment revenues recorded for the year ended June 30, 2020 are shown on the following page (in millions).

	General Fund		Special Revenue Funds		Water Enterprise Fund
Property taxes:					
1% tax allocation	$	9.2	$	93.1	$ 8.4
Special parcel tax		-		46.1	-
Voter approved indebtedness:					
State water		-		-	21.8
Total taxes		9.2		139.2	30.2
Benefit assessments		-		13.4	-
Total property taxes and benefit assessments	$	9.2	$	152.6	$ 30.2

The County of Santa Clara (County) is responsible for the assessment, collection, and apportionment of property taxes for Valley Water. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). Valley Water is responsible for determining the amount of benefit assessment, special parcel tax, and State Water Project Debt Service. Secured property taxes and benefit assessments are each payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

Valley Water has elected to participate in the “Teeter Plan” offered by the County whereby Valley Water receives 100 percent of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes.

NOTE 9 - FUND BALANCES

In the fund financial statements, governmental funds report fund balance as non-spendable, restricted, committed, assigned or unassigned based primarily to the extent to which Valley Water is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

- Non-spendable fund balance includes net resources that cannot be spent because they are either a) not spendable because of their form, or b) must be maintained intact pursuant to legal or contractual requirements.

- Restricted fund balance includes amounts that are subject to limitations imposed by either: a) creditors, grantors, contributors or laws and regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance includes spendable resources that can only be used for specific purposes pursuant to constraints imposed by formal action of Valley Water’s highest level of decision-making authority, the Valley Water Board, through adopted resolutions. Those constraints remain binding unless the Valley Water Board removes or changes in the same manner to previously commit those resources. These Valley Water Board’s actions must occur prior to June 30th of the applicable fiscal year.

- Assigned fund balance includes amounts that are constrained by Valley Water's intent to be used for specific purposes, but are neither restricted nor committed. The intent can be established or changed at the discretion of the Valley Water Board, or an official designated for that purpose, the Chief Executive Officer, in accordance with the provisions of the Governance Policies of the Board, Policy No. EL-5, *Purchasing and Contracts.*

- Unassigned fund balance represents residual net resources that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

Spending Prioritization in Using Available Resources

When an expense is incurred for purposes for which both restricted resources and unrestricted resources fund balance are available, Valley Water considers restricted resources to be spent first. When committed, assigned, and unassigned resources can be used for the same purpose, Valley Water's flow assumption is to spend in the sequence of committed resources first, assigned second, and unassigned last.

The various fund balances are established by actions of the Board of Directors and can be increased, reduced or eliminated by similar actions with the exception of contracts and commitments on the assigned fund balance, which can be reduced or eliminated without the action of the Board of Directors. Valley Water's reserve amounts are reviewed annually to ensure compliance with Valley Water's reserve policy. Changes to the restricted, committed and assigned reserves are presented to the Board of the Directors for review and approval.

Detailed schedule of fund balances as of June 30, 2020 is as follows (in millions):

	General	Watershed & Stream Steward	Safe, Clean Water & Natural Flood Protection Program	COP Construction	COP Debt Service	Total Govern-mental Funds
Restricted Fund Balance:						
Debt service	$ -	$ -	$ -	$ -	$ 5.4	$ 5.4
SCW-current authorized Capital Projects	-	-	158.5	-	-	158.5
Total restricted fund balance	-	-	158.5	-	5.4	163.9
Committed Fund Balance:						
Operating & capital	8.2	97.7	-	-	-	105.9
Current authorized capital projects	-	62.8	-	-	-	62.8
Total committed fund balance	8.2	160.5	-	-	-	168.7
Assigned Fund Balance:						
Contracts and commitments	5.7	7.4	-	-	-	13.1
Market valuation	0.3	3.0	-	-	-	3.3
Benefits assessment reserve	-	1.1	-	-	-	1.1
Total assigned fund balance	6.0	11.5	-	-	-	17.5
Total fund balances	$ 14.2	$ 172.0	$ 158.5	$ -	$ 5.4	$ 350.1

NOTE 10 - NET POSITION

The proprietary funds financial statements utilize a net position presentation. Net position is categorized as follows: (1) invested capital assets (net of related debt), (2) restricted and (3) unrestricted.

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net position – This category presents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net position – This category represents net position of Valley Water, not restricted for any project or other purpose.

The following table shows the detailed schedule of the proprietary funds' net position as of June 30, 2020 (in millions).

	Water Enterprise Fund	State Projects Fund	Equipment Fund	Risk Management Fund	Information Technology Fund
Restricted Net Position					
San Felipe emergency reserve	$ 3.2	$ -	$ -	$ -	$ -
Cash on hand with fiscal agents	0.1	-	-	-	-
GP5 reserve	6.6				
Rate stabilization	23.5	-	-	-	-
Public-private partnership	8.0	-	-	-	-
WUE SVAWPC reserve	1.3	-	-	-	-
Supplemental water supply reserve	15.1	-	-	-	-
Drought reserve	10.0	-	-	-	-
State water project	-	16.8	-	-	-
Total restricted net position	67.8	16.8	-	-	-
Unrestricted Net Position					
Operating & capital	48.8	-	3.3	-	0.7
Currently authorized projects	39.2	-	-	-	9.3
Market Valuation	4.9	-	0.1	0.2	0.4
Property self-insurance/catastrophic	-	-	-	6.1	-
Encumbrances	108.5	-	2.0	0.3	6.0
Net pension liability	(76.5)	-	(3.1)	(2.0)	(0.1)
Net other post employment benefit liabili	(32.2)		(1.0)	(0.8)	(0.2)
Total unrestricted net position	92.7	-	1.3	3.8	16.1
Net investment in capital assets	674.1	15.1	8.9	-	4.4
Net Position	$ 834.6	$ 31.9	$ 10.2	$ 3.8	$ 20.5

NOTE 11 - EMPLOYEES' RETIREMENT PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the agent multiple-employer defined benefit pension plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Valley Water's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statutes and may be amended by the Valley Water's governing board.

The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Prior to	3/19/2012 to	On or after
Hire date	3/19/2012	12/31/2012	1/1/2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + 2.0%*	7.0% + 3.0%*	6.75% + 1.0%
Required employer contribution rates	10.276% plus $15.3 million prepayment for prior unfunded service cost		

* Member additional contribution towards Valley Water's CalPERS cost per negotiated agreement with the bargaining units

Employees Covered – As of the most recent CalPERS annual valuation report, dated July 2020, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	814
Active employees	752

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended June 30, 2020 contributions to the plan were $28.3 million. Valley Water is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. All funds with payroll charges contribute to the actuarially determined contribution.

Net Pension Liability

Valley Water's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Actuarial cost method	Entry-age normal cost method
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return[(1)]	7.375%
Mortality rate table[(2)]	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.00% unit purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter.

[(1)]Net of pension plan investment and administrative expenses; includes inflation

[(2)]The mortality rate table was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuarial Scale BB.

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65% to 7.15%. The Experience Study can be obtained at CalPERS' website under "Forms and Publications".

Change in Assumptions

Inflation Rate

For the measurement date of June 30, 2019, the inflation rate was 2.75%.

Discount Rate

The discount rate used to measure the total pension liability for each Plan was 7.15%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, each Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each Plan.

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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contribution on time and as scheduled on all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above, adjusted to account for assumed administrative expenses.

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class[1]	Current Strategic Allocation	Real Rates of Return Years 1-10[2]	Real Rates of Return Years 11+[3]
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

(1) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities, Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period (in millions):

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Beginning balance	$813.7	$593.8	$219.8
Changes recognized for the Measurement Period:			
Service cost	16.5	-	16.5
Interest on total pension liability	58.3	-	58.3
Difference between expected and actual experience	13.4	-	13.4
Contribution from employer	-	26.6	(26.6)
Contribution from employees	-	7.6	(7.6)
Net investment income	-	39.3	(39.3)
Benefit payments, including refunds of employee contributions	(38.4)	(38.4)	-
Administrative expense	-	(0.4)	0.4
Net changes	49.8	34.7	15.1
Ending balance	$863.5	$628.5	$234.9

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of Valley Water, calculated using the current discount rate, as well as what Valley Water's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (in millions):

	Discount Rate -1% 6.15%	Current Discount 7.15%	Discount Rate +1% 8.15%
Plan Net Pension Liability/(Asset)	$348.5	$234.9	$140.7

To present a more conservative estimate of the pension liability, applying a 3.25% discount rate, for example, would result in a pension liability of approximately $696.5 million.

Pension Plan Fiduciary Net Position

Detailed information about Valley Water's pension plan fiduciary net position is available in separately issued CalPERS financial reports.

Pension Expenses and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2020 (for measure period ended June 30, 2019), Valley Water recognized pension expense of $43.6 million. As of June 30, 2020, Valley Water reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in millions):

	Deferred Outflow of Resources	Deferred Inflow of Resources
Pension contribution subsequent to measurement date	$ 28.3	$ -
Change in assumptions	9.3	(4.2)
Differences between actual and expected experience	10.1	(1.7)
Net difference between projected and actual earnings on plan investments	-	(3.3)
Total	$ 47.7	$ (9.2)

$28.3 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction from the net pension liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as shown in the succeeding table.

Measurement Periods Ended June 30	Deferred Outflows/(Inflows) of Resources
2020	$11.4
2021	(4.1)
2022	2.0
2023	0.9
Total	$10.2

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

Valley Water provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses, and to certain employees who retire due to disability who meet the eligibility requirements and elect the option. Valley Water must be the employee's last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay.

Benefits Provided

<table>
<tr><th></th><th>Hire/Retirement Date</th><th>Eligibility Rule (Years of Continuous Service)</th><th>Valley Water's Required Contribution</th></tr>
<tr><td rowspan="5"><u>Classified</u>

Employee Association (AFSCME – Local 101)

Engineers Society (IFPTE-Local 21)

Professional Managers Association (IFPTE – Local 21)</td><td>Retired prior to July 1, 1988</td><td></td><td>Fixed amount of $165 per month.</td></tr>
<tr><td>Retired from July 1, 1988 through June 30, 1990</td><td>10 years</td><td>100% medical premium for retiree.</td></tr>
<tr><td>Retired from July 1, 1990 or later and hired prior to December 30, 2006</td><td>10 years

15 years</td><td>100% medical premium for retiree.

100% medical premium for retiree plus one eligible dependent.</td></tr>
<tr><td>Retired from July 1, 1990 or later and hired between December 30, 2006 and March 1, 2007</td><td>10 years

15 years</td><td>Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.</td></tr>
<tr><td>Hired on or after March 1, 2007</td><td>15 years

20 years</td><td>Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.</td></tr>
</table>

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water's Required Contribution
Unclassified At Will	Retired prior to July 1, 1988		Fixed amount of $165 per month.
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree.
	Retired from July 1, 1990 through June 18, 1995	10 years 15 years	100% medical premium for retiree. 100% medical premium for retiree plus one eligible dependent.
	Retired from June 19, 1995 through October 21, 1996	10 years 15 years 25 years	100% medical premium for retiree. 100% medical premium for retiree plus one eligible dependent. 100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents.
	Retired from October 22, 1996 or later and hired prior to December 30, 2006	10 years 15 years 25 years	100% medical premium for retiree. 100% medical, dental, and vision coverages for the retiree plus one eligible dependent. 100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents.
	Hired on or after December 30, 2006 and prior to March 1, 2007	10 years 15 years	Medical coverage is provided for retiree. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less. Medical, dental, and vision coverages are provided for retiree and one eligible dependent. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water's Required Contribution
Unclassified At Will	Hired on or after December 30, 2006 and prior to March 1, 2007	15 years (con't) 25 years	to active employees or retirees, whichever is less. Medical, dental, and vision coverages are provided for retiree plus two or more eligible dependents. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years 20 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less. Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

As of August 1, 2007, all current retirees not yet 65 years of age and Medicare eligible and all future retirees who are Medicare eligible must enroll themselves in Medicare when they reach the eligibility date for Medicare. Their Medicare eligible dependents who are enrolled in Valley Water's health plan must also enroll in Medicare upon their eligibility date. Valley Water reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly.

After an evaluation of the cost savings realized in implementing the Medicare enrollment plan since August 2007, Valley Water decided to expand the Medicare enrollment requirement to all retirees and their eligible dependents that are enrolled in Valley Water's medical plan. As of July 1, 2009, all Medicare eligible retirees and their eligible dependents were required to enroll in Medicare. Valley Water reimburses the Medicare Part B penalty charged by the Social Security Administration to the retirees/dependents due to late enrollment.

Valley Water provides the unclassified group of retirees $50,000 life insurance upon retirement with a five-year phase out in declining increments of $10,000 per year after retirement.

Employees Covered – As of the most recent OPEB annual valuation report, dated June 30, 2019, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	846
Active employees	753

Contributions

On June 24, 2008, Valley Water's Board of Directors adopted a resolution approving the agreement and election of Valley Water to prefund OPEB through CalPERS under its California Employer's Retiree Benefit Trust (CERBT) Program, an agent multiple-employer plan consisting of an aggregation of single-employer plans. On September 9, 2008, Valley Water joined CERBT. The Board of Directors approved the reallocation of $17.7 million from its existing reserve for the initial prefunding of the unfunded liability for the first year of reporting. Subsequent years funding, pursuant to the annual budget approved by the Board of Directors, was made at the beginning of each fiscal year through fiscal year 2017. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Employees' Retirement System, P. O. Box 942703, Sacramento, CA 94229-2703.

OPEB and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between Valley Water and the bargaining groups. For the fiscal year ended June 30, 2020, the District's total contribution to the plan amounted to $10.8 million. All funds with payroll charges contribute to the actuarially determined contribution.

Net OPEB Liability

Valley Water's net OPEB liability was measured on June 30, 2019 for reporting date June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019, based on the following actuarial methods and assumptions:

Discount Rate	7.59%
Inflation	3.00%
Salary Increases	3.25%
Investment Rate of Return	7.59%
Mortality Rate	Derived from the CalPERS study of Miscellaneous Public Agency experience
Pre-retirement Turnover[1]	Derived from the CalPERS study of Miscellaneous Public Agency experience
Healthcare Trend Rate[2]	5.50% grading to ultimate 4% for medical and flat 3% for dental and vision

[1]Net of OPEB plan investment expenses, including inflation

[2]The mortality rate table was developed based on CalPERS' nonindustrial miscellaneous public agency experience study for 14 years ending June 2011.

The long-term, expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The target allocation and expected real rates of returns for each major asset class are summarized in the following table:

Asset Class	Strategy 1 Allocation	Real Rates of Return: 1-10 Years (1)	Real Rates of Return: 11-60 Years (2)
Global Equity	59.0%	4.80%	5.98%
Fixed Income	25.0%	1.10%	2.62%
Global Real Estate (REITs)	8.0%	3.20%	5.00%
Treasury Inflation Protected Securities (TIPS)	5.0%	0.25%	1.46%
Commodities	3.0%	1.50%	2.87%

(1)An expected inflation of 2.00% used for this period.
(2)An expected inflation of 2.92 used for this period.

Discount Rate

The discount rate of 7.59% is the expected long-term rate of return on Valley Water assets using investment strategy #1 within the CERBT. The projected cash flows used to determine the discount rate assumed that Valley Water contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in OPEB Liability

The following table shows the changes in net OPEB liability recognized over the measurement period (in millions):

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)=(a)-(b)
Beginning balance	$180.8	$107.5	$73.3
Changes recognized for the Measurement Period:			
Service cost	2.6	-	2.6
Interest cost	12.9	-	12.9
Effect of change in actuarial assumptions/gains	(5.5)	-	(5.5)
Other liability experience loss/(gain)	(8.0)	-	(8.0)
Contribution	-	10.1	(10.1)
Benefit payments	(10.1)	(10.1)	-
Non-benefit related administrative expenses from plan trusts	-	(0.1)	0.1
Expected investment return	-	7.8	(7.8)
Investment experience (loss)/gain	-	(1.1)	1.1
Net changes	(8.1)	6.6	(14.7)
Ending balance	$172.7	$114.1	$58.6

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of Valley Water, calculated using the current discount rate, as well as what Valley Water's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2019 (in millions):

	Discount Rate -1%	Current Discount	Discount Rate +1%
Net OPEB Liability	$78.7	$58.6	$41.7

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of Valley Water, if it were calculated using health care cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2019 (in millions):

	1% Decrease	Current Rates	1% Increase
Net OPEB Liability	$40.7	$58.6	$80.2

OPEB Plan Fiduciary Net Position

Detailed information about Valley Water's OPEB plan fiduciary net position is available in separately issued CalPERS CERBT financial reports.

OPEB Expense and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2020, Valley Water recognized OPEB credit expense of $5.9 million. At June 30, 2020, Valley Water reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in millions):

	Deferred Outflow of Resources	Deferred Inflow of Resources
OPEB contribution subsequent to measurement date	$10.8	$0.0
Changes in assumptions	-	(4.5)
Differences between actual and expected experience	-	(6.5)
Net difference between projected and actual earnings on plan investments	0.9	(1.6)
Total	$11.7	($12.6)

$10.8 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction from the net OPEB liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows (in millions):

Year ending June 30	Deferred Outflows/(Inflows of Resources
2021	($3.1)
2022	(3.1)
2023	(2.5)
2024	(2.3)
2025	(0.6)
Total	($11.6)

NOTE 13 - RISK MANAGEMENT

Valley Water 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. Valley Water reports all of its risk management activities in its Risk Management Internal Service Fund.

Valley Water's deductibles and maximum coverage are as follows (in thousands):

Coverage Descriptions	Commercial Insurance Deductibles	Coverage
General liability	$2,000	$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	500,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	100,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2020, the liability for self-insurance claims was $7.5 million. This liability is the Valley Water's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Changes in the reported liability since June 30, 2020 are as follows (in millions):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2018	$3.5	$3.0	$6.5
Current year premiums, incurred claims and changes in estimates	1.6	0.1	1.7
Claim payments	(0.9)	(0.3)	(1.2)
Claims payable at June 30, 2019	4.2	2.8	7.0
Current year premiums, incurred claims and changes in estimates	1.0	0.3	1.3
Claim payments	(0.7)	(0.1)	(0.8)
Claims payable at June 30, 2020	4.5	$ 3.0	$ 7.5
Current Portion	$1.5	$0.6	$2.1

NOTE 14 - TRANSFERS IN AND OUT

Transfers are used to: 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) move debt proceeds held in the construction fund to the funds incurring the construction expense.

In the year ended June 30, 2020, the following transfers occurred between funds:

- $394.4 thousand was transferred from the Watershed and Stream Stewardship Fund to the General Fund to support drought induced tree removal projects
- $92.8 thousand was transferred from the Water Enterprise Fund to the Watershed and Stream Stewardship Fund to help pay for the Safe Clean Water Renewal efforts
- $1.6 million was transferred from the COP Construction Fund to the Watershed and Stream Stewardship Fund to fund certain projects
- $202.8 thousand was transferred from the General Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to assist with Winfield Warehouse costs
- $481.5 thousand was transferred from the COP Construction Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to fund certain projects
- $20.2 million was transferred from the Watershed and Stream Stewardship Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to fund the Encampment Clean-up Program and Upper Penitencia Creek and Upper Llagas Creek Flood Protection projects
- $476 thousand was transferred from the General Fund to the COP Debt Service Fund to pay debt service payments
- $11.0 million was transferred from the individual zone Funds to the COP Debt Service Fund to pay debt service payments
- $506 thousand was transferred each from the General Fund and Watershed Fund to the Water and Enterprise Fund for the Open Space credit
- $1.7 million and $2.5 million were transferred from the Watershed and Stream Stewardship Fund, and Water Enterprise Fund, respectively, to the Information Technology Fund to fund capital projects

Interfund transfers for the year ended June 30, 2020, is as follows (in millions):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Watershed and Stream Stewardship	$ 0.4
Watershed & Stream Stewardship	Water Enterprise	0.1
	COP Construction Fund	1.6
Safe, Clean Water Fund	General Fund	0.2
	COP Construction Fund	0.5
	Watershed and Stream Stewardship	20.2
COP Debt Service Fund	General Fund	0.5
	Lower Peninsula Watershed	2.3
	West Valley Watershed	1.8
	Guadalupe Watershed	3.7
	Coyote Watershed	3.1
Water Enterprise	General Fund	0.5
	Watershed & Stream Stewardship	0.6
Information Technology Fund	Watershed and Stream Stewardship	1.7
	Water Enterprise	2.5
Total interfund transfers		$ 39.7

NOTE 15 - COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2020, governmental funds had encumbrances of approximately $44.9 million, while proprietary funds had open purchase commitments of approximately $116.9 million related to new or existing contracts and agreements. These encumbrances are only commitments for the expenditure of funds and do not represent actual expenditures or liabilities.

A detailed breakdown of encumbrances of the governmental and proprietary funds is shown below (in millions).

	Fund Balances		
Fund	Governmental Assigned	Proprietary Unrestricted	Total
General Fund	$ 5.7	$ -	$ 5.7
Watershed and Streams Stewardship Fund	7.4	-	7.4
Safe, Clean Water and Natural Flood Protection	31.8	-	31.8
Water Enterprise Fund	-	108.5	108.5
Equipment Fund	-	2.0	2.0
Risk Management Fund	-	0.3	0.3
Information Technology Fund	-	6.1	6.1
Total	$ 44.9	$ 116.9	$ 161.8

(b) San Felipe Project Water Deliveries

Valley Water has contracted with the U.S. Department of the Interior (USDI) for water deliveries from the Central Valley Project. The contract requires the District to operate and maintain Reach 1, Reach 2, and Reach 3 of the San Felipe Division facilities of the USDI.

During fiscal year 2017, Valley Water amended this contract. The amended contract provided for compliance with the Central Valley Project Improvement Act and converted the repayment of the San Felipe Division facilities from a water service contract to a repayment contract with fixed semi-annual payments. The semi-annual payments for January 2007 through July 2016 are $7.5 million. The semi-annual payments starting January 2017 is $7.7 million. The amended contract preserved the attributes of a water service contract for other Central Valley Project costs.

The total commitment, including applicable interest, of the repayment contract was $431.9 million. The remaining commitment as of June 30, 2020 was $210.4 million.

(c) Participation Rights in Storage Facilities

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is $46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering Tier 1 water. The agreement terminates in December 2035.

As of June 30, 2020, Valley Water has paid $49.8 million towards the base fee obligation of this agreement. Upon withdrawal by Valley Water of all 135,965 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs. The 2020 rate to retrieve Tier 1 water is $73.49 per acre-feet. During the first 10 years, Valley Water had a reservation for the full 35 percent allocation; by January 1, 2006, if Valley Water's contributions towards the program capital costs did not equal $46.9 million, Valley Water's permanent storage allocation would have been reduced. Valley Water decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

Valley Water currently has a storage allocation of 350,000 acre-feet. As of June 30, 2020, Valley Water has 344,662 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of $28.7 million has been recorded through fiscal year 2020. Semitropic Water Storage District has reported elevated concentrations of 1, 2, 3 trichloropropane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies.

(d) Partnership Agreement Between Valley Water, the City of Palo Alto, and the City of Mountain View to Advance Resilient Water Reuse Programs in Santa Clara County

On December 10, 2019, the Board approved an agreement between Valley Water and its local partners, the City of Palo Alto and Mountain View, to further develop water supplies and infrastructure to meet the County's water supply needs. The three main parts of the agreement include: (1) funding a local salt removal facility, owned and operated by Palo Alto, to provide a higher quality of recycled water for irrigation and cooling towers, (2) an effluent transfer option to Valley Water for a regional purification facility (referred to as the "Regional Plant"), owned and operated by Valley Water, to provide advanced purified water for potable reuse, and (3) a water supply option for the cities of Palo Alto and Mountain View to request an additional supply if needed.

The financial impact to Valley Water includes funding the local salt removal facility in the amount of $16.0 million, which may be sourced as a component of the Expedited Purified Water Program. Valley Water will also pay $0.2 million per year, starting in year one to culminate in year thirteen, or at startup of the regional purification facility, whichever occurs first. Finally, Valley Water will pay $1.0 million per year for the effluent once startup of the regional purification facility has been initiated. All three payments will escalate annually based on the factors outlined in the partnership agreement and would be paid for water charge related revenues. Timing of such payments are still to be determined.

NOTE 16 - CONTINGENCIES

(a) Litigation

It is normal for a public entity like Valley Water, with its size and activities, to be a defendant, co-defendant, or cross-defendant in court cases in which money damages are sought. Discussed below are all pending litigations that Valley Water is aware of which are significant and may have a potentially impact on the financial statements.

Great Oaks Water Company v. Valley Water

In 2005, Great Oaks Water Company (hereinafter "Great Oaks") filed an administrative claim alleging that Valley Water's groundwater charges for 2005-06 violated the law and sought a partial refund. After its claim was deemed denied, Great Oaks filed a lawsuit alleging, among other things, that Valley Water's groundwater production charges violated Proposition 218 (which added Article XIIID to the California Constitution), because proceeds are used to fund projects and services that benefit the general public, not just ratepayers (*Great Oaks Water Company v. Santa Clara Valley Water District*, Santa Clara County Superior Court Case No. 2005-CV-053142; Cal. Court of Appeals Case Nos. HO35260 and HO35885; Cal. Supreme Court No. S231846 (the "Great Oaks Case"). Great Oaks also alleged that the groundwater production charges violated the Law. Great Oaks demanded a partial refund as well as declaratory, injunctive and mandamus relief.

On February 3, 2010, the trial court issued a Judgment After Trial in the Great Oaks case, ruling that Valley Water owed Great Oaks a refund of groundwater charges of approximately $4.6 million plus interest at 7% per annum. The award of pre-judgment interest amounted to approximately $1.3 million, and the court awarded post-judgment interest of $886.62 per day. Valley Water appealed this decision to the California Court of Appeal for the Sixth Appellate District (the "Court of Appeal"). During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, Valley Water recorded a liability in the amount of the judgment plus interest. After the favorable judgement by the Court of Appeal in 2015, discussed below, Valley Water reversed its prior total recorded liability in the aggregate amount of $7.4million in its audited financial statements for Fiscal Year 2017.

In 2015, the Court of Appeal reversed in full the judgment of the trial court. The Court of Appeal found that Valley Water's groundwater production charges did not violate Proposition 218 or the Law. Great Oaks petitioned the California Supreme Court to review the Court of Appeal's ruling, and the Supreme Court granted its petition. The case was placed on hold pending the California Supreme Court's decision in a similar case, *City of Buenaventura v. United Water Conservation District* ("UWCD"). In late 2017, the California Supreme Court issued its opinion in the UWCD case, finding that Proposition 218 does not apply to groundwater charges, but that Article XIIIC of the California Constitution does apply. The Supreme Court vacated the Court of Appeal's decision and remanded the Great Oaks case for reconsideration in light of its UWCD opinion. On November 8, 2018, the Court of Appeal reaffirmed its 2015 decision. The Court of Appeal declined to consider Great Oaks' request to consider whether Valley Water's groundwater production charges violated Article XIIIC of the California Constitution, as this cause of action had never been considered by the trial court. This case was remanded to the trial court for further proceedings in February 2019.

While the 2005 Great Oaks case was pending, Great Oaks filed additional annual claims and additional annual lawsuits challenging Valley Water's groundwater production charges for each year after 2005, continuing through the present. Great Oaks' subsequent, similar lawsuits were stayed pending resolution of its 2005 case. (Santa Clara Superior Court Case Nos. 2007-CV-087884; 2008-CV-119465; 2008-CV-123064; 2009-CV-146018; 2010-CV-178947; 2011-CV-205462; 2012-CV-228340; 2013-CV-249349; 2015-CV-281385; 2016-CV-292097; 2017-CV-308140; and 2018-CV-327641). In addition, in 2011 Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club filed a similar refund action, making similar claims (Santa Clara Superior Court Case No. 2011-CV-195879). Other water retailers including San Jose Water Company and the cities of Morgan Hill, Gilroy and Santa Clara, and the Los Altos Golf and Country Club and Stanford University, dispute Valley Water's groundwater charges and entered into tolling agreements with Valley Water pending the final decision in the Great Oaks Case. In 2019, Valley Water filed a collection action against Shatto Corporation for failure to pay groundwater charges from 2009 to 2014 and associated penalties and interest. Valley Water estimates that the amount due is approximately $1.0 million. Shatto Corporation filed a cross-complaint, alleging that Valley Water's groundwater charges violate Article XIIIC of the California Constitution (Santa Clara Superior Court Case No. 2019-CV-348413).

Once the Great Oaks Case was remanded to the trial court in February 2019, the court lifted the stay over Great Oaks' subsequently filed cases, as well as the case brought by Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club. At the request of the trial court, in order to streamline resolution of the remaining issues this litigation and related litigation, the parties stipulated and agreed to the filing of a new, omnibus complaint. On June 12, 2020, the proposed omnibus "Master Complaint" of plaintiffs Great Oaks and Shatto Corporation was approved for filing and filed under Santa Clara Superior Court Case No. 2011-CV-205462. Great Oaks alleges that Valley Water's groundwater production charges violate Proposition 26, and that Valley Water does not levy or collect groundwater charges from agricultural pumpers but instead uses property taxes to pay these charges. See Note (17) Subsequent Events, regarding Valley Water's settlement with Shatto Corporation.

In the event that a court rules that Valley Water's groundwater production charges violate Proposition 26, such a ruling could materially impact Valley Water's rate revenue and finances.

Flooding in the City of San Jose

Following a series of storms, a flood event occurred on the Coyote Creek in San Jose, California on or about February 21, 2017. The Coyote Creek is approximately 42 miles long and is the longest creek in the County. In the southern portion of the County, Valley Water owns and maintains the Leroy Anderson Dam and Reservoir along the Coyote Creek near Morgan Hill, California. The Anderson Dam is upstream from the City of San Jose. After the reservoir reached capacity, water began going over the Anderson Dam spillway on February 18, 2017. The spillover volume peaked on the morning of February 21, 2017, increasing flows on Coyote Creek. Beginning on or about February 21, 2017, certain residential and non-residential areas of San Jose along Coyote Creek experienced flooding due to rising water levels in the creek. Thousands of residents were temporarily evacuated, and numerous properties experienced flood damage. Such flood water receded within a short period of time after February 21, 2017.

As of the date of this Official Statement, Valley Water has received 423 claims with respect to the flooding along Coyote Creek. Estimated damages are in excess of $10.0 million; however, Valley Water cannot predict the final amount of any proven damages. Many of the claimants are also seeking recovery from the City of San Jose; therefore, a portion of the aggregate stated value of the claims may be apportioned to the City of San Jose.

A number of claimants have filed lawsuits in Santa Clara County Superior Court against Valley Water and the City of San Jose alleging damage from the Coyote Creek flood event. Currently, 20 lawsuits have been filed and 19 are pending against Valley Water relating to the flood event (one case was dismissed). Valley Water is evaluating all of such claims and lawsuits and cannot predict the outcomes or financial impacts of these or any future claims and lawsuits with respect to the Coyote flood event. Valley Water intends to vigorously defend any actions brought against it with respect to flood-related property damage caused by the flooding along Coyote Creek. Valley Water has filed a motion to remove all 19 pending cases from the State Superior Court to federal court. A hearing on the removal motion has been set for September 1, 2020.

Of the 423 claims, 192 of the claimants have not filed an action in superior court. As to these 192 claims, Valley Water settled 162 of such claims in September 2019 at a total cost of approximately $0.7 million.

On September 30, 2020, Pacific Gas & Electric Corporation filed a civil action against Valley Water claiming personal property damages as a result of flooding resulting from a series of storms occurring on or about February 21, 2017.

On or about June 14, 2018, San Jose Unified School District filed a civil action against Valley Water claiming property damages as a result of flooding resulting from a series of storms occurring on or about February 21, 2017.

(b) Grants and Subventions

Valley Water has received federal and state grants for specific purposes that are subject to review and audit. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

(c) Central Valley Project

On June 7, 1977, Valley Water entered into a contract with the U.S. Bureau of Reclamation for water service from the San Felipe Division of the Federal Central Valley Project (CVP). The CVP water service provides for both agricultural operation and maintenance (O&M) and municipal and industrial (M&I) water deliveries to the District up to a total maximum annual entitlement of 152,500 acre-feet per year. The contract specified initial water rates for O&M and M&I water service and provided for periodic adjustments for the respective water rates in accordance with prevailing CVP water rate policies commencing in the year 1993 for the in-basin M&I rate component; 1996 for the agricultural O&M rate component; 2001 for the full agricultural water rate; and 2008 for the out-of-basin M&I rate component. The methodology of CVP water rate setting has historically recovered current year operating costs and the applicable construction costs over 50 years.

In compliance with the Central Valley Improvement Act (CVPIA), the District entered into negotiations, along with all other CVP contractors, with the U.S. Bureau of Reclamation for contract renewal. Because of concerns related to litigation challenging the renewal process, Valley Water entered into an amended contract. The amendment maintained the basic provisions of the original contract, implemented provisions of CVPIA, and allowed the establishment of a fixed repayment for the San Felipe Division facilities.

(d) Perchlorate

In 2003, perchlorate released from the Olin Corporation facility at Tennant Avenue in Morgan Hill was discovered in groundwater in much of the Llagas Subbasin in South County, impacting many water supply wells. The investigation and clean-up of the contamination are under the jurisdiction of the Central Coast Regional Water Quality Control Board. Due to ongoing remediation by Olin and managed recharge by Valley Water, both the plume size and number of wells impacted have been reduced. As of June 2019, perchlorate was present above the Maximum Contaminant Level (MCL) in fewer than 10 domestic water supply wells. As of June 2020, perchlorate is present above the MCL in fewer than 5 domestic water supply wells. The perchlorate plume exceeding the MCL extends south from the Tennant Avenue site for about 3 miles. Olin's remedial efforts have included on-site soil removal and groundwater treatment as well as off-site plume remediation. Since this issue is no longer of legal significance, it will not be reported in next year's Comprehensive Annual Financial Report.

(e) Rinconada Water Treatment Plant Upgrade

On May 26, 2015, the Board awarded a $179.9 million construction contract to Balfour Beatty Infrastructure, Inc. ("Balfour Beatty") for the Rinconada Water Treatment Plant (WTP) Reliability Improvement Project. Phase 2 of such project includes the construction of several new facilities for the upgraded treatment system at the Rinconada WTP, including flocculation/sedimentation, ozone generation, and washwater recover facilities. Such project also includes the installation of an electrical control building and appurtenant wiring and control systems, significant underground piping, and installation of chemical feed systems.

Valley Water's contract with Balfour Beatty provided for the project to be built in five phases within a 5-year period. The existing Rinconada WTP is to remain operational during the entire construction period, with the newly constructed facilities and upgrades integrated with plant operations at the end of each phase.

Balfour Beatty's current estimated completion date of Phase 2 work is more than two years later than originally provided in the construction schedule. Valley Water advised Balfour Beatty of Valley Water's concerns regarding quality of construction work, the failure to comprehensively remedy construction defects, and Balfour Beatty's lack of diligence to ensure progress is made in a timely manner. On March 10, 2020, Valley Water and Balfour Beatty entered into an amendment to their original construction contract ("Amendment One") pursuant to which the scope of work was reduced such that Balfour Beatty only responsible for completing Phase 2 of the project and not the later phases, as originally agreed upon. Amendment One reduced the contract amount by approximately $39.8 million. Balfour Beatty Infrastructure Inc. has completed the scope of work described in Amendment One. Valley Water has not accepted the work as complete. Valley Water does not believe the foregoing construction issues will have a material adverse impact on the operation of the Rinconada WTP. See Note (17) Subsequent Events, for additional information.

(f) Factors Affecting Water Supply

Valley Water has access to several sources of water, both imported and local, which provides flexibility in managing its water supplies to meet the needs of the County. Under normal water conditions, Valley Water imports about half of its water supply under contracts with the California State Water Project (SWP) and the federal CVP, and obtains the other half from local surface water and groundwater resources. Certain water retailers in the County may also import water from the San Francisco Public Utility Commission's (SFPUC) Regional Water System, have their own local surface water supplies, and/or can deliver recycled water. To address factors which may impact these water supplies, Valley Water has undertaken several planning efforts focused on identifying strategies to safeguard the reliability and sustainability of County and State-side water resources on which Valley Water relies, assessing risks from climate change, economic and regulatory uncertainties, environmental and social conflicts, and other considerations.

Valley Water completed its 2015 Urban Water Management Plan ("UWMP") on June 20, 2016 (District Resolution No. 16-50), pursuant to California Water Code Sections 10610 through 10657 (the Urban Water Management Planning Act). The Urban Water Management Planning Act requires urban water suppliers such as Valley Water to review, update and adopt an UWMP at least every five years. Valley Water's current UWMP was prepared in coordination with water retailers (who also must prepare their own UWMPs), the County, and local cities and towns. Valley Water's 2015 UWMP updated water demand projections based upon increases in population and job growth to 2040 as projected by local water retailers. The 2015 UWMP also presented water supply projections and included Valley Water's Water Shortage Contingency Plan to address dry year objectives and operations. Completion of UWMP updates allows Valley Water to remain eligible for state water bank assistance and for state grant funding. The next UWMP update cycle is scheduled for development and completion by July 2021.

A key finding of the 2015 UWMP was that Valley Water must make significant investments to maintain and safeguard existing water supplies, infrastructure, and programs to ensure a reliable water supply into the future. These investments were described in Valley Water's Water Supply Master Plan 2040 approved by the Board in November 2019 (the "Water Supply Master Plan"). The Water Supply Master Plan recommends a three-prong strategy to ensure a reliable water supply through 2040: secure existing supplies and infrastructure, increase water conservation and water reuse, and optimize the use of existing supplies and infrastructure. The process of developing the Water Supply Master Plan involved evaluating groups of water supply projects and programs to achieve long-term water supply reliability targets. The preliminary 100-year lifecycle cost projections for the water supply projects and programs considered in the Water Supply Master Plan ranges from less than $100 million to over $1 billion and are over $2.3 billion in the aggregate. The impact of the implementation of the various groups of water supply projects and programs on Valley Water's water supply reliability are provided in the Water Supply Master Plan. Through a Monitoring and Assessment Program ("MAP"), Valley Water expects to continue implementation planning for the Water Supply Master Plan projects. The MAP report summarizes changes in demand forecasts, project descriptions, and water supply reliability analyses and is present to the Board annually.

The Board approved an updated long-term water supply reliability level of service goal on January 14, 2019. The goal is to develop supplies to meet at least 100 percent of annual water demand identified in the Water Supply Master Plan during non-drought years and at least 80 percent of annual water demand in drought years. The projects identified in the Water Supply Master Plan, along with the baseline supplies and infrastructure, is projected meet the water supply reliability level of service goals, even though there are small supply shortages in demand year 2030. The Water Supply Master Plan provides that such small shortages, if they materialize, will be managed by short-term water purchases rather than additional capital projects. The objectives and projects in the Water Supply Master Plan are incorporated into the Capital Improvement Program.

Endangered Species Act Issues

Valley Water's imported and local supplies are subject to regulatory restrictions due to implementation of the federal Endangered Species Act ("ESA") and the California Endangered Species Act ("CESA"). The listing of winter-run Chinook salmon in 1989 and delta smelt in 1993 resulted in pumping restrictions imposed on the State and federal water projects to protect these species. These pumping restrictions resulted in reduced deliveries from the SWP and CVP, compounding the shortages created by the on-going drought at the time. In 1993, the United States Environmental Protection Agency (the "EPA") also proposed to implement water quality standards for the Bay-Delta that would impose severe restrictions on the operation of the SWP and CVP. These circumstances led to the Bay-Delta Accord in 1994, in which the State and federal governments, along with urban, agricultural and environmental interests, agreed to an interim set of ESA protection measures coupled with water supply certainty. The Bay-Delta Accord laid the groundwork for the establishment of the CALFED Bay-Delta Program, which has been succeeded by a number of efforts, including the California Water Action Plan, the Delta Reform Act and Delta Plan, and the proposed Delta Conveyance Project to develop a long-term solution for conflicts in the Bay-Delta. However, there has been significant recent litigation concerning ESA and CESA issues and water moving through the Delta for export to contractors.

Various legal actions have been filed, and are anticipated to be filed, involving the conveyance of water through the Delta by DWR, via the SWP, and by USBR, via the CVP.

2019 Revised Federal Biological Opinions Litigation. Three significant lawsuits have been filed against the United States challenging as unlawful, revised biological opinions ("BOs") issued in October 2019 by the National Marine Fisheries Service ("NMFS") and the United States Fish and Wildlife Service ("FWS"). The State (though its natural resources agencies) filed one of these lawsuits in February 2020 (*California Natural Resources Agency, et al. v. Ross*). Another lawsuit was filed by environmental groups in December 2019 (*Pacific Coast Federation of Fishermen's Association, et al. v. Ross*), and a third lawsuit was filed by other environmental groups, the Central Delta Water Agency and the South Delta Water Agency in May 2020, (*AquaAlliance et al. v. United States Bureau of Reclamation*). These cases have been consolidated before Judge Drozd in the United States District Court for the Eastern District of California, Case Nos. 20-cv-00431, 20-cv-00426, and 20-cv-00878.

The foregoing three lawsuits allege violation of the Administrative Procedure Act ("APA"), the ESA and the National Environmental Policy Act ("NEPA"). Such cases arise from the BOs and associated permits issued by the FWS and NMFS under the ESA for the long-term, coordinated operations of the CVP and the SWP, and USBR's reliance upon those opinions and permits. For the last decade, the SWP and CVP operations have been controlled by a pair of BOs issued in 2008 and 2009 by FWS and NMFS, respectively, and their reasonable and prudent alternatives ("RPAs"). On August 2, 2016, the USBR and DWR requested re-initiation of consultation for coordinated long-term operations due to new information learned after multiple years of drought, low populations for listed species and new scientific information. DWR and USBR worked to refine operations of the SWP and CVP to reflect water quality regulations, existing ESA restrictions, updated hydrology, developing scientific data, and enhanced real-time monitoring capacity. In January of 2019, USBR issued a Biological Assessment that proposed a new long-term operating plan that would control through 2030. On July 1, 2019, NMFS released a draft BO that found the proposed plan would cause jeopardy and included an RPA. DWR and USBR continued to work with the FWS and NMFS to refine the proposed operations to prevent jeopardy. On October 21, 2019, NMFS and FWS issued new BOs that concluded that the long-term operations plan would not cause jeopardy. On February 19, 2020, USBR completed its NEPA review of the long-term operating plan and issued a Record of Decision adopting the October 2019 BOs.

In these cases, the State and environmental groups allege that NMFS and FWS violated the APA in reaching no jeopardy conclusions in the October 2019 BOs. The State and such environmental groups also allege that USBR violated the ESA by relying on the BOs and that USBR failed to comply with NEPA in issuing its Record of Decision.

Many water agencies, districts, authorities and other government entities have either intervened in these cases or have filed motions to intervene that remain pending. These include, for example, the State Water Contractors association (“SWC”), San Luis & Delta-Mendota Water Authority, Westlands Water District, Tehama-Colusa Canal Authority, Sacramento River Settlement Contractors.

In two cases, the State and environmental groups brought motions for a preliminary injunction seeking to prevent USBR from implementing the new long-term operations plan and asking the court to require the federal defendants to abide by the 2008 and 2009 BOs pending a determination on the merits of their claims. The Court granted the preliminary injunction for one aspect of the operations plan for a limited amount of time in May 2020 and denied the preliminary injunction for all other aspects.

Depending on the outcome of the litigation, SWP and CVP water supplies may be slightly higher or remain similar to levels from 2009 through 2019 under the 2009 biological opinion.

California Incidental Take Permit and SWP Long-Term Operations EIR Litigation. To Valley Water’s knowledge, between five to seven lawsuits have been filed against the State in three or four different Superior Courts by State and federal water contractors and by environmental groups concerning the DWR’s March 2020 Final Environmental Impact Report (“EIR”) and the California Department of Fish and Wildlife’s (“CDFW”) Incidental Take Permit (“ITP”) for the long-term operation of the SWP. Under CESA, DWR is required to obtain an ITP to minimize, avoid and mitigate impacts to threatened or endangered species, including the Delta Smelt and other fish species, as a result of SWP operations. In past years, DWR obtained coverage for SWP operations under CESA by securing a “consistency determination” from CDFW based on BOs issued by the NMFS and FWS. In 2018, as federal agencies were working to update their BOs, President Trump issued a Presidential Memorandum to accelerate their completion. In February 2019, DWR and CDFW announced that they would pursue a separate State permit to ensure the SWP’s compliance with the CESA.

In November 2019, DWR issued its draft EIR for long-term operations of the SWP. The draft EIR found that the project would have no significant environmental impacts. However, the draft EIR also discussed several project alternatives, including “Alternative 2[b]-Proposed Project with Dedicated Water for Delta Outflow from SWP.” In December 2019, DWR applied to CDFW for an ITP under the CESA. Despite the draft EIR finding of no significant impact, in its ITP application, DWR described the project in terms closer to Alternative 2b than what it had originally proposed. On March 27, 2020, DWR certified its final EIR, which adopted “Refined Alternative 2b” as the approved project. However, "Refined Alternative 2b" includes several project components that were neither described in the original project description nor in Alternative 2b. In announcing its final EIR, DWR also announced that it does not expect long-term SWP operations to result in an increase in the amount of water exported south of the Delta as compared to that under the prior 2008/2009 federal BOs. On March 31, 2020, CDFW issued an ITP consistent with the final EIR. The ITP and Final EIR will significantly limit exports in wetter years as compared to what is allowed under the 2019 revised federal BOs, with potential reductions of up to 400,000 acre-feet in April and May. The EIR and ITP apply only to SWP operations, not CVP operations.

In April 2020, Metropolitan Water District and Mojave Water Agency jointly filed suit against the State in Fresno Superior Court, as did the San Luis & Delta Mendota Water Authority, Friant Water Authority, and the Tehama Colusa Canal Authority. SWC and Kern County Water Agency jointly filed another lawsuit. These lawsuits allege, among other things, that the State violated CEQA or CESA by: (a) changing the project description after the draft EIR and certifying new "Refined Alternative 2b" without adequate disclosure or public comment; and (b) failing to use the best available science and requiring unnecessary and unjustified fish avoidance and mitigation measures. Metropolitan Water District and Mojave Water Agency also allege in their lawsuit that the State breached its SWP contract by agreeing to mitigation measures stronger than necessary under the CESA, reducing the amount of water that will be delivered and increasing charges. In contrast, the Sierra Club, Center for Biological Diversity and two other environmental groups jointly filed suit against the State in San Francisco Superior Court, alleging that the final EIR and ITP violate the Delta Reform Act and CEQA and do not go far enough in protecting threatened fish species. The Sierra Club, Center for Biological Diversity and the environmental groups allege that the final EIR And ITP allow too much water to be exported south of the Delta and fail to account for the cumulative impacts of SWP operations. Finally, they allege DWR violated CEQA by failing to analyze the Delta Conveyance Facility, the single tunnel project proposed by Governor Newsom. The foregoing lawsuits could be coordinated and consolidated.

The final EIR and ITP could result in less SWP water being exported south of the Delta than would otherwise be authorized under the 2019 revised federal BOs. Valley Water cannot determine at this time whether the final EIR and ITP will result in less SWP water being delivered to contractors than had been delivered for 11 years under the former (2008 and 2009) federal BOs.

Bay-Delta and Imported Water Litigation

Delta Stewardship Council Delta Plan Litigation. In 2013, the federal government, SWP contractors, including Valley Water, and several environmental groups, filed suit against the Delta Stewardship Council ("DSC"), challenging its Bay-Delta Plan. The Delta Reform Act of 2009 ("DRA") established the co-equal goals of restoring the Bay-Delta ecosystem and increasing the reliability of Delta water supplies. The DRA also created the DSC, which was charged with developing a plan that accomplishes these goals. SWC and Valley Water allege that the Bay-Delta Plan violates the DRA because, among other things, its Regulation WR P1 provides that the DSC may reject any projects involving water moving through the Bay-Delta if local agencies do not demonstrate efforts to reduce local water demand, improve efficiency and/or increase local water supplies. Environmental groups sued the DSC alleging that the Bay-Delta Plan violates the DRA because it does not set forth enforceable, quantified minimum water flows or other measurable objectives. The trial court held that the Bay-Delta Plan violated the DRA because it did not set forth quantified water flow objectives or other measurable limits.

In 2020, the Court of Appeal issued an opinion rejecting the arguments of both the SWP contractors and environmental groups, holding that the Bay-Delta Plan does not violate the DRA. The Court of Appeals rejected the SWP contractors' arguments that the Bay-Delta Plan exceeded the DSC's jurisdiction by regulating local water agencies and local water use by requiring agencies to demonstrate reduced reliance on the Delta, as well as their other arguments. The Court of Appeals also rejected the argument that the Bay-Delta Plan violates the DRA because it does not contain quantified or measurable water flow limits or targets. The Court of Appeals' decision could impact SWP contractors' ability to participate in multi-year water transfers if a SWP contractor, such as Valley Water, is unable to demonstrate reduced reliance on imported Delta water to the satisfaction of the DSC, which may require proof of local retail water agencies or purveyors showing reduced reliance on imported water. However, single-year water transfers are not impacted, as the DRA expressly exempts such transfers.

Bay-Delta Water Quality Control Plan Phase 1 Amendments Litigation. In late 2018, the SWRCB released its "Phase 1" amendments to the San Francisco Bay/Sacramento - San Joaquin Delta Estuary Water Quality Control Plan ("Bay Delta WQCP"), which addressed water quality objectives on the Lower San Joaquin River, its tributaries, and the southern Delta. Phase 2 amendments will focus on the Sacramento River, its tributaries and the northern and central Delta. Among other things, the Phase I amendments require an adaptive 30% – 50% unimpaired flow requirement on all major tributaries to the San Joaquin River, including the Tuolumne River, from which the SFPUC Hetch-Hetchy system obtains its water supplies. The SWRCB announced that it anticipates in forthcoming Phase 2 amendments concerning the Sacramento River and its tributaries and north and central Delta, that it expects to impose a higher, adaptive 45% – 65% unimpaired flow requirement.

Approximately 24 entities, including Valley Water, filed suit against the SWRCB in 13 lawsuits concerning the Phase I Bay-Delta WQCP amendments. Such lawsuits have been consolidated in Sacramento Superior Court in Case No. JCCP 5013. Several water and irrigation districts, environmental groups, the cities of San Francisco and Modesto, the United States, and one Indian tribe are plaintiffs/petitioners. The public agency plaintiffs allege that the flow requirements are arbitrary and capricious, not based on the best available science, or are too restrictive of, or alter, water rights; and the environmental groups allege they are not protective of fish enough. This consolidated litigation is in an early stage. Valley Water's expects to file a dismissal in this matter and to address the issues raised in the lawsuit through a voluntary agreement process. The Phase 1 amendments as well as the anticipated Phase 2 amendments could reduce the supply of imported water available to Valley Water, SFPUC, and other State and federal water contractors.

Litigation Relating to Monterey Amendments to SWP Contract. In late 1994, SWP contractors and DWR entered into an agreement in Monterey to substantially amend the standard SWP contract. In 1995 the first of several CEQA lawsuits challenging the "Monterey Amendments" was filed after a SWP contractor prepared an EIR for these amendments. That case settled after DWR agreed to prepare a new EIR for the Monterey Amendments, which was named the "Monterey Plus" project. In 2010, DWR certified its final Monterey Plus EIR. Central Delta Water Agency and several NGOs filed suit against DWR thereafter (Sacr. Sup. Ct. Case No. 34-2010-80000561) ("*Central Delta I*"), alleging that the Monterey Plus EIR violated CEQA because it failed to provide an adequate description of the project and its impacts, failed to adequately analyze alternatives and mitigation measures, contained inadequate responses to public comments, and was not properly circulated. The plaintiffs also alleged that DWR's CEQA findings were not supported by substantial evidence. A related lawsuit was filed, *Rosedale-Rio Bravo Water Storage District v. DWR* (Sacr. Sup. Ct. Case No. 34-2010-80000703), alleging only that the Monterey Plus EIR failed to adequately analyze the operations of the proposed Kern Water Bank). Finally, the Central Delta

Water Agency filed a second, separate lawsuit challenging the validity of the transfer of the Kern Water Bank from the Kern County Water Agency to the Kern Water Bank Authority (Sacr. Sup. Ct. Case No. 34-2010-80000719, "*Central Delta II*"). These three actions were ordered related and assigned to a Sacramento Superior Court Judge. *Central Delta II* has been stayed pending resolution of *Central Delta I*.

In a decision in 2014 in *Central Delta I* and *Rosedale-Rio Bravo*, the court upheld the majority of the Monterey Plus EIR. However, the court found that the Monterey Plus EIR did not sufficiently analyze or address the operation of the Kern Water Bank and issued a writ for DWR to further analyze its operations and recertify the Monterey Plus EIR. The *Central Delta I* plaintiffs appealed the rejection the CEQA claims (Ct. of App. 3d. Dist. Case No. C078249). The parties completed appellate court briefing in July of 2016. This case remains pending, as the Court of Appeal has not yet issued a decision.

As ordered by the trial court, DWR conducted further environmental review of the Kern Water Bank, and, in 2016, issued its revised EIR: "Monterey Plus — Kern Water Bank Development and Continued Use Operation." The Center for Food Safety and other NGOs (represented by *Central Delta I & II*'s counsel) filed suit shortly thereafter, alleging various CEQA violations (*Center for Food Safety v. DWR*, Sacr. Sup. Ct. Case No. Case No. 34-2016-800002469). The court denied all of plaintiffs' claims in an order and judgment in October 2017, and plaintiffs appealed. The parties completed appellate court briefing approximately 20 months ago, and this action is also pending in the Court of Appeal (Ct. of App. 3d Dist. Case No. C086215).

DWR SWP Contract Long-Term Extension Validation Action. DWR filed a validation action in Sacramento County Superior Court in 2018 (Sacr. Sup. Ct No. 34-2018-00246183) to validate the legality of its approval of long-term extensions of all SWP contracts, including Valley Water's contract. A judgment in favor of DWR would provide that the matters contained therein are in conformity with applicable law, as set forth in such validation action. However, there can be no assurance that a court exercising equitable powers or judicial discretion would not hear an action challenging the matters set forth in such judgment. In February 2019, Valley Water filed an answer supporting DWR's allegations, as did several other SWP contractors. However, several environmental groups and counties and districts filed answers or separate actions opposing DWR's approval, asserting that the approval violates CEQA, the Public Trust Doctrine and the DRA. This case is in its initial procedural stage. All cases have been consolidated and assigned to Judge Culhane, and the administrative record is being prepared.

Oroville Spillway Environmental Damage Cases. In response to record rainfall in early 2017, DWR's Oroville Dam filled and excess water ran down its spillway (as designed). The spillway, however, failed and caused water and debris to be released, uncontrolled, into the Feather River. The District Attorney of Butte County (People of State of CA v. DWR) and other individuals and entities have filed suit for environmental damage or property damage resulting from the spillway failure. These cases have been consolidated in Sacramento Superior Court Case No. JCCP 4974. The Butte County District Attorney is seeking $51.0 billion in damages ($25k/day penalty + $10/pound of spillway and materials discharged into river) under Cal. Fish & Game Code § 5650. Although Article 13(b) of the SWP contract provides that contractors are not liable for DWR's operation or maintenance of SWP structures or facilities before their turnouts, DWR maintains that ultimately, regardless of legal liability, all costs of the SWP system must be borne by SWP contractors rather than the general public, and thus DWR may bill contractors or raise SWP costs to recover expenditures related to this litigation (cost of litigation, settlements, damages awards/verdicts). If a judgment in this case resulted in the award in the amount of the maximum damages being sought by Butte County and it was determined that DWR could recover these costs from SWP contractors, Valley Water's share could be approximately $1.3 billion. Valley Water cannot predict the outcome of this litigation or the damages in the event that Butte County prevails.

DWR's cost estimate for the Oroville Spillways Emergency Recovery Project is currently $1.1 billion, but no determination has been made as to the amount for which SWP contractors will ultimately be responsible. The Federal Emergency Management Agency's ("FEMA") Public Assistance program allows for the reimbursement of up to 75 percent of eligible costs for federally declared disasters. As a result, DWR has issued debt for 25 percent of total project costs, resulting in an annual increase of about $0.6 million to Valley Water's Statement of Charges. To date, FEMA has reimbursed DWR for approximately 50 percent of total project costs and DWR is considering appeal of this decision. If DWR is not successful in obtaining further reimbursement from FEMA and instead issues debt to be repaid by SWP contractors, Valley Water's share of project costs could increase by an additional $0.6 million per year.

Valley Water cannot predict the outcome of these Delta-related cases. However, Valley Water believes that any new decision or order by a State or federal court related to one or more of the above-described biological opinions and leading to adverse decisions reducing State Water Project and/or Central Valley Project supplies would not have a material impact on Valley Water's ability to pay debt service on the 2020 Bonds or the Installment Payments.

NOTE 17 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through January XX, 2021.

On or about October 7, the District and Shatto Corporation entered into a settlement agreement by which both parties dismissed with prejudice all actions each had against the other. Shatto will pay Valley Water $1.1 million.

On October 14, 2020, Valley Water closed on a debt issuance to finance capital improvement costs for the water utility system. The financing was authorized by Valley Water's Board of Directors at its September 8, 2020, regular meeting. Total debt proceeds of $216.0 million plus $20.0 million of original issue premium were used to repay $99.3 million of commercial paper that was issued as interim financing for previously-incurred costs (Water System Refunding Revenue Bonds, Series 2020A/B) and generate $135.0 million of new money proceeds to fund eligible capital costs over the next one to two years (Revenue Certificates of Participation, Water Utility System Improvement Projects, Series 2020AC/D). Valley Water received 'AA+' and 'Aa1' credit ratings on the debt from Fitch and Moody's respectively. The debt obligations will be repaid over 30 years at fixed rates. Valley Water achieved very favorable pricing with an aggregate, all-in true interest cost of 2.69% and achieved budgetary debt service savings of approximately $5.0 million for the new fiscal year.

On October 15, 2020, Valley Water submitted a letter of interest (LOI) for the Pacheco Reservoir Expansion Project to the U.S. Environmental Protection Agency (EPA) for a loan under its Water Infrastructure Finance and Innovation Act (WIFIA) loan program. The LOI described the project and its community benefits in detail and provided information on the creditworthiness of Valley Water as a borrower. The EPA will announce in 3 months which projects across the national are invited to apply for a WIFIA loan. The federal WIFIA loan program, previously identified by Valley Water as a preferential, low-cost option for borrowing funds to finance the development, design, and construction of the project, can fund up to 49% of eligible capital costs. In its notice of funding availability, the EPA estimated that its budget authority for its fiscal year ending September 30, 2021 may provide for approximately $5.0 billion in loans to selected projects, with additional funding possibility available from prior year carryover resources.

On October 30, 2020, Valley Water executed and delivered a Certificate Purchase and Reimbursement Agreement (the “Reimbursement Agreement”) dated October 1, 2020 by and among Valley Water, the Corporation, U.S. Bank National Association as administrative agent and sole lead arranger of the other three lenders that are parties thereto (each as lender and together, the “Lenders”). Under the Reimbursement Agreement, Valley Water may issue up to $170.0 million of Santa Clara Valley Water District Revolving Certificates, Series C (Tax-Exempt) and Series D (Taxable) (the “Revolving Certificates”) to be purchased by the Lenders. The TRANs secures the Revolving Certificates on a parity with the Commercial Paper Certificates. The Reimbursement Agreement currently expires on October 27, 2023. As of the publication date of the CAFR, Valley Water has not issued any Revolving Certificates pursuant to the Reimbursement Agreement. The Reimbursement Agreement has a three-year term through October 27, 2023, with renewal options pursuant to Board Resolution 20-11 adopted by the Valley Water Board on April 28, 2020.

On November 3, 2020, the Measure S parcel tax met the two-thirds supermajority vote required for approval with a voter passing result of 75.64%. The measure to renew the Safe, Clean Water and Natural Flood Protection Program which ensures public health and safety by protecting drinking water supply, reducing toxins and contaminants, and providing flood protection, renews Valley Water’s existing parcel tax, without increasing rates, and averages $.006 per square foot annually. Passage of this measure is estimated to generate an estimated $45.5 million per year for Valley Water.

On December 7, 2020, Balfour Beatty filed a California Government Code Claim pursuant to section 900 et. Seq. alleging entitlement to monetary compensation for Valley Water’s breach of contract and violation of Public Contract Code section 7107 relating to timely release of contract retention on the Rinconada Water Treatment Plant Upgrade, which is approximately $7.4 million.

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Required Supplementary Information

VALLEY WATER
Schedule of Changes In Net Pension Liability and Related Ratios
June 30, 2020
Last 10 Years*
(in Millions)

	2015	2016	2017	2018	2019	2020
Total pension liability						
Service cost	$ 14.3	$ 13.7	$ 13.8	$ 15.7	$ 16.0	$ 16.5
Interest on total pension liability	46.3	48.8	51.1	53.1	54.9	58.4
Differences between expected and actual experience	-	(0.2)	(3.2)	(4.7)	(1.4)	13.3
Changes in assumptions	-	(12.0)	-	44.3	(8.1)	-
Benefit payments, including refunds of employee contributions	(25.0)	(27.8)	(30.4)	(32.5)	(35.3)	(38.4)
Net change in pension liability	35.6	22.5	31.3	75.9	26.1	49.8
Total pension liability, beginning	622.2	657.8	680.3	711.6	787.5	813.6
Total pension liability, ending (a)	$ 657.8	$ 680.3	$ 711.6	$ 787.5	$ 813.6	$ 863.4
Plan fiduciary net position						
Contributions - employer	$ 13.8	$ 15.2	$ 17.0	$ 19.0	$ 20.1	$ 26.6
Contributions - employee	9.0	6.2	6.6	6.6	7.0	7.6
Net investment income	75.7	11.5	2.8	56.5	47.2	39.3
Benefits payment	(25.0)	(27.8)	(30.4)	(32.5)	(35.3)	(38.4)
Administrative expenses	-	(0.6)	(0.3)	(0.7)	(0.9)	(0.4)
Other miscellaneous income / (expenses)	-	-	-	-	(1.6)	-
Net change in fiduciary net position	73.5	4.5	(4.3)	48.9	36.5	34.7
Plan fiduciary net position, beginning	434.7	508.2	512.7	508.4	557.3	593.8
Plan fiduciary net position, ending (b)	$ 508.2	$ 512.7	$ 508.4	$ 557.3	$ 593.8	$ 628.5
Net pension liability, ending (a - b)	$ 149.6	$ 167.6	$ 203.2	$ 230.2	$ 219.8	$ 234.9
Plan fiduciary net position as a percentage of total pension liability	77.26%	75.36%	71.44%	70.77%	72.98%	72.79%
Covered payroll	$ 77.9	$ 78.0	$ 79.6	$ 84.1	$ 88.5	$ 92.1
Net pension liability as a percentage of covered payroll	192.04%	214.87%	255.28%	273.72%	248.36%	255.05%
Discount rate	7.50%	7.65%	7.65%	7.15%	7.15%	7.15%

** Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 6 years are shown.*

VALLEY WATER
Schedule of Employer Pension Contributions
June 30, 2020
Last 10 Years*
(in Millions)

	2015	2016	2017	2018	2019	2020
Actuarially determined contribution	$ 13.9	$ 16.5	$ 18.6	$ 19.7	$ 22.6	$ 25.4
Contributions in relation to the actuarially determined contribution	(13.9)	(16.5)	(18.6)	(19.7)	(26.1)	(29.4)
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ (3.5)	$ (4.0)
Covered payroll[1]	$ 78.0	$ 79.6	$ 84.1	$ 88.5	$ 92.1	$ 95.0
Contribution as a percentage of covered payroll	17.82%	20.73%	22.12%	22.26%	24.54%	26.74%

[1] The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net pension liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

** Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 6 years are shown.*

VALLEY WATER

Schedule of Changes In Net OPEB Liability and Related Ratios

June 30, 2020

Last 10 Years*

	2018	2019	2020
Total OPEB liability			
Service cost	$ 2.9	$ 2.9	$ 2.6
Interest on total OPEB liability	12.0	12.5	12.9
Effect ot change in actuarial assumptions/methods	-	-	(5.5)
Benefits payment	(8.5)	(8.9)	(10.1)
Other liability experience loss / (gain)	-	-	(8.0)
Net change in OPEB liability	6.4	6.5	(8.1)
Total OPEB liability, beginning	167.8	174.3	180.8
Total OPEB liability, ending (a)	$ 174.2	$ 180.8	$ 172.7
Plan fiduciary net position			
Contributions	$ 11.5	$ 11.9	$ 10.1
Benefits payment	(8.5)	(8.9)	(10.1)
Expected investment income	6.2	7.1	7.8
Investment experience (loss) / gain - differences between expected and actual experience	2.9	0.8	(1.2)
Net change in fiduciary net position	12.1	10.9	6.6
Plan fiduciary net position, beginning	84.5	96.6	107.5
Plan fiduciary net position, ending (b)	$ 96.6	$ 107.5	$ 114.1
Net OPEB liability, ending (a - b)	$ 77.6	$ 73.3	$ 58.6
Plan fiduciary net position as a percentage of total OPEB liability	55.45%	59.46%	66.07%
Covered payroll	$ 79.7	$ 84.1	$ 88.5
Net OPEB liability as a percentage of covered payroll	97.37%	87.16%	66.21%
Discount rate	7.28%	7.28%	7.28%

** Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 3 years are shown.*

VALLEY WATER

Schedule of Employer Other Post Employment Benefit Contributions
June 30, 2020
Last 10 Years*

	2018	2019	2020
Actuarially determined contribution	$ 9.5	$ 10.2	$ 10.8
Contributions in relation to the actuarially determined contribution	(12.5)	(10.2)	(10.8)
Contribution Deficiency / (Excess)	$ (3.0)	$ -	$ -
Covered payroll[1]	$ 84.1	$ 88.5	$ 91.0
Contribution as a percentage of covered payroll	14.86%	11.53%	11.87%

[1] The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net OPEB liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

** Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 3 years are shown.*

VALLEY WATER

Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Budgeted Governmental Funds
For the Year Ended June 30, 2020
(Dollars in Millions)

	General Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	$ 8.4	$ 8.4	$ 9.2	$ 0.8
Use of money and property:				
Investment income	0.2	0.2	0.5	0.3
Rental	-	-	-	-
Reimbursement of capital costs	-	-	-	-
Other	-	-	0.1	0.1
Total revenues	8.6	8.6	9.8	1.2
Expenditures:				
Operating budget:				
Operations and operating projects	58.6	58.8	58.6	0.2
Debt service:				
Principal repayment	0.5	0.5	0.5	-
Interest and fiscal charges			-	-
Total operating budget	59.1	59.3	59.1	0.2
Capital budget:				
Capital improvement projects	2.2	2.2	1.5	0.7
Total expenditures	61.3	61.5	60.6	0.9
Excess (deficiency) of revenues over (under) expenditures	(52.7)	(52.9)	(50.8)	2.1
Other financing sources (uses):				
Intra-district overhead reimbursement	54.1	54.1	52.2	(1.9)
Transfers in	0.9	0.9	0.4	(0.5)
Transfers out	(0.7)	(0.7)	(0.7)	-
Total other financing sources	54.3	54.3	51.9	(2.4)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	$ 1.6	$ 1.4	1.1	$ (0.3)
Reconciliation of GAAP and budgetary basis:				
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(1.8)	
Capital improvement projects			(2.0)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			2.4	
Capital improvement projects			0.4	
Fund Balances, beginning of year			14.1	
Fund Balances, end of year			$ 14.2	

See accompanying notes to required supplementary information

Watershed & Stream Stewardship				Safe, Clean Water & Natural Flood Protection			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
$ 86.1	$ 86.1	$ 93.1	$ 7.0	$ 45.5	$ 45.5	$ 46.1	$ 0.6
2.0	2.0	5.2	3.2	2.4	2.4	5.8	3.4
1.4	1.4	1.7	0.3	-	-	0.4	0.4
7.3	7.3	15.2	7.9	13.5	13.5	14.3	0.8
0.2	0.2	1.6	1.4	-	-	-	-
97.0	97.0	116.8	19.8	61.4	61.4	66.6	5.2
58.4	57.1	51.7	5.4	17.3	22.4	20.5	1.9
-	-	-	-	0.8	0.8	-	0.8
-	-	-	-	2.3	2.3	0.7	1.6
58.4	57.1	51.7	5.4	20.4	25.5	21.2	4.3
28.4	65.7	19.0	46.7	34.0	133.1	70.9	62.2
86.8	122.8	70.7	52.1	54.4	158.6	92.1	66.5
10.2	(25.8)	46.1	71.9	7.0	(97.2)	(25.5)	71.7
-	-	-	-	-	-	-	-
2.3	2.4	4.1	1.7	18.6	21.2	20.9	(0.3)
(21.5)	(24.1)	(22.8)	1.3	-	-	-	-
(19.2)	(21.7)	(18.7)	3.0	18.6	21.2	20.9	(0.3)
$ (9.0)	$ (47.5)	27.4	$ 74.9	$ 25.6	$ (76.0)	(4.6)	$ 71.4
		(1.6)				(3.2)	
		(9.2)				(13.7)	
		2.0				0.8	
		0.1				10.7	
		153.3				168.5	
		$ 172.0				$ 158.5	

Valley Water annually adopts a budget in June to be effective July 1 for the ensuing fiscal year. Annual appropriated budgets are adopted for the general fund, special revenue funds, and for all proprietary funds. The COP construction and COP debt service funds are not budgeted.

Legal budgetary (expenditure) control is established at the fund level, further controlled within the fund at the category level. The categories are defined as the operating budget (operations and maintenance, debt service, and operating projects) and the capital budget (capital improvement projects) in the budget and actual budgetary basis schedules. The amounts stated therein as proposed expenditures become appropriations to the various organization units. The Board may amend the budget by motion during the fiscal year. The Chief Executive Officer is authorized to transfer appropriations within budget categories by fund. All unencumbered appropriations for operations and maintenance, operating projects and debt service lapse at fiscal year-end. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated. Unexpended appropriations for capital projects are carried forward until project completion or termination.

The budget process is based upon accounting for certain transactions on a basis other than the Generally Accepted Accounting Principles (GAAP) basis. The results of operations are presented in the budget and actual schedules in accordance with the budgetary basis to provide a meaningful comparison with the budget. The major differences between the budgetary basis and GAAP basis are as follows:

- Certain accruals (primarily accrued vacation and sick leave pay) are excluded from the budgetary basis because such amounts are budgeted on a cash basis.
- Year-end encumbrances are recognized as expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the GAAP basis until incurred.
- Certain budgeted debt service expenditures in special revenue funds are recorded as operating transfers out on a GAAP basis.
- Intra-district overhead reimbursement on a budgetary basis is reflected as a reimbursement of expenditures on a GAAP basis.

Reported budget amounts reflect the annual budget as originally adopted and as subsequently amended by the Board of Directors. The budget amounts are based on estimates of Valley Water’s expenditures/expenses and the proposed means of financing them. The final budget of capital improvement projects includes budget adjustments related to capital projects’ period year balance forward. Actual expenditures for capital items, as in the case of special revenue funds, may vary significantly from budget due to the timing of such expenditures.

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Supplemental Information

Schedule of Revenues, Expenditures and Change in Fund Balances – Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Funds

Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Fund

VALLEY WATER

Schedule of Revenues, Expenditures and
Changes in Fund Balances
Selected Watershed Activities
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2020
(Dollars in Millions)

	Lower Peninsula Watershed	West Valley Watershed
Revenues:		
Benefit assessments	$ 2.7	$ 2.3
Total revenues	2.7	2.3
Expenditures:		
Debt service:		
Principal repayments	-	-
Interest and fiscal charges	-	-
Total expenditures	-	-
Excess (deficiency) of revenues over (under) expenditures	2.7	2.3
Other financing source (uses):		
Transfers out	(2.7)	(2.3)
Total other financing sources (uses)	(2.7)	(2.3)
Net change in fund balances	-	-
Fund balances, beginning of year	-	-
Fund balances, end of year	$ -	$ -

Guadalupe Watershed	Coyote Watershed	Total
$ 4.5	$ 3.9	$ 13.4
4.5	3.9	13.4
-	-	-
-	-	-
-	-	-
4.5	3.9	13.4
(4.5)	(3.9)	(13.4)
(4.5)	(3.9)	(13.4)
-	-	-
-	-	-
$ -	$ -	$ -

VALLEY WATER

Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Selected Watershed Activities
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2020
(Dollars in Millions)

	Lower Peninsula Watershed				
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget
Revenues:					
Benefit assessments	$ 2.7	$ 2.7	$ 2.7	$ -	$ 2.3
Total revenues	2.7	2.7	2.7	-	2.3
Expenditures:					
Debt service:					
Principal repayment	1.3	1.3	1.8	(0.5)	1.4
Interest and fiscal charges	1.0	1.0	0.5	0.5	0.5
Total expenditures	2.3	2.3	2.3	-	1.9
Excess (deficiency) of revenues over (under) expenditures	0.4	0.4	0.4	-	0.4
Other financing sources (uses):					
Transfers out	(0.4)	(0.4)	(0.4)	-	(0.4)
Total other financing sources (uses)	(0.4)	(0.4)	(0.4)	-	(0.4)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	$ -	$ -	$ -	$ -	$ -

West Valley Watershed			Guadalupe Watershed			
Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
$ 2.3	$ 2.3	$ -	$ 4.5	$ 4.5	$ 4.5	$ -
2.3	2.3	-	4.5	4.5	4.5	-
1.4	1.6	(0.2)	2.8	2.8	3.3	(0.5)
0.5	0.3	0.2	0.9	0.9	0.4	0.5
1.9	1.9	-	3.7	3.7	3.7	-
0.4	0.4	-	0.8	0.8	0.8	-
(0.4)	(0.4)	-	(0.8)	(0.8)	(0.8)	-
(0.4)	(0.4)	-	(0.8)	(0.8)	(0.8)	-
$ -	$ -	$ -	$ -	$ -	$ -	$ -

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Continued)
Selected Watershed Activities Contained
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2020
(Dollars in Millions)

	Coyote Watershed			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Benefit Assessments	$ 3.9	$ 3.9	$ 3.9	$ -
Total revenues	3.9	3.9	3.9	-
Expenditures:				
Debt service:				
Principal repayment	2.1	2.1	2.6	(0.5)
Interest and fiscal charges	1.1	1.1	0.5	0.6
Total expenditures	3.2	3.2	3.1	0.1
Excess (deficiency) of revenues over (under) expenditures	0.7	0.7	0.8	0.1
Other financing sources (uses):				
Transfers out	(0.7)	(0.7)	(0.8)	(0.1)
Total other financing sources (uses)	(0.7)	(0.7)	(0.8)	(0.1)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	$ -	$ -	$ -	$ -

Water Enterprise and State Water Project Funds

Schedules of Revenues, Expenses and Change in Fund Net Position
Budget and Actual

VALLEY WATER

Schedule of Revenues, Expenses and
Changes in Net Position - Budget and Actual
Water Enterprise and State Water Project Funds
For the Year Ended June 30, 2020
(Dollars in Millions)

	Water Enterprise Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	$ 7.5	$ 7.5	$ 8.4	$ 0.9
Intergovernmental services	1.2	1.2	3.7	2.5
Ground water production charges	105.0	105.0	112.6	7.6
Treated water charges	169.5	169.5	152.6	(16.9)
Surface and recycled water revenue	2.8	2.8	1.7	(1.1)
Investment income	2.8	2.8	8.8	6.0
Capital reimbursements	11.9	11.9	4.3	(7.6)
Other	1.0	1.0	1.4	0.4
Total revenues	301.7	301.7	293.5	(8.2)
Expenses:				
Current:				
Operations and operating projects	159.8	161.8	143.8	18.0
Debt Service:				
Principal repayment	14.0	14.0	13.1	0.9
Interest and fiscal charges	29.8	29.8	21.1	8.7
Capital outlay:				
Capital improvement projects	133.5	155.6	132.2	23.4
Total expenses	337.1	361.2	310.2	51.0
Excess (deficiency) of revenues over (under) expenses before transfers	(35.4)	(59.5)	(16.7)	42.8
Transfers in	1.1	1.1	1.1	-
Transfers out	(2.5)	(2.6)	(2.6)	-
Excess (deficiency) of revenues and other financing sources over (under) expenses	$ (36.8)	$ (61.0)	(18.2)	$ 42.8
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(30.3)	
Capitalized expenditures			123.6	
Debt principal and GAAP basis accruals for interest payable			14.8	
GAAP basis expenses and other liabilities			9.1	
Expenses of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(8.6)	
Capital improvement projects			(63.9)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			8.0	
Capital improvement projects			56.2	
Net position, beginning of year			743.9	
Net position, end of year			$ 834.6	

State Water Project Fund				Total			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
$ 18.0	$ 18.0	$ 21.8	$ 3.8	$ 25.5	$ 25.5	$ 30.2	$ 4.7
-	-	-	-	1.2	1.2	3.7	2.5
-	-	-	-	105.0	105.0	112.6	7.6
-	-	-	-	169.5	169.5	152.6	(16.9)
-	-	-	-	2.8	2.8	1.7	(1.1)
-	-	-	-	2.8	2.8	8.8	6.0
-	-	-	-	11.9	11.9	4.3	(7.6)
1.0	1.0	1.4	0.4	2.0	2.0	2.8	0.8
19.0	19.0	23.2	4.2	320.7	320.7	316.7	(4.0)
25.1	25.1	24.8	0.3	184.9	186.9	168.6	18.3
-	-	-	-	14.0	14.0	13.1	0.9
-	-	-	-	29.8	29.8	21.1	8.7
-	-	-	-	133.5	155.6	132.2	23.4
25.1	25.1	24.8	0.3	362.2	386.3	335.0	51.3
(6.1)	(6.1)	(1.6)	4.5	(41.5)	(65.6)	(18.3)	47.3
-	-	-	-	1.1	1.1	1.1	-
-	-	-	-	(2.5)	(2.6)	(2.6)	-
$ (6.1)	$ (6.1)	(1.6)	$ 4.5	$ (42.9)	$ (67.1)	(19.8)	$ 47.3
		(0.9)				(31.2)	
		-				123.6	
		-				14.8	
		-				9.1	
		-				(8.6)	
		-				(63.9)	
		3.0				11.0	
		-				56.2	
		31.4				775.3	
		$ 31.9				$ 866.5	

Internal Service Funds

The Internal Service Funds are similar to Enterprise Funds, except that services are rendered to other District units rather than to District customers. This fund type consists of the Equipment Fund, Risk Management Fund, and Information Technology Fund.

Equipment Fund - the fund is used to account for the maintenance and operation of the District's fleet vehicles and heavy construction equipment. Financing is provided through rental charges to operations based upon usage.

Risk Management Fund – the fund is used to account for the monies set aside to pay for all claims, judgment and premium costs. Financing is provided through premiums charged to District operations.

Information Technology Fund – the fund is used to account for the maintenance and replacement of district-wide capital related information technology projects. Financing is provided through rental charges to operations based upon usage.

VALLEY WATER

Combining Statement of Net Position

Internal Service Funds

June 30, 2020

(Dollars in Millions)

	Equipment	Risk Management	Information Technology	Total
ASSETS				
Current assets:				
Cash and investments	$ 4.6	$ 14.7	$ 22.3	$ 41.6
Inventory	0.1	-	-	0.1
Total current assets	4.7	14.7	22.3	41.7
Noncurrent assets:				
Capital assets				
Depreciable assets	22.2	-	11.2	33.4
Accumulated depreciation	(13.3)	-	(6.8)	(20.1)
Total noncurrent assets	8.9	-	4.4	13.3
Total assets	13.6	14.7	26.7	55.0
Deferred outflows of resources - pension activities	0.6	0.6	0.4	1.6
Deferred outflows of resources - OPEB	0.1	0.1	0.2	0.4
Deferred outflows of resources	0.7	0.7	0.6	2.0
LIABILITIES				
Current liabilities:				
Accounts payable	0.2	0.2	1.5	1.9
Claims payable	-	2.1	-	2.1
Compensated absence	0.1	-	-	0.1
Total current liabilities	0.3	2.3	1.5	4.1
Non current liabilities:				
Claims payable	-	5.4	-	5.4
Net Pension liability	2.5	2.8	5.1	10.4
Other post employment benefits liability	0.8	0.7	-	1.5
Compensated absence	0.2	0.2	-	0.4
Total non current liabilities	3.5	9.1	5.1	17.7
Total liabilities	3.8	11.4	6.6	21.8
Deferred inflows of resources - pension activities	0.2	0.1	-	0.3
Deferred inflows of resources - OPEB	0.1	0.1	0.2	0.4
Deferred inflows of resources	0.3	0.2	0.2	0.7
NET POSITION				
Net investment in capital assets	8.9	-	4.4	13.3
Unrestricted	1.3	3.8	16.1	21.2
Total net position	$ 10.2	$ 3.8	$ 20.5	$ 34.5

VALLEY WATER

Combining Statement of Revenues, Expenses and
Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2020
(Dollars in Millions)

	Equipment	Risk Management	Information Technology	Total
Operating revenues:				
Vehicle service charges	$ 5.7	$ -	$ -	$ 5.7
Computer equipment use charges	-	-	15.1	15.1
Self-insurance service charges	-	4.9	-	4.9
Total operating revenues	5.7	4.9	15.1	25.7
Operating expenses:				
Administration and general	-	6.4	-	6.4
Equipment maintenance	3.7	-	22.0	25.7
Depreciation and amortization	1.6	-	1.2	2.8
Total operating expenses	5.3	6.4	23.2	34.9
Operating Income (loss)	0.4	(1.5)	(8.1)	(9.2)
Nonoperating revenues:				
Investment income	0.1	0.4	0.7	1.2
Gain on sale of capital assets	0.1	-	-	0.1
Other	-	0.2	-	0.2
Total nonoperating revenues	0.2	0.6	0.7	1.5
Income (loss) before transfers	0.6	(0.9)	(7.4)	(7.7)
Transfer in	-	-	4.1	4.1
Change in net position	0.6	(0.9)	(3.3)	(3.6)
Net position, beginning of year	9.6	4.7	23.8	38.1
Net position, end of year	$ 10.2	$ 3.8	$ 20.5	$ 34.5

VALLEY WATER

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2020
(Dollars in Millions)

	Equipment	Risk Management	Information Technology	Total
Cash flows from operating activities:				
Receipts from interfund services provided	$ 5.7	$ 4.9	$ 15.2	$ 25.8
Payments to suppliers	(2.4)	(3.9)	(12.5)	(18.8)
Payments to employees	(1.4)	(2.0)	(6.7)	(10.1)
Net cash provided (used) by operating activities	1.9	(1.0)	(4.0)	(3.1)
Cash flows from noncapital financing activities:				
Other receipts (payments)	-	0.2	-	0.2
Net cash provided by noncapital financing activities	-	0.2	-	0.2
Cash flows from capital and related financing activities:				
Acquisition and disposal of capital assets	(1.5)	-	(0.6)	(2.1)
Transfers in - capital project reimbursement	-	-	4.1	4.1
Net cash (used) by capital and related financing activities	(1.5)	-	3.5	2.0
Cash flows from investing activities:				
Interest received on cash and investments	0.1	0.5	0.7	1.3
Net increase/(decrease) in cash and cash equivalents	0.5	(0.3)	0.2	0.4
Cash and cash equivalents, beginning of year	4.1	15.0	22.1	41.2
Cash and cash equivalents, end of year	$ 4.6	$ 14.7	$ 22.3	$ 41.6
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ 0.4	$ (1.5)	$ (8.1)	$ (9.2)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation, amortization and asset deletion	1.6	-	1.2	2.8
Change in operating assets and liabilities:				
Increase/(decrease) in accounts payable	(0.1)	0.1	1.2	1.2
Increase/(decrease) in claims payable	-	0.4	-	0.4
Increase/(decrease) in GASB68 Retirement payable	-	0.2	2.1	2.3
Increase/(decrease) in OPEB/GASB75 payable	(0.1)	(0.3)	(0.3)	(0.7)
Increase/(decrease) in def inflows/outflows of resources	0.1	0.1	(0.1)	0.1
Net cash used for operating activities	$ 1.9	$ (1.0)	$ (4.0)	$ (3.1)

VALLEY WATER

Schedule of Revenues, Expenses and
Changes in Fund Net Position - Budget and Actual
Internal Service Funds
For the Year Ended June 30, 2020
(Dollars in Millions)

	Equipment			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Investment income	$ -	$ -	$ 0.1	$ 0.1
Vehicle service charges	5.7	5.7	5.7	-
Computer equipment use charges	-	-	-	-
Self-insurance service charges	-	-	-	-
Gain on sale of fixed assets	0.2	0.2	0.1	(0.1)
Other	-	-	-	-
Total revenues	5.9	5.9	5.9	-
Expenditures:				
Current:				
Operations and operating projects	4.8	4.8	3.8	1.0
Capital equipment acquisition	2.2	1.9	1.9	-
Total expenditures	7.0	6.7	5.7	1.0
Excess (deficiency) of revenues over (under) expenditures before transfers	(1.1)	(0.8)	0.2	1.0
Transfer in	-	-	-	-
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	$ (1.1)	$ (0.8)	0.2	$ 1.0
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(1.6)	
Capitalized expenditures			1.7	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			-	
Capital improvement projects			(1.4)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			(0.1)	
Capital improvement projects			1.8	
Net position, beginning of year			9.6	
Net position, end of year			$ 10.2	

Risk Management				Information Technology			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
$ 0.3	$ 0.3	$ 0.4	$ 0.1	$ 0.2	$ 0.2	$ 0.7	$ 0.5
-	-	-	-	-	-	-	-
-	-	-	-	15.4	15.4	15.1	(0.3)
5.6	5.6	4.9	(0.7)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	0.2	0.2	-	-	-	-
5.9	5.9	5.5	(0.4)	15.6	15.6	15.8	0.2
5.8	6.7	6.1	0.6	17.0	15.5	15.7	(0.2)
-	-	-	-	4.1	13.9	9.4	4.5
5.8	6.7	6.1	0.6	21.1	29.4	25.1	4.3
0.1	(0.8)	(0.6)	0.2	(5.5)	(13.8)	(9.3)	4.5
-	-	-	-	4.1	4.1	4.1	-
$ 0.1	$ (0.8)	(0.6)	$ 0.2	$ (1.4)	$ (9.7)	(5.2)	$ 4.5
		-				(1.2)	
		-				0.5	
		(0.5)				(1.0)	
		-				(1.4)	
		0.2				1.0	
		-				4.0	
		4.7				23.8	
		$ 3.8				$ 20.5	

VALLEY WATER

Schedule of Revenues, Expenses and
Changes in Fund Net Position - Budget and Actual (Continued)
Internal Service Funds
For the Year Ended June 30, 2020
(Dollars in Millions)

	Total			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Investment income	$ 0.5	$ 0.5	$ 1.2	$ 0.7
Vehicle service charges	5.7	5.7	5.7	-
Computer equipment use charges	15.4	15.4	15.1	(0.3)
Self-insurance service charges	5.6	5.6	4.9	(0.7)
Gain on sale of fixed assets	0.2	0.2	0.1	(0.1)
Other	-	-	0.2	0.2
Total revenues	27.4	27.4	27.2	(0.2)
Expenditures:				
Current:				
Operations and operating projects	27.6	27.0	25.6	1.4
Capital equipment acquisition	6.3	15.8	11.3	4.5
Total expenditures	33.9	42.8	36.9	5.9
Excess (deficiency) of revenues over (under) expenditures before transfers	(6.5)	(15.4)	(9.7)	5.7
Transfer in	4.1	4.1	4.1	-
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	$ (2.4)	$ (11.3)	(5.6)	$ 5.7
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(2.8)	
Capitalized expenditures			2.2	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(1.5)	
Capital improvement projects			(2.8)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			1.1	
Capital improvement projects			5.8	
Net position, beginning of year			38.1	
Net position, end of year			$ 34.5	

Agency Fund

Agency fund type is used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds.

Deposit Fund - The fund is used to account for the collection and payment of expenditures for funds held in trust for specific restricted purposes.

VALLEY WATER

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2020

(Dollars in Millions)

	Balance July 2, 2019	Additions	Deletions	Balance June 30, 2020
Deposit Fund				
Assets:				
Cash and investments (Note 3)	$ 0.2	$ 0.6	$ (0.6)	$ 0.2
Total assets	$ 0.2	$ 0.6	$ (0.6)	$ 0.2
Liabilities:				
Deposits payable	$ 0.2	$ 0.5	$ (0.5)	$ 0.2
Total liabilities	$ 0.2	$ 0.5	$ (0.5)	$ 0.2

Capital Assets Used in the Operation of Governmental Activities

Capital assets consist of land, improvements to land, buildings, equipment and intangibles that are used in operations and that have initial useful lives extending beyond a single reporting period.

VALLEY WATER

Capital Assets Used in the Operation of Governmental Activities

Schedule By Source

June 30, 2020

(Dollars in Millions)

Governmental activities capital assets:		
Land	$	191.7
Buildings		42.0
Structures and improvements		772.6
Equipment		53.0
Construction in process		668.1
Intangibles:		
Easements		27.4
Computer Software		4.3
Total governmental funds capital assets	$	1,759.1

Investments in governmental activities capital assets by source:		
General fund	$	88.4
Special revenue funds:		
Watershed & Stream Stewardship		1,131.8
Safe, Clean Water & Natural Flood Protection		505.6
Internal service funds		33.3
Total governmental funds capital assets	$	1,759.1

VALLEY WATER
Capital Assets Used in the Operation of Governmental Activities
Schedule By Function and Activity
June 30, 2020
(Dollars in Millions)

Dept	Function and Activity	Land	Buildings	Structures and Improvements	Equipment	Construction in Progress	Intangibles Easements	Intangibles Software	Total
100	**CEO Support Operations**								
102	Chief Executive Office	$ -	$ -	$ -	$ 0.4	$ -	$ -	$ -	$ 0.4
200	**Watershed Operations**								
210	Chief Operating Office	-	-	-	5.2	-	-	-	5.2
210	**Watershed Management Division**								
215	Watershed Business Management	-	-	-	0.1	-	-	-	0.1
250	Lower Peninsula/West Valley Mgnt.	-	-	-	0.2	-	-	-	0.2
270	Guadalupe Watershed Mgmt.	-	-	-	0.4	-	-	-	0.4
310	**Capital Program Services Division**								
340	Capital Program Services Departments	-	-	-	0.4	-	-	-	0.4
410	**Water Utility Enterprise Operations**								
410	Chief Operating Office	-	-	-	0.1	-	-	-	0.1
420	Water Utility Enterprise	-	-	-	0.2	-	-	-	0.2
600	**Administration**								
602	Chief Administrative Office	-	-	-	0.2	-	-	-	0.2
670	**Financial Services Division**								
610	Office of Administrative Services	-	-	-	0.1	-	-	-	0.1
670	Business And Finance Program	-	-	-	1.7	-	-	-	1.7
710	**Information Management Division**								
715	Information Management Division	-	-	-	0.2	-	-	-	0.2
720	Information Mgmt. Support Departments	-	-	-	9.1	-	-	-	9.1
810	**General Services Division**								
815	Technical Services Division	-	-	-	-	-	-	-	-
820	Technical Services Support Division	-	-	-	1.2	-	-	-	1.2
765	Records and Library	-	-	-	0.2	-	-	-	0.2
820	Warehouse Services	-	-	-	3.9	-	-	-	3.9
885	Equipment Management	-	-	-	16.9	-	-	-	16.9
910	**Human Resources Program**								
660	Human Resources Program	-	-	-	0.1	-	-	-	0.1
	Other:								
	District-wide property	191.7	42.0	772.6	12.4	668.1	27.4	4.3	1,718.5
	Total capital assets	$ 191.7	$ 42.0	$ 772.6	$ 53.0	$ 668.1	$ 27.4	$ 4.3	$ 1,759.1

VALLEY WATER

Capital Assets Used in the Operation of Governmental Activities
Schedule of Changes By Function and Activity
For the Year Ended June 30, 2020
(Dollars in Millions)

Dept	Function and Activity	Governmental Capital Assets July 1, 2019	Additions	Deductions	Governmental Capital Assets June 30, 2020
100	**CEO Support Operations**				
102	Chief Executive Office	$ 0.4	$ -	$ -	$ 0.4
200	**Watershed Operations**				
202	Chief Operating Office	5.2	-	-	5.2
210	**Watershed Management Division**				
215	Watershed Business Management	0.1	-	-	0.1
230	Watershed Planning	-	-	-	-
250	Lower Peninsula/West Valley Mgnt.	0.2	-	-	0.2
270	Guadalupe Watershed Mgmt.	0.4	-	-	0.4
310	**Capital Program Services Division**				
340	Capital Program Services Departments	0.6	-	-	0.6
410	**Water Utility Enterprise Operations**				
410	Chief Operating Office	0.1	-	-	0.1
420	Water Utility Enterprise	0.2	-	-	0.2
600	**Administration**				
602	Chief Administrative Office	0.2	-	-	0.2
670	**Financial Services Division**				
610	Office of Administrative Services	0.1	-	-	0.1
670	Business And Finance Program	1.7	-	-	1.7
710	**Information Management Division**				
715	Information Management Division	0.2	-	-	0.2
720	Information Mgmt. Support Departments	9.5	0.2	-	9.7
810	**General Services Division**				
820	Technical Services Support Division	1.2	-	(0.1)	1.1
765	Records and Library	0.2	-	-	0.2
820	Warehouse Services	3.7	-	-	3.7
885	Equipment Management	17.4	1.7	(2.7)	16.4
910	**Human Resources Program**				
660	Human Resources Program	0.1	-	-	0.1
	Other:				
	District-wide property	1,654.9	92.9	(29.3)	1,718.5
		$ 1,696.4	$ 94.8	$ (32.1)	$ 1,759.1

SANTA CLARA VALLEY WATER DISTRICT

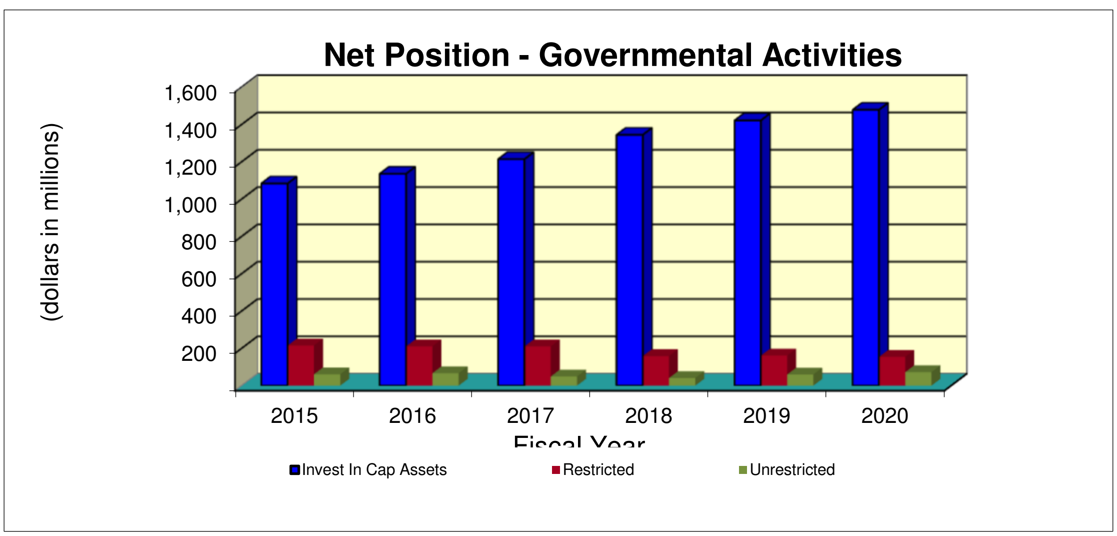
Statistical Section

This part of the District's comprehensive annual financial statement report presents detailed information as a context for understanding what the information in the financial statement, note disclosures, and required supplementary information says about the District's overall financial health.

Contents **Page**

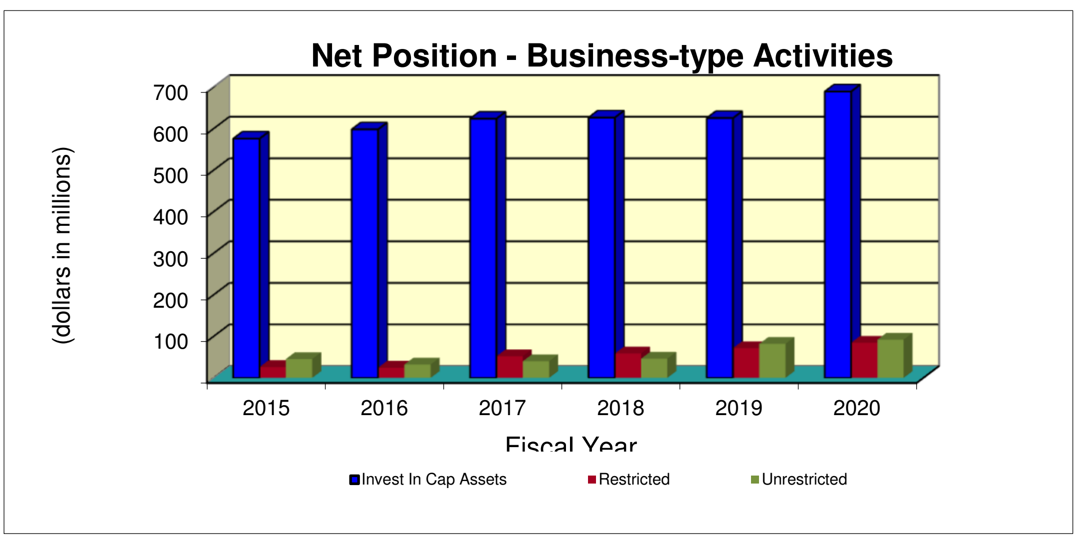
VALLEY WATER
Net Position by Component
Government-wide
Last Ten Fiscal Years
(dollars in thousands)

	2011	2012	2013	2014
Governmental activities				
Net Investment in capital assets	$ 915,118	$ 964,394	$1,011,082	$1,036,853
Restricted	157,221	166,845	182,760	214,652
Unrestricted	141,640	142,289	143,971	144,210
Total governmental activities net position	$1,213,979	$1,273,528	$1,337,813	$1,395,715
Business-type activities				
Net Investment in capital assets	$ 524,557	$ 554,316	$ 575,683	$ 573,410
Restricted	26,824	28,082	30,131	30,019
Unrestricted	92,661	86,716	97,652	127,889
Total business-type activities net position	$ 644,042	$ 669,114	$ 703,466	$ 731,318
Primary government				
Net Investment in capital assets	$1,439,675	$1,518,710	$1,586,765	$1,610,263
Restricted	184,045	194,927	212,891	244,671
Unrestricted	234,301	229,005	241,623	272,099
Total primary government net position	$1,858,021	$1,942,642	$2,041,279	$2,127,033



Source: Santa Clara Valley Water District, General Accounting Unit

2015	2016	2017	2018	2019	2020
$1,083,571	$1,135,593	$1,213,840	$1,344,142	$1,421,616	$1,478,344
214,991	210,198	209,873	158,062	160,594	153,619
60,731	66,407	48,978	40,479	59,460	71,909
$1,359,293	$1,412,198	$1,472,691	$1,542,683	$1,641,670	$1,703,872
$ 575,873	$ 598,075	$ 623,828	$ 626,514	$ 625,256	$ 689,173
26,087	24,552	52,118	58,679	71,527	84,582
45,429	32,191	39,895	46,102	81,811	91,906
$ 647,389	$ 654,818	$ 715,841	$ 731,295	$ 778,594	$ 865,661
$1,659,444	$1,733,668	$1,837,668	$1,970,656	$2,046,872	$2,167,517
241,078	234,750	261,991	216,741	232,121	238,201
106,160	98,598	88,873	86,581	141,271	163,815
$2,006,682	$2,067,016	$2,188,532	$2,273,978	$2,420,264	$2,569,533



VALLEY WATER
Changes in Net Position
Government-wide
Last Ten Fiscal Years
(dollars in thousands)

	2011	2012	2013
Expenses			
Governmental activities:			
General government:	$ 9,954	$ 5,408	$ 6,404
Watersheds	54,562	50,292	51,735
Interest on long-term debt	7,476	7,034	7,971
Total governmental activities expenses	71,992	62,734	66,110
Business-type activities:			
Water enterprise	155,389	158,888	161,609
Total primary government expenses	$ 227,381	$ 221,622	$ 227,719
Program Revenues			
Governmental activities:			
Capital grants and contributions	$ 38,578	$ 32,611	$ 34,935
Business-type activities:			
Charges for services	121,347	141,783	155,718
Operating grants and contributions	1,458	1,111	980
Capital grants and contributions	10,443	11,803	4,610
Total business-type activities program revenues	133,248	154,697	161,308
Total primary government program revenues	$ 171,826	$ 187,308	$ 196,243
Net (expense)/revenue			
Governmental activities	$ (33,414)	$ (30,123)	$ (31,175)
Business-type activities	(22,141)	(4,191)	(301)
Total primary government net expense	$ (55,555)	$ (34,314)	$ (31,476)
General Revenues and Other Changes in Net Position			
Governmental activities:			
Property taxes	$ 86,217	$ 88,247	$ 92,746
Unrestricted investment earnings	3,337	2,253	3,509
Miscellaneous	2,189	2,453	2,934
Transfers	(2,811)	(3,281)	(3,729)
Total governmental activities	88,932	89,672	95,460
Business-type activities:			
Property taxes	23,181	22,327	24,200
Unrestricted investment earnings	1,779	1,082	1,163
Miscellaneous	1,575	2,573	5,561
Transfers	2,811	3,281	3,729
Total business-type activities	$ 29,346	$ 29,263	$ 34,653
Changes in Net Position			
Governmental activities	$ 55,518	$ 59,549	$ 64,285
Business-type activities	7,205	25,072	34,352
Total primary government	$ 62,723	$ 84,621	$ 98,637

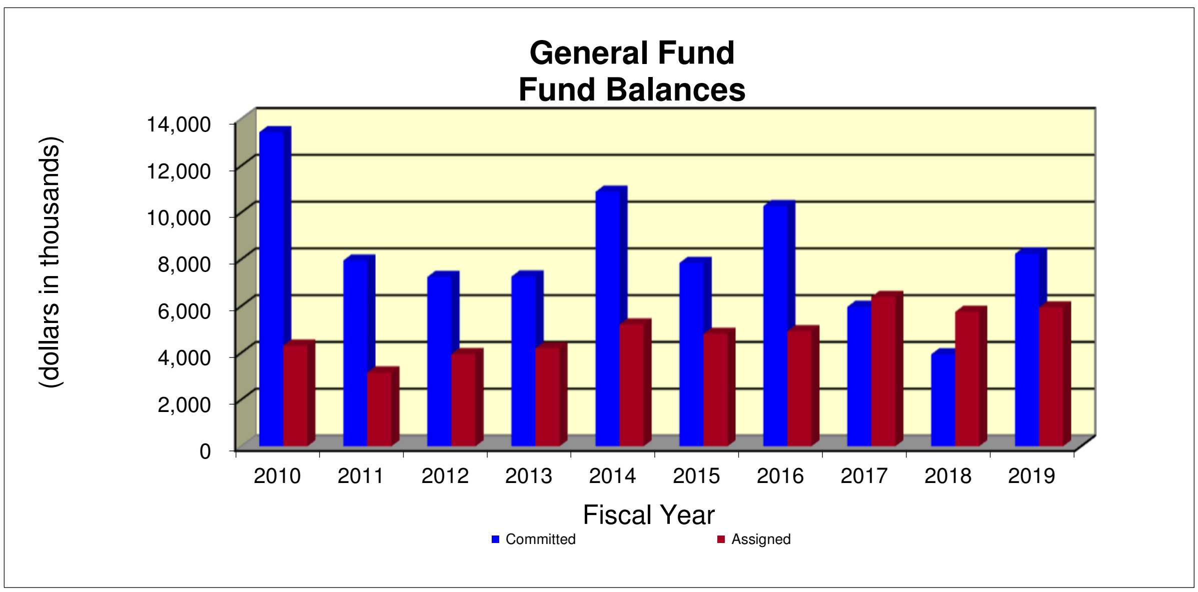
Source: Santa Clara Valley Water District, General Accounting Unit

	2014	2015	2016	2017	2018	2019	2020
	$ 6,916	$ 20,399	$ 5,940	$ 9,339	$ 8,407	$ 3,246	$ 10,962
	61,302	56,758	57,745	69,166	85,780	99,415	134,043
	6,116	5,753	5,977	4,271	3,091	3,048	2,507
	74,334	82,910	69,662	82,776	97,278	105,709	147,512
	173,767	186,281	207,282	199,631	229,373	222,050	228,101
	$ 248,101	$ 269,191	$ 276,944	$ 282,407	$ 326,651	$ 327,759	$ 375,613
	$ 25,761	$ 17,822	$ 19,426	$ 16,608	$ 61,190	$ 40,271	$ 42,921
	172,374	154,819	151,235	190,896	231,001	227,679	266,895
	1,232	2,149	2,074	2,037	4,396	2,754	3,721
	3,532	847	3,177	17,527	4,350	1,149	4,345
	177,138	157,815	156,486	210,460	239,747	231,582	274,961
	$ 202,899	$ 175,637	$ 175,912	$ 227,068	$ 300,937	$ 271,853	$ 317,882
	$ (48,573)	$ (65,088)	$ (50,236)	$ (66,168)	$ (36,088)	$ (65,438)	$ (104,591)
	3,371	(28,466)	(50,796)	10,829	10,374	9,532	46,860
	$ (45,202)	$ (93,554)	$ (101,032)	$ (55,339)	$ (25,714)	$ (55,906)	$ (57,731)
	$ 100,568	$ 107,643	$ 114,418	$ 123,325	$ 129,891	$ 143,848	$ 148,369
	3,777	3,728	5,004	1,186	2,477	13,634	12,889
	2,568	3,013	3,592	4,052	6,685	4,263	4,028
	272	11,406	(19,873)	(1,902)	8,225	2,680	1,507
	107,185	125,790	103,141	126,661	147,278	164,425	166,793
	26,989	27,701	30,535	44,786	37,417	30,468	30,168
	1,624	1,621	2,925	979	1,267	8,074	8,838
	3,283	3,113	4,892	2,527	6,428	1,905	2,708
	(272)	(11,406)	19,873	1,902	(8,225)	(2,680)	(1,507)
	$ 31,624	$ 21,029	$ 58,225	$ 50,194	$ 36,887	$ 37,767	$ 40,207
	$ 58,612	$ 60,702	$ 52,905	$ 60,493	$ 111,190	$ 98,987	$ 62,202
	34,995	(7,437)	7,429	61,023	47,261	47,299	87,067
	$ 93,607	$ 53,265	$ 60,334	$ 121,516	$ 158,451	$ 146,286	$ 149,269

VALLEY WATER
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

Data incorporating GASB 54 implementation

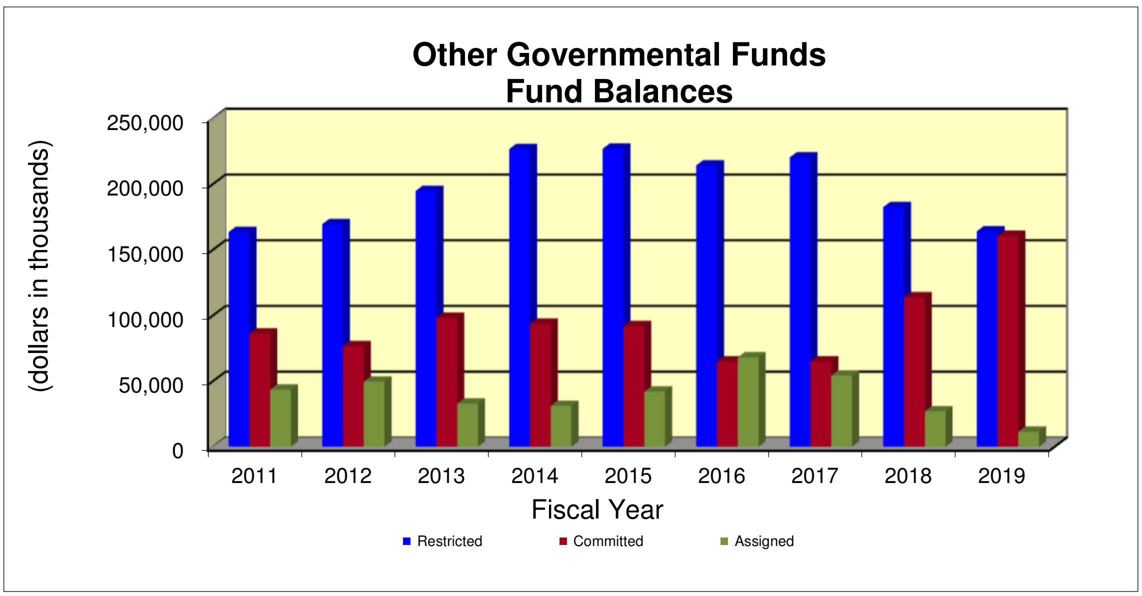
	Restated 2011	2012	2013	2014
General Fund				
Committed	$ 7,945	$ 7,244	$ 7,257	$ 10,882
Assigned	3,157	3,941	4,187	5,210
Total general fund	$ 11,102	$ 11,185	$ 11,444	$ 16,092
All other governmental funds				
Restricted	$ 163,372	$ 169,294	$ 194,662	$ 226,493
Committed	86,183	76,465	98,134	93,683
Assigned	43,486	49,510	32,815	31,076
Total all other governmental funds	$ 293,041	$ 295,269	$ 325,611	$ 351,252



Source: Santa Clara Valley Water District, General Accounting Unit

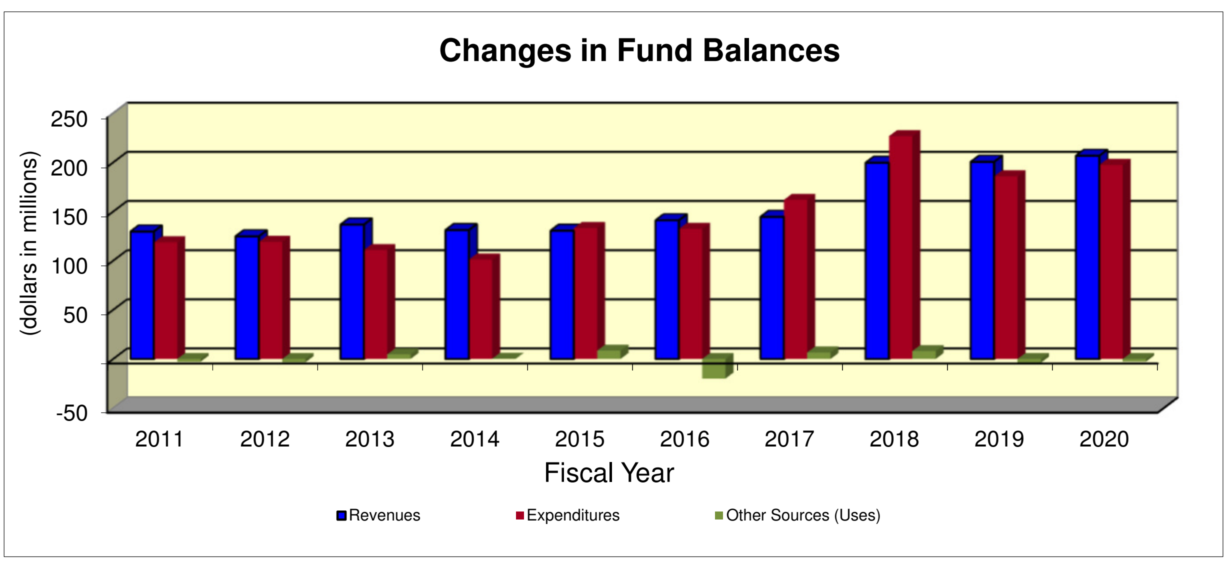
2015	2016	2017	2018	2019	2020
$ 7,842	$ 10,274	$ 5,962	$ 3,933	$ 7,125	$ 8,235
4,809	4,924	6,385	5,747	7,012	5,938
$ 12,651	$ 15,198	$ 12,347	$ 9,680	$ 14,137	$ 14,173

$ 226,770	$ 214,078	$ 220,115	$ 182,319	$ 175,984	$ 163,911
91,817	64,851	64,898	113,673	132,208	160,532
41,916	67,969	54,175	26,909	21,093	11,430
$ 360,503	$ 346,898	$ 339,188	$ 322,901	$ 329,285	$ 335,873



VALLEY WATER
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

	2011	2012	2013	2014
Revenues				
Property taxes	$ 86,217	$ 88,247	$ 97,226	$ 100,568
Benefit assessments	19,091	19,131	19,178	16,143
Use of money and property:				
Investment income	2,860	1,621	1,785	2,556
Rental	1,388	1,416	1,423	1,609
Reimbursement of capital costs	19,487	13,480	15,757	9,618
Other	701	922	1,415	728
Total Revenues	129,744	124,817	136,784	131,222
Expenditures				
Operations and operating project	53,778	51,353	49,198	50,426
Capital improvement projects	48,478	51,394	44,809	36,866
Debt Service:				
Principal repayment	9,280	9,720	10,935	8,055
Interest and fiscal charges	7,158	6,758	5,919	5,858
Total expenditures	118,694	119,225	110,861	101,205
Excess of revenues over (under) expenditures	11,050	5,592	25,923	30,017
Other financing sources (uses)				
Transfers in	20,950	24,375	21,190	34,362
Transfers out	(23,761)	(27,656)	(24,919)	(34,090)
Proceeds from issuance of debt	-	-	52,955	-
Payment to refunded bond escrow agent	-	-	(53,495)	-
Total other financing sources (uses)	(2,811)	(3,281)	4,678	272
Net change in fund balances	$ 8,239	$ 2,311	$ 30,601	$ 30,289
Debt service as a percentage of non-capital expenditures	23.2%	23.0%	25.7%	18.8%

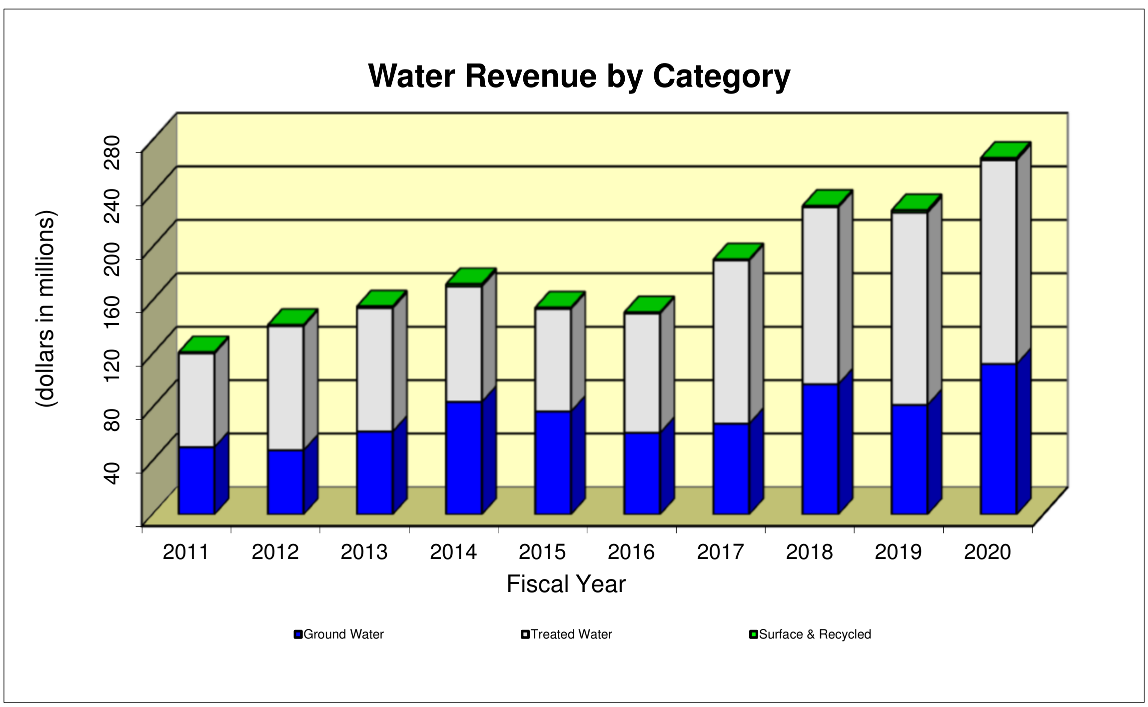


Source: Santa Clara Valley Water District, General Accounting Unit

2015	2016	2017	2018	2019	2020
$ 107,643	$ 114,418	$ 123,325	$ 129,891	$ 143,848	$ 148,369
16,074	14,683	14,790	14,774	14,746	13,440
2,505	3,747	956	2,305	12,390	11,643
1,684	1,759	1,817	1,931	2,005	2,069
1,748	4,743	1,818	46,416	25,525	29,481
911	1,782	1,971	4,361	2,085	1,752
130,565	141,132	144,677	199,678	200,599	206,754
65,425	57,725	67,511	70,912	68,164	80,316
53,984	61,876	81,597	142,710	104,335	104,959
8,355	7,630	8,020	8,660	8,715	8,075
5,497	5,084	4,743	4,418	4,711	4,156
133,261	132,315	161,871	226,700	185,925	197,506
(2,696)	8,817	(17,194)	(27,022)	14,674	9,248
30,054	26,528	17,436	31,007	17,290	34,368
(21,548)	(46,403)	(19,338)	(22,939)	(21,123)	(36,992)
-	-	68,932	-	-	-
-	-	(60,397)	-	-	-
8,506	(19,875)	6,633	8,068	(3,833)	(2,624)
$ 5,810	$ (11,058)	$ (10,561)	$ (18,954)	$ 10,841	$ 6,624
13.0%	13.4%	15.0%	13.7%	13.8%	8.9%

VALLEY WATER
Water Revenue by Category
Last Ten Fiscal Years
(dollars in thousands)

Fiscal Year	Ground Water Revenue	Treated Water Revenue	Surface & Recycled Water Revenue	Total Water Revenue
2011	$ 50,384	$ 70,135	$ 828	$ 121,347
2012	48,030	92,904	849	141,783
2013	62,084	92,359	1,275	155,718
2014	84,308	86,386	1,680	172,374
2015	77,095	76,799	925	154,819
2016	61,128	89,375	732	151,235
2017	67,937	122,212	747	190,896
2018	97,483	132,477	1,041	231,001
2019	81,923	143,998	1,758	227,679
2020	112,560	152,622	1,713	266,895



Source: Santa Clara Valley Water District, Wells & Water Production Unit

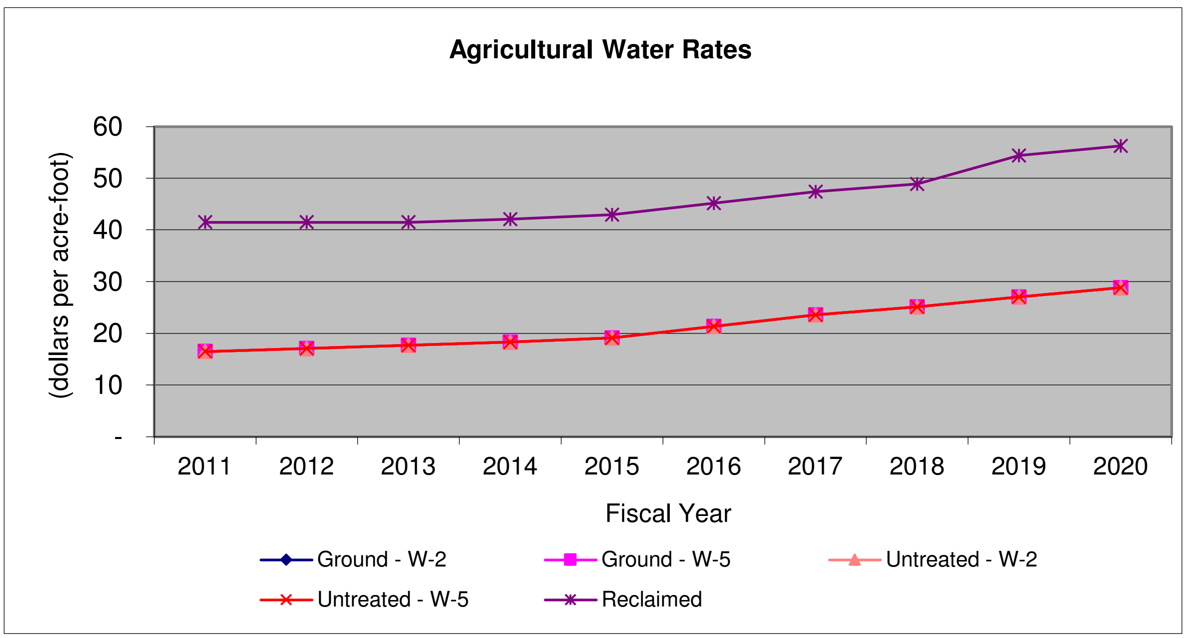
Valley Water
Principal Water Revenue Customers
Current year and Nine years ago
(dollars in thousands)

	Fiscal Year 2020			Fiscal Year 2011		
Water Customer	Water Revenue	Rank	Percent of Total Water Revenue	Water Revenue	Rank	Percent of Total Water Revenue
San Jose Water Company	$ 155,448	1	58.24%	$ 68,040	1	56.07%
Santa Clara City Water Departme	20,504	2	7.68%	10,000	2	8.24%
California Water Service Compan	18,609	3	6.97%	6,760	4	5.57%
San Jose City Water	18,321	4	6.86%	8,583	3	7.07%
Great Oaks Water Company	10,551	5	3.95%	4,242	6	3.50%
Sunnyvale City Water Departmen	13,269	6	4.97%	6,533	5	5.38%
Gilroy City Water Department	3,950	7	1.48%	2,276	7	1.88%
Morgan Hill City Water Departmen	3,559	8	1.33%	2,030	9	1.67%
City of Milpitas	4,151	9	1.56%	2,184	8	1.80%
City of Cupertino	3,731	10	1.40%	1,966	10	1.62%
Total	$ 252,093		94.44%	$ 112,614		92.80%
Total Water Sales	$ 266,895			$ 121,347		

Source: Santa Clara Valley Water District, Revenue Management Unit

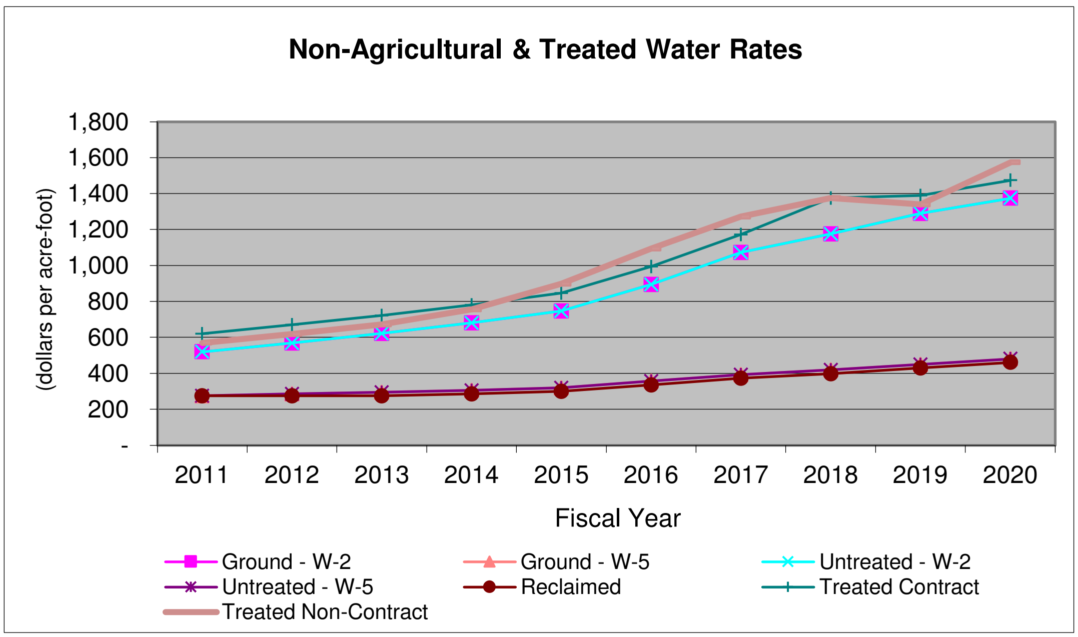
Valley Water
Water Enterprise Rates Summary
Last Ten Fiscal Years
(rates in dollars per acre-foot)

	Groundwater Rates				Treated Water Rates	
Fiscal	Zone W-2		Zone W-5			Non
Year	AG	Non-AG	AG	Non-AG	Contract	Contract
2011	16.50	520.00	16.50	275.00	620.00	570.00
2012	17.10	569.00	17.10	285.00	669.00	619.00
2013	17.70	622.00	17.70	295.00	722.00	672.00
2014	18.30	680.00	18.30	305.00	780.00	755.00
2015	19.14	747.00	19.14	319.00	847.00	897.00
2016	21.36	894.00	21.36	356.00	994.00	1,094.00
2017	23.59	1,072.00	23.59	393.00	1,172.00	1,272.00
2018	25.09	1,175.00	25.09	418.00	1,375.00	1,375.00
2019	27.02	1,289.00	27.02	450.00	1,389.00	1,339.00
2020	28.86	1,374.00	28.86	481.00	1,474.00	1,574.00



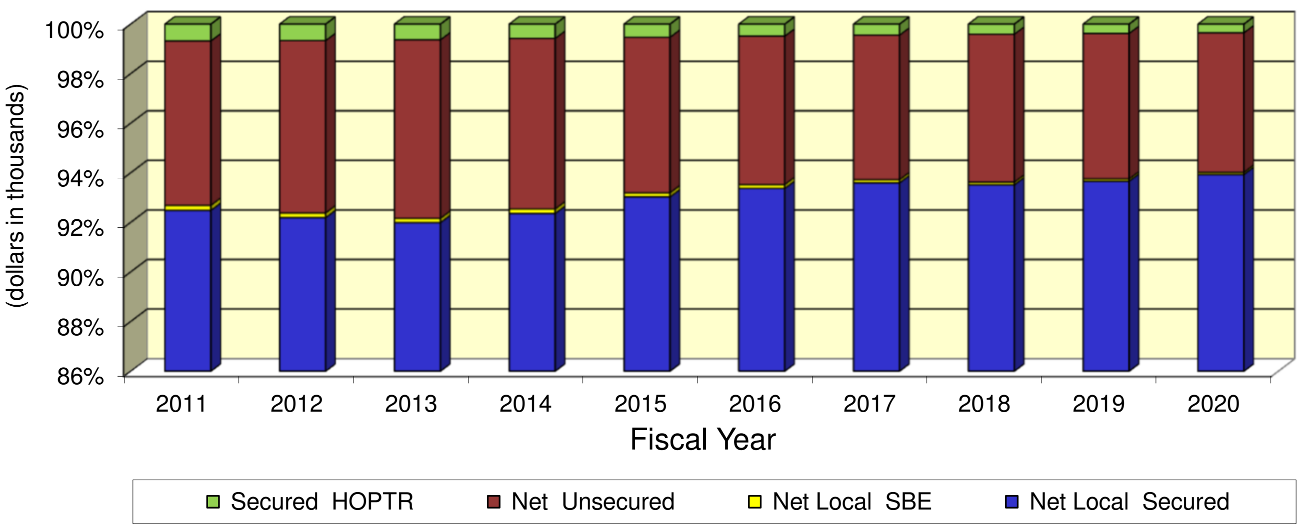
Source: Santa Clara Valley Water District, Wells & Water Production Unit

Untreated Water Rates				Reclaimed Water Rates	
Zone W-2		Zone W-5			
AG	Non-AG	AG	Non-AG	AG	Non-AG
16.50	520.00	16.50	275.00	41.50	275.00
17.10	569.00	17.10	285.00	41.50	275.00
17.70	622.00	17.70	295.00	41.50	275.00
18.30	680.00	18.30	305.00	42.10	285.00
19.14	747.00	19.14	319.00	42.94	299.00
21.36	894.00	21.36	356.00	45.16	336.00
23.59	1,072.00	23.59	393.00	47.38	373.00
25.09	1,175.00	25.09	418.00	48.88	398.00
27.02	1,289.00	27.02	450.00	54.41	430.00
28.86	1,374.00	28.86	481.00	56.25	461.00



Valley Water
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(dollars in thousands)

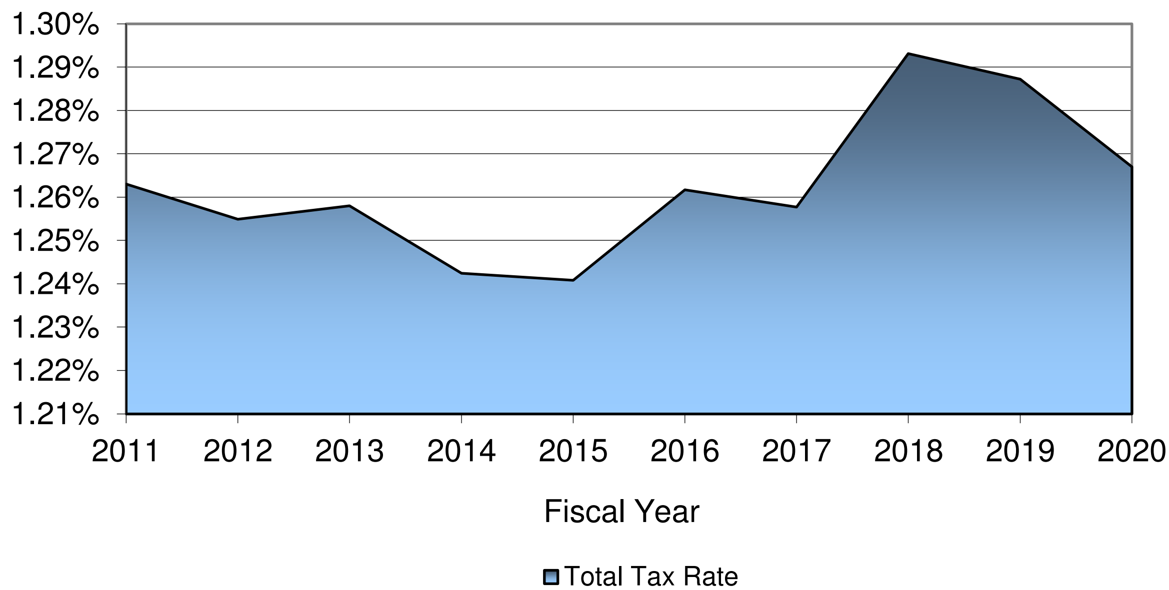
Fiscal Year	Net Local Secured	SBE	Total Secured	Net Unsecured	Total (a)	Exempt Valuation Secured HOPTR (b)	Total (c) = (a+b)	District Direct Rate (d)	Total District Direct Tax (c x d)
2011	$ 274,020,130	$ 595,208	$ 274,615,338	$ 19,652,921	$ 294,268,259	$ 2,007,881	$ 296,276,140	0.0072%	$ 21,331.88
2012	275,581,705	557,469	276,139,174	20,791,740	296,930,914	1,978,658	298,909,572	0.0064%	19,130.21
2013	283,903,536	525,302	284,428,838	22,225,683	306,654,521	1,951,818	308,606,339	0.0069%	21,293.84
2014	308,939,519	596,002	309,535,521	23,021,092	332,556,613	1,920,733	334,477,346	0.0070%	23,413.41
2015	332,220,200	577,096	332,797,296	22,417,252	355,214,548	1,891,373	357,105,921	0.0065%	23,211.88
2016	362,318,558	594,415	362,912,973	23,239,529	386,152,502	1,874,832	388,027,334	0.0057%	22,117.56
2017	392,058,176	524,128	392,582,304	24,439,939	417,022,243	1,850,004	418,872,247	0.0086%	36,023.01
2018	420,616,061	476,901	421,092,962	26,855,499	447,948,461	1,824,379	449,772,840	0.0062%	27,885.92
2019	452,259,125	451,125	452,710,250	28,342,158	481,052,408	1,808,872	482,861,280	0.0042%	20,280.17
2020	484,249,401	442,613	484,692,014	29,026,589	513,718,603	1,791,435	515,510,038	0.0041%	21,135.91



Source: County of Santa Clara Compilation of Tax Rates & Information

Valley Water
Property Tax Rates-Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	Basic County Wide Levy	County	Cities	Santa Clara Valley Water District	Schools and Other Districts	Total Tax Rate
2011	1.0000%	0.0388%	0.0350%	0.0072%	0.1820%	1.2630%
2012	1.0000%	0.0388%	0.0334%	0.0064%	0.1763%	1.2549%
2013	1.0000%	0.0388%	0.0316%	0.0069%	0.1807%	1.2580%
2014	1.0000%	0.0388%	0.0279%	0.0070%	0.1687%	1.2424%
2015	1.0000%	0.0388%	0.0253%	0.0065%	0.1702%	1.2408%
2016	1.0000%	0.0388%	0.0223%	0.0057%	0.1949%	1.2617%
2017	1.0000%	0.0388%	0.0207%	0.0086%	0.1896%	1.2577%
2018	1.0000%	0.0597%	0.0186%	0.0062%	0.2087%	1.2932%
2019	1.0000%	0.0565%	0.0170%	0.0042%	0.2095%	1.2872%
2020	1.0000%	0.0557%	0.0226%	0.0041%	0.1846%	1.2670%



Source: County of Santa Clara, Department of Finance (tax rate area 17-028)

Valley Water
Principal Property Tax Payers
Current year and Nine years ago
(Dollars in thousands)

Taxpayer	Fiscal Year 2020[2] Taxable Assessed Value[1]	Fiscal Year 2020 Rank	Fiscal Year 2020 Percentage of Taxable Assessed Value	Fiscal Year 2011[3] Taxable Assessed Value[1]	Fiscal Year 2011 Rank	Fiscal Year 2011 Percentage of Taxable Assessed Value
Leland Stanford Jr, University	$ 6,983,802	1	1.35%			
Google Inc.	6,283,409	2	1.22%			
Campus Holdings Inc.	3,570,308	3	0.69%			
Sobrato Interests	2,249,529	4	0.44%			
Essex Portfolio LP	1,884,353	5	0.37%			
Apple Computer Inc.	1,634,773	6	0.32%	$ 972,198	4	0.33%
Cisco Technology	1,618,351	7	0.31%	1,213,574	2	0.41%
Intel Corporation	1,030,820	8	0.20%	698,963	8	0.24%
VF Mall LLC	928,753	9	0.18%			
Lockheed Missiles and Space Co. Inc.	928,354	10	0.18%			
Applied Materials Inc.	892,091	11	0.17%			
FRIT San Jose Town & Country Village LLC	866,976	12	0.17%			
San Jose Water Works	840,794	13	0.16%			
CW SPE LLC	756,467	14	0.15%			
Trishman Speyer Archstone-Smith	684,287	15	0.13%			
Samsung Electronics America, Inc.	683,044	16	0.13%			
Yahoo Holdings Inc.	669,497	17	0.13%	593,084	9	0.20%
River View Apartments LLC	666,236	18	0.13%			
Menlo & Juniper Networks LLC	623,437	19	0.12%			
Xeres Ventures LLC	586,734	20	0.11%			
Pacific Gas & Electric Co.				1,652,772	1	0.56%
Pacific Bell dba AT&T CA				469,557	10	
Blackhawk Development				1,050,470	3	0.35%
Silicon Valley CA, LLC				814,802	6	
Westfield Malls				813,341	7	0.27%
The Irvine Company, LLC				908,310	5	0.31%
Total	$ 34,382,015		6.66%	$ 9,187,071		2.67%
Net Assessed Value of Taxable Property	$ 515,510,038			$ 296,276,140		

(1) Includes taxable properties only.
(2) Source: California Municipal Statistics, Inc.
(3) Source: Santa Clara County Tax Collector's Office

Valley Water
Computation of District Act Debt Margin
June 30, 2020
(Dollars in Thousands)

Authorized short-term debt under authority of District Act Section 25.6	$	8,000
Outstanding short-term debt under Section 25.6, June 30, 2020		-
District Act Section 25.6 debt margin on short-term debt	$	8,000

Note:
The Santa Clara Valley Water District's debt issuance practices are governed by the provisions of California law and Section 25.6 of the special legislation which formed the Santa Clara Valley Water District (the District Act). The District Act sets the limit on short term debt obligations (maturity of less than five years) at $8,000,000.

The District may also issue short term notes under the tax and revenue anticipation note statute included in the California Government Code (sections 53850-53858). Under the tax and revenue anticipation note statute, the District may issue notes, provided the principal and interest are not to exceed 85% of the uncollected revenues of the District on the date such notes are issued (and subject to certain other limitations including a 15 month maturity provision). Section 53851 provides that the tax and revenue anticipation note statute is separate authority for the District to issue notes and any amount borrowed under the tax and revenue anticipation note statute is not limited by any other provision of law.

The District has elected to issue notes under the tax and revenue anticipation note statute to support the commercial paper program because it allows a larger amount of notes to be issued even though there is a shorter limitation on maturities.

The District is in compliance with its District Act and the debt issuance provisions of California law.

Valley Water
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(dollars in thousands, except per capita)

	Governmental Activities		Business-type Activities	
Fiscal Year	General Obligation Bonds	Certificate of Participation	General Obligation Bonds	Revenue Bonds/ Certificate of Participation
2011	$ -	$ 142,112	$ 405	$ 213,307
2012	-	132,494	-	208,418
2013	-	131,199	-	201,780
2014	-	122,392	-	201,547
2015	-	117,117	-	191,490
2016	-	108,393	-	440,089
2017	-	105,529	-	443,602
2018	-	95,322	-	423,775
2019	-	85,059	-	509,241
2020	-	75,437	-	495,013

Source: Santa Clara Valley Water District, General Accounting Unit

Total Primary Government		Percentage of Personal Income	Per Capita	
$	355,824	0.3180%	$	188
	340,912	0.2788%		179
	332,979	0.2549%		181
	323,939	0.2283%		173
	308,607	0.2154%		163
	548,482	0.3163%		284
	549,131	0.3135%		283
	519,097	0.2934%		265
	594,300	0.3066%		304
	570,450	0.2675%		291

Valley Water
Revenue Bond Coverage
Last Ten Fiscal Years
(Dollars in Thousands)

	2011	2012	2013	2014
Adjusted revenues	133,676	154,750	171,066	182,295
Adjusted operating expenses	108,093	111,505	111,120	118,158
Net revenue	25,583	43,245	59,946	64,137
Senior debt obligations				
Net revenue available for debt service	25,583	43,245	59,946	64,137
Debt obligation				
Principal	5,020	5,230	6,973	7,002
Interest	8,019	7,945	7,596	7,523
Debt service requirement	13,039	13,175	14,569	14,525
Coverage factor (1.25 required) (1)	1.96	3.28	4.11	4.42
Parity obligations				
Net revenue available for debt service				
Debt obligation				
Principal				
Interest				
Debt service requirement				
Coverage factor (1.25 required) (2)				
Senior/parity/subordinate obligations				
Net revenue available for debt service				
Debt obligation - senior and parity				
Senior				
Parity				
subordinate				
Debt service requirement				
Coverage factor (1.10 required) (3)				

Source: Santa Clara Valley Water District General Accounting Unit

In July 1994, the District refunded its outstanding water revenue bonds and restructured its debt covenants under a Senior Master Resolution (94-58, as amended by 06-80) governing the issuance of all Water Utility System Senior debt obligations, including the method of calculating Senior Debt Service coverage ratio.

In February 2016, the District Board adopted the Water Utility Parity System Master Resolution (16-10) governing issuance of all Water Utility System Parity debt obligations, calculating the method of calculating Parity Debt Service coverage ratio.

Prescribed by the aformentioned Master Resolutions, operating revenues and expenses include adjustments which relate primarily to intergovernmental revenues, depreciation and amortization, other post employment benefits, and compensated absences and claims.

2015	2016	2017	2018	2019	2020
154,696	182,404	207,899	254,177	242,271	284,615
130,915	141,367	130,278	172,427	148,101	147,890
23,781	41,037	77,621	81,750	94,170	136,725
23,781	41,037	77,621	81,750	94,170	136,725
7,456	3,948	3,830	2,070	2,165	815
7,501	6,066	4,827	1,793	2,127	1,474
14,957	10,014	8,657	3,863	4,292	2,289
1.59	4.10	8.97	21.16	21.94	59.73
	31,023	68,964	77,887	89,878	134,436
	-	-	6,250	8,625	12,245
	2,072	12,447	14,963	15,125	18,902
	2,072	12,447	21,213	23,750	31,147
	14.97	5.54	3.67	3.78	4.32
	41,037	77,621	81,750	94,170	136,725
	10,014	8,657	3,863	4,292	2,289
	2,072	12,447	21,213	23,750	31,147
	185	-	358	1,699	325
	12,271	21,104	25,434	29,741	33,761
	3.34	3.68	3.21	3.17	4.05

(1) The senior obligation minimum debt service coverage requirement is 1.25, per the Water Utility Senior Master Resolution (94-58, as amended by 06-80).

(2) The parity obligation minimum debt service coverage requirement is 1.25, per the Parity Master Resolution (16-10).

(3) The senior/parity/subordinate obligation minimum debt service coverage requirement is 1.10, per the Water Utility Senior Master Resolution (94-58, as amended by 06-80).

Valley Water
Computation of Direct and Overlapping Debt
June 30, 2020

2019-20 Assessed Valuation	515,510,038,000		
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt-06/30/2020	% Applicable[1]	District's Share of Debt-06/30/2020
Santa Clara County	$ 881,455,000	100%	$ 881,455,000
Foothill-DeAnza Community College District	607,960,590	100%	607,960,590
San Jose-Evergreen Community College District	857,235,939	100%	857,235,939
West Valley-Mission Community College District	617,330,000	99.045%	611,434,499
Other Community College Districts	387,453,748	0.052-75.229%	93,473,580
Gilroy Unified School District	284,057,495	100%	284,057,495
Palo Alto Unified School District	273,760,962	100%	273,760,962
San Jose Unified School District	527,019,025	100%	527,019,025
Santa Clara Unified School District	1,043,175,000	100%	1,043,175,000
Other Unified School Districts	342,675,270	1.143-100%	285,758,085
Campbell Union High School District	372,245,000	100%	372,245,000
East Side Union High School District	903,308,548	100%	903,308,548
Fremont Union High School District	520,515,088	100%	520,515,088
Other High School Districts	316,758,515	0.551-100%	215,800,901
Campbell School District	218,860,233	100%	218,860,233
Cupertino Union School District	281,813,303	100%	281,813,303
Evergreen School District	143,994,612	100%	143,994,612
Franklin McKinley School District	138,154,978	100%	138,154,978
Los Altos School District	177,350,000	100%	177,350,000
Los Gatos Union School District	76,655,000	100%	76,655,000
Moreland School District	98,962,251	100%	98,962,251
Oak Grove School District	228,549,095	100%	228,549,095
Sunnyvale School District	217,180,820	100%	217,180,820
Other School Districts	737,788,043	4.444-100%	730,512,123
City of Gilroy	27,087,578	100%	27,087,578
City of Palo Alto	58,775,000	100%	58,775,000
City of San Jose	468,980,000	100%	468,980,000
City of Saratoga	8,075,000	100%	8,075,000
Saratoga Fire Protection District	2,533,961	100%	2,533,961
El Camino Hospital District	120,690,000	100%	120,690,000
City Community Facilities Districts	31,121,325	100%	31,121,325
City of San Jose Special Assessment Bonds	7,505,000	100%	7,505,000
Other City 1915 Act Bonds (Estimated)	27,615,000	100%	27,615,000
Midpeninsula Regional Open Space District	88,810,000	67.377%	59,837,514
Santa Clara Valley Water District Benefit Assessment District	**65,495,000**	**100%**	65,495,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$ 10,666,947,505

Ratios to the 2019-20 Assessed Valuation	
Direct Debt ($65,495,000)	0.01%
Total Direct and Overlapping Tax and Assessment Debt	2.07%

OVERLAPPING GENERAL FUND DEBT:	Total Debt-06/30/2020	% Applicable[1]	District's Share of Debt-06/30/2020
Santa Clara County General Fund Obligations	$ 966,725,100	100%	$ 966,725,100
Santa Clara County Pension Obligation Bonds	346,996,639	100%	346,996,639
Santa Clara County Office of Education Certificates of Participation	3,480,000	100%	3,480,000
Foothill-De Anza Community College District General Fund Obligations	24,092,620	100%	24,092,620
San Jose-Evergreen Community College District Other Post-Employment Benefit Obligations	47,450,000	100%	47,450,000
Gavilan Joint Community College District General Fund Obligations	6,925,000	75.229%	5,209,608
West Valley-Mission Community College District General Fund Obligations	50,780,000	99.045%	50,295,051
Gilroy Unified School District Certificates of Participation	24,245,000	100%	24,245,000
Other Unified School District School General Fund Obligations	59,474,057	1.143-100%	48,604,730
East Side Union High School District Benefit Obligations	27,475,000	100%	27,475,000
Other Union High School District General Fund Obligations	28,177,797	.0554-100%	25,344,968
Alum Rock Union School District Certificates of Participation	15,920,000	100%	15,920,000
Other School District General Fund Obligations	14,963,159	20.951-100%	14,743,403
City of Cupertino Certificates of Participation	27,010,000	100%	27,010,000
City of Gilroy Certificates of Participation	35,710,000	100%	35,710,000
City of San Jose General Fund Obligations	407,780,000	100%	407,780,000
City of Santa Clara General Fund Obligations	15,000,000	100%	15,000,000
City of Sunnyvale General Fund Obligations	13,145,000	100%	13,145,000
Other City General Fund Obligations	61,420,843	100%	61,420,843
Santa Clara County Vector Control District Certificates of Participation	2,010,000	100%	2,010,000
Midpeninsula Regional Park District General Fund Obligations	111,985,600	67.377%	75,452,538
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			$ 2,238,110,500
Less: Santa Clara County supported general fund obligations			32,131,373
TOTAL NET OVERLAPPING GENERAL FUND DEBT			$ 2,205,979,127
OVERLAPPING TAX INCREMENT DEBT:	$ 1,764,745,000	100%	$ 1,764,745,000
TOTAL DIRECT DEBT			**$ 65,495,000**
TOTAL GROSS COMBINED OVERLAPPING DEBT			$ 14,604,308,005
TOTAL NET COMBINED OVERLAPPING DEBT			$ 14,572,176,632
GROSS COMBINED TOTAL DEBT			$ 14,669,803,005 (2)
NET COMBINED TOTAL DEBT			$ 14,637,671,632

(1) The percent of overlapping debt applicable to the Water District is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the Water District divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to the 2019-20 Assessed Valuation	Ratio
Total Direct Debt	0.01%
Gross Combined Total Debt	2.85%
Net Combined Total Debt	2.84%
Ratio to Redevelopment Incremental Valuation ($58,410,378,854)	
Total Overlapping Tax Increment Debt	3.02%

Source: California Municipal Statistics, Inc.

Valley Water
Demographic and Economic Statistics
For Santa Clara County
Last Ten Fiscal Years

Fiscal Year	Population [1]	Personal Income (in $000) [2]	Per Capita Personal Income (in $000)	Change In Consumer Price Index [3]	School Enrollment [4]	Total Employment [5]	Unemployment Rate [5]
2011	1,890,909	$ 111,880,131	59.167	1.1%	266,267	798,200	9.9%
2012	1,899,567	122,259,021	64.362	0.9%	270,109	794,236	8.5%
2013	1,842,254	130,624,491	70.905	1.4%	273,701	865,900	6.8%
2014	1,868,558	141,873,705	75.927	3.0%	276,175	879,500	5.4%
2015	1,889,638	143,292,442	75.831	2.3%	276,689	993,400	3.7%
2016	1,927,888	173,428,896	89.958	2.7%	274,948	996,800	4.0%
2017	1,938,180	190,001,690	98.031	3.5%	273,264	992,900	3.8%
2018	1,947,798	209,019,944	98.522	3.9%	272,132	1,035,600	2.7%
2019	1,954,286	211,110,143	99.177	2.7%	267,224	1,026,700	2.6%
2020	1,961,969	213,221,244	108.677	1.6%	263,449	926,700	10.7%

Source: (1) State of California - Department of Finance, Demographics & Research Unit.
(2) U.S. Department of Commerce - Bureau of Economic Analysis;
actual data available up to 2018;personal income data for 2019 & 2020 are preliminary
and assumes a 1% increase from prior year.
(3) U.S. Department of Labor - Bureau of Labor Statistics - San Francisco Bay Region
(4) State of California - Department of Education and Santa Clara County Office of Education (grades K to 12)
(5) State of California - Employment Development Department

Valley Water
Principal Employers
Current Year and Nine Years ago
(unaudited)

	Fiscal Year 2020			**Fiscal Year 2011**		
Company or Organization	Employees[1]	Rank	Percentage of Total County Employment	Employees[2]	Rank	Percentage of Total County Employment
Apple Inc.	25,000	1	2.70%	10,000	2	1.25%
Google, Inc. / Alphabet	23,000	2	2.48%			
County of Santa Clara	18,570	3	2.00%			
Stanford University	15,576	4	1.68%			
Facebook Inc.	15,407	5	1.66%			
Tesla Motors Inc.	15,000	6	1.62%			
Stanford Health Care	14,143	7	1.53%			
Cisco Systems	13,683	8	1.48%	13,000	1	1.63%
Kaiser Permanente Northern California	12,500	9	1.35%			
University of California Santa Cruz	8,915	10	0.96%			
Safeway	8,509	11	0.92%			
Gilead Sciences Inc.	8,268	12	0.89%			
Intel Corp.	7,975	13	0.86%	5,000	3	0.63%
City of San Jose	7,728	14	0.83%			
Applied Materials Inc.	6,200	15	0.67%			
Nvidia Corp	6,000	16	0.65%			
Target Corp.	5,500	17	0.59%			
Juniper Networks Inc.	5,130	18	0.55%			
San Mateo County	5,103	19	0.55%			
Stanford Children's Health	5,005	20	0.54%	2,951	9	0.37%
Maxim Integrated Products, Inc.				4,706	4	0.59%
JDS Uniphase Corp.				4,000	5	0.50%
Santa Clara Valley Medical Center				3,500	6	0.44%
Flextronics International				3,490	7	0.44%
Yahoo, Inc.				3,000	8	0.38%
Adobe Systems, Inc.				2,700	10	0.34%
Total	227,212		24.51%	52,347		6.57%
Total County Employment[3]	926,700			798,200		

Source: [1] Silicon Valley Business Journal
[2] Rich's Business Information - Santa Clara County
[3] State of California - Employment Development Department

Valley Water
Full-time Equivalent District Employees by Function/Program
Last Ten Fiscal Years

	Fiscal Year									
Function/Program	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Office of the CEO	11	10	10	10	10	10	11	11	17	20
Office of the District Counsel	9	9	9	9	9	9	10	10	11	11
Community & Government Relations	7	8	8	8	8	18	23	27	28	32
County-Wide Watershed Management	117	105	98	98	98	112	109	109	133	133
Capital Programs	143	126	117	112	115	118	112	112	108	111
Water Utility Operations	43	43	43	43	43	43	43	43	41	41
Water Supply	11	11	11	11	11	11	11	11	8	8
Water Conservation	10	10	10	10	10	10	11	11	12	12
Surface & Groundwater Management	34	34	34	34	34	36	33	33	35	35
Water Quality	22	22	22	22	22	22	28	28	24	24
Control Systems	11	11	11	11	11	11	14	14	14	14
Water Utility Maintenance	23	23	23	23	23	23	28	28	28	28
Treated Water Operations	36	36	36	36	36	38	44	44	43	43
Raw Water Operations	25	25	25	25	25	28	37	37	37	40
Administrative & Business Management	11	8	8	8	8	8	11	11	3	5
Clerk of the Board	12	12	12	12	12	12	14	14	10	10
Organizational Training & Development	6	6	6	6	6	6	4	4	4	8
Business Support Services	16	16	16	16	16	16	16	16	20	25
Library & Records	6	6	6	6	6	6	5	5	6	6
Budget Office	8	8	8	8	8	8	7	7	7	10
Accounting	18	18	18	16	18	18	17	17	16	16
Information & Systems Management	43	39	39	39	39	39	36	36	32	32
Technical Services	3	3	3	3	3	3	3	3	3	3
Wells & Water Production	18	18	18	18	18	18	18	18	15	15
Real Estate & Right-of-Way	8	8	8	8	8	9	10	10	8	10
Equipment Management	12	12	12	12	12	12	12	12	10	10
Warehouse & Inventory Control	6	6	6	6	6	6	5	5	5	5
Facilities Maintenance	15	15	15	15	15	15	15	15	14	16
Purchasing	9	9	9	9	9	10	10	10	9	12
Permits	16	16	16	13	16	16	14	14	16	16
Contracts Administration	5	4	4	4	4	5	5	5	5	10
Human Resources & Benefits	21	21	21	19	21	21	18	18	22	22
Health & Safety	6	6	6	10	6	6	10	10	9	9
Total	741	704	688	680	686	723	744	748	753	792

Source: Santa Clara Valley Water District, Human Resources & Benefits Unit

Valley Water
Operating Indicators by Function/Program
Last Ten Fiscal Years

	Fiscal Year									
Function/Program	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
District Well Ordinance Program										
New Wells	775	541	443	513	407	424	321	410	325	298
Destroyed Wells	653	531	502	744	1,504	1,167	945	463	494	387
Well Permits	1,626	1,740	1,265	1,697	2,285	1,799	1,546	1,272	1,078	1,123
Well Inspections	1,517	1,350	1,080	1,398	2,092	1,848	1,687	1,093	1,030	1,163
Watershed Management									-	
Miles of Vegetation Removed/Managed	175	241	221	206	177	164	116	168	163	161
Cubic Yards of Sediment Removed	15,623	32,456	21,456	34,596	4,129	3,929	83,792	34,881	19,279	49,641
Miles of Bank Erosion Protection	1.8	0.5	1.1	2.1	0.2	1.2	0.5	0.5	0.2	0.3
Laboratory Services Unit										
Water Samples Tested (approx.)	132,638	111,265	158,082	170,055	169,182	178,934	179,252	156,347	151,118	151,500
Water Quality Violations	-	-	-	-	-	-	-	-	-	-
Water Measurement Program										
Meter Reads/Site Visits	5,981	5,939	6,019	5,964	5,908	5,934	5,489	6,264	5,384	6,740
Meter Repairs/Preventative Maintenance	328	316	313	272	201	323	301	307	381	183
Backflow Device Tests	170	151	177	159	203	153	149	227	188	217
Community Projects Review										
Permits Issued	229	220	257	201	220	289	228	177	160	137
Land Development Review Requests	1,030	964	865	940	843	45	124	749	938	809
Underground Service Alerts	28,651	37,348	46,599	53,782	58,871	12,118	8,042	8,529	9,859	8,560
Requests for Flood Zone Information	90	70	72	51	24	92	26	18	18	11
Environmental Impact Reports Reviewed	107	55	33	65	68	32	56	53	83	82
Water Resource Protec. Ordinance Violations	125	234	193	184	130	220	163	186	208	240
Human Resources										
Permanent Positions Hired	13	17	21	31	54	150	112	133	79	162
Temporary Workers Employed	121	112	140	247	134	276	259	122	108	110
Employment Applications Processed	1,000	2,685	1,524	4,236	5,746	5,621	5,847	5,668	5,370	7,860
Health & Safety										
Ergonomic Assessments	44	36	39	38	42	46	44	47	37	12
Confined Space Assessments	247	117	139	261	147	204	120	223	192	205
Employee Safety Committee Meetings	10	11	9	11	12	12	12	11	8	6
Projects Managed by Type:										
Capital Projects	138	129	126	131	160	165	121	130	121	114
Operating Projects	46	48	43	36	35	39	23	29	17	16
Operations Projects	354	365	396	394	415	409	358	351	335	328

Source: Santa Clara Valley Water District, various government departments

Valley Water
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Water Utility Enterprise										
Acres of groundwater recharge ponds	393	393	393	393	393	393	393	393	393	393
Miles of canals	17	17	17	17	17	17	17	17	17	17
Miles of pipeline	143	144	144	144	144	144	144	144	144	144
Miles of tunnels	8	8	8	8	8	8	8	8	8	8
Number of treatment plants	3	4	4	4	4	4	4	4	4	4
Number of pumping stations	5	5	5	5	5	5	5	5	5	5
Number of treated water reservoirs	1	1	1	1	1	1	1	1	1	1
Water Utility Operations										
Process Control Instrumentation	1128	1161	1406	1,680	1,443	1,493	1,548	1,534	1,542	1,710
Mechanical Drives	54	54	72	61	56	73	58	61	61	61
Chemical Mixers	87	87	89	111	95	95	92	88	88	126
Electrical Motors	407	432	452	512	439	455	468	464	468	531
Power Distribution Equipment	736	913	1248	1,673	1,140	1,155	1,089	859	870	890
Pumps	496	515	547	601	515	518	517	518	517	584
Utility Vaults & Structures	1050	1051	1062	1,095	1,114	1,340	1,156	1,122	1,166	1,195
Chemical & Water Storage Tanks	179	192	199	176	174	203	168	173	196	202
Valves	1059	1070	1613	1,702	1,600	1,676	1,695	1,710	1,758	1,987
Valve Operators	577	579	799	869	783	782	781	782	789	841
Generators	23	26	25	27	25	29	29	27	30	33
Flow Meters	271	296	381	387	347	377	399	360	361	395
Electric Drives	160	170	173	208	165	162	172	183	191	196
Blowers & Compressors	164	174	146	208	188	185	184	181	187	188
Miscellaneous Equipment	459	467	477	3,306	1,441	1,350	1,356	1,322	1,327	1,345
Watersheds										
Miles of creeks and rivers managed for flood control	700	700	700	700	700	700	700	800 +*	800 +*	800 +*
Number of reservoirs	10	10	10	10	10	10	10	10	10	10
Total District reservoir capacity (acre-feet)	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415
Acres of Wildlife Habitat Restored	N/A	N/A	569	569	326	326	310	364	364	364
Fleet Equipment										
Class I Passenger Vehicles	190	190	185	186	182	184	179	178	178	175
Class II Heavy Duty Trucks	79	78	82	84	87	82	90	94	94	97
Class III Tractors, Const. Equip., Generators, Forklifts	25	26	24	27	26	26	21	26	26	26
Class IV Misc. Small Tools & Engines	648	643	655	474	506	506	534	478	415	521

Source: Santa Clara Valley Water District, various government departments

* There are more than 800 miles of creeks in Santa Clara County (SC Co.). SCVWD owns 278 miles of streams in SC Co. Only a portion of these have been modified with flood protection projects. Those are the streams that are maintained by SCVWD.

Valley Water
Flood Control System
Historical Operating Results
Combined Statement of Revenues and Debt Service Coverage
Last Ten Fiscal Years
(Dollars in Thousands)

	2011	2012	2013	2014
Flood Control System Revenues:				
Benefit assessment, gross[1]	$ 19,284	$ 19,324	$ 19,372	$ 16,306
Property tax	47,567	48,457	55,647	57,631
Investment income	1,099	560	249	985
Rental income	1,139	1,210	1,208	1,338
Other	564	798	1,327	687
Total Flood Control System Revenue	$ 69,653	$ 70,349	$ 77,803	$ 76,947
Debt Service:				
2003A Certificates of participation[2]	$ 6,958	$ 6,018	$ 1,141	$ -
2004A Certificates of participation[3/4]	2,395	2,285	2,380	1,398
2007A Certificates of participation[3]	5,761	5,759	5,757	5,761
2012A Certificates of participation	-	-	6,443	6,111
2017A Certificates of participation[4]	-	-	-	-
Commercial papers				
Total Debt Service	$ 15,114	$ 14,062	$ 15,721	$ 13,270
Coverage	4.61	5.00	4.95	5.80

1 The benefit assessment presented on the Statement of Revenues, Expenditures and Changes in Fund Balances are net of collection fees. For the purpose of the Flood Control System Debt Service Coverage, collection fees are excluded. Therefore, the benefit assessments presented above have been increased as follows:

FY2020 - $ 135
FY2019 - $ 149
FY2018 - $ 148
FY2017 - $ 149
FY2016 - $ 149
FY2015 - $ 162
FY2014 - $ 163
FY2013 - $ 194
FY2012 - $ 193
FY2011 - $ 193

In accordance with voter authorizations, benefit assessments are set at 1.25 of gross debt service allocable to to flood control projects starting during Fiscal Year 2001.

Source: Santa Clara Valley Water District, General Accounting Unit

2015	2016	20175	2018	2019	2020
$ 16,236	$ 14,832	$ 14,939	$ 14,922	$ 14,895	$ 13,575
62,887	68,005	74,806	79,538	90,727	93,054
889	1,303	317	729	4,916	5,204
1,403	1,474	1,527	1,609	1,650	1,710
596	1,210	1,870	3,999	1,746	1,606
$ 82,011	$ 86,824	$ 93,459	$ 100,797	$ 113,934	$ 115,149
$ -	$ -	$ -	$ -	$ -	$ -
1,349	1,109	1,111	-	-	-
5,762	5,757	5,760	-	-	-
6,101	5,294	5,297	5,295	5,295	5,295
-	-	-	6,866	6,868	5,791
				-	319
$ 13,212	$ 12,160	$ 12,168	$ 12,161	$ 12,163	$ 11,405
6.21	7.14	7.68	8.29	9.37	10.10

[2] The 2003A Certificates were refunded by the 2012A Certificates.

[3] The 2004A and 2007A Certificates were refunded by the 2017A Certificates.

[4] The 2004A and 2017A debt service payments exclude the portion paid by the District General Fund as this portion of debt service was not payable from benefit assessments (see Flood Control Master Resolution 94-60).

[5] The Fiscal Year 2017 debt service coverage calculation was adjusted above to correct overstated debt service previously reported.

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Valley Water

San Jose, California

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2020

Prepared by the General Accounting Services Unit

Darin Taylor, Chief Financial Officer
Gloria del Rosario, Accounting Manager

Commented [GK1]: Is not our legal name, Santa Clara Valley Water District?

Commented [GK2]: Why is this relevant? Is it required

Valley Water

Clean Water • Healthy Environment • Flood Protection

VALLEY WATER
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2020

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5750 Almaden Expressway, San Jose, CA 95118-3614 | (408) 265-2600 | www.valleywater.org

Santa Clara Valley Water District

November XX, 2020

TO THE BOARD OF DIRECTORS OF VALLEY WATER:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for Valley Water for the fiscal year ended June 30, 2020. The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with Valley Water. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities of Valley Water. All disclosures necessary to enable the reader to gain an understanding of Valley Water's financial activities have been included.

Commented [GK3]: Is it Valley Water or the logo Santa Clara Valley Water District? Even if our legal name is now Valley Water, the previous name of Santa Clara Valley Water District appears no place in this report and likely should.

To provide a reasonable basis for making these representations, management of Valley Water has established a comprehensive internal control framework that is designed both to protect Valley Water's assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of Valley Water's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, Valley Water's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Valley Water's financial statements have been audited by Maze and Associates, a firm of licensed certified public accountants. The purpose of the independent audit was to provide reasonable assurance that the financial statements of Valley Water for the fiscal year ended June 30, 2020, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on Valley Water's financial statements for the fiscal year ended June 30, 2020. The opinion rendered concluded that the financial statements are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of Valley Water is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements but also on Valley Water's internal controls and compliance over the administration of federal awards. The single audit review is applicable when Federal funded expenditures exceed $750 thousand and is typically completed after the audit of the financial statements and will be issued separately for the Board's acceptance.

Commented [GK4]: This just looks strange

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Valley Water's MD&A can be found immediately following the report of the independent auditor.

District Profile

The mission of Valley Water is to provide Silicon Valley safe, clean water for a healthy life, environment, and economy.

~~Valley Water traces its origins to the Santa Clara Valley Water Conservation District, approved by north county voters in 1929. Voters elsewhere in the County eventually formed similar agencies that later consolidated with the original District. Today's Valley Water represents a consolidation of four agencies. In 1954, the Central Santa Clara Valley Water Conservation District was annexed to the Santa Clara Valley Water Conservation District. With the 1968 merger of the Santa Clara Valley Water Conservation District and the Santa Clara County Flood Control and Water District, the agency adopted dual missions of providing water supply and flood protection. The South Santa Clara Valley Water Conservation District was renamed the Gavilan Water District in 1980, and upon south county voter approval, was annexed to Valley Water in 1987. The merger's catalyst was the belief that a coordinated operation of the County's water supply and flood control systems would result in optimum water resource management.~~

~~Throughout its history of consolidations, Valley Water has maintained a relationship with Santa Clara County (County). In 1952, County Supervisors initiated the valley's first flood protection program; they later expanded their efforts to include water importation. In 1968, Valley Water and the County decided to merge their water functions, and the governing boards of both agencies agreed the County supervisors would have a role in reviewing and approving the water district's annual budget. On September 14, 2006 Assembly Bill 2435 was passed (effective January 1, 2007) which ended the County's oversight of Valley Water's budget and other procedural holdovers from the 1968 merger~~.

Valley Water operates as a State of California special district under the authority of the District Act (Stats. 1951, c.1405, p.3336, urgency, eff. July 10, 1951, as amended Stats. 1963, c.1941, p.3993, 1). Valley Water is the primary water resources agency for Santa Clara County, California. It is the largest multi-purpose water supply, watershed stewardship, and flood management special district in California. It acts not only as the County's primary water wholesaler but also as its flood protection agency and is the steward for its streams and creeks, underground aquifers and district- built reservoirs.

Commented [GK5]:

Commented [GK6]: Are there not more amendments to the District Act?

The District Act governs the structure, function and operations of the Valley Water's Board of Directors (Board), which governs Valley Water and directs the Chief Executive Officer. ~~On October 11, 2009, Governor Arnold Schwarzenegger signed into law Assembly Bill 466 (AB466) to amend the District Act. AB466 replaced the former Board structure (five elected/two appointed at-large members) with one in which all seven members would be elected from new districts created through a formal redistricting process. A Redistricting Advisory Committee was formed to draw~~

Commented [GK7]: Why relevant to today?

~~Valley Water boundaries. On May 14, 2010, the Board officially adopted a new map following testimony from the public, consideration of past testimony during Redistricting Advisory Committee meetings, and consideration of all communications and letters received from the public. A formal election was held for four of the seven board members on November 2, 2010. As required by state law, Valley Water must redraw its boundaries to reflect 2010 Census results. On October 11, 2011, the Board adopted Resolution No. 11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.~~

Valley Water is the primary water resources agency for ~~nearly~~ the two million residents of the County. It encompasses all of the county's approximately 1,300 square miles and serves the area's 15 cities and towns: Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale. Valley Water also serves ~~the~~ certain unincorporated areas of the County.

Valley Water sells treated water to 8 water retail companies, cities and towns that ~~service~~ serve communities within the County via their own distribution systems. There are also private well owners in the County. This demand requires Valley Water to operate and maintain a complex delivery and treatment system that includes 3 water treatment plants, an advanced water purification center, 10 local reservoirs and dams, a state-of-the-art water quality laboratory, dozens of groundwater recharge basins, 5 pump stations and 144 miles of pipelines. Water supplies include local surface water and groundwater, imported water, and recycled water. Water conservation is also an important part of the water supply mix because it offsets water demands.

To ensure an adequate and reliable supply of high-quality water, Valley Water has partnered with cities and water retailers in the county to develop recycled water supplies. About 5% of the County's total water use currently consists of recycled water, limited primarily to landscaping and industrial uses. Recycled water use is expected to expand in coming years.

In 2010, the Board approved agreements with the City of San Jose to partner and build a facility to produce about eight million gallons per day of highly purified water. Valley Water and the City of San Jose entered into a ground lease and property use agreement (the "Ground Lease") with respect to the City of San Jose owned site on which the Silicon Valley Advanced Water Purification Center (SVAWPC) is located. In addition, Valley Water and the City of San Jose entered into an integration agreement (the "Integration Agreement") with respect to the operation of the SVAWPC. Valley Water and the City of San Jose each have the annual option to terminate the Integration Agreement on or after June 30, 2020, in accordance with its terms. The Ground Lease provides that if the Integration Agreement is terminated, the Ground Lease will simultaneously terminate and upon such termination, Valley Water would be required to surrender the facilities of the SVAWPC to the City of San Jose. The option to terminate the Integration Agreement provides an opportunity for the City of San Jose and Valley Water to re-evaluate the continued need for integrated management of their respective facilities (i.e. Valley Water's SVAWPC and City of San Jose's Regional Wastewater Facility), financial support, and opportunities for the use of recycled water. Both parties would be required to meet and discuss potentially amending the Integration Agreement in lieu of terminating the Integration Agreement to address the parties' concerns.

The SVAWPC in North San Jose commenced full operation in March 2014. Currently, purified water produced by the Silicon Valley Advanced Water Purification Center is not used for potable (drinking) purposes, and is instead blended with existing recycled water to enhance its quality for non-potable purposes such as irrigation, cooling towers and industrial applications.

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Commented [GK8]: Is redistricting not every 10 years? When due?

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Commented [GK9]: Might need to explain how we make money on private well owners

Commented [GK10]: This is pretty obtuse – I would say we need a reserve for the plant (if we do not own it)

Commented [GK11]: Where is the Palo Alto deal? I would think we need to book liabilities

As the primary wholesale water supplier in the County, Valley Water is dedicated to assuring a reliable supply of healthy and clean drinking water. Valley Water provides stream stewardship that encompasses managing flood and storm waters within the County and protecting watersheds and riparian corridors, thereby providing for public safety, and the protection of property and the natural environment along creeks and rivers, and at the edge of the San Francisco Bay. Valley Water strives to provide clean safe water in our creeks and bays; to provide, enhance, and restore creek and bay ecosystems, and to promote additional open space, trails and parks along creeks and in the watersheds.

Commented [GK12]: Repeat?

Factors Affecting Financial Condition

Local Economy

Located south of San Francisco Bay, Santa Clara County is the sixth largest county in California, with a population of 1.~~78~~ 92 million and measures approximately 1,315 square miles. Santa Clara County is also the largest member community of Silicon Valley, which is world-renowned for creativity, innovation and productivity.

Commented [GK13]: Basis for this claim?

The COVID-19 pandemic has created a public health crisis that is affecting the Valley Water community and economy in ways that have not been previously experienced. Several industries including the airline, restaurant, and tourism industries were deeply affected by shelter in place mandates and eight months into the COVID-19 crisis, economies across the U.S. are recovering jobs in some areas, while continuing to see losses in others. In Santa Clara County, the unemployment rate of 7% remains one of the lowest in the Bay Area.[1] In comparison, California's unemployment rate is currently 11%. While the U.S. economy has been hit hard during the coronavirus pandemic, the technology industry and its hub in Santa Clara County continue to fare better than other large regions across California and the nation. [2]

Pre-COVID, Silicon Valley's regional GDP continued to grow, with estimated gains of nearly 5% year-over-year. Since 2001, the number of patents registered to Silicon Valley inventors each year more than doubled and venture capital investments flowing into the region's companies have been high over the past two years. While job growth in Silicon Valley slowed over the past two years, the pace remains higher that the state or nation as a whole. However, more people are leaving the region than coming in, with a marked outflow to the greater Bay Area, other parts of the state, Washington, Texas, Arizona, and Nevada.

The County has one of the highest personal income levels in the Bay Area and in California, and the workforce is highly educated. Businesses located in Santa Clara County are able to take advantage of the highly educated and skilled workforce in the fields of science and engineering, its high rate of venture capital investment, and dynamic culture of cutting-edge innovation. The region is also emerging as a worldwide leader in the clean technology industry, and Santa Clara County accounts for 34% of total clean tech investment in the state and 15% in the country.[3] Other major industry clusters include ~~technology,~~ life sciences, and financial and professional services.

[1] State of CA Employment Development Department, September 2020 for Santa Clara County
[2] MarketWatch, June 2020
[3] Santa Clara County website, Economic Resource Guide

The total amount of new commercial space completed in the region hit an 18-year high in 2019, bolstered by significant industrial space development, plus new office and R&D space. In addition to booming commercial space completions, the amount under construction reached a 19-year high in 2019. Among other projects, large Silicon Valley tech companies with office space under construction at the end of 2019 included ~~LinkedIn,~~ Google, Microsoft~~ in Mountain View~~, Adobe~~ in downtown San Jose~~, and NVIDIA~~ in Santa Clara~~.

Commented [GK14]: LinkedIn and Microsoft are one and the same

The County and its Cities are working aggressively to create affordable housing to meet the needs of residents. New home construction is recovering from the lows of the 2007-2009 recession. Home prices in the region declined slightly in 2019, yet housing costs remain the highest in the nation (with median home sale prices remaining well above $1 million).[4] Pre-COVID, per capita income and average wages continued their upward trend, and Silicon's Valley's poverty rate was still low compared to the rest of the country.

In light of COVID-19, Valley Water has been refining project plans, prioritizing business continuity and maintaining the operation of essential services to provide safe, clean water to Santa Clara county. The COVID-19 outbreak is currently ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, and the economic impact are uncertain. To date, Valley Water has not been notified by any retail water purveyor served by Valley Water of material delinquencies in the payment of water utility bills by customer of such retail water purveyors.

Commented [GK15]: Consider mentioning the shut-off moratorium

Valley Water began calendar year 2020 with groundwater ~~-~~storage well within ~~Stage 1 (~~the Normal~~)~~ range of its Water Shortage Contingency Plan. Despite well below-normal local rainfall and statewide snowpack, end of year groundwater for 2020 is projected to be well within the Normal range~~Stage 1~~. The State has placed operating restrictions on five of Valley Water's ten dams due to Seismic safety concerns. In addition, on February 20, 2020, the Federal Energy Regulatory Commission ordered the drawdown of Anderson reservoir effective October 1, 2020.[5] As such, the restricted capacity is now at 62,362 acre-feet relative to 166,140 acre-feet total storage capacity. As of June 30, 2020, other local reservoir storage was 61,462 acre-feet. Estimated cost to fix?

Valley Water's Semitropic groundwater bank reserves were at 98%, or 344,662 acre-feet for the same time period.[6] Semitropic Water Storage District has reported elevated concentrations of 1,2,3 Trichloropropane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies.

Commented [GK16]: Impairment testing due to SGMA and contamination?

The Valley Water Board of Directors continues its call for a 20% reduction and a limit of three days per week for irrigation of ornamental landscape with potable water. From the beginning of the drought response initiated in 2014, Valley Water has worked with water retailers, cities, and the County to maintain water conservation efforts and public outreach, and to implement other actions to reduce water use. Through these efforts, Valley Water has achieved a 17% reduction in water use through June 2020 compared to 2013.[6]

Long-term Financial Planning

Valley Water plans, manages, and carries out work to meet policies established by its Board of Directors. Under Valley Water's form of Policy Governance, these "Ends" policies describe the

[4] 2020 Silicon Valley Index – Joint Venture Silicon Valley Network
[5] Valley Water – Water Tracker, October 2020
[6] Valley Water – Water Tracker, August 2020

mission, outcomes or results to be achieved by Valley Water staff. Balancing the Ends policies are Executive Limitations, which set limits on staff activities in fulfilling the Ends. Alignment of plans and resources with the Ends policies helps the Board fulfill the critical responsibility of defining, balancing and prioritizing "what benefits, for what people, at what cost," and enhances Valley Water staff's accountability in using budgeted resources to accomplish those ends.

Valley Water funds activities that carry out its mission through the following three highest-level policies.[7]

- E2 - Reliable, clean water supply for current and future generations
- E3 - Healthy and safe environment for residents, businesses, and visitors, as well as for future generations
- E4 - Water resources stewardship to protect and enhance watersheds and natural resources and to improve the quality of life in Santa Clara County

Valley Water's largest revenue source is water charges, acting as a wholesaler for numerous water supply retailers in Santa Clara County. Water revenues for fiscal year 2020 were $267.9 million. In May 2020, to mitigate the impact of the COVID-19 pandemic on the communities within Valley Water's service area, the Board of Directors did not adopt any increase to water rates for fiscal year 2021. However, the Board asked staff to bring back information on the financial impacts of the pandemic on the community and on Valley Water in order to determine whether or not a mid-year rate increase should be pursued. On September 22, 2020, the Board decided to not pursue a mid- year rate increase for fiscal year 2021. The financial impact of no increase in water rates for fiscal year 2021 will be the need for higher water rate increases in future years in the absence of offsetting cost cutting (or reduction in CIP spending) actions.

The Five-Year Capital Improvement Plan (CIP) includes a total of 67 capital projects with an estimated cost of over $6.5 billion. Valley Water has been and continues to be successful in leveraging funding for its capital projects through partnerships with federal, state, and local agencies. Of the $6.5 billion total funding, $1.2 billion is expected from Valley Water's various partners, such as the U.S. Army Corps of Engineers (USACE), and $5.3 billion from Valley Water. Of the $1.2 billion that is expected from Valley Water's partners, $742 million is advanced by Valley Water and reimbursed later. This $742 million is included in the CIP, and increases Valley Water's total funding requirement from $5.3 billion to $6 billion to ensure that Valley Water has adequate funding to advance the reimbursement.[8] Obtaining timely permits from regulatory agencies continues to be a challenge in the effort to carry out the CIP.

In November 2012, the voters approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax to fund projects addressing the following community priorities:

- Ensuring safe reliable water for the future;
- Reducing toxins, hazards and contaminants in our waterways;
- Protecting water supply and local dams from the impacts of earthquakes and natural disasters;
- Restoring fish, bird, and wildlife habitat; ~~and~~
- Providing flood protection to homes, businesses, schools, streets, and highways.

[7] Valley Water FY2019-20 Operating and Capital Budget
[8] Valley Water – FY2021-25 Capital Improvement Program

Safe, Clean Water builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000. Safe, Clean Water replaced the Clean, Safe Creeks measure in its entirety beginning July 1, 2013. The program is funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2021, the budget includes $45.5 million of tax revenue for this program.

Commented [GK17]: New ballot measure passing as a subsequent event?

Relevant Financial Policies

End of Year Balances

Valley Water policies for end-of-year balance re-appropriations are as follows:

- Any remaining appropriation balances at the end of the fiscal year for capital projects are annually re-appropriated for continued use in those same projects in the following fiscal year. These amounts shall be consistent with the planned expenditure schedule identified in the 5-year CIP;

- Any variances at the end of the current fiscal year in Operating and Capital Reserves from those estimated in the budget not otherwise re-appropriated above shall result in corresponding adjustments to the estimated reserve appropriations in accordance with the Valley Water Reserve policy.

Valley Water, through the Public Facilities Financing Corporation, also maintains a commercial paper program for funding capital projects. Commercial paper is used to provide interim financing during construction. Long-term debt, matching the useful life of the asset, is issued to refund the commercial paper from time to time as needed.

Commented [GK18]: Explain

Commented [GK19]: Are we not using the PFFC for the first time?

Budgetary Controls

Valley Water maintains budgetary controls, the objectives of which are to ensure compliance with legal provisions, embodied in the annually appropriated budget approved by the Board. Activities of the governmental funds and proprietary funds are included in the annual appropriated budget. Additionally, as a management tool, project-length financial plans are included in the annual Capital Improvement Plan. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, further limited by two categories - the operating budget (consisting of total operations, operating projects, and debt service) and the capital budget (consisting of capital project expenditures). Valley Water also maintains an encumbrance accounting system as one process to accomplishing budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund require Board approval. Budget and actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For governmental funds, this comparison is presented starting on pages 106 as part of required supplementary information and selected watershed activities starting on pages 114 as part of supplemental information. For proprietary funds, this comparison is presented starting on pages 118 and 124 as part of the combining and individual fund statements and schedules.

The guidelines used by Valley Water in developing this formal budget process are those recommended by the National Advisory Council on State and Local Budgeting, and the Government Finance Officers Association (GFOA).

Reserve Requirements

Valley Water's financial policies establish the levels at which reserves shall be maintained. Valley Water reserve policies address the need for both operating and capital reserves, and funding of contingency and future liabilities.

Major Initiatives

Highlights of activities and accomplishments for the fiscal year ended June 30, 2020 include the following: [9]

- In July 2019, the Department of Water Resources (DWR) approved Valley Water's Groundwater Management Plan as an Alternative to a Groundwater Sustainability Plan, confirming it satisfies the objectives of the Sustainable Groundwater Management Act (SGMA). DWR evaluated 15 submitted alternatives in total. The two large basis in Santa Clara County, the Santa Clara and the Llagas Subbasins, are now among the nine basins in the state of California with approved SGMA Alternative Plans. DWR approval of Valley Water's Alternative is a testament to the organization's comprehensive groundwater management and ongoing commitment to groundwater sustainability.

- On August 28, 2019, Valley Water hosted a groundbreaking ceremony for the upper Llagas Creek Flood Protection Project (Phase 1) in Morgan Hill. Phase 1 construction has an anticipated completion day in May 2022. The entire project consists of approximately 13.9 miles of flood protection improvements, and continues a Clean, Safe Creeks project in partnership with the U.S. Army Corps of Engineers.

- On September 21, 2019, Valley Water, in partnership with the Creek Connections Action Group (CCAG), coordinated a milestone 35th Annual Coastal Cleanup Day event in Santa Clara County. Approximately 53,297 pounds of trash was removed by 2,166 volunteers.

- On September 19, 2019, Valley Water hosted a community appreciation event at the Coyote Pumping Plant which marked the completion of major construction activities for the Main Avenue and Madrone Pipeline Restoration Project. This project installed approximately 2.6 miles of 24-inch to 36-inch diameter raw water pipelines, which are now capable of functioning at full operational capacity and conveying local and imported rate water from Anderson Reservoir and the Santa Clara Conduit to the Main Avenue Recharge Ponds and the Madrone Channel.

[9] Valley Water CEO Bulletins

- On November 12, through November 14, 2019, former CEO Norma Camacho led the Valley Water delegation on the annual fall advocacy trip to Washington D.C., where the delegation advocated for Valley Water's funding and legislative interests on several of the Board's priority projects and initiatives, including the Anderson Dam Seismic Retrofit project, the Pacheco Reservoir Expansion project, and the Upper Guadalupe, Upper Llagas, Shoreline, Coyote Creek, and Upper Penitencia Creek Flood Protection projects, among others. The delegation conducted meetings with Administration officials and agency staff, members of our Congressional delegation, and key committee staff in order to keep these priority projects moving forward expeditiously to the benefit of Valley Water communities.

- On November 20, 2019, Valley Water hosted a ribbon cutting ceremony to mark the completion of the Cunningham Flood Detention Certification project in San Jose. Lake Cunningham Regional Park serves as a detention area by storing water within the park during a storm to help prevent flooding downstream of the park. These improvements, in combination with the completed Lower Silver Creek Flood Protection Project improvements, will protect approximately 3,800 properties from a 100-year flood event.

- On January 15, 2020, Valley Water joined local, regional, state, and federal agencies to unveil the first permanent X-Band radar in the San Francisco Bay Advanced Quantitative Precipitation Information (AQPI) System at a ribbon cutting event at the Penitencia Water Treatment Plant. The system will provide data for forecasting, which will assist water managers, reservoir operators, wastewater plant managers, flood, and emergency responders to make operational and safety decisions during extreme weather events.

- On February 29, 2020, Valley Water joined the City of Mountain View, Mountain View California Little League and the neighboring community for a ribbon cutting event to celebrate the completion of McKelvey Park. Valley Water's Permanente Creek Flood Protection Project reached a major milestone with the completion of the McKelvey Park flood detention basin in Mountain View. McKelvey Park was built as a dual-purpose facility, providing flood protection to downstream neighborhoods and a recreational space for residents.

- On June 3, 2020, Valley Water hosted a virtual graduation ceremony honoring the 2020 Water 101 Academy graduates. Designed to engage community leaders to become Water Ambassadors, the Water 101 Academy provided a series of sessions and networking opportunities for participants to understand local water challenges and learn about the mission and goals of Valley Water so that they could serve as advocates for their respective communities. Valley Water's commitment to engage and inform communities of current and future Valley Water projects, was reinforced at the ceremony,

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Water for its comprehensive annual financial report for the fiscal year ended June 30, 2019. This was the 23rd consecutive year that Valley Water has received this prestigious award. To be awarded a Certificate of Achievement, Valley Water must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR represents the culmination of months of concerted team effort by diverse Valley Water staff, including team members from Financial Planning and Management Services Division, Water Supply Division, Information Management Services Division, General Services Division, Human Resources Division, and Office of the District Counsel. Many team members demonstrated a high degree of personal dedication and determination in producing this exemplary document. In addition, special thanks to Valley Water staff in all groups for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Maze and Associates is also acknowledged for their significant technical contribution and assistance.

Special thanks go to Gloria del Rosario, General Accounting Unit Manager; the following Accounting staff: Jaime Salandanan, Guy Canha, Fanny Chan, Leticia Rocha, Trisha Cheung, Christine Hernandez, Ofelia Hsieh and Gloria Chou; and Chenlei Yao of the Budget and Financial Planning Unit, for their talent and dedication in preparing this financial report.

Finally, we wish to express our sincere appreciation to Valley Water's Board of Directors and management for providing policy direction and a firm foundation of support for the pursuit of excellence in all realms of professional endeavors.

Darin Taylor
Chief Financial Officer

Rick Callender
Chief Executive Officer

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Clara Valley Water District
California

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morrill
Executive Director/CEO

Commented [GK20]: Why is there a line missing?

VALLEY WATER
Board of Directors
& Executive Management

Board of Directors

OFFICE OF DISTRICT COUNCIL
District Counsel
Stanly Yamamoto

OFFICE OF THE CLERK OF THE BOARD
Clerk of the Board
Michele King

RISK MANAGEMENT PROGRAM
Risk Manager
David Cahen

RECORDS AND LIBRARY SERVICES UNIT
Records and Library Manager
Lonnie Spin

OFFICE OF THE CEO
Chief Executive Officer
Rick Callender

FINANCIAL PLANNING AND MANAGEMENT SERVICES DIVISION
Chief Financial Officer
Darin Taylor

OFFICE OF INTEGRATED WATER MANAGEMENT
Assistant Chief Executive Officer
Melanie Richardson

EXTERNAL AFFAIRS
Acting Chief of External Affairs
Rachael Gibson

INFORMATION TECHNOLOGY & ADMINISTRATIVE SERVICES
Chief Operating Officer
Tina Yoke

VALLEY WATER
2019 – 2020
BOARD OF DIRECTORS


John L. Varela
District 1


Barbara Keegan
District 2


Richard P. Santos
District 3


Linda J. LeZotte
District 4


Nai Hsueh
District 5


Tony Estremera
District 6


Gary Kremen
District 7

Auditor Opinion

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Auditor Opinion

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Management's Discussion and Analysis

Our discussion and analysis of Valley Water's financial performance provides an overview of Valley Water's financial activities for the fiscal year ended June 30, 2020. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- The net position of Valley Water was $2,598.9 million as of June 30, 2020. Of this amount, $163.8 million (unrestricted, but committed and assigned net position) may be used to meet Valley Water's ongoing obligations to citizens, businesses, stakeholders and creditors.
- Valley Water's net position increased by $178.6 million during the current fiscal year. The net position of the governmental activities increased by $91.5 million and the net position of the business-type activities by $87.1 million.
- As of the close of the current fiscal year, Valley Water's governmental funds reported combined ending fund balances of $350 million, an increase of $6.6 million in comparison with the prior fiscal year fund balances of $343.4 million.
- The fund balance for the general fund was $14.2 million, largely unchanged from the prior fiscal year. Committed and assigned fund balances were $14.2 million or 100% of the total fund balance.
- The fund balances of the Watershed & Stream Stewardship and Safe, Clean Water & Natural Flood Protection funds were $330.5 million, an increase of $8.6 million from the prior fiscal year.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The CAFR is presented in six sections:

- An introductory section that includes the Transmittal and general information
- Management's Discussion and Analysis
- The Basic Financial Statements that include the Government-wide and Fund Financial Statements, along with the Notes to statements
- Required and Other Supplementary information
- Statistical Information

Basic Financial Statements

The Basic Financial Statements contain the Government-wide Financial Statements, the Fund Financial Statements, and the Notes to the financial statements. The financial statements presented herein include all the activities of Valley Water and its component units using the integrated approach as prescribed by Generally Accepted Accounting Principles (GAAP). This report also includes supplementary information intended to furnish additional detail to support the Basic Financial Statements.

Government-wide Financial Statements

The government-wide financial statements present the financial picture of Valley Water from an economic resources' measurement focus using the accrual basis of accounting.

They include the Statement of Net Position and the Statement of Activities:

The Statement of Net Position. The Statement of Net Position presents information on all Valley Water's assets, deferred outflow, liabilities, and deferred inflow, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Valley Water is improving or deteriorating.

The Statement of Activities. The Statement of Activities presents information showing how Valley Water's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues earned, and expenses incurred are reported in this statement even if the resulting cash flows will occur in future fiscal periods (e.g., earned but uncollected taxes and earned but unused vacation leave).

The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental and Business-type activities.

Governmental activities are principally supported by taxes and intergovernmental revenues and include general government, watershed management, and construction and debt service funding.

Business-type activities are those that are intended to recover all of a significant portion of their costs through user fees and charges and include the water utility operation fund.

The government-wide financial statements include not only Valley Water itself (known as the primary government), but also a legally separate Santa Clara Valley Water District Public Facilities Financing Corporation (the Corporation) for which Valley Water is financially accountable. Financial information for this blended component unit is reported as if it were part of the primary government because its sole purpose is to provide financing to Valley Water under the debt issuance documents of Valley Water. Additional information on this legally separate entity can be found in Note 1(b) in the notes to basic financial statements.

The Government-wide Financial Statement can be found on pages 19 and 20 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Valley Water, like other special districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of Valley Water are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Valley Water's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of Valley Water's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Valley Water's projects.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and change in fund balances to the government-wide statements are provided to facilitate this comparison between *governmental funds* and *governmental activities.*

Proprietary funds. Valley Water maintains two-different types of proprietary funds: enterprise funds and internal service funds.

Proprietary funds are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements but provide more detail and additional information. Valley Water uses enterprise funds to account for its water utility operations fund.

Internal service funds are used to accumulate and allocate costs internally among the Valley Water's various functions. Valley Water uses internal service funds to account for its fleet of vehicles and computer equipment, risk management, and information technology activities. The internal service funds have been included within governmental activities and business-type in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside Valley Water. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Valley Water's own programs.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found starting on page 47 of this report.

Other Information

The required supplementary information related to Valley Water's pension and OPEB plans is included after the Notes to the Financial Statements and can be found starting on page 102 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The balance in net position over a period of time is as a useful indicator of a government's financial position. In the case of Valley Water, assets and deferred outflows exceeded liabilities and deferred inflows by $2,598.9 million at the end of the current fiscal year.

Condensed Statement of Net Position

(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Cash and investments	$ 427,914	$ 406,611	$ 288,189	$ 263,824	$ 716,103	$ 670,435
Other assets	15,001	29,066	45,096	40,090	60,097	69,156
Capital assets	1,583,144	1,504,633	1,266,260	1,163,908	2,849,404	2,668,541
Total assets	2,026,059	1,940,310	1,599,545	1,467,822	3,625,604	3,408,132
Deferred amount on refunding	(23)	40	604	411	581	451
Pension and OPEB related	33,027	32,640	25,427	25,256	58,454	57,896
Total deferred outflows of resources	33,004	32,680	26,031	25,667	59,035	58,347
Net pension and OBEB liabilities	167,280	166,639	126,268	126,523	293,548	293,162
Long-term debt	65,495	73,570	458,040	470,800	523,535	544,370
Other liabilities	81,265	84,093	166,580	112,134	247,845	196,227
Total liabilities	314,040	324,302	750,888	709,457	1,064,928	1,033,759
Pension and OPEB related	11,811	7,018	9,027	5,438	20,838	12,456
Deferred inflow of resources	11,811	7,018	9,027	5,438	20,838	12,456
Net position						
Net investment in capital assets	1,507,684	1,421,616	689,173	625,256	2,196,857	2,046,872
Restricted	153,619	160,594	84,582	71,527	238,201	232,121
Unrestricted	71,909	59,460	91,906	81,811	163,815	141,271
Total net position	$ 1,733,212	$ 1,641,670	$ 865,661	$ 778,594	$ 2,598,873	$ 2,420,264

Commented [GK21]: Materiality?

The largest portion of Valley Water's net position (84.5%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment) less any related debt used to acquire those assets still outstanding. Investment in capital assets are *not* available for future spending. Although Valley Water's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For governmental activities, net investment in capital assets increased by $86.1 million or 6.1% compared to the prior fiscal year. Capital assets, net of depreciation, increased by $78.5 million. Long term liabilities, which include related debt outstanding, went down by $7.3 million.

For business type activities, net investment in capital assets increased by $63.9 million or 10.2% over the previous fiscal year. Capital asset, net of depreciation, increased by $102.4 million. Long term liabilities, which include related debt outstanding, went down by $13.5 million.

The balance of unrestricted net position may be used to meet Valley Water's ongoing obligations to citizens, customers, and creditors. Valley Water's unrestricted net position increased by $22.5 million or 16%, during the current fiscal year.

Condensed Statement of Activities

Valley Water's Changes in Net Position

(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Water charges	$ -	$ -	$ 266,895	$ 227,679	$ 266,895	$ 227,679
Operating grants and contributions	-	-	3,721	2,754	3,721	2,754
Capital grants and contributions	42,921	40,271	4,345	1,149	47,266	41,420
General revenues:						
Property taxes	148,369	143,848	30,168	30,468	178,537	174,316
Investment earnings	12,889	13,634	8,838	8,074	21,727	21,708
Miscellaneous	4,028	4,263	2,708	1,905	6,736	6,168
Total revenues	208,207	202,016	316,675	272,029	524,882	474,045
Expenses:						
General government	9,270	3,246	-	-	9,270	3,246
Watersheds	106,395	99,415	-	-	106,395	99,415
Interest on long-term debt	2,507	3,048	-	-	2,507	3,048
Water enterprise	-	-	228,101	222,050	228,101	222,050
Total expenses	118,172	105,709	228,101	222,050	346,273	327,759
Increase in net position before transfers	90,035	96,307	88,574	49,979	178,609	146,286
Transfers	1,507	2,680	(1,507)	(2,680)	-	-
Change in net position	91,542	98,987	87,067	47,299	178,609	146,286
Net position, beginning	1,641,670	1,542,683	778,594	731,295	2,420,264	2,273,978
Prior period adjustment	-	-	-	-	-	-
Net position, ending	$ 1,733,212	$ 1,641,670	$ 865,661	$ 778,594	$ 2,598,873	$ 2,420,264

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Governmental activities

Net position in governmental activities increased by $91.5 million during the fiscal year. Net revenues from operations of $90 million, and transfers in of $1.5 million, resulted in the increase in net position.

The fiscal year net revenue of $90 million came from property tax of $148.4 million, capital grants of $42.9 million, investment earnings of $12.9 million, and other revenues of $4 million, less operating expenses of $118.2 million.

Compared to the prior fiscal year, revenues increased $6.2 million and expenses increased by $12.5 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Capital grants and contributions were $2.7 million or 6.6% higher in the current fiscal year than the previous year as a result of capital reimbursements coming in $4 million higher and offsetting the $1.3 million decrease in benefit assessments. Reimbursements of capital costs were $4 million higher as more funding was received in the Watershed Funds from the Department of Water Resources for the Prop 1E Stormwater Project and San Francisco Bay Area Restoration Authority for the South San Francisco Bay Shoreline Project. These receipts offset the decrease in capital grants received form the Department of Water resources for other flood management programs.

- Property taxes, the largest source of revenue at $148.4 million or 71% of total revenues, increased by $4.5 million or 3.1%, reflective of the strong property values in the Santa Clara county and the surrounding bay area.

- Investment earnings of $12.9 million from the current fiscal year shows a slight drop of $745 thousand or 5.5% when compared to the prior fiscal year.

- General government expenses were $6 million or 185.6% higher due to increases in salaries, CalPERS contributions, and spending on furniture and equipment. The redirection of certain staff charges to the newly created COVID project number residing in the General Fund also added to the increase in salaries for the current fiscal year.

- Watersheds expenditures were $7 million or 7% higher due mainly to payments for partnership funding agreements to the Santa Clara Valley Habitat Agency and the U.S. Army Corps of Engineers for flood protection.

Net transfers in were $1.5 million during fiscal year 2020, compared to $2.7 million in the prior fiscal year, reflecting less in transfers from the Water Enterprise Fund to the Information Technology Fund for small capital projects.

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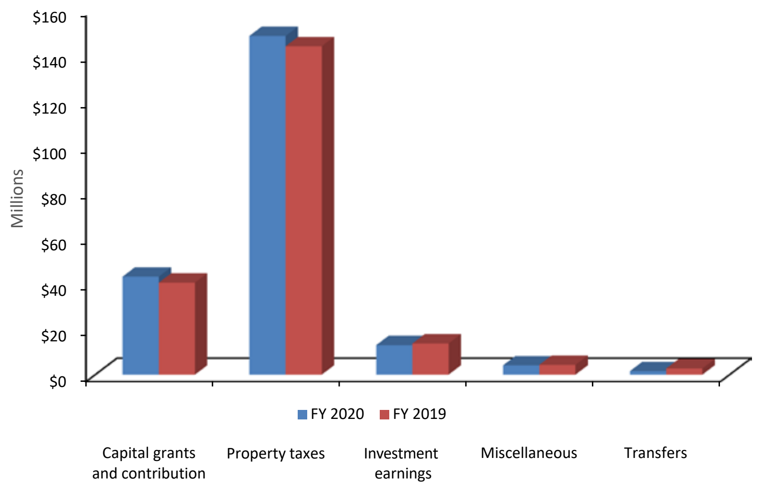
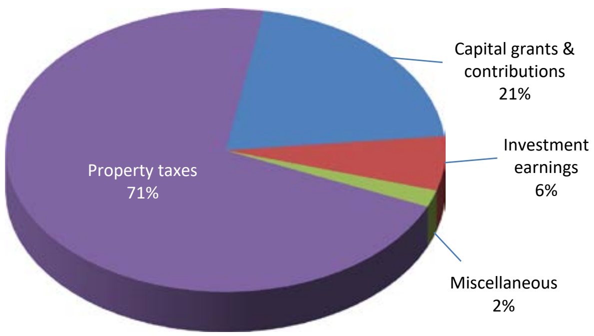
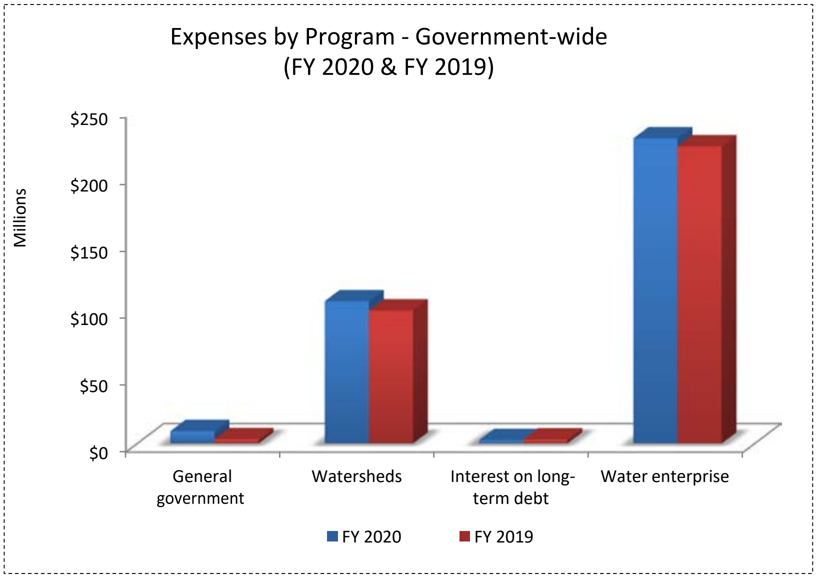
Revenue by Sources – Governmental Activities
(FY 2020 & FY 2019)



Revenues by Sources – Governmental Activities
(FY 2020)





Business-type activities

Net position in business-type activities increased by $87.1 million during the fiscal year. Fiscal year revenue included water charges of $266.9 million, property taxes of $30.2 million, investment earnings of $8.8 million, operating grants and contributions of $3.7 million, capital grants and contributions of $4.3 million, and miscellaneous revenue of $2.7 million. Operating expenses, including water purchases, were $228.1 million. Net revenue before transfers was $88.6 million. Net transfers out of $1.5 million resulted in a change of net position of $87.1 million for the current fiscal year.

Compared to the prior fiscal year, total revenues increased by $44.6 million and expenses increased $6.1 million. Key elements of the changes in revenues and expenses from prior year are as follows:

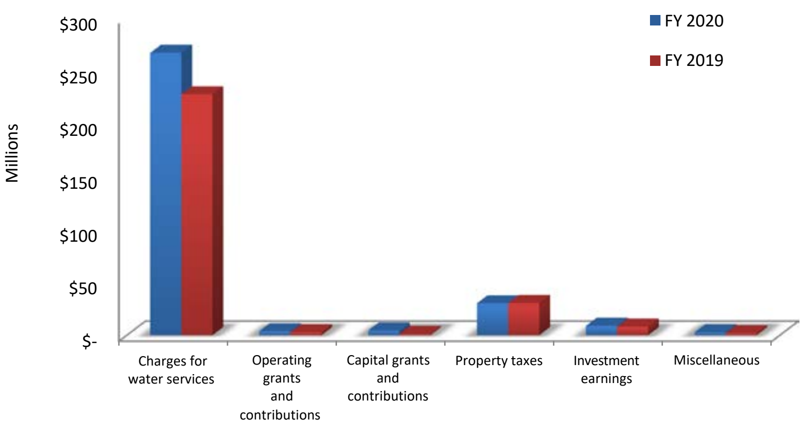
- Total water charge revenue, at 84.3% of total revenue source, was $39.4 million or 17.3% higher from the prior fiscal year. Groundwater and treated water revenues were up $30.6 million and $8.6 million, respectively. Groundwater volume was up versus prior year, and both revenue sources experienced higher rates.

- Operating grants and contributions increased $1 million over the prior fiscal year as more was received from the City of San Jose for its cost share payment of the Advanced Water Treatment Facility Integration agreement.

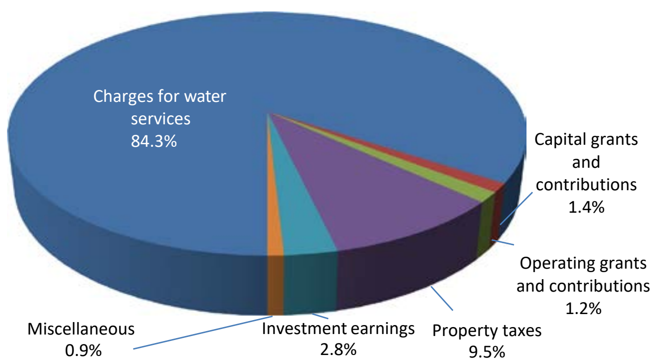
- Capital grants and contributions increased $3.2 million compared to the last fiscal year as more capital costs reimbursements from the Department of Water Resources and the California Water Commission were received for flood management programs.

- Water enterprise expenses increased by $6.1 million or 2.7% over the prior fiscal year due to increased costs for purchased water, equipment repair and replacement, utilities, and other technical services.

Revenues by Sources - Business-type Activities (FY 2020 & FY 2019)



Revenues by Source – Business-type Activities
(FY 2020)



FINANCIAL ANALYSIS OF VALLEY WATER'S FUNDS

Valley Water uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following analysis refers to the Basic Financial Statements for the Governmental and Proprietary Funds beginning on page 36.

Governmental funds

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of June 30, 2020, Valley Water's governmental funds reported combined ending fund balances of $350 million, an increase of $6.6 million for the fiscal year.

Compared to the prior year, revenues increased by $6.2 million and total expenditures increased by $11.6 million. Property taxes went up $4.5 million due to the upward trend of property values in the area. Reimbursements of capital cost were $4 million higher as more funding was received in the Watershed Funds from the Department of Water Resources for the Prop 1E Stormwater Project and San Francisco Say Area Restoration Authority for the South San Francisco Bay Shoreline Project.

Total expenditures were $11.6 million higher compared to the prior fiscal year, due to payments on cost share agreements and other agreements for the Safe, Clean Water and Natural Flood Protection Program.

Approximately $186.1 million or 53.2% of the total fund balance amount ($350 million) constitutes committed and assigned for specific purposes. The remainder of the fund balance is restricted to indicate that it is not available for new spending because of the external enforceable limitations on its use to: 1) fund Safe, Clean Water & Natural Flood Protection projects ($158.5 million) and 2) pay debt service ($5.4 million).

General fund

The general fund is the chief operating fund of Valley Water supporting all administrative and strategic support services costs for the organization. It accounts for all financial resources except those required to be accounted for in another fund and is supported primarily by overhead reimbursements from other funds. At the end of the current fiscal year, the committed and assigned fund balance of the General Fund was $14.2 million. The total fund balance remained relatively flat as net revenues of $827 thousand were largely offset by offset by net transfers out of $791 thousand.

Special revenue funds

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular watershed functions or activities of Valley Water. The available fund balances at the end of the current fiscal year for the special revenue funds were $330.5 million, which increased during the current fiscal year by $8.6 million or 2.7%.

The change in fund balance for the Watershed and Stream Stewardship fund was $18.7 million or 12.2% higher compared to last fiscal year. This was mainly due to the increase in capital cost reimbursements received and lower capital improvement project expenditures. Net revenue of $50.8 million was offset by net transfers out of $32.1 million (see Note 14).

Fund Balance for the Safe, Clean Water and Natural Flood Protection Program fund decreased by $10.0 million as operating expenditures increased and revenues fell compared to the prior fiscal year. Net expenditures of $30.9 million was mitigated by transfers in of $20.9 million (see Note 14) to account for the $10.0 million decrease in fund balance.

COP construction fund

The COP construction fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. The beginning available fund balance of $2 million was transferred out to the Watershed and Stream Stewardship fund ($1.5 million) and Safe, Clean Water and Natural Flood Protection Program ($500 thousand) to fund certain projects.

COP debt service fund

The COP debt service fund is used to account for resources used for debt service payments. It has a total fund balance of $5.4 million, all of which is reserved for payment of debt service.

Proprietary funds

Valley Water's proprietary funds provide a detailed breakdown of the same type of information found in the government-wide financial statements.

Water Enterprise fund

The Water Enterprise fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for to show net income or loss from operations. The fund is intended to be entirely or predominantly self-supported by user charges.

Net position of the Water Enterprise fund at the end of the fiscal year was $834.6 million, an increase of $90.7 million from the prior fiscal year. Operating revenues of $267.1 million more than offset $181.9 million of operating expenses. Year over year, operating revenues increased $39.4 million or 17.3% due to higher groundwater revenue, which was $30.6 million more as a result of the increase in volume sold and increased rates. Treated Water revenue was also higher by $8.6 million over the prior fiscal year, reflective of the increase in rates and volumes sold. Operating expenses were higher $5.7 million or 3.3%, due mainly to increased costs for purchased water, equipment repair and replacement, utilities, and other technical services.

Net non-operating income was $2.6 million for fiscal year 2020 or $1.6 million higher from the prior fiscal year. Higher operating grants revenues of $967 thousand and from the City of San Jose for the Advanced Water Treatment Facility cost-share agreement and $412 thousand from well permit fees accounted for most of the increase for the current fiscal year.

State Water Project fund

The State Water Project fund was established and approved by the Board of Directors on October 26, 2010. This fund accounts for the State Water Project Tax receipts pursuant to Section 1B of Article 13A of the California Constitution to pay for county-wide voter-approved State Water Project contract obligations. Fund resources are used for the Water System Revenue Bond and other related capital expenditures billed by the State of California Department of Water Resources and are accounted for in such a manner as to restrict the use of the resources exclusively for the State Water Project related costs.

Ending net position was $31.9 million or $469 thousand higher than the prior fiscal year. Operating expenses were $22.7 million, of which $21.8 million or 95.8% was cost associated with water purchases. Net non-operating revenues were $23.2 million, with property taxes contributing $21.8 million or 94.1% of the total.

Internal Service Funds

Valley Water has three internal service funds - the Equipment Fund, Risk Management Fund, and Information Technology Fund. Revenues to the funds are generated from fees charged for services provided to Valley Water operating programs.

The Equipment fund charges replacement and maintenance costs to all operations, operating, and capital projects based on equipment assignment and hourly usage of equipment on projects. The fund's annual reimbursement charge for the replacement and maintenance cost of equipment is determined during the budget process and varies yearly depending upon need. Ending net position for the fund was $10.2 million, or $605 thousand more than the prior fiscal year.

The Risk Management fund charges premiums based on exposure levels by project for liability, property, worker's compensation and self-insurance costs. Revenues required to properly reimburse the Risk Management Fund are determined during the budget process and varies yearly depending upon need. Ending net position for the fund was $3.8 million, or $900 less than the prior fiscal year.

The Information Technology fund was established on July 1, 2014 to account for the acquisition, installation, replacement and maintenance costs of district-wide capital charges related to information technology projects. Beginning with fiscal year 2019, the fund also accounts for annual operations associated with information technology activities. The annual reimbursement charge to the Information Technology Fund is determined during the budget process and varies yearly depending upon need. Operating revenues were $15.1 million and operating expenses were $23.2 million. The fund's net position was $20.5 million or $3.3 million lower than the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The summary table on the next page shows a final budget of $61.5 million for operating and capital expenditures for fiscal year 2020. The adopted budget was $61.3 million. There were no capital projects carried forward from the prior year capital projects budget. Current fiscal year budget adjustments increased the final budget slightly.

Adopted Budget	+ Capital Projects Budget Remaining Carry-forward	+ Current Year Budget Adjustments	= Final Budget
$61,307K	$0	$211K	$61,518K

Total expenditures (budgetary basis) in the General Fund for fiscal year 2020 was $60.6 million, which is $5.7 million higher than the prior year.

Beginning fiscal year 2019, all project expenditures relating to the Information Technology Department were moved to the Information Technology Fund. These expenditures were previously accounted for in the General Fund.

CAPITAL ASSETS

Valley Water's capital asset balance, net of accumulated depreciation, for governmental and business-type activities amounts to $2.8 billion at June 30, 2020. Capital asset components include intangible rights and software, land, buildings, structures and improvements (which include the flood control improvement), machinery and equipment. During fiscal year 2020, the total increase in Valley Water's capital assets was $180.8 million or 6.8%. Governmental and business-type activities increased by 5.2% and 8.8%, respectively.

Detailed information on Valley Water's capital assets activity for the current fiscal year can be found in Note 6 of this report.

CAPITAL ASSETS AT JUNE 30, 2020
(in millions)

	2020	2019	Increase/ Decrease
Governmental Activities			
Capital Assets			
Land	$ 191,676	$ 191,676	$ -
Intangibles - easements	27,423	27,361	62
Construction in progress	668,125	596,080	72,045
Buildings	42,007	42,007	-
Structure and improvements	801,912	784,017	17,895
Equipment	21,603	21,572	31
Intangible software	-	-	-
Less accumulated depreciation	(182,878)	(172,215)	(10,663)
Internal Service Funds			
Construction in progress	-	2,145	(2,145)
Equipment	31,396	28,838	2,558
Intangible software	4,263	2,593	1,670
Less accumulated depreciation	(22,383)	(19,441)	(2,942)
Total Governmental Activities	$ 1,583,144	$ 1,504,633	$ 78,511
Business-type Activities			
Land	$ 19,984	$ 19,180	$ 804
Intangibles - easement and software	162	162	-
Construction in progress	493,820	399,621	94,199
Contract water and storage rights	226,659	216,635	10,024
Buildings	97,194	91,001	6,193
Structures and improvements	939,555	918,731	20,824
Equipment	29,872	28,336	1,536
Less accumulated depreciation	(540,986)	(509,758)	(31,228)
Business-type Activities	$ 1,266,260	$ 1,163,908	$102,352

LONG-TERM OBLIGATIONS

At the end of the current fiscal year, Valley Water had total long-term obligations of $888.9 million. Valley Water's long-term obligations outstanding at the end of the fiscal year consisted of the following:

Valley Water's Outstanding Obligations

(Dollars in Thousands)

	Governmental activities		Business-type activity		Total	
	2020	2019	2020	2019	2020	2019
Certificates of participation	$ 65,495	$ 73,570	$ 79,155	$ 124,450	$ 144,650	$ 198,020
Revenue bonds	-	-	378,885	346,350	378,885	346,350
Compensated absences	10,297	9,046	6,301	5,364	16,598	14,410
Semitropic water banking	-	-	9,992	9,973	9,992	9,973
Bond discount	-	-	(9)	(139)	(9)	(139)
Bond premium	9,942	11,489	36,982	38,580	46,924	50,069
Claims payable	7,484	7,086	-	-	7,484	7,086
Net pension liability	134,327	125,285	100,601	94,565	234,928	219,850
Other post-employment benefits	32,953	41,354	25,667	31,958	58,620	73,312
Total	$ 260,498	$ 267,830	$ 637,574	$ 651,101	$ 898,072	$ 918,931

Commented [GK26]: How can one list a liability associated with Semitropic and not list a corresponding asset?

The credit ratings for Valley Water outstanding debt reflect a high-grade investment quality debt. They are based on Valley Water's positive fiscal policy and financial strengths. The bond ratings are either the highest for a water related governmental entity in the State of California or among the highest. Bonds issued at this credit rating result in lower interest rates and corresponding lower debt service payments.

Please see table below for current ratings.

	Water Utility		Watershed
	Senior Debt	Parity Debt	Debt
Moody's	Aa1	Aa1	Aa1
Standard & Poor's	AA-	N/A	AAA
Fitch	N/A	AA+	AA+

Commented [GK27]: Secured, unsecured?

Valley Water's total obligations decreased by $20.8 million during fiscal year 2020. $7.3 million of the decrease were in the governmental activities and $13.5 million of the decrease was in the business-type activities.

Additional information on Valley Water's long-term debt can be found in Note 7 of this report.

NEXT YEAR'S BUDGET

Valley Water's $609.5 million budget for fiscal year 2021 will focus on the following work plan strategies:

- Actively pursue new water storage opportunities
- Actively participate in decisions regarding the California Delta Conveyance
- Lead Recycled and Purified Water Efforts with committed partners
- Engage and educate the community, elected officials and staff on future water supply strategies in Santa Clara County
- Advance Anderson Dam Seismic Retrofit Project
- Protect and maintain existing assets and infrastructure
- Pursue opportunities to improve internal capacity to acquire regulatory permits
- Attain net positive impact on the environment when implementing flood protection and water supply projects
- Promote the protection of creeks, bay, and other aquatic ecosystems from threats of pollution and degradation
- Continue the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE)
- Address future impacts of climate change to Valley Water's mission and operations
- Advance diversity and inclusion
- Maintain appropriate staffing levels and expertise
- Provide affordable and cost-effective level of services

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of Valley Water's finances, and to demonstrate Valley Water's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the General Accounting Unit as noted below.

Mail - 5750 Almaden Expressway, San Jose, CA 95118
Phone - (408) 265-2600.
Email – gdelrosario@valleywater.org

Field Code Changed

BASIC FINANCIAL STATEMENTS

Statement of Net Position
June 30, 2020
(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments (Note 3)	$ 427,914	$ 288,189	$ 716,103
Restricted cash and investments (Note 3)	5,497	102	5,599
Receivables (net):			
Accounts	2,814	38,628	41,442
Interest	2,252	-	2,252
Taxes	254	80	334
Prepaid insurance	-	33	33
Deposits and other assets	3,389	7,048	10,437
Internal balances	795	(795)	-
Capital assets (Note 6):			
Contract water and storage rights, net	-	38,488	38,488
Depreciable, net	695,920	713,806	1,409,726
Non-depreciable	887,224	513,966	1,401,190
Total assets	2,026,059	1,599,545	3,625,604
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	(23)	604	581
Deferred outflows of resources - pension activities (Note 11)	26,878	20,820	47,698
Deferred outflows of resources - OPEB (Note 12)	6,149	4,607	10,756
Total deferred outflows of resources	33,004	26,031	59,035
LIABILITIES			
Accounts payable	17,985	32,099	50,084
Accrued liabilities	494	1,842	2,336
Commercial paper, net of discount (Note 7)	30,000	72,720	102,720
Deposits payable	3,791	6,653	10,444
Accrued interest payable	1,270	-	1,270
Noncurrent liabilities (Note 7):			
Due within one year	14,510	17,116	31,626
Due in more than one year	245,990	620,458	866,448
Total liabilities	314,040	750,888	1,064,928
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension activities (Note 11)	5,171	4,024	9,195
Deferred inflows of resources - OPEB (Note 12)	6,640	5,003	11,643
Total deferred inflows of resources	11,811	9,027	20,838
NET POSITION (Note 10)			
Net investment in capital assets	1,507,684	689,173	2,196,857
Restricted:			
Debt service	4,124	102	4,226
Safe, Clean Water - other activities	149,495	-	149,495
Water Utility San Felipe emergency	-	3,260	3,260
GP5 Reserve	-	6,610	6,610
Water Utility rate stabilization	-	23,467	23,467
Water Utility state water project	-	16,768	16,768
Public-private partnership	-	8,000	8,000
Advanced water purification center	-	1,298	1,298
Supplemental water supply	-	15,077	15,077
Drought reserve	-	10,000	10,000
Unrestricted	71,909	91,906	163,815
Total net position	$ 1,733,212	$ 865,661	$ 2,598,873

See accompanying notes to basic financial statements

Commented [GK28]: Materiality

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VALLEY WATER
Statement of Activities
For the Year Ended June 30, 2020
(Dollars in Thousands)

Description	Governmental Activities: General Government	Governmental Activities: Watersheds	Governmental Activities: Interest on Long-term Debt	Governmental Activities: Total	Business-Type Activities	Total
Expenses:						
Operations and operating projects	$ 9,270	$ 106,395	$ 2,507	$ 118,172	$ -	$ 118,172
Water cost of production	-	-	-	-	228,101	228,101
Program revenues:						
Charges for water services	-	-	-	-	266,895	266,895
Operating grants and contributions	-	-	-	-	3,721	3,721
Capital grants and contributions	-	42,921	-	42,921	4,345	47,266
Net program revenue (expense)	$ (9,270)	$ (63,474)	$ (2,507)	(75,251)	46,860	(28,391)
General revenues:						
Property taxes (Note 8)				148,369	30,168	178,537
Unrestricted investment earnings				12,889	8,838	21,727
Miscellaneous				4,028	2,708	6,736
Transfers (Note 14)				1,507	(1,507)	-
Total general revenues and transfers				166,793	40,207	207,000
Change in net position				91,542	87,067	178,609
Net position, beginning of year				1,641,670	778,594	2,420,264
Net position, end of year				$ 1,733,212	$ 865,661	$ 2,598,873

See accompanying notes to basic financial statements.

Commented [GK30]: Total revenue should be show as well as revenue above expenses. Line before total

Balance Sheet
Governmental Funds
June 30, 2020
(Dollars in Thousands)

	General	Special Revenue Fund Watershed & Stream Stewardship
ASSETS		
Cash and investments (Note 3)	$ 13,642	$ 173,230
Restricted cash and investments (Note 3)	-	77
Receivables:		
Accounts	14	347
Interest	2,252	-
Taxes	23	231
Deposits and other assets	116	2,238
Total assets	$ 16,047	$ 176,123
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ 1,393	$ 1,344
Accrued liabilities	471	15
Commercial papers	-	-
Deposits payable	10	2,802
Total liabilities	1,874	4,161
Fund balances (Note 9):		
Restricted fund balance	-	-
Committed fund balance	8,235	160,532
Assigned fund balance	5,938	11,430
Total fund balances	14,173	171,962
Total liabilities and fund balances	$ 16,047	$ 176,123

See accompanying notes to basic financial statements.

Special Revenue Fund Safe, Clean Water & Natural Flood Protection Program		Capital Project Fund COP Construction Fund		Debt Service Fund COP Debt Service		Total Governmental Funds	
$	199,389	$	-	$	-	$	386,261
	26		-		5,394		5,497
	2,453		-		-		2,814
	-		-		-		2,252
	-		-		-		254
	979		-		-		3,333
$	202,847	$	-	$	5,394	$	400,411
$	13,345	$	-	$	-	$	16,082
	6		-		-		492
	30,000		-		-		30,000
	979		-		-		3,791
	44,330		-		-		50,365
	158,517		-		5,394		163,911
	-		-		-		168,767
	-		-		-		17,368
	158,517		-		5,394		350,046
$	202,847	$	-	$	5,394	$	400,411

Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2020
(Dollars in Thousands)

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

Fund balances of governmental funds	$ 350,046
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of governmental funds.	1,569,884
Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	35,331
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.	(1,270)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds:	
Certificates of participation	(65,495)
Deferred amount on refunding	(23)
Net original issue premium	(9,942)
Compensated absences	(9,817)
Net pension liability and related deferrals	(103,505)
Net OPEB liability and related deferrals	(31,997)
Net position of governmental activities	$ 1,733,212

See accompanying notes to basic financial statements

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Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2020
(Dollars in Thousands)

	General	Special Revenue Fund: Watershed & Stream Stewardship
Revenues:		
Property taxes (Note 8)	$ 9,224	$ 93,054
Benefit assessments (Note 8)	-	13,440
Use of money and property:		
Investment income (Note 5)	500	5,204
Rental	-	1,710
Reimbursement of capital costs (Note 4)	-	15,231
Other	77	1,606
Total revenues	9,801	130,245
Expenditures:		
Current:		
Operations and operating projects	5,948	51,431
Capital improvement projects	3,026	28,030
Debt service:		
Principal repayment	-	-
Interest and fiscal agent fees	-	7
Total expenditures	8,974	79,468
Excess (deficiency) of revenues over (under) expenditures	827	50,777
Other financing sources (uses):		
Transfers in (Note 14)	394	1,651
Transfers out (Note 14)	(1,185)	(33,767)
Total other financing sources (uses)	(791)	(32,116)
Net change in fund balances	36	18,661
Fund balances, beginning of year	14,137	153,301
Fund balances, end of year	$ 14,173	$ 171,962

See accompanying notes to basic financial statements.

Special Revenue Fund Safe, Clean Water & Natural Flood Protection Program	Capital Project Fund COP Construction Fund	Debt Service Fund COP Debt Service	Total Governmental Funds
$ 46,091	$ -	$ -	$ 148,369
-	-	-	13,440
5,849	38	52	11,643
359	-	-	2,069
14,250	-	-	29,481
69	-	-	1,752
66,618	38	52	206,754
22,937	-	-	80,316
73,903	-	-	104,959
-	-	8,075	8,075
663	-	3,486	4,156
97,503	-	11,561	197,506
(30,885)	38	(11,509)	9,248
20,867	-	11,456	34,368
-	(2,040)	-	(36,992)
20,867	(2,040)	11,456	(2,624)
(10,018)	(2,002)	(53)	6,624
168,535	2,002	5,447	343,422
$ 158,517	$ -	$ 5,394	$ 350,046

Reconciliation of the Statement of Revenues, Expenditures and Change in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020
(Dollars in Thousands)

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

Net change in fund balances - total governmental funds	$	6,624
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays, net of depreciation.		
Capital Outlay		90,033
Depreciation		(10,900)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but they do not require the use of current financial resources. This amount represents the net change in accrued interest expense not reported in governmental funds.		165
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.		
Certificates of participation repayment		8,075
Deferred amount on refunding		(63)
Net original issue premium		1,547
Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The net revenue of internal service funds is reported with governmental activities.		497
Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds:		
Compensated absences		(1,154)
Change in net OPEB liability, deferred inflows and outflows		3,063
Change in net pension liability, deferred inflows and outflows		(6,345)
Change in net position of governmental activities	$	91,542

See accompanying notes to basic financial statements

VALLEY WATER
Statement of Net Position
Proprietary Funds
June 30, 2020
(Dollars in Thousands)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments (Note 3)	$ 271,210	$ 16,979	$ 288,189	$ 41,653
Receivables:				
Accounts	38,628	-	38,628	-
Taxes	21	59	80	-
Deposits and other assets	7,048	-	7,048	56
Total current assets	316,907	17,038	333,945	41,709
Non current assets:				
Restricted cash and investments (Note 3)	102	-	102	-
Prepaid insurance on bond issuance	33	-	33	-
Capital assets (Note 6):				
Contract water rights, net	23,377	15,111	38,488	-
Depreciable, net	713,806	-	713,806	13,260
Nondepreciable	513,966	-	513,966	-
Total non current assets	1,251,284	15,111	1,266,395	13,260
Total assets	1,568,191	32,149	1,600,340	54,969
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	604	-	604	-
Deferred outflows of resources - pension activities (Note 11)	20,820	-	20,820	1,634
Deferred outflows of resources - OPEB (Note 12)	4,607	-	4,607	477
Total deferred outflows of resources	26,031	-	26,031	2,111
LIABILITIES				
Current liabilities:				
Accounts payable	31,829	270	32,099	1,903
Accrued liabilities	1,842	-	1,842	2
Commercial paper (Note 7)	72,720	-	72,720	-
Deposits payable	6,653	-	6,653	-
Unearned revenue	-	-	-	-
Claims payable (Note 13)	-	-	-	2,087
Bonds payable - current (Note 7)	15,677	-	15,677	-
Compensated absence	1,439	-	1,439	109
Total current liabilities	130,160	270	130,430	4,101
Non current liabilities:				
Bonds payable - net of discounts and premiums (Note 7)	479,336	-	479,336	-
Claims payable (Note 13)	-	-	-	5,397
Compensated absence	4,862	-	4,862	372
Net pension liability (Note 11)	100,601	-	100,601	10,445
Other post employment benefits liability (Note 12)	25,667	-	25,667	1,443
Other debt	9,992	-	9,992	-
Total non current liabilities	620,458	-	620,458	17,657
Total liabilities	750,618	270	750,888	21,758
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension activities (Note 11)	4,024	-	4,024	305
Deferred inflows of resources - OPEB (Note 12)	5,003	-	5,003	481
Total deferred inflows of resources	9,027	-	9,027	786
NET POSITION (Note 10)				
Net investment in capital assets	674,062	15,111	689,173	13,260
Restricted:				
Cash with fiscal agents	102	-	102	-
San Felipe operations	3,260	-	3,260	-
GP5 reserve	6,610	-	6,610	
State water project	-	16,768	16,768	-
Rate stabilization	23,467	-	23,467	-
Public-private partnership	8,000		8,000	-
Advanced water purification center	1,298	-	1,298	-
Supplemental water supply	15,077	-	15,077	-
Drought reserve	10,000	-	10,000	-
Unrestricted	92,701	-	92,701	21,276
Total net position	$ 834,577	$ 31,879	866,456	$ 34,536
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			(795)	
Net position of business-type activities			$ 865,661	

See accompanying notes to basic financial statements.

VALLEY WATER

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2020
(Dollars in Thousands)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
Operating revenues:				
Ground water production charges	$ 112,560	$ -	$ 112,560	$ -
Treated water charges	152,622	-	152,622	-
Surface and recycled water revenue	1,713	-	1,713	-
Charges for services	-	-	-	25,701
Other	182	-	182	-
Total operating revenues	267,077	-	267,077	25,701
Operating expenses:				
Sources of supply	65,399	21,775	87,174	-
Water treatment	38,534	-	38,534	-
Transmission and distribution:				
Raw water	13,979	-	13,979	-
Treated water	1,655	-	1,655	-
Administration and general	32,009	-	32,009	6,410
Equipment maintenance	-	-	-	25,648
Depreciation and amortization	30,284	944	31,228	2,815
Total operating expenses	181,860	22,719	204,579	34,873
Operating income (loss)	85,217	(22,719)	62,498	(9,172)
Nonoperating revenues (expenses):				
Property taxes (Note 8)	8,350	21,818	30,168	-
Investment income (Note 5)	8,838	-	8,838	1,246
Operating grants	3,721	-	3,721	-
Rental income	124	-	124	-
Other	1,032	1,370	2,402	208
Interest and fiscal agent fees	(19,437)	-	(19,437)	-
Net nonoperating revenues (expenses)	2,628	23,188	25,816	1,454
Income before capital contributions and transfers	87,845	469	88,314	(7,718)
Capital contributions (Note 4)	4,345	-	4,345	-
Transfers in (Note 14)	1,064	-	1,064	4,130
Transfers out (Note 14)	(2,571)	-	(2,571)	-
Change in net position	90,683	469	91,152	(3,588)
Net position, beginning of year	743,894	31,410	775,304	38,124
Net position, end of year	$ 834,577	$ 31,879	866,456	$ 34,536
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.			(795)	
Net position of business-type activities			$ 865,661	

Reconciliation of the Statement of Revenues, Expenses and Change in Net Position to the Statement of Activities:

Amounts reported as business-type activities in the statement of activities are different because:

Net change in net position - enterprise funds	$ 91,152
Adjustment to the net effect of the current year activity between the internal service funds and the enterprise funds	(4,085)
Change in net position of business-type activities	$ 87,067

See accompanying notes to basic financial statements.

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020
(Dollars in Thousands)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities:				
Receipts from customers and users	$ 254,092	$ -	$ 254,092	$ -
Payments to suppliers	(49,507)	(26,345)	(75,852)	(18,814)
Payments to employees	(88,338)	-	(88,338)	(10,015)
Receipts from interfund services provided	-	-	-	25,758
Net cash provided by (used for) operating activities	116,247	(26,345)	89,902	(3,071)
Cash flows from noncapital financing activities:				
Property taxes received	8,632	22,421	31,053	-
Operating grant	3,721	-	3,721	-
Well permits, refunds and adjustments	1,032	1,370	2,402	141
Transfers in from other funds	1,064	-	1,064	-
Net cash provided by noncapital financing activities	14,449	23,791	38,240	141
Cash flows from capital and related financing activities:				
COP/revenue bonds issuance/(payment)	(14,302)	-	(14,302)	-
Commercial papers issuance/(payment)	52,720	-	52,720	-
Capital grants	4,345	-	4,345	-
Interest and fiscal agent fees paid	(19,437)	-	(19,437)	-
Payments for contract water rights	(10,024)	-	(10,024)	-
Acquisition and construction of capital assets	(123,557)	-	(123,557)	(2,016)
Transfers in from other funds	-	-	-	4,130
Transfers out to other funds	(2,571)	-	(2,571)	-
Net cash provided by/(used for) capital and related financing activities	(112,826)	-	(112,826)	2,114
Cash flows from investing activities:				
Proceeds from sale of investments	87	-	87	-
Rental income received	124	-	124	-
Interest received on cash and investments	8,838	-	8,838	1,246
Net cash provided by/(used for) investing activities	9,049	-	9,049	1,246
Net increase (decrease) in cash and cash equivalents	26,919	(2,554)	24,365	430
Cash and cash equivalents, beginning of year	244,291	19,533	263,824	41,223
Cash and cash equivalents, end of year	$ 271,210	$ 16,979	$ 288,189	$ 41,653
Cash and cash equivalents are reported on the Statement of Net Position as follows:				
Cash and investments	$ 271,210	$ 16,979	$ 288,189	$ 41,653
Restricted cash and investments	102	-	102	-
Less cash and investments not meeting the definition of cash equivalents	(102)	-	(102)	-
Cash and cash equivalents, end of year	$ 271,210	$ 16,979	$ 288,189	$ 41,653
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 85,217	$ (22,719)	$ 62,498	$ (9,172)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation, amortization and asset deletion	30,284	945	31,229	2,705
Change in operating assets and liabilities:				
(Increase)/decrease in deposits and other assets	2,802	-	2,802	6
(Increase)/decrease in accounts receivable	(12,985)	-	(12,985)	57
Increase/(decrease) in accounts payable	14,474	(4,571)	9,903	1,096
Increase/(decrease) in accrued liabilities	(3,685)	-	(3,685)	(23)
Increase/(decrease) in deferred revenues	(1,207)	-	(1,207)	-
Increase/(decrease) in compensated absences	937	-	937	97
Increase/(decrease) in deposits payable	(2,774)	-	(2,774)	-
Increase/(decrease) in claims payable	-	-	-	398
Increase/(decrease) in other post employment benefits payable	(6,291)	-	(6,291)	(654)
Increase/(decrease) in deferred inflows/outflow of resources	3,419	-	3,419	75
Increase/(decrease) in pension liabilities	6,037	-	6,037	2,344
Increase/(decrease) in payable to Semitropic	19	-	19	-
Net cash provided (used) by operating activities	$ 116,247	$ (26,345)	$ 89,902	$ (3,071)
Noncash investing, capital, and financing activity:				
Deletion of capital assets	$ -	$ -	$ -	$ 67

See accompanying notes to basic financial statements.

VALLEY WATER
Statement of Assets and Liabilities
Agency Fund
June 30, 2020
(Dollars in Thousands)

ASSETS	
Cash and investments (Note 3)	$ 204
Total assets	204
LIABILITIES	
Deposits payable	204
Total liabilities	$ 204

See accompanying notes to basic financial statements.

(1) THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

Valley Water is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. Valley Water encompasses all of Santa Clara County.

Valley Water is governed by a seven-member Board of Directors (District Board). Each member is elected from equally divided districts drawn through a formal process. The term of office of a director is four years.

On October 12, 2009, Assembly Bill 466 was signed by the Governor of California revising the composition of the board of Valley Water by requiring the board to transition to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. The board also would be required to adopt a resolution establishing boundaries of the seven electoral districts. On May 14, 2010, the Board of Directors adopted a resolution that officially set the boundaries of the seven electoral districts. In November 2010, two directors were elected to represent the new electoral districts constituting a new board of seven members. As required by state law, the Valley Water must redraw its boundaries to reflect 2010 Census results. On October 11, 2011, the Board of Directors adopted Resolution No. 11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

Valley Water has broad powers relating to all aspects of flood control and storm waters within the District, whether such waters have their sources within Valley Water. It is also authorized to store and distribute water for use within its jurisdictional boundaries and authorized to provide sufficient water for present or future beneficial use of the lands and inhabitants of the District. Valley Water acquires, stores, and distributes water for irrigation, residential, fire protection, municipal, commercial, industrial, and all other uses. Valley Water also directly supports the environment and the community through careful stewardship.

As required by generally accepted accounting principles (GAAP) in the United States of America, the accompanying basic financial statements present Valley Water and its component unit. The component unit discussed below is included in Valley Water's reporting entity because of the significance of its operational and financial relationship with Valley Water.

(b) Blended Component Unit

The Santa Clara Valley Water District Public Facilities Financing Corporation (PFFC) was established on December 16, 1987 for the purpose of providing assistance to Valley Water in financing the acquisition, construction and improvement of public buildings, works and equipment for Valley Water. Although legally separate from Valley Water, the PFFC is reported as if it were part of the primary government because its sole purpose is to provide financing to Valley Water under the debt issuance documents of the district, and its governing board is Valley Water's governing board. The operations of the PFFC are accounted for in the debt service and capital project funds.

Separate financial statements are not issued for the PFFC.

Commented [GK31]: Are we sure this is part of our mission

Commented [GK32]: Is this not Gov GAAP?

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the primary government (Valley Water) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of Valley Water. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from the business-type activity, which rely to a significant extent on fees charged to external parties.

Certain eliminations have been made in regard~~s~~ to interfund activities. All internal balances in the statement of net position have been eliminated except those representing balances between the government activities and business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated. However, transactions between the governmental and business-type activities have not been eliminated.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activity of Valley Water and for each function of Valley Water's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

When both restricted and unrestricted net position is available, restricted resources are used for qualified expenses before any unrestricted resources are spent.

Fund Financial Statements

The fund financial statements provide information about Valley Water's funds, including agency funds and the blended component unit. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented.

Valley Water reports the following Governmental Funds:

The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental functions of Valley Water that are not accounted for through other funds.

The *Special Revenue Type Funds* are used to account for specific revenue sources for which expenditures are restricted by law or regulation or committed by board resolutions to finance particular watershed or safe, clean and natural flood protection functions or activities of Valley Water. Valley Water has the following special revenue type funds:

- The *Watershed and Stream Stewardship Fund* is funded by Valley Water's one percent property tax allocation and benefit assessments and used to protect, restore, or enhance the watersheds, streams and natural resources therein. Starting from fiscal year 2009, this fund was redefined to consolidate all watershed stewardship activities from a portion of Valley Water's ad valorem property tax allocation.

  The Watershed and Stream Stewardship Fund includes the following watershed activities that were based on their geographic boundaries (zone funds):

  ♦ The *Lower Peninsula Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek. The geographic area includes the Cities of Palo Alto, Los Altos, Los Altos Hills, Mountain View, and portions of Cupertino.

  ♦ The *West Valley Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe Slough, Sunnyvale West Outfall, Sunnyvale East Outfall, Calabazas Creek, San Tomas Aquino Creek, and Saratoga Creek. The geographic area includes portions of the Cities of Sunnyvale, Cupertino, Monte Sereno, San Jose, Santa Clara, Campbell, Saratoga and the Town of Los Gatos.

  ♦ The *Guadalupe Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe River. The major tributaries are Los Gatos Creek, Canoas Creek, Ross Creek, Guadalupe Creek, and Alamitos Creek. The geographic area includes portions of the Cities of Santa Clara, San Jose, Campbell, Monte Sereno, and the Town of Los Gatos.

  ♦ The *Coyote Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of Coyote Creek. The major tributaries are Lower Penitencia Creek, Scott Creek, Berryessa Creek, Upper Penitencia Creek, Silver Creek, Thompson Creek, Fisher Creek, and Packwood Creek. The geographic area includes the City of Milpitas and portions of the Cities of San Jose and Morgan Hill.

- The *Safe, Clean Water & Natural Flood Protection Program* is used to account for the countywide special parcel tax approved by voters on November 6, 2012, with a sunset date of June 30, 2028. This program replaces the Clean, Safe Creeks and Natural Flood Protection Plan that was approved by voters in November 2000.

- The *Capital Project Type Funds* are used to account for COP proceeds used for the construction of major capital projects with their respective watersheds. The COP Construction Fund is Valley Water's sole capital project type fund.

- The *Debt Service Type Funds* are used to account for monies being held for reserve requirements and arbitrage rebate for Valley Water's debt payments. The COP Debt Service Fund is Valley Water's sole debt service type fund.

Commented [GK33]: Not a city but a town

Commented [GK34]: Is there not unincorporated parts?

Valley Water reports the following Proprietary Funds:

- The *Water Enterprise Fund* accounts 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 (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

- The *State Water Project Fund* accounts for all revenues and costs associated with the State Water Project.

- The *Internal Service Funds* account for the financing of goods or services provided by one department or agency of Valley Water to other departments or agencies on a cost-reimbursement basis.

    - The *Equipment Fund* accounts for the maintenance and operation of Valley Water's vehicle fleet, heavy construction, and information system equipment.

    - The *Risk Management Fund* accounts for the monies set aside to pay for all claims, judgments, and premium cost.

    - The *Information Technology Fund* accounts for the replacement, operations, and maintenance of district-wide information technology projects.

Valley Water reports *Agency Funds* (Fiduciary Fund type) to account for assets held by Valley Water as an agent for private organizations and/or other governments.

- The *Deposit Fund* is used to account for the collection and payment of funds held in trust for specific purposes.

(b) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which Valley Water gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property taxes, benefit assessments, interest, grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences are recorded when payment is due. Capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and capital leases are reported as other financing sources.

Proprietary funds are reported using the economic resource measurement focus and the accrual basis of accounting and distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water enterprise fund is the sale of water to outside customers, and of Valley Water's internal service funds are charges for services provided to internal departments. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary funds *operating* revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. *Non-operating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Agency funds are used to account for assets held by Valley Water in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds. Agency funds do not have a measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

(c) Cash and Investments

While maintaining safety and liquidity, Valley Water maximizes its investment return by pooling its available cash for investment purposes. Interest earnings are apportioned among funds based upon the average monthly cash balance of each fund and are allocated to each fund on a monthly basis.

Valley Water reported investments in nonparticipating interest earnings contracts (including guaranteed investment contracts) at cost, and all other investments at fair value. The fair value of investments is based on current market prices.

For purposes of the Statement of Cash Flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased (including restricted investments), and their equity in the cash and investment pool to be cash equivalents.

(d) Inventory

Proprietary fund inventory consists of materials and supplies held for consumption. The cost of all inventory acquired is recorded as an expense at the time of purchase. At the end of the accounting period, the inventory values of materials and supplies on hand are determined using a current cost method which approximates market value. For financial statement purposes, chemical inventories are presented under deposits and other assets.

(e) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition cost on the date contributed. Capital assets of governmental activities include pipelines, channel linings, floodwalls, levees, bridge flood proofing, box culverts and re-vegetation. Valley Water defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Water treatment facilities	50 Years
Buildings, structures, and trailers	25 - 50 Years
Flood control projects	30 - 100 Years
Dams, structures, and improvements	80 Years
Office furniture, fixtures, and equipment	5 - 20 Years
Automobiles and trucks	6 - 12 Years
Computer equipment	5 Years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

(f) Amortization of Contract Water Rights

Valley Water has contracted with the State of California for water deliveries from the State Water Project through calendar year 2035. A portion of the payments under this contract represent reimbursement of capital costs for transportation facilities (the capital cost component). The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(g) Amortization of Water Banking Rights

Valley Water has contracted with the Semitropic Water Storage District and its Improvement Districts for the water banking and exchange program. The program is in effect through calendar year 2035. Participation in the program provides Valley Water a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Water Enterprise Fund has capitalized the cost of the program and amortizes its cost over the 40-year entitlement period using the straight-line method.

(h) Amortization of Water Delivery Rights

Valley Water has contracted with the United States Department of the Interior Bureau of Reclamation for water deliveries from Central Valley through calendar year 2027. A portion of this contract represents reimbursement of capital costs for general construction in the San Felipe Division facilities. The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(i) Receivables

Receivables include amounts due from water utility customers, as well as from other miscellaneous revenue sources. All receivables are shown net of an allowance for doubtful accounts. For the current fiscal year, the allowance balance was $5.9 million. At the end of every fiscal year, a review of outstanding receivables results in the recalculation of the bad debt allowance where delinquent balances greater than 3 years are assigned a weight of 75%, up to 3 years a weight of 50%, up to 2 years a weight of 20%, and up to 1 year a weight of 5%. The totals of each of these amounts are then combined to determine the fiscal year's ending bad debt allowance.

Commented [GK35]: What? Should we not write off after 1 year? Is this debt secured?

(j) Accrued Vacation and Sick Leave Pay

It is the policy of Valley Water to permit employees to accumulate earned but unused vacation and sick leave benefits. Vested or accumulated vacation and sick leave are reported as noncurrent liabilities on the statement of net position.

Maximum vacation accruals may not exceed three times the employee's annual accrual rate, per employee. All regular full-time employees are eligible for twelve (12) days of sick leave per fiscal year. Unused sick leave may be carried forward to the following fiscal year without limitation. Upon retirement, up to 480 hours of accrued sick leave shall be paid to the eligible employee at the rate of 50% of the equivalent cash value. Upon resignation with ten or more years of service, or upon separation by layoff regardless of service, up to 480 hours of accrued sick leave shall be paid off at the rate of 25% of the cash value.

(k) Bond Premiums, Discounts and Issuance Costs

Water Enterprise and Watershed debt premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Refunding differences associated with debt refinancing are reported as deferred outflows or inflows of resources and amortized over the life of the bonds. Issuance costs are recorded as an expense of the current period.

On the statement of net position and the statement of activities, the premiums and discounts related to outstanding debt are deferred and amortized over the life of the debt. Debt payable are reported net of the applicable bond premiums or discounts. Prepaid insurance associated with the issuance of debts are reported as prepaid expenses.

(l) Accounting for Encumbrances

Valley Water employs encumbrance accounting as a significant aspect of budgetary control. Under encumbrance accounting, purchase orders, contracts and other commitments for expenditure of

funds are recorded as assignment of fund balance since they are not treated as current expenditures or outstanding liabilities at year end for GAAP financial reporting.

(m) Net position

Valley Water's fund net position is classified based primarily to the extent to which Valley Water is bound to observe constraints imposed upon the use of the resources. When both restricted and unrestricted resources are available for expenses, Valley Water expends the restricted funds and then the unrestricted funds.

(n) Estimates

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

(o) Pensions

Commented [GK36]: Policy issue – use real life calcuations – as was sent

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Valley Water's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019

(p) Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Valley Water's plan (OPEB Plan) and additions to/deductions from the OPEB's Plan's fiduciary net position have been determined on the same basis as reported by CalPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019

(q) Fair Value Measurement

Valley Water has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. Valley Water categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are observable inputs (other than quoted marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and Level 3 inputs are significant unobservable inputs.

(r) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows. Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

(s) New Pronouncements

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on Valley Water's financial reporting process. Current and future new standards which may impact Valley Water include the following:

<u>Current Accounting Pronouncements</u>:

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or fiscal year 2020. Valley Water has implemented this GASB standard.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61*. The objective of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government's holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or fiscal year 2020. This pronouncement is not applicable to Valley Water.

Commented [GK37]: Actually we do have ownership of the financing subsidiary so might be relevant

Future Accounting Pronouncements:

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or fiscal year 2021. Valley Water has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or fiscal year 2021. Valley Water has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, or fiscal year 2022. Valley Water has not determined the impact of this pronouncement on the financial statements.

(3) CASH AND INVESTMENTS

Total Valley Water cash and investments reported on the financial statements at June 30, 2020 are as follows (in thousands):

Statement of Net Position:	
Cash and investments	$ 716,103
Restricted cash and investments	5,599
Statement of Fiduciary Net Position:	
Cash and investments	204
	$ 721,906

Investments

At June 30, 2020, cash and investments based on fair value consist of the following (in thousands):

U.S. Government Agencies	$ 300,710
U.S. Treasury Obligations	25,857
Medium Term Notes	18,567
Local Agency Investment Fund	75,020
Mutual Funds	103
Supranational Obligations	10,336
Municipal Bonds	65,516
Negotiable Certificates of Deposit	1,222
Time Certificates of Deposit	172,447
Money Market Funds	47,776
Total Investments	717,554
Carrying amount of cash	4,352
Total Cash and Investments	$ 721,906

Formatted Table

Commented [GK38]: Strange formatting for money market funds

As of June 30, 2020, the fair value of Valley Water's investment in the State investment pool (LAIF) was $75 million in non-restricted cash. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. Valley Water is a voluntary participant in the pool. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of Valley Water's position in LAIF. The pool is not registered with the Securities Exchange Commission.

Authorized Investments by Valley Water

Valley Water's Investment Policy and the California Government Code allow Valley Water to invest in the following types of investments, provided the credit ratings of the issuers are acceptable to Valley Water. The following items also identify certain provisions of Valley Water and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This list does not address Valley Water's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of Valley Water, rather than the general provisions of the California Government Code or Valley Water's investment policy, when more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	(Exempt from disclosure)	None	None
U.S. Government Agency Issues (A)	5 years	(Exempt from disclosure)	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	5 years	AA-	30%	3.6%
Time Certificates of Deposit	5 years	Satisfactory CRA	5%	$250,000 & FDIC Membership
Collateralized Repurchase Agreements	30 days	AA-	None	None
Medium Term Notes	5 years	AA-	15%	1.8%
Municipal Obligations	5 years	AA-	15%	1.8%
California Local Agency Investment Fund (B)	N/A	N/A	(B)	(B)
Mutual Funds	N/A	AAA	10%	- -
Supranational Obligations	5 years	AA	15%	1.8%

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation of America and the Tennessee Valley Authority.

(B) LAIF will accept no more than $75 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

Commented [GK39]: Discussion of our local debt and deposit policy?

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of Valley Water's revenue bond resolutions and Installment Purchase Agreement for the 2012A, 2016C, 2016D, and 2017A Certificates of Participations (COPs) and Water Utility Revenue and Refunding Bonds 2006B, 2016A, 2016B, 2017A, 2019A, 2019B and 2019C, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee.

As of June 30, 2020, the amount invested in assets held by fiscal agent amounted to $5.4 million, and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

Valley Water, through the PFFC, has also issued commercial paper to provide for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water. At June 30, 2020, the total balance of the taxable and the tax-exempt commercial paper certificate accounts held by fiscal agent is $128 thousand. Both account balances were cash transfers from Valley Water to fiscal agent to fund maturing interest payments on commercial papers outstanding.

Restricted Cash and Investments for Watershed Management Projects

Valley Water has entered into certain cost sharing agreements with the U.S. Army Corps of Engineers (the Corps). Under these agreements, Valley Water is required to deposit monies into escrow accounts to be used by the Corps for watershed management projects. At June 30, 2020, Valley Water's restricted deposits held in escrow for construction of the Guadalupe Watershed project amounted to $77 thousand.

Authorized Investments by Debt Agreements

Valley Water must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if Valley Water fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in instruments which, at the time of such investment, are legal investments under the laws of the State of California, Valley Water ordinances, policies, and bond indentures. The following identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations (A)	N/A	N/A
U.S. Agency Securities (B)	N/A	N/A
State Obligations (C)	N/A	A
Commercial Paper	270 days	A1
Unsecured CD's, deposit accounts, time deposits, and bankers acceptances	365 days	A-1
FDIC Insured Deposit (D)	N/A	N/A
Money Market Funds	N/A	AAAm
Collateralized Repurchase Agreements (E)	N/A	A-1
Investment Agreements (F)	N/A	AA-
Investment Approved in Writing by the Certificate Insurer (G)	N/A	N/A
Local Agency Investment Fund of the State of CA	N/A	N/A
Supranational Obligations	N/A	AA

Commented [GK40]: What is this m?

(A) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.

(B) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan

Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration;

Commented [GK41]: Someone is strange with the formatting of this line mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMAs"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association (“GNMAs”); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.

(C) Direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, “A” or better by Moody's and "A" or better by S&P.

(D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than $3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

(E) Repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated “P-1” or"A3" or better by Moody's and “A-1” or “A-” or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent (“Agent”) for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. if such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.

(F) Investment agreements, guaranteed investment contracts, funding agreement, or any other form of corporate note representing the unconditional obligations of entities or agencies with the unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody’s and S&P.

(G) Any investment approved in writing by the Certificate Insurer.

Interest Rate Risk

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Valley Water generally manages its own interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair value of Valley Water's investments to market interest rate fluctuations is provided by the table on the following page that shows the distribution to Valley Water's investments by maturity or earliest call date (in thousands).

	Total	12 Months or less	13 to 24 Months	25 to 60 Months
U.S. Government Agencies	$ 238,875	$ 65,077	$ 57,937	$ 115,861
U.S. Government Agencies - Callable	61,835	-	-	61,835
U.S. Treasury Obligations	25,857	8,104	9,328	8,425
Medium Term Notes	6,111	3,020	-	3,091
Medium Term Notes - Callable	12,456	2,022	3,092	7,342
Local Agency Investment Fund	75,020	75,020	-	-
Mutual Funds	103	103	-	-
Supranational Obligations	10,336	7,076	-	3,260
Municipal Bonds	64,015	9,168	7,767	47,080
Municipal Bonds - Callable	1,501	-	-	1,501
Negotiable Certificates of Deposit	1,222	722	-	500
Time Certificates of Deposit	172,447	172,447	-	-
Money Market Funds	47,776	47,776	-	-
Total Investments	$ 717,554	$ 390,535	$ 78,124	$ 248,895

Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The following table shows the minimum rating required by the California Government Code, Valley Water's investment policy, or debt agreements and the actual rating as of June 30, 2020 for each investment type as provided by Standard and Poor's (in thousands):

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end AAA	AA+	AA	AA-	Not Rated
U.S. Government Agencies	$ 300,710	*AA-*	$ -	$ -	$ 259,814	$ -	$ -	$ 40,896
U.S. Treasury Obligations	25,857	*AA-*	25,857	-	-	-	-	-
Medium Term Notes	18,567	*AA-*	-	10,298	5,178	-	-	3,091
Local Agency Investment Fund	75,020	*N/A*	-	-	-	-	-	75,020
Mutual Funds	103	*AAA*	-	103	-	-	-	-
Supranational Obligations	10,336	*AA*	-	10,336	-	-	-	-
Municipal Bonds	65,516	*AA-*	-	9,242	21,955	31,088	3,231	-
Negotiable Certificates of Deposit	1,222	*AA-*	-	-	-	-	-	1,222
Time Certificates of Deposit	172,447	*N/A*	-	-	-	-	-	172,447
Money Market Funds	47,776	*N/A*	-	-	-	-	-	47,776
Total Investments	$ 717,554		$ 25,857	$ 29,979	$ 286,947	$ 31,088	$ 3,231	$ 340,452

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Concentration of Credit Risk

Valley Water's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and Valley Water's investment policy, whichever is more restrictive. However, Valley Water is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual Valley Water Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2020, those investments consisted of the following (in thousands):

Issuer	Investment Type	Reported Amount
Government-Wide		
Federal Home Loan Bank	U.S. Government Agency	$ 105,593
Federal Farm Credit Bank	U.S. Government Agency	107,318
Federal Home Loan Mortgage Corp.	U.S. Government Agency	40,896
Federal National Mortgage Association	U.S. Government Agency	42,293

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, Valley Water will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of public agencies' cash on deposit. All of Valley Water's deposits are either insured by the

Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions but not in Valley Water's name.

Fair Value Measurement and Application

Valley Water measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as shown below:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs (other than quoted marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and
- Level 3: Unobservable inputs (not applicable to Valley Water).

Shown below is a summary of the fair value hierarchy of Valley Water's investment at fair value on June 30, 2020 (in thousands):

	6/30/2020	Level 1	Level 2	Uncategorized
Investments by Fair Value Level				
U.S. Government Agencies	$ 300,710	$ 300,710	$ -	$ -
U.S. Treasury Obligations	25,857	25,857	-	-
Medium Term Notes	18,567	-	18,567	-
Mutual Funds	103	-	103	-
Supranational Obligations	10,336	-	10,336	-
Municipal Bonds	65,516	-	65,516	-
Negotiable Certificates of Deposit	1,222	-	1,222	-
Time Certificates of Deposit	172,447	-	172,447	-
Subtotal - Leveled Investments	594,758	326,567	268,191	-
Local Agency Investment Fund	75,020	-	-	75,020
Money Market Funds	47,776	-	-	47,776
Subtotal - Uncategorized	122,796	-	-	122,796
Total Investments	$ 717,554	$ 326,567	$ 268,191	$ 122,796

Deposits and withdrawals in the State Investment Pool are made on the basis of $1 and are not using fair value. Accordingly, Valley Water's investments of $75 million in LAIF at June 30, 2020 are classified as uncategorized input (not classified as Level 1, Level 2, or Level 3).

(4) REIMBURSEMENT OF CAPITAL COSTS

Valley Water derives certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The table below shows a summary of such reimbursements during fiscal year 2020 (in thousands).

	Governmental Activities	Business-type Activities
Local Agencies:		
City of Gilroy	$ 186	$ -
City of Mountain View	111	-
City of Palo Alto	215	-
San Benito County Water District	-	315
San Francisco Bay Restoration Authority	14,692	-
State Agency:		
Department of Water Resources	11,272	2,823
California Water Commission	-	666
Federal Agency		
US Department of Agriculture	3,005	-
Other		
Apple	-	541
Total	$ 29,481	$ 4,345

(5) INVESTMENT INCOME

Valley Water earns interest income from the investment of cash. Generally accepted accounting principles, as discussed in GASB 31, require reporting investment at fair value in the financial statements. Because of this requirement, interest income earned from investing activity during the current fiscal year is adjusted upwards or downwards to reflect the change in fair value of investment.

The following table represents the investment income as reported in the financial statements, the current year GASB 31 fair value adjustment, and the unadjusted interest income at June 30, 2020 (in thousands).

		Interest as Reported		GASB 31 Fair Value Adjustment		Unadjusted Interest Income
Fund:						
General	$	500	$	139	$	361
Watershed & Stream Stewardship		5,204		2,073		3,131
Safe, Clean Water		5,849		2,232		3,617
COP Construction		52		(52)		104
COP Debt Service		38		(3)		41
Water Enterprise		8,838		3,338		5,500
Internal Service:						
Equipment		138		54		84
Risk Insurance		453		161		292
Information Technology		655		249		406
Total Interest	$	21,727	$	8,191	$	13,536

6) CAPITAL ASSETS

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Capital assets activity for the year ended June 30, 2020 was as follows (in thousands):

	Balance July 1, 2019	Additions	Deletions	Transfers / Adjustments	Balance June 30, 2020
Governmental Activities					
Non-depreciable capital assets:					
Land	$ 191,676	$ -	$ -	$ -	$ 191,676
Intangibles - easement	27,361	62	-	-	27,423
Construction in progress					
Governmental funds	596,080	89,941	-	(17,896)	668,125
Internal service funds	2,145	326	-	(2,471)	-
Total non-depreciable capital assets	817,262	90,329	-	(20,367)	887,224
Depreciable capital assets:					
Buildings	42,007	-	-	-	42,007
Structures and improvements	784,017	-	-	17,895	801,912
Equipment:					
Governmental funds	21,572	31	-	-	21,603
Internal service funds	28,838	1,879	(123)	802	31,396
Intangible Software	2,593	-	-	1,670	4,263
Total depreciable capital assets	879,027	1,910	(123)	20,367	901,181
Less accumulated depreciation and amortization					
Buildings	(15,252)	(862)	-	-	(16,114)
Structures and improvements	(137,289)	(9,303)	-	-	(146,592)
Equipment:					
Governmental funds	(19,674)	(498)	-	-	(20,172)
Internal service funds	(17,332)	(2,596)	110	-	(19,818)
Intangible - software	(2,109)	(456)	-	-	(2,565)
Total accumulated depreciation and amortization	(191,656)	(13,715)	110	-	(205,261)
Net depreciable capital assets	687,371	(11,805)	(13)	20,367	695,920
Total capital assets, net	$ 1,504,633	$ 78,524	$ (13)	$ -	$ 1,583,144
Business-type activity					
Non-depreciable capital assets:					
Land	$ 19,180	$ 804	$ -	$ -	$ 19,984
Intangible - easement and software	162	-	-	-	162
Construction in progress	399,621	122,220	-	(28,021)	493,820
Total non-depreciable capital assets	418,963	123,024	-	(28,021)	513,966
Depreciable capital assets:					
Contract water and storage rights	216,635	10,024	-	-	226,659
Buildings	91,001	-	-	6,193	97,194
Structures and improvements	918,731	-	-	20,824	939,555
Equipment	28,336	532	-	1,004	29,872
Total depreciable capital assets	1,254,703	10,556	-	28,021	1,293,280
Less accumulated depreciation and amortization					
Contract water and storage rights	(175,724)	(12,447)	-	-	(188,171)
Buildings	(10,221)	(2,083)	-	-	(12,304)
Structures and improvements	(300,274)	(15,463)	-	-	(315,737)
Equipment	(23,539)	(1,235)	-	-	(24,774)
Total accumulated depreciation and amortization	(509,758)	(31,228)	-	-	(540,986)
Net depreciable capital assets	744,945	(20,672)	-	28,021	752,294
Total capital assets, net	$ 1,163,908	$ 102,352	$ -	$ -	$ 1,266,260

During fiscal year 2020, new construction in progress increased by $89.9 million in the governmental activities. The breakdown of additions to the construction in progress was as follows: $16.9 million to the watersheds, and $73 million to the Safe, Clean Water & Natural Flood Protection Fund. There were 68 in progress and completed projects during the fiscal year with the major projects listed below (in millions):

- $35.9 – Upper Llagas Creek
- $13.7 - Permanente Creek
- $11.7 – San Francisco Bay Shoreline EIA Design and Part Construction
- $6.3 - San Francisco Bay Shoreline
- $4.4 - Berryessa Creek, Lower, Penitencia Phase 2
- $1.5 - San Francisquito Creek
- $1.5 - Coyote Creek, Montague to I-280
- $1.4 - Almaden Lake Improvement
- $1.3 - Lower Penitencia Creek Improvements
- $1.2 - Cunningham Flood Detention
- $1.2 - Salt Ponds A5-11 Restoration
- $1.1 - Main/Madrone Pipeline Restoration
- $1.1 – Palo Alto Flood Basin Tide Gate Improvements
- $1.0 - Sunnyvale East and West Channel

New construction in progress amounted to $122.5 million in the business-type activities. There were 50 in progress and completed projects during the fiscal year, with major projects listed below (in millions):

- $59.6 - Rinconada Water Treatment Plant Reliability Improvement
- $19.0 - 10-year Pipeline and Rehabilitation
- $17.3 - Pacheco Reservoir Expansion Project
- $11.6 - Anderson Dam Seismic Retrofit
- $6.3 - Coyote Pumping Plant Warehouse
- $3.1 - Rinconada Water Treatment Plant Residuals Remediation
- $1.0 - Dam Safety Seismic Stability

Capital asset depreciation and amortization incurred by the primary government for the current fiscal year are as follows (in thousands):

General government	$ 1,613
Watershed and Stream Stewardship	8,605
Safe, clean water and natural flood protection	683
Capital assets held by Valley Water's internal service funds are charged to the various functions based on their usage of assets.	2,815
Total depreciation expense – governmental activities	$13,716
Total depreciation and amortization expense – business-type activity	
Water cost of production	$31,228

(7) SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

On December 17, 2002, the Valley Water Board authorized a commercial paper program, through the PFFC. The commercial paper program allows Valley Water to finance capital acquisitions while taking advantage of short term rates, and Valley Water issues tax and revenue anticipation notes on an annual basis to secure the commercial paper program. This program is used in conjunction with issuing long-term liabilities to obtain the least expensive financing for Valley Water.

On May 15, 2012, the Valley Water Board authorized the execution and delivery of certain agreements in connection with the commercial paper program in an aggregate principal amount not to exceed $100 million.

On January 13, 2015, the Valley Water Board took certain actions to support an increase in the commercial paper program to $150 million. The proceeds of the commercial paper may be used for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water.

On April 22, 2020, Valley Water issued $17.7 million of Tax Exempt and $25 million of Taxable commercial paper to reimburse Water Utility capital project costs incurred between May 2019 and February 2020. On June 25, 2020, Valley Water issued $10 million of Taxable commercial paper to prefund Water Utility costs incurred in March 2020 and in the future.

As of June 30, 2020, outstanding commercial paper was $102.7 million, consisting of $30 million issued through the PFFC for the benefit of the Safe, Clean Water Program and $72.7 million issued through the PFFC for the benefit of the Water Utility Enterprise.

Commercial Paper Program	Authorized	Outstanding Amount
Beginning balance	$ 150.0	$ 50.0
Additions	-	52.7
Reductions	-	-
Ending balance	$ 150.0	$ 102.7

(b) Long-term liabilities

Valley Water's long-term liabilities outstanding consisted of the following (in thousands):

Type of indebtedness	Maturity	Interest Rates	Authorized and Issued	June 30, 2020	Due Within One Year
Governmental activities					
Certificates of participation					
2012A Certificates of participation	2024	3% - 5%	52,955	$ 19,230	$ 4,530
2017A Certificates of participation	2030	4% - 5%	59,390	46,265	3,995
Compensated absences				10,297	2,351
Claims payable				7,484	2,087
Net pension liability				134,327	-
Other post-employment liability				32,953	-
Bond premium				9,942	1,547
Total general long-term obligations				$ 260,498	$ 14,510
Business-type activity					
2006B Water revenue bond	2035	5.15%-5.31%	25,570	$ 17,340	$ 860
2016A Water revenue bond	2046	5.0%	106,315	106,315	-
2016B Water revenue bond	2046	4.154%-4.354%	75,215	75,215	-
2017A Water revenue bond	2037	3.4% - 3.7%	54,710	49,630	1,880
2019A Water revenue bond	2039	5.0%	15,225	14,995	240
2019B Water revenue bond	2034	2.44%-3.634%	80,030	78,400	1,670
2019C Water revenue bond			38,280	36,990	1,860
2016C Water revenue COP bond	2029	4.0% - 5.0%	43,075	34,860	3,295
2016D Water revenue COP bond	2029	1.567%-3.679%	54,970	44,295	4,275
Bond discount				(9)	(1)
Bond premium				36,982	1,598
Compensated absences				6,301	1,439
Net pension liability				100,601	-
Other post-employment liability				25,667	-
Semitropic water banking agreement	2035		46,900	9,992	-
Total enterprise funds debt				$ 637,574	$ 17,116

The following is a summary of changes in long-term liabilities as of June 30, 2020 (in thousands):

	Balance 7/1/2019	Additions	Reductions	Balance 6/30/2020	Due Within One Year
Governmental activities:					
2012A COP	$ 23,540	$ -	$ (4,310)	$ 19,230	$ 4,530
2017A COP	50,030	-	(3,765)	46,265	3,995
Compensated absences	9,046	6,135	(4,884)	10,297	2,351
Claims payable (See Note 13)	7,086	398	-	7,484	2,087
Net pension liability (See Note 11)	125,285	9,042	-	134,327	-
Other post employment benefits (See Note 12)	41,354	-	(8,401)	32,953	-
Premium on refunded debt	11,489	-	(1,547)	9,942	1,547
Total governmental activities long-term liabilities	$ 267,830	$ 15,575	$ (22,907)	$ 260,498	$ 14,510
Business-type activity:					
2006B revenue bonds	$ 18,155	$ -	$ (815)	$ 17,340	$ 860
2016A revenue bonds	106,315	-	-	106,315	-
2016B revenue bonds	75,215	-	-	75,215	-
2017A revenue bonds	51,410	-	(1,780)	49,630	1,880
2019A revenue bonds	15,225	-	(230)	14,995	240
2019B revenue bonds	80,030	-	(1,630)	78,400	1,670
2019C revenue bonds	-	38,280	(1,290)	36,990	1,860
2007B COP revenue bonds	37,980	-	(37,980)	-	-
2016C COP revenue bonds	38,045	-	(3,185)	34,860	3,295
2016D COP revenue bonds	48,425	-	(4,130)	44,295	4,275
Bond discount on refunding	(139)	130		(9)	(1)
Premium on debt issuance	38,580	-	(1,598)	36,982	1,598
Compensated absences	5,364	4,595	(3,658)	6,301	1,439
Net pension liability (See Note 11)	94,565	6,036	-	100,601	-
Other post employment benefits (See Note 12)	31,958	-	(6,291)	25,667	-
Semitropic water banking agreement (See Note 15)	9,973	19	-	9,992	-
Total business-type activity long-term liabilities	$ 651,101	$ 49,060	$ (62,587)	$ 637,574	$ 17,116

The aggregate maturities of long-term debt are as follows (in thousands):

	Governmental Activities		Business-type Activities	
Bonds Payable	Principal	Interest	Principal	Interest
2021	$ 8,485	$ 3,082	$ 14,080	$ 19,544
2022	8,860	2,704	14,825	19,050
2023	9,250	2,308	15,345	18,523
2024	9,665	1,894	15,880	17,966
2025	4,295	1,462	16,465	17,375
2026-2030	24,940	3,862	93,850	76,637
2031-2035	-	-	95,370	55,730
2036-2040	-	-	76,190	35,689
2041-2045	-	-	82,120	18,822
2046-2050	-	-	33,915	2,748
Total bonds payable requirements	$ 65,495	$15,312	$458,040	$282,083
Compensated absence	10,297		6,301	
Premium	9,942		36,982	
Discount	-		(9)	
Claims payable	7,484		-	
OPEB	32,953		25,667	
Pension	134,327		100,601	
Semitropic water banking agreement	-		9,992	
Total outstanding non-current liabilities at June 30, 2020	$260,498		$637,574	

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Governmental Activities

The following provides a brief description of Valley Water's debt, and other long-term liabilities, for governmental activities outstanding as of June 30, 2020:

2012A Certificates of Participation

In November 2012, Valley Water issued $52,955,000 of Refunding and Improvement Certificates of Participation, Series 2012A, to be executed and delivered through the PFFC. The proceeds of 2012A COPs were used to: (1) refinance $52,360,000 of the 2003A Certificates of Participation; (2) finance the cost of certain flood control improvements; (3) fund a reserve fund; and (4) pay the costs of issuing the 2012A Certificates. The 2012A COPs are payable from the 1994 Installment Payments, which are payable by Valley Water, and are secured by a pledge of and lien on, the Valley Water Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the Valley Water Board on June 23, 1994.

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2017A Certificates of Participation

In March 2017, Valley Water issued $59,390,000 of Refunding and Improvement Certificates of Participation, Series 2017A, to be executed and delivered through the PFFC. The proceeds of the 2017A COPs were used to: (1) refinance the $5,270,000 outstanding balance of the 2004A Certificates of Participation; (2) refinance the $54,215,000 outstanding balance of the 2007A Certificates of Participation; (3) finance the cost of certain flood control improvements; and (4) pay the costs of issuing the 2017A Certificates. The 2017A COPs are payable from the 1994 and 1995 Installment Payments, which are payable by Valley Water, and are secured by a pledge of and lien on, the Valley Water Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the Valley Water Board on June 23, 1994.

Claims Payable

Valley Water is self-insured and reports all its risk management activities in its Risk Management Internal Service Fund. Detailed information and calculation of the claims payable account balance are explained in Note 13, Risk Management.

Business-type Activity

The following provides a brief description of Valley Water's debt, and other long-term liabilities, for business-type activity outstanding as of June 30, 2020:

2006B Water Utility System Refunding Revenue Bonds

In December 2006, Valley Water issued $99,835,000 of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B, pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The proceeds of $57,415,000 of the 2006A and 2006B Bonds were used to refinance $55,265,000 of the remaining 2000A and 2000B and the proceeds of $42,420,000 of 2006A and 2006B were used to repay approximately $40,900,000 of commercial paper notes. In March 2016, Valley Water issued Series 2016A Water System Refunding Revenue Bonds to refund all 2006A outstanding principal.

2016A/B Water Systems Refunding Revenue Bonds

In March 2016, Valley Water issued $181,530,000 of Water Systems Refunding Revenue Bonds comprising of Series 2016A for $106,315,000 and Taxable Series B for $75,215,000, pursuant to the Water Utility Parity System Master Resolution (16-10) approved by the Board in February 2016. Proceeds of the 2016A Revenue Bonds, along with the original issue premium, were used to refinance all the currently outstanding Water Utility System Refunding Revenue Bonds Series 2006A and repay $73,040,000 of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2016B Revenue Bonds were used to repay $75,000,000 of the balance of the outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay principal and interest of the 2016A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues.

2017A Water System Refunding Revenue Bonds

In May 2017, Valley Water issued $54,710,000 of Water Systems Refunding Revenue Bonds to refund the $64,750,000 outstanding balance of the Water Utility System Revenue Certificates of Participation Series 2007A and pay costs of issuance of the 2017A Bonds. The obligation of Valley Water to pay principal and interest on the 2017A Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility System Parity Master Resolution (16-10).

2019A/B Water Systems Refunding Revenue Bonds

In April 2019, Valley Water issued $95,255,000 of Water System Refunding Revenue Bonds to repay the outstanding Commercial Paper Certificates to free up capacity in Valley Water's commercial paper program to finance on-going capital costs and costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019A/B Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Parity Master Resolution (16-10).

2019C Water Systems Refunding Revenue Bonds

In November 2019, Valley Water issued $38,280,000 of Water System Refunding Revenue Bonds to refinance all the currently outstanding Water Utility Revenue Certifications of Participation and fund costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019C Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Parity Master Resolution (16-10)

2007B Water Utility Revenue Certificates of Participation

In October 2007, Valley Water issued $131,000,000 of Water Utility Revenue Certificates of Participation, Series 2007A and Taxable Series 2007B, to be executed and delivered through the PFFC. The proceeds of the 2007A and 2007B COPs were used to finance capital construction projects in the Water Utility Enterprise. A 2007A Debt Service Reserve Fund was funded for the 2007A and 2007B COPs by purchasing a surety. The 2007A issuance was $77,270,000 fixed rate COPs with a 30 year maturity. The 2007B issuance of $53,730,000 are floating rate COPs based on the three month LIBOR rate plus 32 basis points with a 30 year maturity. The 2007A and 2007B COPs are payable from 2007 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The 2007A COPs were refunded by the 2017A Water System Refunding Revenue Bonds in May 2017. The 2007B COPs were refunded by the 2019C Water System Refunding Revenue Bonds in November 2019.

2016C/D Water Utility Revenue Certificates of Participation

In March 2016, Valley Water issued $98,045,000 of Water Utility Systems Improvement Projects Revenue Certification of Participation, Series 2016C for $43,075,000 and Taxable Series 2016D for $54,970,000, to be executed and delivered through the PFFC. Proceeds of the 2016C and 21016D COPs, along with the original issue premium will be used to finance capital construction projects in the Water Utility Enterprise and costs of issuance. The 2016C and 2016D COPs are payable from 2016 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

Semitropic Water Banking Agreement

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is $46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering water. At June 30, 2020, has $10 million outstanding liability related to water storage and banking rights.

Compensated Absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized and are charged to the different funds as part of the direct benefit rate. The compensated absences liability for the year is recognized in Valley Water's various enterprise funds and on the governmental activities column in the statement of net position.

(c) Other Debt Related Information

Valley Water has adopted master resolutions with respect to its water utility and watershed utility which contain certain events of default and remedies as described therein. Valley Water has also issued various bonds, notes or other obligations secured by such master resolutions or other revenues of Valley Water and which contain certain events of default and remedies as described therein. Valley Water has also entered into various reimbursement agreements or other financial contracts which contain certain events of default and remedies as described therein. Certain of these master resolutions, bonds, notes and other obligations and reimbursement agreement and other financial contracts contain provisions concerning the application of applicable Valley Water revenues if certain of the following conditions occur: default on debt service payments; the failure of Valley Water to observe or perform the conditions, covenants, or other agreement with respect thereto; bankruptcy filing by Valley Water; or if any court or competent jurisdiction shall assume custody or control of Valley Water, among other defaults. Certain of such master resolutions, bonds, notes and other obligations and reimbursement agreement and other financial contract contain acceleration provisions that allows a trustee, owners of bonds, notes or other obligations or the parties to such reimbursement agreements or other financial contracts to accelerate payments thereunder to the extent and as provided therein.

Resolutions and other financing agreements associated with Valley Water's and PFFC's bonds and certificates of participation contain a number of covenants, limitations, and restrictions. Valley Water believes it is in compliance with all significant covenants, limitations, and restrictions.

Financial obligations incurred under the commercial paper program, issued through the PFFC, currently include the obligations to reimburse the bank issuing direct pay letter of credit supporting the commercial paper program and to pay letter of credit fees to the bank. Valley Water's failure to comply with certain such obligations could result in an event of default. If an event of default occurs, the bank may exercise one or more rights and remedies. In addition to rights and remedies provided for under the law, the bank can declare all financial obligations with respect to such letter of credit to be immediately due and payable, cause the issuance of commercial paper to be temporarily ceased, or terminate the letter of credit which would cause the issuance of commercial paper to be permanently ceased. Commercial paper certificates are not subject to acceleration.

Valley Water has pledged future flood control system revenues to repay $65.5 million in long-term debt outstanding as of June 30, 2020, that was issued to finance the cost of flood control improvements. The certificates of participation (COPs) are payable from installment payments that are secured by flood control system revenues and are payable through fiscal years 2024 (2012A) and 2030 (2017A). The total principal and interest remaining to be paid on the combined debt is $80.8 million. A ten-year comparison of flood control system revenues to related debt service titled "Flood Control System Historical Operating Results – Combined Statements of Revenues and Debt Service Coverage – Last Ten Fiscal Years" can be found in the Statistical Section.

Valley Water has also pledged water utility system revenues, net of specified maintenance and operating expenses, to repay $458 million in long-term debt outstanding as of June 30, 2020, that was issued to finance the cost of capital construction projects for the water utility enterprise. The secured debt includes revenue bonds and COPs. The revenue bonds are payable from net water utility system revenues and the revenue COPs are payable from installments that are secured by net water utility system revenues. The long-term debt is payable through fiscal year 2049. Total principal outstanding and interest costs remaining to be paid on the combined debt is $740.1 million.

(8) PROPERTY TAXES AND BENEFIT ASSESSMENTS

Valley Water derives certain revenues from the assessment of property tax parcel levies and the levy of benefit assessments and a special parcel tax. The property tax levy is composed of two categories: (1) an allocation of the County of Santa Clara's 1 percent tax; and (2) voter approved levy to repay capital and operating costs related to imported water from the State Water Project. Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments. In November 2000, voters approved a 15-year special parcel tax to fund the countywide Clean, Safe Creeks & Natural Flood Protection Program. The levy became effective July 1, 2001 and is based on the proportionate storm water runoff for each property.

In November 2012, the voters approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax. The Safe, Clean Water program builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000. The Safe, Clean Water program replaced the Clean, Safe Creeks measure in its entirety beginning July 1, 2013. The Safe, Clean Water special parcel tax will provide an estimated total of $723 million of revenue for operations and capital projects. The program will be funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2020, the budget includes $45.5 million of special parcel tax for this program.

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Property tax and benefit assessment revenues recorded for the year ended June 30, 2020 are as follows (in thousands):

	General Fund	Special Revenue Funds	Water Enterprise Fund
Property taxes:			
1% tax allocation	$ 9,224	$ 93,054	$ 8,350
Special parcel tax	-	46,091	-
Voter approved indebtedness:			
State water	-	-	21,818
Total taxes	9,224	139,145	30,168
Benefit assessments	-	13,440	-
Total property taxes and benefit assessments	$ 9,224	$ 152,585	$ 30,168

The County of Santa Clara (County) is responsible for the assessment, collection, and apportionment of property taxes for Valley Water. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). Valley Water is responsible for determining the amount of benefit assessment, special parcel tax, and State Water Project Debt Service. Secured property taxes and benefit assessments are each payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

Valley Water has elected to participate in the “Teeter Plan” offered by the County whereby Valley Water receives 100 percent of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes.

(9) FUND BALANCES

In the fund financial statements, governmental funds report fund balance as non-spendable, restricted, committed, assigned or unassigned based primarily to the extent to which Valley Water is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

- Non-spendable fund balance includes net resources that cannot be spent because they are either a) not spendable because of their form, or b) must be maintained intact pursuant to legal or contractual requirements.

- Restricted fund balance includes amounts that are subject to limitations imposed by either: a) creditors, grantors, contributors or laws and regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance includes spendable resources that can only be used for specific purposes pursuant to constraints imposed by formal action of Valley Water’s highest level of decision-making authority, the Valley Water Board, through adopted resolutions. Those constraints remain binding unless the Valley Water Board removes or changes in the same manner to previously commit those resources. These Valley Water Board's actions must occur prior to June 30th of the applicable fiscal year.

- Assigned fund balance includes amounts that are constrained by Valley Water's intent to be used for specific purposes, but are neither restricted nor committed. The intent can be established or changed at the discretion of the Valley Water Board, or an official designated for that purpose, the Chief Executive Officer, in accordance with the provisions of the Governance Policies of the Board, Policy No. EL-5, *Purchasing and Contracts.*

- Unassigned fund balance represents residual net resources that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

<u>Spending Prioritization in Using Available Resources</u>

When an expense is incurred for purposes for which both restricted resources and unrestricted resources fund balance are available, Valley Water considers restricted resources to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, Valley Water's flow assumption is to spend in the sequence of committed resources first, assigned second, and unassigned last.

The various fund balances are established by actions of the Board of Directors and can be increased, reduced or eliminated by similar actions with the exception of encumbrances on the assigned fund balance, which can be reduced or eliminated without the action of the Board of Directors. Valley Water's reserve amounts are reviewed annually to ensure compliance with Valley Water's reserve policy. Changes to the restricted, committed and assigned reserves are presented to the Board of the Directors for review and approval.

Detailed schedule of fund balances as of June 30, 2020 is as follows (in thousands):

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	General	Watershed & Stream Steward	Safe, Clean Water & Natural Flood Protection Program	COP Construction	COP Debt Service	Total Govern-mental Funds
Restricted Fund Balance:						
Debt service	$ -	$ -	$ -	$ -	$ 5,394	$ 5,394
SCW-current authorized Capital Projects	-	-	158,517	-	-	158,517
Total restricted fund balance	-	-	158,517	-	5,394	163,911
Committed Fund Balance:						
Operating & capital	8,235	97,688	-	-	-	105,923
Current authorized capital projects	-	62,844	-	-	-	62,844
Total committed fund balance	8,235	160,532	-	-	-	168,767
Assigned Fund Balance:						
Operating and Capital Projects Encumbrances	5,670	7,365	-	-	-	13,035
Market Valuation	268	2,967	-	-	-	3,235
Benefits assessment reserve	-	1,098	-	-	-	1,098
Total assigned fund balance	5,938	11,430	-	-	-	17,368
Total fund balances	$ 14,173	$ 171,962	$ 158,517	$ -	$ 5,394	$ 350,046

(10) NET POSITION

The proprietary funds financial statements utilize a net position presentation. Net position is categorized as follows: (1) invested capital assets (net of related debt), (2) restricted and (3) unrestricted.

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net position – This category presents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net position – This category represents net position of Valley Water, not restricted for any project or other purpose.

The next page shows the detailed schedule of the proprietary funds' net position as of June 30, 2020 (in thousands).

Restricted Net Position	Water Enterprise Fund	State Projects Fund	Equipment Fund	Risk Management Fund	Information Technology Fund
San Felipe emergency reserve	$ 3,260	$ -	$ -	$ -	$ -
Cash on hand with fiscal agents	102	-	-	-	-
GP5 reserve	6,610				
Rate stabilization	23,467	-	-	-	-
Public-private partnership	8,000	-	-	-	-
WUE SVAWPC reserve	1,298	-	-	-	-
Supplemental water supply reserve	15,077	-	-	-	-
Drought reserve	10,000	-	-	-	-
State water project	-	16,768	-	-	-
Total restricted net position	67,814	16,768	-	-	-
Unrestricted Net Position					
Operating & capital	48,830	-	3,362	-	733
Currently authorized projects	39,201	-	-	-	9,306
Market Valuation	4,860	-	77	247	378
Property self-insurance/catastrophic	-	-	-	6,134	-
Encumbrances	108,477	-	1,968	254	6,060
Net pension liability	(76,513)	-	(3,056)	(1,987)	(97)
Net other post employment benefit liability	(32,154)		(1,026)	(838)	(239)
Total unrestricted net position	92,701	-	1,325	3,810	16,141
Net investment in capital assets	674,062	15,111	8,885	-	4,375
Net Position	$ 834,577	$ 31,879	$ 10,210	$ 3,810	$ 20,516

(11) EMPLOYEES' RETIREMENT PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the agent multiple-employer defined benefit pension plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Valley Water's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statutes and may be amended by the Valley Water's governing board.

The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Prior to	3/19/2012 to	On or after
Hire date	3/19/2012	12/31/2012	1/1/2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + 2.0%*	7.0% + 3.0%*	6.75% + 1.0%
Required employer contribution rates	10.276% plus $15,251,637 prepayment for prior unfunded service cost		

* Member additional contribution towards Valley Water's CalPERS cost per negotiated agreement with the bargaining units

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Employees Covered – As of the most recent CalPERS annual valuation report, dated July 2020, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	814
Active employees	752

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended June 30, 2020 contributions to the plan were $28.3 million. Valley Water is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. All funds with payroll charges contribute to the actuarially determined contribution.

Net Pension Liability

Valley Water's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Actuarial cost method	Entry-age normal cost method
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return(1)	7.375%
Mortality rate table(2)	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.00% unit purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter.

(1)Net of pension plan investment and administrative expenses; includes inflation

(2)The mortality rate table was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuarial Scale BB.

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65% to 7.15%. The Experience Study can be obtained at CalPERS' website under "Forms and Publications".

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Change in Assumptions

Inflation Rate

For the measurement date of June 30, 2019, the inflation rate was 2.75%.

Discount Rate

The discount rate used to measure the total pension liability for each Plan was 7.15%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, each Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each Plan.

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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contribution on time and as scheduled on all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above, adjusted to account for assumed administrative expenses.

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class[1]	Current Strategic Allocation	Real Rates of Return Years 1-10[2]	Real Rates of Return Years 11+[3]
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

[1] In the CalPERS CAFR, Fixed Income is included in Global Debt Securities, Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities

[2] An expected inflation of 2.00% used for this period.

[3] An expected inflation of 2.92% used for this period.

Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Beginning Balance	$ 813,664,108	$ 593,814,741	$ 219,849,367
Changes Recognized for the Measurement Period:			
Service Cost	16,482,721	-	16,482,721
Interest on Total Pension Liability	58,350,269	-	58,350,269
Difference between Expected and Actual Experience	13,358,043	-	13,358,043
Contribution from Employer	-	26,622,950	(26,622,950)
Contribution from Employees	-	7,631,430	(7,631,430)
Net Investment Income	-	39,279,643	(39,279,643)
Benefit Payments, including Refunds of Employee Contribution	(38,351,674)	(38,351,674)	-
Administrative expense	-	(423,759)	423,759
Other Miscellaneous Income/(Expense)	-	1,380	(1,380)
Net Changes	49,839,359	36,759,970	15,079,389
Ending Balance	$ 863,503,467	$ 628,574,711	$ 234,928,756

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Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of Valley Water, calculated using the current discount rate, as well as what Valley Water's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

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	Discount Rate - 1% 6.15%	Current Discount 7.15%	Discount Rate + 1% 8.15%
Plan Net Pension Liability/(Asset)	$ 348,488,109	$ 234,928,756	$ 140,685,602

Pension Plan Fiduciary Net Position

Detailed information about Valley Water's pension plan fiduciary net position is available in separately issued CalPERS financial reports.

Pension Expenses and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2020 (for measurement period ended June 20, 2019), Valley Water recognized pension expense of $43.6 million. ~~At~~ As of June 30, 2020, Valley Water reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Pension contribution subsequent to measurement date	$ 28,272,714	$ -
Change in assumptions	9,324,004	(4,161,934)
Differences between actual and expected experience	10,099,984	(1,686,736)
Net difference between projected and actual earnings on plan investments	-	(3,346,799)
Total	$ 47,696,702	$ (9,195,469)

$28.3 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction from the net pension liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Periods Ended June 30	Deferred Outflows/(Inflows) of Resources
2020	$ 11,407,392
2021	(4,141,166)
2022	2,047,164
2023	915,129
Total	$ 10,228,519

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12) OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

Valley Water provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses, and to certain employees who retire due to disability who meet the eligibility requirements and elect the option. Valley Water must be the employee’s last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay.

Benefits Provided

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water's Required Contribution
<u>Classified</u> Employee Association (AFSCME – Local 101) Engineers Society (IFPTE- Local 21) Professional Managers Association (IFPTE – Local 21)	Retired prior to July 1, 1988		Fixed amount of $165 per month.
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree.
	Retired from July 1, 1990 or later and hired prior to December 30, 2006	10 years 15 years	100% medical premium for retiree. 100% medical premium for retiree plus one eligible dependent.
	Retired from July 1, 1990 or later and hired between December 30, 2006 and March 1, 2007	10 years 15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less. Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years 20 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less. Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

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	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water's Required Contribution
Unclassified At Will	Retired prior to July 1, 1988		Fixed amount of $165 per month.
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree.
	Retired from July 1, 1990 through June 18, 1995	10 years 15 years	100% medical premium for retiree. 100% medical premium for retiree plus one eligible dependent.
	Retired from June 19, 1995 through October 21, 1996	10 years 15 years 25 years	100% medical premium for retiree. 100% medical premium for retiree plus one eligible dependent. 100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents.
	Retired from October 22, 1996 or later and hired prior to December 30, 2006	10 years 15 years 25 years	100% medical premium for retiree. 100% medical, dental, and vision coverages for the retiree plus one eligible dependent. 100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents.
	Hired on or after December 30, 2006 and prior to March 1, 2007	10 years 15 years	Medical coverage is provided for retiree. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less. Medical, dental, and vision coverages are provided for retiree and one eligible dependent. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water's Required Contribution
Unclassified At Will	Hired on or after December 30, 2006 and prior to March 1, 2007	15 years (con't) 25 years	to active employees or retirees, whichever is less. Medical, dental, and vision coverages are provided for retiree plus two or more eligible dependents. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years 20 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less. Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

As of August 1, 2007, all current retirees not yet 65 years of age and Medicare eligible and all future retirees who are Medicare eligible must enroll themselves in Medicare when they reach the eligibility date for Medicare. Their Medicare eligible dependents who are enrolled in Valley Water's health plan must also enroll in Medicare upon their eligibility date. Valley Water reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly.

After an evaluation of the cost savings realized in implementing the Medicare enrollment plan since August 2007, Valley Water decided to expand the Medicare enrollment requirement to all retirees and their eligible dependents that are enrolled in Valley Water's medical plan. As of July 1, 2009, all Medicare eligible retirees and their eligible dependents were required to enroll in Medicare. Valley Water reimburses the Medicare Part B penalty charged by the Social Security Administration to the retirees/dependents due to late enrollment.

Valley Water provides the unclassified group of retirees $50,000 life insurance upon retirement with a five-year phase out in declining increments of $10,000 per year after retirement.

Employees Covered – As of the most recent OPEB annual valuation report, dated June 30, 2019, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	846
Active employees	753

Contributions

On June 24, 2008, Valley Water's Board of Directors adopted a resolution approving the agreement and election of Valley Water to prefund OPEB through CalPERS under its California Employer's Retiree Benefit Trust (CERBT) Program, an agent multiple-employer plan consisting of an aggregation of single-employer plans. On September 9, 2008, Valley Water joined CERBT. The Board of Directors approved the reallocation of $17.7 million from its existing reserve for the initial prefunding of the unfunded liability for the first year of reporting. Subsequent years funding, pursuant to the annual budget approved by the Board of Directors, was made at the beginning of each fiscal year through fiscal year 2017. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Employees' Retirement System, P. O. Box 942703, Sacramento, CA 94229-2703.

OPEB and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between Valley Water and the bargaining groups. For the fiscal year ended June 30, 2020, the District's total contribution to the plan amounted to $10.8 million. All funds with payroll charges contribute to the actuarially determined contribution.

Net OPEB Liability

Valley Water's net OPEB liability was measured on June 30, 2019 for reporting date June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019, based on the following actuarial methods and assumptions:

Discount Rate	7.59%
Inflation	3%
Salary Increases	3.25%
Investment Rate of Return	7.59%
Mortality Rate	Derived from the CalPERS study of Miscellaneous Public Agency experience
Pre-retirement Turnover(1)	Derived from the CalPERS study of Miscellaneous Public Agency experience
Healthcare Trend Rate(2)	5.50% grading to ultimate 4% for medical and flat 3% for dental and vision

(1)Net of OPEB plan investment expenses, including inflation

(2)The mortality rate table was developed based on CalPERS' nonindustrial miscellaneous public agency experience study for 14 years ending June 2011.

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The long-term, expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The target allocation and expected real rates of returns for each major asset class are summarized in the following table:

Asset Class	Strategy 1 Allocation	Real Rates of Return: 1-10 Years (1)	Real Rates of Return: 11-60 Years (2)
Global Equity	59.0%	4.80%	5.98%
Fixed Income	25.0%	1.10%	2.62%
Global Real Estate (REITs)	8.0%	3.20%	5.00%
Treasury Inflation Protected Securities (TIPS)	5.0%	0.25%	1.46%
Commodities	3.0%	1.50%	2.87%

(1) An expected inflation of 2.00% used for this period.

(2) An expected inflation of 2.92 used for this period.

Discount Rate

The discount rate of 7.59% is the expected long-term rate of return on Valley Water assets using investment strategy #1 within the CERBT. The projected cash flows used to determine the discount rate assumed that Valley Water contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in OPEB Liability

The following table shows the changes in net OPEB liability recognized over the measurement period:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Beginning balance	$ 180,829,100	$ 107,517,900	$ 73,311,200
Changes Recognized for the Measurement Period:			
Service Cost	2,643,400	-	2,643,400
Interest Cost	12,898,800	-	12,898,800
Effect of Change in Actuarial Assumptions/Gains	(5,555,600)	-	(5,555,600)
Other Liability Experience Loss/(Gain)	(8,018,200)	-	(8,018,200)
Contributions	-	10,067,800	(10,067,800)
Benefit Payments	(10,067,800)	(10,067,800)	-
Non-Benefit Related Admin Expenses from Plan Trusts	-	(52,922)	52,922
Expected Investment Return	-	7,825,377	(7,825,377)
Investment Experience (Loss)/Gain	-	(1,180,455)	1,180,455
Net Changes	(8,099,400)	6,592,000	(14,691,400)
Ending balance	$ 172,729,700	$ 114,109,900	$ 58,619,800

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of Valley Water, calculated using the current discount rate, as well as what Valley Water's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2019:

	Discount Rate - 1%	Current Discount	Discount Rate +1%
Net OPEB Liability	$ 78,730,800	$ 58,619,800	$ 41,741,900

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of Valley Water, if it were calculated using health care cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2019:

	1% Decrease	Current Rates	1% Increase
Net OPEB Liability	$ 40,673,400	$ 58,619,800	$ 80,153,700

OPEB Plan Fiduciary Net Position

Detailed information about Valley Water's OPEB plan fiduciary net position is available in separately issued CalPERS CERBT financial reports.

OPEB Expense and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2020, Valley Water recognized OPEB credit expense of $5.9 million. At June 30, 2020, Valley Water reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
OPEB contribution subsequent to measurement date	$ 10,757,161	$ -
Changes in assumptions	-	(4,493,344)
Differences between actual and expected experience	33,226	(6,485,083)
Net difference between projected and actual earnings on plan investments	944,364	(1,642,365)
Total	$ 11,734,751	$ (12,620,792)

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$10.8 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction from the net OPEB liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year ending June 30	Deferred Outflows/(Inflows) of Resources
2021	$ (3,091,444)
2022	(3,091,442)
2023	(2,506,464)
2024	(2,356,917)
2025	(596,935)
Total	$ (11,643,202)

(13) RISK MANAGEMENT

Valley Water 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. Valley Water reports all of its risk management activities in its Risk Management Internal Service Fund.

Valley Water's deductibles and maximum coverage are as follows (in thousands):

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Coverage Descriptions	Deductibles	Commercial Insurance Coverage
General liability	$2,000	$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	500,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	100,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. ~~At~~ As of June 30, 2020, the liability for self-insurance claims was $7,483,500. This liability is the Valley Water's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

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Changes in the reported liability since June 30, 2020 are as follows (in thousands):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2018	$ 3,487	$ 2,978	$ 6,465
Current year premiums, incurred claims and changes in estimates	1,636	174	1,810
Claim payments	(872)	(317)	(1,189)
Claims payable at June 30, 2019	4,251	2,835	7,086
Current year premiums, incurred claims and changes in estimates	982	315	1,297
Claim payments	(781)	(118)	(899)
Claims payable at June 30, 2020	$ 4,452	$ 3,032	$ 7,484
Current Portion	$ 1,461	$ 626	$ 2,087

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(14) TRANSFERS IN AND OUT

Transfers are used to: 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) move debt proceeds held in the construction fund to the funds incurring the construction expense.

In the year ended June 30, 2020, the following transfers occurred between funds:

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- $394.4 thousand was transferred from the Watershed and Stream Stewardship Fund to the General Fund to support drought induced tree removal projects
- $92.8 thousand was transferred from the Water Enterprise Fund to the Watershed and Stream Stewardship Fund to help pay for the Safe Clean Water Renewal efforts
- $1.6 million was transferred from the COP Construction Fund to the Watershed and Stream Stewardship Fund to fund certain projects
- $202.8 thousand was transferred from the General Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to assist with Winfield Warehouse costs
- $481.5 thousand was transferred from the COP Construction Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to fund certain projects
- $20.2 million was transferred from the Watershed and Stream Stewardship Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to fund the Encampment Clean-up Program and Upper Penitencia Creek and Upper Llagas Creek Flood Protection projects
- $476 thousand was transferred from the General Fund to the COP Debt Service Fund to pay debt service payments
- $11 million was transferred from the individual zone Funds to the COP Debt Service Fund to pay debt service payments
- $506.5 thousand was transferred each from the General Fund and Watershed Fund to the Water and Enterprise Fund for the Open Space credit
- $1.7 million and $2.5 million were transferred from the Watershed and Stream Stewardship Fund, and Water Enterprise Fund, respectively, to the Information Technology Fund to fund capital projects

Interfund transfers for the year ended June 30, 2020, is as follows (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Watershed and Stream Stewards	$ 394
Watershed & Stream Stewardship	Water Enterprise	93
	COP Construction Fund	1,559
Safe, Clean Water Fund	General Fund	203
	COP Construction Fund	481
	Watershed and Stream Stewards	20,183
COP Debt Service Fund	General Fund	476
	Lower Peninsula Watershed	2,272
	West Valley Watershed	1,848
	Guadalupe Watershed	3,708
	Coyote Watershed	3,152
Water Enterprise	General Fund	507
	Watershed & Stream Stewardship	558
Information Technology Fund	Watershed and Stream Stewards	1,652

15) COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2020, governmental funds had encumbrances of approximately $44.8 million, while proprietary funds had open purchase commitments of approximately $116.8 million related to new or existing contracts and agreements. These encumbrances are only commitments for the expenditure of funds and do not represent actual expenditures or liabilities.

At June 30, 2020, detailed breakdown of encumbrances of the governmental and proprietary funds are shown on the following page (in thousands).

Fund	Fund Balances Governmental Assigned	Proprietary Unrestricted	Total
General Fund	$ 5,669	$ -	$ 5,669
Watershed and Stream Stewardship Funds	7,365		7,365
Safe, Clean Water & Natural Flood Protection	31,790		31,790
Water Enterprise Fund	-	108,478	108,478
Equipment Fund	-	1,968	1,968
Risk Management Fund	-	254	254
Information Technology Fund	-	6,059	6,059
Total	$ 44,824	$ 116,759	$ 161,583

(b) San Felipe Project Water Deliveries

Valley Water has contracted with the U.S. Department of the Interior (USDI) for water deliveries from the Central Valley Project. The contract requires the District to operate and maintain Reach 1, Reach 2, and Reach 3 of the San Felipe Division facilities of the USDI.

During fiscal year 2017, Valley Water amended this contract. The amended contract provided for compliance with the Central Valley Project Improvement Act and converted the repayment of the San Felipe Division facilities from a water service contract to a repayment contract with fixed semi-annual payments. The semi-annual payments for January 2007 through July 2016 are $7,466,867. The semi-annual payments starting January 2017 is $7,742,285. The amended contract preserved the attributes of a water service contract for other Central Valley Project costs.

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The total commitment, including applicable interest, of the repayment contract was $440,492,081. The remaining commitment as of June 30, 2020 was $244,701,036.

(c) Participation Rights in Storage Facilities

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is $46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering Tier 1 water. The agreement terminates in December 2035.

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As of June 30, 2020, Valley Water has paid $49.8 million towards the base fee obligation of this agreement. Upon withdrawal by Valley Water of all 135,965 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs. The 2020 rate to retrieve Tier 1 water is $73.49 per acre-feet. During the first 10 years, Valley Water had a reservation for the full 35 percent allocation; by January 1, 2006, if Valley Water's contributions towards the program capital costs did not equal $46.9 million, Valley Water's permanent storage allocation would have been reduced. Valley Water decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

Valley Water currently has a storage allocation of 350,000 acre-feet. As of June 30, 2020, Valley Water has 344,662 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of $28.7 million has been recorded through fiscal year 2020.

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(16) CONTINGENCIES

(a) Litigation

It is normal for a public entity like Valley Water, with its size and activities, to be a defendant, co-defendant, or cross-defendant in court cases in which money damages are sought. Discussed below are all pending litigations that Valley Water is aware of which are significant and may have a potentially impact on the financial statements.

Great Oaks Water Company v. Valley Water

In 2005, Great Oaks Water Company (hereinafter "Great Oaks") filed an administrative claim alleging that the groundwater charges for 2005-06 violated the Law and sought a partial refund. After the claim was deemed denied, Great Oaks filed its lawsuit that subsequently included an allegation that the groundwater production charges violated Proposition 218, or Article XIII D of the state constitution because proceeds are used to fund projects and services that benefit the general public, not just ratepayers. Great Oaks demanded a partial refund as well as declaratory, injunctive and mandamus relief.

On February 3, 2010, the trial court issued a Judgment After Trial ruling that Valley Water owed Great Oaks a refund of groundwater charges of approximately $4,6 million plus interest at 7% per annum. The award of pre-judgment interest amounted to approximately $1.3 million, and the court awarded post-judgement interest of $886.62 per day. Valley Water appealed this decision to the California Court of Appeal for the Sixth Appellate District (the "Court of Appeal"). During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, Valley Water recorded a liability in the amount of the judgement plus interest. After the variable judgement by the Court of Appeal in 2015, discussed below, Valley Water reversed its prior total recorded liability in the aggregate amount of $7.4 million it its audited financial statements for Fiscal Year 2016-17.

In 2015, the Court of Appeal reversed in full the judgement of the trial court. The Court of Appeal found that Valley Water's groundwater production charges did not violate Proposition 218 or the Law. Great Oaks petitioned the California Supreme court to review the Court of Appeal's ruling, and the Supreme Court granted its petition. The case was placed on hold pending the California Supreme Court's decision in a similar case, *City of Buenaventura v. United Water Conservation District ("UWCD")*. In late 2017, the California Supreme Court issued its opinion in the UCWD case, finding that Proposition 218 does not apply to groundwater charges, but that Article XIIIC of the California Constitution does apply. The Supreme Court vacated the Court of Appeal's decision and remanded the Great Oaks case for reconsideration in light of its UCWD opinion. On November 8, 2018, the Court of Appeal reaffirmed its 2015 decision. The Court of Appeal declined to consider Great Oak's request to consider whether Valley Water's groundwater production charges violated Article XIIIC of the California Constitution, as this cause of action had never been considered by the trial court. This case was remanded to the trial court for further proceedings in February 2019.

While the 2005 Great Oaks case was pending, Great Oaks filed additional annual claims and additional annual lawsuits challenging Valley Water's groundwater production charges for each year after 2005, continuing through the present. Great Oak's subsequent, similar lawsuits were stayed pending resolution of its 2005 case. (Santa Clara Superior Court Case Nos. 2007-CV-087884; 2008-CV-119465; 2008-CV-123064; 2009-CV-146018; 2010-CV-178947; 2011-CV-205462; 2012-CV-228340; 2013-CV-249349; 2015-CV-281385; 2016-CV-292097; 2017-CV-308140; and 2018-CV-327641).

In addition, in 2011 Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club filed a similar refund action, making similar claims (Santa Clara Superior Court Case No. 2011-CV- 195879). Other water retailers including San Jose Water Company and the cities of Morgan Hill, Gilroy and Santa Clara, and the Los Altos Golf and Country Club and Stanford University, dispute Valley Water's groundwater charges and entered into tolling agreements with Valley Water pending the final decision in the Great Oaks Case. In 2019, Valley Water filed a collection action against Shatto Corporation for failure to pay groundwater charges from 2009 to 2014 and associated penalties and interest. Valley Water estimates that the amount due is approximately $1 million. Shatto Corporation filed a cross-complaint, alleging that Valley Water's groundwater charges violate Article XIIC of the California Constitution (Santa Clara Superior Court Case No. 2019-CV-348413).

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Once the Great Oaks Case was remanded to the trial court in February 2019, the court lifted the stay over Great Oaks' subsequently filed cases, as well as the case brought by Shatto corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club. At the request of the trial court, in order to streamline resolution of the remaining issues this litigation and related litigation, the parties stipulated and agreed to the filing of a new, omnibus complaint. On June 12, 2020, the proposed omnibus "Master Complain" of plaintiffs Great Oaks and Shatto Corporation was approved for filing and filed under Santa Clara Superior Court Case No. 2011-CV-205462. Great Oaks alleges that Valley Water's groundwater production charges violate Proposition 26, and that Valley Water does not levy or collect groundwater charges from agricultural pumpers but instead uses property taxes to pay these charges. A case management conference is currently scheduled November 5, 2020.

In the event that a court rules that Valley Water's groundwater production charges violate Proposition 26, such a ruling could materially impact Valley Water's rate revenue and finances.

(b) Grants and Subventions

Valley Water has received federal and state grants for specific purposes that are subject to review and audit. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

(c) Central Valley Project

On June 7, 1977, Valley Water entered into a contract with the U.S. Bureau of Reclamation for water service from the San Felipe Division of the Federal Central Valley Project (CVP). The CVP water service provides for both agricultural operation and maintenance (O&M) and municipal and industrial (M&I) water deliveries to the District up to a total maximum annual entitlement of 152,500 acre-feet per year. The contract specified initial water rates for O&M and M&I water service and provided for periodic adjustments for the respective water rates in accordance with prevailing CVP water rate policies commencing in the year 1993 for the in-basin M&I rate component; 1996 for the agricultural O&M rate component; 2001 for the full agricultural water rate; and 2008 for the out-of-basin M&I rate component. The methodology of CVP water rate setting has historically recovered current year operating costs and the applicable construction costs over 50 years.

Valley Water's initial CVP water rates were determined based on a November 1974 CVP water rate policy and estimated construction costs of the San Felipe Division. The actual construction costs of the San Felipe Division were significantly higher than the estimates used in the initial rate calculation, and changes in the Federal Reclamation Law during the 1980's have led to the development of new CVP water rate policies. These policies, coupled with the terms of the original contract, resulted in the District facing significant increases for repayment of the San Felipe Division.

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In compliance with the Central Valley Improvement Act (CVPIA), the District entered into negotiations, along with all other CVP contractors, with the U.S. Bureau of Reclamation for contract renewal. Because of concerns related to litigation challenging the renewal process, Valley Water entered into an amended contract. The amendment maintained the basic provisions of the original contract, implemented provisions of CVPIA, and allowed the establishment of a fixed repayment for the San Felipe Division facilities.

(d) Perchlorate

In 2003, perchlorate released from the Olin Corporation facility at Tennant Avenue in Morgan Hill was discovered in groundwater in much of the Llagas Subbasin in South County, impacting many water supply wells. The investigation and clean-up of the contamination are under the jurisdiction of the Central Coast Regional Water Quality Control Board. Due to ongoing remediation by Olin and managed recharge by Valley Water, both the plume size and number of wells impacted have been reduced. As of June 2020, perchlorate is present above the Maximum Contaminant Level (MCL) in fewer than 5 domestic water supply wells. The perchlorate plume exceeding the MCL extends south from the Tennant Avenue site for about 3 miles. Olin's remedial efforts have included on-site soil removal and groundwater treatment as well as off-site plume remediation.

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(e) Flooding in the City of San Jose

Following a series of storms, a flood event occurred on the Coyote Creek in San Jose, California on or about February 21, 2017. The Coyote Creek is approximately 42 miles long and is the longest creek in the County. In the southern portion of the County, the District owns and maintains the Anderson Dam and Reservoir along the Coyote Creek near Morgan Hill, California. The Anderson Dam is upstream from the City of San Jose. After the reservoir reached capacity, water began going over the Anderson Dam spillway on February 18, 2017. The spillover volume peaked on the morning of February 21, 2017, increasing flows on Coyote Creek. Beginning on or about February 21, 2017, certain residential and non-residential areas of San Jose along Coyote Creek experienced flooding due to rising water levels in the creek. Thousands of residents were temporarily evacuated, and numerous properties experienced flood damage. Such flood water receded within a short period of time after February 21, 2017.

To date, Valley Water has received 423 claims with respect to the flooding along Coyote Creek. Estimated damages are in excess of $10,000,000; however, Valley Water cannot predict the final amount of any proven damages. Many of the claimants are also seeking recovery from the City of

San Jose; therefore, a portion of the aggregate stated value of the claims may be apportioned to the City of San Jose.

A number of claimants have filed lawsuits in Santa Clara County Superior Court against Valley Water, Santa Clara County, City of San Jose, DWR and/or DSOD alleging damage from the Coyote Creek flood event. Currently, 20 lawsuits have been filed and 19 are pending against Valley Water relating to the flood event. Valley Water is evaluating all of such claims and lawsuits and cannot predict the outcomes or financial impacts of these or any future claims and lawsuits with respect to the Coyote flood event. Valley Water intends to vigorously defend any actions brought against it with respect to flood-related property damage caused by the flooding along Coyote Creek. Valley Water has filed a motion to remove all 19 pending cases from the State Superior Court to federal court. The removal motion was heard on September 1, 2020, and the parties are awaiting a ruling from the court.

Of the 423 claims, 192 of the claimants have not filed an action in superior court. As to these 192 claims, Valley Water settled 162 of such claims in September 2019 at a total cost of approximately $666,700.

(f) Rinconada Water Treatment Plant Upgrade

On May 26, 2015, the Board awarded a $179,850,000 construction contract to Balfour Beatty Infrastructure, Inc. ("Balfour Beatty") for the Rinconada Water Treatment Plant (WTP) Reliability Improvement Project. Phase 2 of such project includes the construction of several new facilities for the upgraded treatment system at the Rinconada WTP, including flocculation/sedimentation, ozone generation, and washwater recover facilities. Such project also includes the installation of an electrical control building and appurtenant wiring and control systems, significant underground piping, and installation of chemical feed systems.

Valley Water's contract with Balfour Beatty provided for the project to be built in five phases within a 5-year period. The existing Rinconada WTP is to remain operational during the entire construction period, with the newly constructed facilities and upgrades integrated with plant operations at the end of each phase.

Balfour Beatty's current estimated completion date of Phase 2 work is more than two years later than originally provided in the construction schedule. Valley Water advised Balfour Beatty of Valley Water's concerns regarding quality of construction work, the failure to comprehensively remedy construction defects, and Balfour Beatty's lack of diligence to ensure progress is made in a timely manner. On March 10, 2020, Valley Water and Balfour Beatty entered into an amendment to their original construction contract ("Amendment One") pursuant to which the scope of work was reduced such that Balfour Beatty only responsible for completing Phase 2 of the project and not the later phases, as originally agreed upon. Amendment One reduced the contract amount by approximately $39.8 million. Balfour Beatty is currently performing pursuant to Amendment One and the estimated completion date for their work is the end of October 2020. Valley Water does not believe the foregoing construction issues will have a material adverse impact on the operation of the Rinconada WTP.

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(17) SUBSEQUENT EVENTS

Subsequent events have been evaluated through November XX, 2020.

On October 14, 2020, Valley Water closed on a debt issuance to finance capital improvement costs for the water utility system. The financing was authorized by Valley Water's Board of Directors at its September 8, 2020, regular meeting. Total debt proceeds of $216 million plus $20 million of original issue premium were used to repay $99.3 million of commercial paper that was issued as interim financing for previously-incurred costs (Water System Refunding Revenue Bonds, Series 2020A/B) and generate $135 million of new money proceeds to fund eligible capital costs over the next one to two years (Revenue Certificates of Participation, Water Utility System Improvement Projects, Series 2020AC/D). Valley Water received 'AA+' and 'Aa1' credit ratings on the debt from Fitch and Moody's respectively. The debt obligations will be repaid over 30 years at fixed rates. Valley Water achieved very favorable pricing with an aggregate, all-in true interest cost of 2.69% and achieved budgetary debt service savings of approximately $5 million for the new fiscal year.

On October 15, 2020, Valley Water submitted a letter of interest (LOI) for the Pacheco Reservoir Expansion Project to the U.S. Environmental Protection Agency (EPA) for a loan under its Water Infrastructure Finance and Innovation Act (WIFIA) loan program. The LOI described the project and its community benefits in detail and provided information on the creditworthiness of Valley Water as a borrower. The EPA will announce in 3 months which projects across the national are invited to apply for a WIFIA loan. The federal WIFIA loan program, previously identified by Valley Water as a preferential, low-cost option for borrowing funds to finance the development, design, and construction of the project, can fund up to 49% of eligible capital costs. In its notice of funding availability, the EPA estimated that its budget authority for its fiscal year ending September 30, 2021 may provide for approximately $5 billion in loans to selected projects, with additional funding possibility available from prior year carryover resources.

On October 30, 2020, Valley Water closed on a $170 million syndicated revolving line of credit with U.S. Bank and three small local community banks. U.S. Bank is the lead bank and will act as the agent to administer the syndicated loan with the following credit allocations: (1) U.S. Bank $150 million; (2) Bank of San Francisco $7 million; (3) Community Bank of the Bay $5 million; and (4) First Foundation Bank $8 million. The line of credit has a three-year term through October 27, 2023, with renewal options pursuant to Board Resolution 20-11 adopted by the Valley Water Board on April 28, 2020. The estimated true interest cost of the credit facility is between 0.574%-1.557%, or between $0.9 to $2.4 million per year to depending on the amount and timing of any draws and future market conditions. This credit facility ensures that Valley Water will have ample liquidity to continue funding ongoing capital projects and meet general financing needs despite the economic uncertainties related to the ongoing COVID-19 pandemic.

On November 3, 2020, the Measure S parcel tax met the two-thirds supermajority vote required for approval with a voter passing result of 75.64%. The measure to renew the Safe, Clean Water and Natural Flood Protection Program which ensures public health and safety by protecting drinking water supply, reducing toxins and contaminants, and providing flood protection, renews Valley Water's existing parcel tax, without increasing rates, and averages $.006 per square foot annually. Passage of this measure is estimated to generate an estimated $45.5 million per year for Valley Water.

Required

Supplementary

Information

VALLEY WATER

Schedule of Changes In Net Pension Liability and Related Ratios

June 30, 2020

Last 10 Years*

	2015	2016	2017	2018	2019	2020
Total pension liability						
Service cost	$ 14,351,245	$ 13,735,953	$ 13,764,288	$ 15,752,291	$ 16,022,730	$ 16,482,721
Interest on total pension liability	46,261,670	48,842,236	51,160,517	53,109,673	54,939,649	58,350,269
Differences between expected and actual experience	-	(184,479)	(3,173,782)	(4,716,605)	(1,354,497)	13,358,043
Changes in assumptions	-	(12,079,891)	-	44,289,025	(8,125,682)	-
Benefit payments, including refunds of employee contributions	(25,004,849)	(27,800,233)	(30,428,304)	(32,498,706)	(35,347,202)	(38,351,674)
Net change in pension liability	35,608,066	22,513,586	31,322,719	75,935,678	26,134,998	49,839,359
Total pension liability, beginning	622,149,061	657,757,127	680,270,713	711,593,432	787,529,110	813,664,108
Total pension liability, ending (a)	$ 657,757,127	$ 680,270,713	$ 711,593,432	$ 787,529,110	$ 813,664,108	$ 863,503,467
Plan fiduciary net position						
Contributions - employer	$ 13,804,460	$ 15,157,939	$ 17,044,538	$ 19,055,019	$ 20,101,080	$ 26,622,950
Contributions - employee	9,036,853	6,242,234	6,567,551	6,624,798	7,030,182	7,631,430
Net investment income	75,675,314	11,478,076	2,752,954	56,514,065	47,227,283	39,279,643
Benefits payment	(25,004,849)	(27,800,233)	(30,428,304)	(32,498,706)	(35,347,202)	(38,351,674)
Net plan to plan resource movement	-	-	370	370	(1,380)	-
Administrative expenses	-	(566,550)	(312,496)	(750,585)	(868,462)	(423,759)
Other miscellaneous income / (expenses)	-	-	-	-	(1,649,224)	1,380
Net change in fiduciary net position	73,511,778	4,511,466	(4,375,387)	48,944,961	36,492,277	34,759,970
Plan fiduciary net position, beginning	434,729,646	508,241,424	512,752,890	508,377,503	557,322,464	593,814,741
Plan fiduciary net position, ending (b)	$ 508,241,424	$ 512,752,890	$ 508,377,503	$ 557,322,464	$ 593,814,741	$ 628,574,711
Net pension liability, ending (a - b)	$ 149,515,703	$ 167,517,823	$ 203,215,929	$ 230,206,646	$ 219,849,367	$ 234,928,756
Plan fiduciary net position as a percentage of total pension liability	77.27%	75.37%	71.44%	70.77%	72.98%	72.79%
Covered payroll	$ 77,885,844	$ 78,009,731	$ 79,663,661	$ 84,110,908	$ 88,533,154	$ 92,133,710
Net pension liability as a percentage of covered payroll	191.97%	214.74%	255.09%	273.69%	248.32%	254.99%
Discount rate	7.50%	7.65%	7.65%	7.15%	7.15%	7.15%

Commented [GK67]: Are you sure it is an 8?

** Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 6 years are shown.*

VALLEY WATER
Schedule of Employer Pension Contributions
June 30, 2020
Last 10 Years*

	2015	2016	2017	2018	2019	2020
Actuarially determined contribution	$ 13,948,105	$ 16,532,182	$ 18,568,910	$ 19,746,343	$ 25,409,359	$28,272,714
Contributions in relation to the actuarially determined contribution	(13,948,105)	(16,532,182)	(18,568,910)	(19,746,343)	(25,409,359)	(28,272,714)
Contribution Deficiency	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll[1]	$ 78,009,731	$ 79,663,661	$ 84,110,908	$ 88,533,154	$ 92,133,710	$94,897,721
Contribution as a percentage of covered payroll	17.88%	20.75%	22.08%	22.30%	27.58%	29.79%

[1] The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net pension liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

** Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 6 years are shown.*

VALLEY WATER
Schedule of Changes In Net OPEB Liability and Related Ratios
June 30, 2020
Last 10 Years*

	2018	2019	2020
Total OPEB liability			
Service cost	$ 2,913,500	$ 2,913,500	$ 2,643,400
Interest on total OPEB liability	12,017,600	12,473,300	12,898,800
Effect ot change in actuarial assumptions/methods	-	-	(5,555,600)
Benefits payment	(8,471,200)	(8,876,700)	(10,067,800)
Other liability experience loss / (gain)	-	53,800	(8,018,200)
Net change in OPEB liability	6,459,900	6,563,900	(8,099,400)
Total OPEB liability, beginning	167,805,300	174,265,200	180,829,100
Total OPEB liability, ending (a)	$ 174,265,200	$ 180,829,100	$ 172,729,700
Plan fiduciary net position			
Contributions	$ 11,471,200	$ 11,876,700	$ 10,067,800
Benefits payment	(8,471,200)	(8,876,700)	(10,067,800)
Expected investment income	6,259,202	7,142,684	7,825,377
Investment experience (loss) / gain - differences between expected and actual experience	2,924,898	787,345	(1,180,455)
Administrative expense	(44,900)	(51,829)	(52,922)
Net change in fiduciary net position	12,139,200	10,878,200	6,592,000
Plan fiduciary net position, beginning	84,500,500	96,639,700	107,517,900
Plan fiduciary net position, ending (b)	$ 96,639,700	$ 107,517,900	$ 114,109,900
Net OPEB liability, ending (a - b)	$ 77,625,500	$ 73,311,200	$ 58,619,800

Plan fiduciary net position as a percentage of total OPEB liability	55.46%	59.46%	66.06%
Covered payroll	$ 79,663,700	$ 84,110,900	$ 88,533,200
Net OPEB liability as a percentage of covered payroll	97.44%	87.16%	66.21%
Discount rate	7.28%	7.28%	7.28%

** Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 3 years are shown.*

VALLEY WATER

Schedule of Employer Other Post Employment Benefit Contributions
June 30, 2020
Last 10 Years*

	2018	2019	2020
Actuarially determined contribution	$ 9,546,137	$ 10,227,034	$ 10,757,161
Contributions in relation to the actuarially determined contribution	(12,546,137)	(10,227,034)	(10,757,161)
Contribution Deficiency / (Excess)	$ (3,000,000)	$ -	$ -
Covered payroll[1]	$ 84,110,900	$ 88,533,200	$ 91,189,196
Contribution as a percentage of covered payroll	14.92%	11.55%	11.80%

[1] The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net OPEB liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

** Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 3 years are shown.*

Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Budgeted Governmental Funds
For the Year Ended June 30, 2020
(Dollars in Thousands)

	General Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	$ 8,412	$ 8,412	$ 9,224	$ 812
Use of money and property:				
Investment income	150	150	500	350
Rental	-	-	-	-
Reimbursement of capital costs	-	-	-	-
Other	-	-	77	77
Total revenues	8,562	8,562	9,801	1,239
Expenditures:				
Operating budget:				
Operations and operating projects	58,617	58,807	58,637	170
Debt service:				
Principal repayment	478	478	476	2
Interest and fiscal charges			-	-
Total operating budget	59,095	59,285	59,113	172
Capital budget:				
Capital improvement projects	2,212	2,233	1,460	773
Total expenditures	61,307	61,518	60,573	945
Excess (deficiency) of revenues over (under) expenditures	(52,745)	(52,956)	(50,772)	2,184
Other financing sources (uses):				
Intra-district overhead reimbursement	54,072	54,072	52,219	(1,853)
Transfers in	932	932	394	(538)
Transfers out	(709)	(709)	(709)	-
Total other financing sources	54,295	54,295	51,904	(2,391)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	$ 1,550	$ 1,339	1,132	$ (207)
Reconciliation of GAAP and budgetary basis:				
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			$ (1,953)	
Capital improvement projects			(1,962)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			2,423	
Capital improvement projects			396	
Fund Balances, beginning of year			14,137	
Fund Balances, end of year			$ 14,173	

See accompanying notes to required supplementary information

Watershed & Stream Stewardship				Safe, Clean Water & Natural Flood Protection			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
$ 86,088	$ 86,088	$ 93,054	$ 6,966	$ 45,537	$ 45,537	$ 46,091	$ 554
1,990	1,990	5,204	3,214	2,400	2,400	5,849	3,449
1,366	1,366	1,710	344	-	-	359	359
7,286	7,286	15,231	7,945	13,476	13,476	14,250	774
247	247	1,606	1,359	-	-	69	69
96,977	96,977	116,805	19,828	61,413	61,413	66,618	5,205
58,354	57,052	51,676	5,376	17,268	22,433	20,478	1,955
-	-	-	-	786	786	-	786
-	-	-	-	2,316	2,316	663	1,653
58,354	57,052	51,676	5,376	20,370	25,535	21,141	4,394
28,446	65,687	18,994	46,693	34,009	133,144	70,917	62,227
86,800	122,739	70,670	52,069	54,379	158,679	92,058	66,621
10,177	(25,762)	46,135	71,897	7,034	(97,266)	(25,440)	71,826
-	-	-	-	-	-	-	-
2,291	2,384	4,104	1,720	18,575	21,150	20,867	(283)
(21,463)	(24,089)	(22,787)	1,302	-	-	-	-
(19,172)	(21,705)	(18,683)	3,022	18,575	21,150	20,867	(283)
$ (8,995)	$ (47,467)	27,452	$ 74,919	$ 25,609	$ (76,116)	(4,573)	$ 71,543
		$ (1,725)				$ (3,244)	
		(9,168)				(13,672)	
		1,970				785	
		132				10,686	
		153,301				168,535	
		$ 171,962				$ 158,517	

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Notes to Required Supplementary Information
For the Year Ended June 30, 2020

The District annually adopts a budget in June to be effective July 1 for the ensuing fiscal year. Annual appropriated budgets are adopted for the general fund, special revenue funds, and for all proprietary funds. The COP construction and COP debt service funds are not budgeted.

Legal budgetary (expenditure) control is established at the fund level, further controlled within the fund at the category level. The categories are defined as the operating budget (operations and maintenance, debt service, and operating projects) and the capital budget (capital improvement projects) in the budget and actual budgetary basis schedules. The amounts stated therein as proposed expenditures become appropriations to the various District organization units. The Board may amend the budget by motion during the fiscal year. The District Chief Executive Officer is authorized to transfer appropriations within budget categories by fund. All unencumbered appropriations for operations and maintenance, operating projects and debt service lapse at fiscal year-end. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated. Unexpended appropriations for capital projects are carried forward until project completion or termination.

The budget process is based upon accounting for certain transactions on a basis other than the Generally Accepted Accounting Principles (GAAP) basis. The results of operations are presented in the budget and actual schedules in accordance with the budgetary basis to provide a meaningful comparison with the budget. The major differences between the budgetary basis and GAAP basis are as follows:

- Certain accruals (primarily accrued vacation and sick leave pay) are excluded from the budgetary basis because such amounts are budgeted on a cash basis.
- Year-end encumbrances are recognized as expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the GAAP basis until incurred.
- Certain budgeted debt service expenditures in special revenue funds are recorded as operating transfers out on a GAAP basis.
- Intra-district overhead reimbursement on a budgetary basis is reflected as a reimbursement of expenditures on a GAAP basis.

Reported budget amounts reflect the annual budget as originally adopted and as subsequently amended by the District Board of Directors. The budget amounts are based on estimates of the District's expenditures/expenses and the proposed means of financing them. The final budget of capital improvement projects includes budget adjustments related to capital projects' period year balance forward. Actual expenditures for capital items, as in the case of special revenue funds, may vary significantly from budget due to the timing of such expenditures.

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Supplemental

Information

Schedule of Revenues, Expenditures and Change in Fund Balances – Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Funds

Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balances
Selected Watershed Activities
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2020
(Dollars in Thousands)

	Lower Peninsula Watershed	West Valley Watershed
Revenues:		
Benefit assessments	$ 2,704	$ 2,255
Total revenues	2,704	2,255
Expenditures:		
Debt service:		
Principal repayments	-	-
Interest and fiscal charges	2	1
Total expenditures	2	1
Excess (deficiency) of revenues over (under) expenditures	2,702	2,254
Other financing source (uses):		
Transfers out	(2,702)	(2,254)
Total other financing sources (uses)	(2,702)	(2,254)
Net change in fund balances	-	-
Fund balances, beginning of year	-	-
Fund balances, end of year	$ -	$ -

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Guadalupe Watershed	Coyote Watershed	Total
$ 4,551	$ 3,930	$ 13,440
4,551	3,930	13,440
-	-	-
2	2	7
2	2	7
4,549	3,928	13,433
(4,549)	(3,928)	(13,433)
(4,549)	(3,928)	(13,433)
-	-	-
-	-	-
$ -	$ -	$ -

Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Selected Watershed Activities
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2020
(Dollars in Thousands)

	Lower Peninsula Watershed			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Benefit assessments	$ 2,705	$ 2,705	$ 2,704	$ (1)
Total revenues	2,705	2,705	2,704	(1)
Expenditures:				
Debt service:				
Principal repayment	1,329	1,329	1,801	(472)
Interest and fiscal charges	960	960	474	486
Total expenditures	2,289	2,289	2,275	14
Excess (deficiency) of revenues over (under) expenditures	416	416	429	13
Other financing sources (uses):				
Transfers out	(416)	(416)	(429)	(13)
Total other financing sources (uses)	(416)	(416)	(429)	(13)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	$ -	$ -	$ -	$ -

	West Valley Watershed				Guadalupe Watershed			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
	$ 2,255	$ 2,255	$ 2,255	-	$ 4,553	$ 4,553	$ 4,551	$ (2)
	2,255	2,255	2,255	-	4,553	4,553	4,551	(2)
	1,348	1,348	1,598	(250)	2,844	2,844	3,276	(432)
	511	511	252	259	887	887	434	453
	1,859	1,859	1,850	9	3,731	3,731	3,710	21
	396	396	405	9	822	822	841	19
	(396)	(396)	(405)	(9)	(822)	(822)	(841)	(19)
	(396)	(396)	(405)	(9)	(822)	(822)	(841)	(19)
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Continued)
Selected Watershed Activities Contained
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2020
(Dollars in Thousands)

	Coyote Watershed			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Benefit Assessments	$ 3,932	$ 3,932	$ 3,930	$ (2)
Total revenues	3,932	3,932	3,930	(2)
Expenditures:				
Debt service:				
Principal repayment	2,181	2,181	2,614	(433)
Interest and fiscal charges	1,093	1,093	539	554
Total expenditures	3,274	3,274	3,153	121
Excess (deficiency) of revenues over (under) expenditures	658	658	777	119
Other financing sources (uses):				
Transfers out	(658)	(658)	(777)	(119)
Total other financing sources (uses)	(658)	(658)	(777)	(119)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	$ -	$ -	$ -	$ -

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Water Enterprise and State Water Project Funds

Schedules of Revenues, Expenses and Change in Fund Net Position
Budget and Actual

VALLEY WATER
Schedule of Revenues, Expenses and
Changes in Net Position - Budget and Actual
Water Enterprise and State Water Project Funds
For the Year Ended June 30, 2020
(Dollars in Thousands)

	Water Enterprise Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	$ 7,451	$ 7,451	$ 8,350	$ 899
Intergovernmental services	1,237	1,237	3,721	2,484
Ground water production charges	105,036	105,036	112,560	7,524
Treated water charges	169,519	169,519	152,622	(16,897)
Surface and recycled water revenue	2,821	2,821	1,713	(1,108)
Investment income	2,800	2,800	8,838	6,038
Capital reimbursements	11,856	11,856	4,345	(7,511)
Other	1,017	1,017	1,338	321
Total revenues	301,737	301,737	293,487	(8,250)
Expenses:				
Current:				
Operations and operating projects	159,807	161,754	143,755	17,999
Debt Service:				
Principal repayment	14,040	14,040	13,060	980
Interest and fiscal charges	29,834	29,834	21,115	8,719
Capital outlay:				
Capital improvement projects	133,457	155,644	132,224	23,420
Total expenses	337,138	361,272	310,154	51,118
Excess (deficiency) of revenues over (under) expenses before transfers	(35,401)	(59,535)	(16,667)	42,868
Transfers in	1,013	1,064	1,064	-
Transfers out	(2,478)	(2,571)	(2,571)	-
Excess (deficiency) of revenues and other financing sources over (under) expenses	$ (36,866)	$ (61,042)	$ (18,174)	$ 42,868
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(30,285)	
Capitalized expenditures			123,557	
Debt principal and GAAP basis accruals for interest payable			14,738	
GAAP basis expenses and other liabilities			9,132	
Expenses of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(8,642)	
Capital improvement projects			(63,853)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			7,985	
Capital improvement projects			56,225	
Net position, beginning of year			743,894	
Net position, end of year			$ 834,577	

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Commented [GK73]: Missing double underline

State Water Project Fund				Total			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
$ 18,000	$ 18,000	$ 21,818	$ 3,818	$ 25,451	$ 25,451	$ 30,168	$ 4,717
-	-	-	-	1,237	1,237	3,721	2,484
-	-	-	-	105,036	105,036	112,560	7,524
-	-	-	-	169,519	169,519	152,622	(16,897)
-	-	-	-	2,821	2,821	1,713	(1,108)
-	-	-	-	2,800	2,800	8,838	6,038
-	-	-	-	11,856	11,856	4,345	(7,511)
1,000	1,000	1,370	370	2,017	2,017	2,708	691
19,000	19,000	23,188	4,188	320,737	320,737	316,675	(4,062)
25,068	25,068	24,775	293	184,875	186,822	168,530	18,292
-	-	-	-	14,040	14,040	13,060	980
-	-	-	-	29,834	29,834	21,115	8,719
-	-	-	-	133,457	155,644	132,224	23,420
25,068	25,068	24,775	293	362,206	386,340	334,929	51,411
(6,068)	(6,068)	(1,587)	4,481	(41,469)	(65,603)	(18,254)	47,349
-	-	-	-	1,013	1,064	1,064	-
-	-	-	-	(2,478)	(2,571)	(2,571)	-
$ (6,068)	$ (6,068)	$ (1,587)	$ 4,481	$ (42,934)	$ (67,110)	$ (19,761)	$ 47,349
		(944)				(31,229)	
		-				123,557	
		-				14,738	
		-				9,132	
		-				(8,642)	
		-				(63,853)	
		3,000				10,985	
		-				56,225	
		31,410				775,304	
		$ 31,879				$ 866,456	

Internal Service Funds

The Internal Service Funds are similar to Enterprise Funds, except that services are rendered to other District units rather than to District customers. This fund type consists of the Equipment Fund, Risk Management Fund, and Information Technology Fund.

Equipment Fund - the fund is used to account for the maintenance and operation of the District's fleet vehicles and heavy construction equipment. Financing is provided through rental charges to operations based upon usage.

Risk Management Fund – the fund is used to account for the monies set aside to pay for all claims, judgment and premium costs. Financing is provided through premiums charged to District operations.

Information Technology Fund – the fund is used to account for the maintenance and replacement of district-wide capital related information technology projects. Financing is provided through rental charges to operations based upon usage.

Combining Statement of Net Position
Internal Service Funds
June 30, 2020
(Dollars in Thousands)

	Equipment	Risk Management	Information Technology	Total
ASSETS				
Current assets:				
Cash and investments	$ 4,607	$ 14,737	$ 22,309	$ 41,653
Receivables - other	-	-	1	1
Inventory	55	-	-	55
Total current assets	4,662	14,737	22,310	41,709
Noncurrent assets:				
Capital assets				
Non-depreciable assets (Work in progress)	-	-	-	-
Depreciable assets	22,138	18	11,166	33,322
Accumulated depreciation	(13,253)	(18)	(6,791)	(20,062)
Total noncurrent assets	8,885	-	4,375	13,260
Total assets	13,547	14,737	26,685	54,969
Deferred outflows of resources - pension activities	616	557	461	1,634
Deferred outflows of resources - OPEB	114	129	234	477
Deferred outflows of resources	730	686	695	2,111
LIABILITIES				
Current liabilities:				
Accounts payable	165	214	1,524	1,903
Accrued liabilities	2	-	-	2
Claims payable	-	2,087	-	2,087
Compensated absence	59	37	13	109
Total current liabilities	226	2,338	1,537	4,101
Non current liabilities:				
Claims payable	-	5,397	-	5,397
Net Pension liability	2,492	2,826	5,127	10,445
Other post-employment benefits liability	791	684	(32)	1,443
Compensated absence	200	127	45	372
Total non-current liabilities	3,483	9,034	5,140	17,657
Total liabilities	3,709	11,372	6,677	21,758
Deferred inflows of resources - pension activities	229	102	(26)	305
Deferred inflows of resources - OPEB	129	139	213	481
Deferred inflows of resources	358	241	187	786
NET POSITION				
Net investment in capital assets	8,885	-	4,375	13,260
Unrestricted	1,325	3,810	16,141	21,276
Total net position	$ 10,210	$ 3,810	$ 20,516	$ 34,536

VALLEY WATER

Combining Statement of Revenues, Expenses and
Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2020
(Dollars in Thousands)

	Equipment	Risk Management	Information Technology	Total
Operating revenues:				
Vehicle service charges	$ 5,688	$ -	$ -	$ 5,688
Computer equipment use charges	-	-	15,143	15,143
Self-insurance service charges	-	4,870	-	4,870
Total operating revenues	5,688	4,870	15,143	25,701
Operating expenses:				
Administration and general	-	6,410	-	6,410
Equipment maintenance	3,671	-	21,977	25,648
Depreciation and amortization	1,618	1	1,196	2,815
Total operating expenses	5,289	6,411	23,173	34,873
Operating Income (loss)	399	(1,541)	(8,030)	(9,172)
Nonoperating revenues:				
Investment income	138	453	655	1,246
Gain on sale of capital assets	67	-	-	67
Other	1	188	(48)	141
Total nonoperating revenues	206	641	607	1,454
Income (loss) before transfers	605	(900)	(7,423)	(7,718)
Transfer in	-	-	4,130	4,130
Change in net position	605	(900)	(3,293)	(3,588)
Net position, beginning of year	9,605	4,710	23,809	38,124
Net position, end of year	$ 10,210	$ 3,810	$ 20,516	$ 34,536

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2020
(Dollars in Thousands)

	Equipment	Risk Management	Information Technology	Total
Cash flows from operating activities:				
Receipts from interfund services provided	$ 5,688	$ 4,879	$ 15,191	$ 25,758
Payments to suppliers	(2,410)	(3,850)	(12,554)	(18,814)
Payments to employees	(1,386)	(1,951)	(6,678)	(10,015)
Net cash provided (used) by operating activities	1,892	(922)	(4,041)	(3,071)
Cash flows from noncapital financing activities:				
Other receipts (payments)	1	188	(48)	141
Net cash provided by noncapital financing activities	1	188	(48)	141
Cash flows from capital and related financing activities:				
Proceeds from sale of fixed assets	-	-	-	-
Acquisition and disposal of capital assets	(1,478)	-	(538)	(2,016)
Transfers in - capital project reimbursement	-	-	4,130	4,130
Net cash (used) by capital and related financing activities	(1,478)	-	3,592	2,114
Cash flows from investing activities:				
Interest received on cash and investments	138	453	655	1,246
Net increase/(decrease) in cash and cash equivalents	553	(281)	158	430
Cash and cash equivalents, beginning of year	4,054	15,018	22,151	41,223
Cash and cash equivalents, end of year	$ 4,607	$ 14,737	$ 22,309	$ 41,653
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ 399	$ (1,541)	$ (8,030)	$ (9,172)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation, amortization and asset deletion	1,508	1	1,196	2,705
Change in operating assets and liabilities:				
Decrease/(increase) in accounts receivable	-	9	48	57
Decrease/(increase) in deposits and other assets	6	-	-	6
Increase/(decrease) in accounts payable	5	84	1,007	1,096
Increase/(decrease) in accrued liabilities	-	(10)	(13)	(23)
Increase/(decrease) in compensated absences	23	26	48	97
Increase/(decrease) in claims payable	-	398	-	398
Increase/(decrease) in GASB68 Retirement payable	(2)	198	2,148	2,344
Increase/(decrease) in OPEB / GASB75 payable	(156)	(177)	(321)	(654)
Increase/(decrease) in def inflows/outflows of resources	109	90	(124)	75
Net cash used for operating activities	$ 1,892	$ (922)	$ (4,041)	$ (3,071)

Changes in Fund Net Position - Budget and Actual
Internal Service Funds
For the Year Ended June 30, 2020
(Dollars in Thousands)

	Equipment			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Investment income	$ 60	$ 60	$ 138	$ 78
Vehicle service charges	5,715	5,715	5,688	(27)
Computer equipment use charges	-	-	-	-
Self-insurance service charges	-	-	-	-
Gain on sale of fixed assets	200	200	67	(133)
Other	-	-	1	1
Total revenues	5,975	5,975	5,894	(81)
Expenditures:				
Current:				
Operations and operating projects	4,773	4,760	3,773	987
Capital equipment acquisition	2,197	1,946	1,922	24
Total expenditures	6,970	6,706	5,695	1,011
Excess (deficiency) of revenues over (under) expenditures before transfers	(995)	(731)	199	930
Transfer in	-	-	-	-
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	$ (995)	$ (731)	199	$ 930
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(1,618)	
Capitalized expenditures			1,667	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(33)	
Capital improvement projects			(1,446)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			9	

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Capital improvement projects	1,827
Net position, beginning of year	9,605
Net position, end of year	$ 10,210

Risk Management				Information Technology			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
$ 250	$ 250	$ 453	$ 203	$ 200	$ 200	$ 655	$ 455
-	-	-	-	-	-	-	-
-	-	-	-	15,438	15,438	15,143	(295)
5,622	5,622	4,870	(752)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	188	188	-	-	(48)	(48)
5,872	5,872	5,511	(361)	15,638	15,638	15,750	112
5,760	6,710	6,086	624	17,039	15,492	15,726	(234)
-	-	-	-	4,130	13,855	9,402	4,453
5,760	6,710	6,086	624	21,169	29,347	25,128	4,219
112	(838)	(575)	263	(5,531)	(13,709)	(9,378)	4,331
-	-	-	-	4,130	4,130	4,130	-
$ 112	$ (838)	(575)	$ 263	$ (1,401)	$ (9,579)	(5,248)	$ 4,331
		(1)				(1,196)	
		-				539	
		(473)				(1,030)	
		-				(1,353)	
		149				1,045	
		-				3,950	
		4,710				23,809	
		$ 3,810				$ 20,516	

Changes in Fund Net Position - Budget and Actual (Continued)
Internal Service Funds
For the Year Ended June 30, 2020
(Dollars in Thousands)

	Total			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Investment income	$ 510	$ 510	$ 1,246	$ 736
Vehicle service charges	5,715	5,715	5,688	(27)
Computer equipment use charges	15,438	15,438	15,143	(295)
Self-insurance service charges	5,622	5,622	4,870	(752)
Gain on sale of fixed assets	200	200	67	(133)
Other	-	-	141	141
Total revenues	27,485	27,485	27,155	(330)
Expenditures:				
Current:				
Operations and operating projects	27,572	26,962	25,585	1,377
Capital equipment acquisition	6,327	15,801	11,324	4,477
Total expenditures	33,899	42,763	36,909	5,854
Excess (deficiency) of revenues over (under) expenditures before transfers	(6,414)	(15,278)	(9,754)	5,524
Transfer in	4,130	4,130	4,130	-
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	$ (2,284)	$ (11,148)	(5,624)	$ 5,524
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(2,815)	
Capitalized expenditures			2,206	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(1,536)	
Capital improvement projects			(2,799)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			1,203	

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Commented [GK76]: Is this not a cash flow statement?

Capital improvement projects	5,777
Net position, beginning of year	38,124
Net position, end of year	$ 34,536

Agency Fund

Agency fund type is used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds.

Deposit Fund - The fund is used to account for the collection and payment of expenditures for funds held in trust for specific restricted purposes.

Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended June 30, 2020
(Dollars in Thousands)

Commented [GK77]: Is this material

	Balance July 2, 2019	Additions	Deletions	Balance June 30, 2020
Deposit Fund				
Assets:				
Cash and investments (Note 3)	$ 199	$ 67	$ (62)	$ 204
Total assets	$ 199	$ 67	$ (62)	$ 204
Liabilities:				
Deposits payable	$ 199	$ 57	$ (52)	$ 204
Total liabilities	$ 199	$ 57	$ (52)	$ 204

Capital Assets Used in the Operation of Governmental Activities

Commented [GK78]: Why is this here by itself

Capital assets consist of land, improvements to land, buildings, equipment and intangibles that are used in operations and that have initial useful lives extending beyond a single reporting period.

Capital Assets Used in the Operation of Governmental Activities
Schedule By Source
June 30, 2020
(Dollars in Thousands)

Governmental activities capital assets:	
Land	$ 191,676
Buildings	42,007
Structures and improvements	801,912
Equipment	53,000
Construction in process	668,125
Intangibles:	
Easements	27,423
Computer Software	4,264
Total governmental funds capital assets	$ 1,788,407

Investments in governmental activities capital assets by source:	
General fund	$ 88,441
Special revenue funds:	
Watershed & Stream Stewardship	1,161,078
Safe, Clean Water & Natural Flood Protection	505,567
Internal service funds	33,321
Total governmental funds capital assets	$ 1,788,407

VALLEY WATER
Capital Assets Used in the Operation of Governmental Activities
Schedule By Function and Activity
June 30, 2020
(Dollars in Thousands)

	Function and Activity	Land	Buildings	Structures and Improvements	Equipment	Construction in Progress	Intangibles Easements	Intangibles Software	Total
100	**CEO Support Operations**								
102	Chief Executive Office	$ -	$ -	$ -	$ 379	$ -	$ -	$ -	$ 379
130	Public Affairs	-	-	-	17	-	-	-	17
200	**Watershed Operations**								
210	Chief Operating Office	-	-	-	5,199	-	-	-	5,199
210	**Watershed Management Division**								
215	Watershed Business Management	-	-	-	107	-	-	-	107
230	Watershed Planning	-	-	-	38	-	-	-	38
250	Lower Peninsula/West Valley Mgnt.	-	-	-	162	-	-	-	162
270	Guadalupe Watershed Mgmt.	-	-	-	415	-	-	-	415
290	Coyote & Uvas/Llagas Mgmt.	-	-	-	47	-	-	-	47
310	**Capital Program Services Division**								
340	Capital Program Services Departments	-	-	-	590	-	-	-	590
410	**Water Utility Enterprise Operations**								
410	Chief Operating Office	-	-	-	139	-	-	-	139
420	Water Utility Enterprise	-	-	-	202	-	-	-	202
600	**Administration**								
602	Chief Administrative Office	-	-	-	230	-	-	-	230
670	**Financial Services Division**								
610	Office of Administrative Services	-	-	-	52	-	-	-	52
670	Business And Finance Program	-	-	-	1,670	-	-	-	1,670
710	**Information Management Division**								
715	Information Management Division	-	-	-	194	-	-	-	194
720	Information Mgmt. Support Departments	-	-	-	9,456	-	-	-	9,456
810	**General Services Division**								
815	Technical Services Division	-	-	-	12	-	-	-	12
820	Technical Services Support Division	-	-	-	1,231	-	-	-	1,231
765	Records and Library	-	-	-	168	-	-	-	168
820	Warehouse Services	-	-	-	3,660	-	-	-	3,660
885	Equipment Management	-	-	-	17,403	-	-	-	17,403
910	**Human Resources Program**								
660	Human Resources Program	-	-	-	61	-	-	-	61
	Other:								
	District-wide property	191,676	42,007	801,912	11,569	668,125	27,423	4,264	1,746,976
	Total capital assets	$ 191,676	$ 42,007	$ 801,912	$ 53,000	$668,125	$ 27,423	$ 4,264	$ 1,788,407

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FY 20 CAFR Updates based on Director Kremen Feedback from November 22, 2020

Item	Board Comment & *Location within November Draft CAFR*	Staff Response	Revised Draft CAFR Location
1	Use of Legal name *Cover Page*	Updated Title of Report to include legal name "Santa Clara Valley Water District". Also updated first reference to Valley Water on page 1 to say "Santa Clara Valley Water District, now referred to as Valley Water"	Cover Page; Title of Report and page 1
2	Comment regarding unit that prepares the report *Cover Page*	No change as the Government Finance Officers Association (GFOA) recommends including the department responsible for preparing the report. See page 591 of the "Governmental Accounting, Auditing, and Financial Reporting" or GAAFR Book. See also the GFOA Certificate of Achievement for Excellence in Financial Reporting Checklist, item 1.5c.	Cover Page
3	Number precision consistency *page 2, 22, 57, 71, 78, 83, 88, 91, 92, 95, 102, 118*	Updated all financial schedules to "millions" of dollars (to one decimal place). Updated all narratives to millions of dollars (to one decimal place).	Throughout
4	District Profile updates *Page 2*	Removed two paragraphs on early Valley Water history and removed narrative on 2009 redistricting effort. In consultation with the Legal department, the reference "(Wat. Code, § Ch. 60, Refs & Annos)" was added to provide the official citation to the entire District Act.	Page 2
5	Private Well owner clarification *Page 3*	Added phrase to clarify that Valley Water levies a groundwater production charge for water pumped within a groundwater benefit zone.	Page 2
6	Comment regarding Integration Agreement with City of San Jose *Page 3*	No change as this comment was carefully crafted by Legal. Discussion as to whether to add a reserve can be had by full Board.	Page 3
7	Palo Alto Deal *Page 3*	Added paragraphs on the Palo Alto Deal under "District Profile section and within Note (15) regarding "Commitments".	Page 3 and Page 97
8	Use of term "Silicon Valley" *Page 4*	Deleted sentence that says: "Santa Clara County is also the largest member community of Silicon Valley, which is world-renowned for creativity, innovation and productivity."	Page 4
9	Water Retailer shutoff moratorium *Page 5*	Added sentence that says: "To date, Valley Water has not been notified by any retail water purveyor served by Valley Water of material delinquencies in the payment of water utility bills by customers of such retail water	Page 5

Item	Board Comment & *Location within November Draft CAFR*	Staff Response	Revised Draft CAFR Location
		purveyors, despite Governor Newsom's executive order issued on March 4, 2020 that restricts water shutoffs to homes and small businesses while the state responds to the COVID-19 pandemic."	
10	Estimated cost to fix dams with capacity restrictions due seismic safety concerns *Page 5*	Added the sentence: "The estimated cost to fix all dams with seismic safety concerns is $836.0 million according to the FY 21-25 Capital Improvement Program.	Page 5
11	Impairment testing due to SGMA and contamination *Page 5*	See item #46 below.	
12	New ballot measure as a subsequent event *Page 7*	The new ballot measure result was included in Note 17 – Subsequent Events	Page 7 and Page 109
13	Explain PFFC. and provide answer to question on the PFFC being used for the first time *Page 7*	Clarified the paragraph by adding the sentence: "Commercial paper is used to provide low-cost interim financing during construction. Valley Water issues long-term debt obligations to repay principal outstanding on the commercial paper over a 30-year term.	Page 7
14	Line missing? *Page 13*	Corrected.	Page 13
15	Materiality on amount reported *Page 20*	We need to disclose this required line, but it has been rounded to millions.	Page 20
16	Formatting *Page 21, 59, 107, 116, 118, 127*	Formatting corrected in PDF version.	Throughout
17	Semitropic liability and corresponding asset? *Page 31*	Page 75 of Revised Draft CAFR explains the liability associated with Semitropic. Semitropic contract rights incorporated on page 45 of Revised Draft CAFR under the Water Enterprise Fund column (Contract Water Rights, Net), which is explained on Page 97	Page 33, 45, 75 and 97
18	Secured, unsecured? *Page 31*	Added the comment: "Valley Water's ratings are the same on a secured and unsecured basis pursuant to the rating methodologies of the respective rating agencies."	Page 33

Item	Board Comment & *Location within November Draft CAFR*	Staff Response	Revised Draft CAFR Location
19	Materiality? *Page 34 and 71*	This goes away with rounding to millions. Line eliminated	Page 36 and 72
20	Where is Note 6? *Page 34*	Added "NOTE" to each Note Disclosure. The "Notes" section begins on page 49.	Page 67
21	Presentation comment *Page 35*	This Statement of Activities presentation follows GASB.	Page 37
22	Fire protection as part of our mission? *Page 47*	Part of Valley Water mission is to supply water, which can be used for fire protection among other uses.	Page 49
23	Is this not Gov GAAP *Page 47*	Yes, GASB was created to establish GAAP for governmental entities. This is stated on the first page of the Transmittal Letter.	Page 49
24	Is there not unincorporated parts? *Page 49*	The sentence references what the area includes.	Page 51
25	Should we not write off after 1 year? Is this debt secured? *Page 53*	Discussed at 12/16/20 BAC meeting. Staff will resolve write off issue.	
26	Policy issue – use real life calculations *Page 54*	A sentence was added to reflect what the liability would be using a 3.25% discount rate.	Page 84
27	Actually we do have ownership of the financing subsidiary, so might be relevant. *Page 56*	We already include the PFFC in our Governmental Funds presentation.	Page 57
28	Discussion of our local debt and deposit policy? *Page 58*	Added a footnote for Time Certificates of Deposits - (B) Valley Water Board of Directors approved investments in California based local banks with a threshold of a minimum of 4% invested in banks with up to $10 billion in assets and 1% in banks with up to $2 billion in assets for a limit of 5 years in the form of collateralized deposits, FDIC/NCUA insured CDs, CDARS, or any legally allowable deposits.	Page 60
29	What is this m? *Page 59*	This 'm' was a typo and has been deleted.	Page 61

Item	Board Comment & *Location within November Draft CAFR*	Staff Response	Revised Draft CAFR Location
30	Inconsistent fonts Page 62 and 124	This has been corrected.	Page 64 and 134
31	Missing "NOTE" preceding numbers *Page 66*	This has been corrected for all the Notes sections.	
32	Was asked by someone on the total capital spend – unclear *Page 66*	Condensed Government-wide cash flow statement added to MD&A section on page 27, which shows total capitalized expenditures for FY 20 of $196.3 million.	Page 27
33	Subsequent event *Page 75*	A reference to Subsequent Events was added.	Page 76
34	Prior communication on this issue *Page 81*	A sentence was added to reflect what the liability would be using a 3.25% discount rate.	Page 84
35	Truth please *Page 83*	The sentence was added below the discount rate sensitivity chart provided by CalPERS: "To present a more conservative estimate of the pension liability, applying a 3.25% discount rate would result in a pension liability of approximately $696.5 million."	Page 84
36	Strange formatting *Page 84*	This table is provided by CalPERS and complies with GASB requirements.	Page 85
37	Inconsistent spacing *Page 85*	This column was corrected with a left-justification.	Pages 86-88
38	Table format? *Page 93*	Please see following page for table (Page 95).	Page 95
39	Disclosure requested *Page 95*	Added the sentence in the third paragraph: "Semitropic Water Storage District has reported elevated concentrations of 1, 2, 3 trichloropropane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery, and treatments costs and possibly impaired recovery of banked water supplies.	Page 97

Item	Board Comment & *Location within November Draft CAFR*	Staff Response	Revised Draft CAFR Location
40	Value *Page 96*	Water inventory value will be discussed at 1/13/21 BAC meeting.	
41	Did they (Shatto) not settle? Why is all the history needed? *Page 97*	Yes, the Shatto issue was settled. Update included on page 99. In general, the legal disclosure included in the most recent Preliminary Official Statement (POS) was followed.	Page 99
42	First I have heard of this – tell us more *Page 98*	This is an old issue and was a long standing paragraph and has been removed.	
43	Material? *Page 98*	This note was updated based on feedback from Legal. This note will be removed from next year's CAFR barring any new issues.	Page 101
44	Rinconada – Subsequent event? *Page 99*	The following sentence was added in this section: "As a result, Balfour Beatty filed a California Government Code Claim pursuant to section 900 et. Seq. on December 7, 2020 alleging entitlement to monetary compensation for Valley Water's breach of contract and violation of Public Contract Code section 7107 relating to timely release of contract retention, which is approximately $7.4 million."	Page 109
45	Materiality? *Page 112*	This line is now zero with rounding to millions.	Page 122
46	Formatting - What is associated with the rows? *Page 115*	This schedule is a two-page layout. Row titles are shown on previous page.	Page 124 and 125
47	Is this a material schedule? *Page 128*	This is a required schedule per GASB.	Page 138
48	Why is this here by itself? *Page 129*	This is a title page to introduce required schedules per GASB.	Page 139
49	What are these numbers? *Page 131*	These numbers are department numbers. Column title has been updated to clarify.	Page 141

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VALLEY WATER

Statement of Net Position

June 30, 2020

(Dollars in Millions)

With Inventory

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments (Note 3)	$ 427.8	$ 288.2	$ 716.0
Restricted cash and investments (Note 3)	5.5	0.1	5.6
Receivables (net):			
Accounts	2.8	38.6	41.4
Interest	2.3	-	2.3
Taxes	0.2	0.1	0.3
Inventory - Water	-	134.4	134.4
Deposits and other assets	3.5	7.0	10.5
Total current assets	442.1	468.4	910.5
Internal balances	0.8	(0.8)	-
Capital assets (Note 6):			
Contract water and storage rights, net	-	38.5	38.5
Depreciable, net	666.6	713.8	1,380.4
Nondepreciable	887.3	514.0	1,401.3
Total assets	1,996.8	1,733.9	3,730.7
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	-	0.6	0.6
Deferred outflows of resources - pension activities (Note 11)	26.8	20.8	47.6
Deferred outflows of resources - OPEB (Note 12)	6.1	4.6	10.7
Total deferred outflows of resources	32.9	26.0	58.9
LIABILITIES			
Accounts payable	17.9	32.0	49.9
Accrued liabilities	0.5	1.8	2.3
Commercial paper, net of discount (Note 7)	30.0	72.7	102.7
Deposits payable	3.8	6.7	10.5
Accrued interest payable	1.3	-	1.3
Total current liabilities	53.5	113.2	166.7
Noncurrent liabilities (Note 7):			
Due within one year	14.4	17.1	31.5
Due in more than one year	246.1	620.5	866.6
Total liabilities	314.0	750.8	1,064.8
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension activities (Note 11)	5.2	4.0	9.2
Deferred inflows of resources - OPEB (Note 12)	6.6	5.0	11.6
Total deferred inflows of resources	11.8	9.0	20.8
NET POSITION (Note 10)			
Net investment in capital assets	1,478.5	689.2	2,167.7
Restricted:			
Debt service	4.1	0.1	4.2
Safe, Clean Water - other activities	149.5	-	149.5
Water Utility San Felipe emergency	-	3.3	3.3
GP5 Reserve	-	6.6	6.6
Water Utility rate stabilization	-	23.5	23.5
Water Utility state water project	-	16.8	16.8
Public-private partnership	-	8.0	8.0
Advanced water purification center	-	1.3	1.3
Supplemental water supply	-	15.1	15.1
Drought reserve	-	10.0	10.0
Unrestricted	71.8	226.2	298.0
Total net position	$ 1,703.9	$ 1,000.1	$ 2,704.0

See accompanying notes to basic financial statements

VALLEY WATER

Statement of Activities
For the Year Ended June 30, 2020
(Dollars in Millions)
With Inventory

Description	Governmental Activities: General Government	Governmental Activities: Watersheds	Governmental Activities: Interest on Long-term Debt	Governmental Activities: Total	Business-Type Activities	Total
Expenses:						
Operations and operating projects	$ 11.0	$ 134.0	$ 2.5	$ 147.5	$ -	$ 147.5
Water cost of production	-	-	-	-	226.9	226.9
Program revenues:						
Charges for water services	-	-	-	-	266.9	266.9
Operating grants and contributions	-	-	-	-	3.7	3.7
Capital grants and contributions	-	42.9	-	42.9	4.3	47.2
Net program revenue (expense)	$ (11.0)	$ (91.1)	$ (2.5)	(104.6)	48.0	(56.6)
General revenues:						
Property taxes (Note 8)				148.4	30.2	178.6
Unrestricted investment earnings				12.9	8.8	21.7
Miscellaneous				4.0	2.8	6.8
Transfers (Note 14)				1.5	(1.5)	-
Total general revenues and transfers				166.8	40.3	207.1
Change in net position				62.2	88.3	150.5
Net position, beginning of year				1,641.7	778.6	2,420.3
Prior period adjustment (Note 15)				-	133.2	133.2
Net position, beginning of year, restated				1,641.7	911.8	2,553.5
Net position, end of year				$ 1,703.9	$ 1,000.1	$ 2,704.0

See accompanying notes to basic financial statements.

VALLEY WATER
Statement of Net Position
Proprietary Funds
June 30, 2020
(Dollars in Millions)
With Inventory

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments (Note 3)	$ 271.2	$ 17.0	$ 288.2	$ 41.6
Receivables:				
Accounts	38.6	-	38.6	-
Taxes	-	0.1	0.1	-
Inventory - water	134.4	-	134.4	-
Deposits and other assets	7.0	-	7.0	0.1
Total current assets	451.2	17.1	468.3	41.7
Non current assets:				
Restricted cash and investments (Note 3)	0.1	-	0.1	-
Capital assets (Note 6):				
Contract water rights, net	23.4	15.1	38.5	-
Depreciable, net	713.8	-	713.8	13.3
Nondepreciable	514.0	-	514.0	-
Total non current assets	1,251.3	15.1	1,266.4	13.3
Total assets	1,702.5	32.2	1,734.7	55.0
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	0.6	-	0.6	-
Deferred outflows of resources - pension activities (Note 11)	20.8	-	20.8	1.6
Deferred outflows of resources - OPEB (Note 12)	4.6	-	4.6	0.4
Total deferred outflows of resources	26.0	-	26.0	2.0
LIABILITIES				
Current liabilities:				
Accounts payable	31.7	0.3	32.0	1.9
Accrued liabilities	1.8	-	1.8	-
Commercial paper (Note 7)	72.7	-	72.7	-
Deposits payable	6.7	-	6.7	-
Claims payable (Note 13)	-	-	-	2.1
Bonds payable - current (Note 7)	15.7	-	15.7	-
Compensated absence	1.4	-	1.4	0.1
Total current liabilities	130.0	0.3	130.3	4.1
Non current liabilities:				
Bonds payable - net of discounts and premiums (Note 7)	479.4	-	479.4	-
Claims payable (Note 13)	-	-	-	5.4
Compensated absence	4.9	-	4.9	0.4
Net pension liability (Note 11)	100.6	-	100.6	10.4
Other post employment benefits liability (Note 12)	25.6	-	25.6	1.5
Other debt	10.0	-	10.0	-
Total non current liabilities	620.5	-	620.5	17.7
Total liabilities	750.5	0.3	750.8	21.8
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension activities (Note 11)	4.0	-	4.0	0.3
Deferred inflows of resources - OPEB (Note 12)	5.0	-	5.0	0.4
Total deferred inflows of resources	9.0	-	9.0	0.7
NET POSITION (Note 10)				
Net investment in capital assets	674.1	15.1	689.2	13.3
Restricted:				
Cash with fiscal agents	0.1	-	0.1	-
San Felipe operations	3.3	-	3.3	-
GP5 reserve	6.6	-	6.6	-
State water project	-	16.8	16.8	-
Rate stabilization	23.5	-	23.5	-
Public-private partnership	8.0		8.0	-
Advanced water purification center	1.3	-	1.3	-
Supplemental water supply	15.1	-	15.1	-
Drought reserve	10.0	-	10.0	-
Unrestricted	227.0	-	227.0	21.2
Total net position	$ 969.0	$ 31.9	1,000.9	$ 34.5
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			(0.8)	
Net position of business-type activities			$ 1,000.1	

See accompanying notes to basic financial statements.

VALLEY WATER

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2020
(Dollars in Millions)
With Inventory

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
Operating revenues:				
Ground water production charges	$ 112.6	$ -	$ 112.6	$ -
Treated water charges	152.6	-	152.6	-
Surface and recycled water revenue	1.7	-	1.7	-
Charges for services	-	-	-	25.7
Other	0.2	-	0.2	-
Total operating revenues	267.1	-	267.1	25.7
Operating expenses:				
Sources of supply	64.2	21.8	86.0	-
Water treatment	38.5	-	38.5	-
Transmission and distribution:				
Raw water	14.0	-	14.0	-
Treated water	1.7	-	1.7	-
Administration and general	32.0	-	32.0	6.4
Equipment maintenance	-	-	-	25.7
Depreciation and amortization	30.3	0.9	31.2	2.8
Total operating expenses	180.7	22.7	203.4	34.9
Operating income (loss)	86.4	(22.7)	63.7	(9.2)
Nonoperating revenues (expenses):				
Property taxes (Note 8)	8.4	21.8	30.2	-
Investment income (Note 5)	8.8	-	8.8	1.2
Operating grants	3.7	-	3.7	-
Rental income	0.1	-	0.1	-
Other	1.1	1.4	2.5	0.3
Interest and fiscal agent fees	(19.4)	-	(19.4)	-
Net nonoperating revenues (expenses)	2.7	23.2	25.9	1.5
Income before capital contributions and transfers	89.1	0.5	89.6	(7.7)
Capital contributions (Note 4)	4.3	-	4.3	-
Transfers in (Note 14)	1.1	-	1.1	4.1
Transfers out (Note 14)	(2.6)	-	(2.6)	-
Change in net position	91.9	0.5	92.4	(3.6)
Net position, beginning of year	743.9	31.4	775.3	38.1
Prior period adjustments				
Water inventory	133.2	-	133.2	-
Net position, beginning of year, restated	877.1	31.4	908.5	38.1
Net position, end of year	$ 969.0	$ 31.9	$ 1,000.9	$ 34.5
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.			(0.8)	
Net position of business-type activities			$ 1,000.1	

Reconciliation of the Statement of Revenues, Expenses and Change in Net Position to the Statement of Activities:
Amounts reported as business-type activities in the statement of activities are different because:

Net change in net position - enterprise funds	$ 92.4
Adjustment to the net effect of the current year activity between the internal service funds and the enterprise funds	(4.1)
Change in net position of business-type activities	$ 88.3

See accompanying notes to basic financial statements.

Valley Water

File No.: 20-1222

Agenda Date: 1/13/2021
Item No.: 5.4.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Receive an Update on the Status of the Permitting Best Practices Audit.

RECOMMENDATION:
Receive an update on the status of the on-going Permitting Best Practices Audit.

SUMMARY:
The Board Audit Committee (BAC) was established by the Santa Clara Valley Water District Board of Directors (Board) to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

At the September 16, 2020 Board Audit Committee meeting, the Committee directed Staff to seek full Board approval to select the Permitting Best Practices Audit as the next audit from the Annual Audit Work Plan to be undertaken by TAP International, Inc. At the October 13, 2020 Board meeting, the Board approved the update to the Annual Audit Work Plan as recommended by the BAC identifying the Permitting Best Practices Audit as the next audit to be undertaken by TAP International, Inc.

Following initiation of the audit, the Committee shall discuss the status of the on-going audit progress report (Attachment 1) until the audit is completed.

ATTACHMENTS:
Attachment 1: CPRU Progress Report

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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Project Progress

Overall Status: Off Track

Project Name: Performance Audit of CPRU

Date: December 1-31, 2020

Status Code Legend

- On Track: Project is on schedule
- At Risk: Project at risk of going off track
- At High Risk: Project at high risk of going off track
- Off Track: Date will be missed if action not taken

Summary narrative – Off Track – CPRU is making every effort to respond to our data request. .	Key Activities Completed during the Period • Completed interviews with all CPRU staff with permit responsibilities including the eight staff in Engineer positions to discuss their activities related to permit intake, assignment, review, approval, and invoicing • Continued analysis of permit processing data (volume, types, time to process, approval, modifications) • Designed, administered, and began analysis of a five-question customer satisfaction survey administered to 96 potential respondents • Developed data collection instrument and began collection of local agency permit practices • Conducted follow on data request (FY19 permit processing data, policies and procedures, outstanding invoices, and other financial data) Key Activities Planned for the next reporting period • Obtain outstanding data • Complete data analysis of permits, financial and survey • Summarize results from review of local agency permit practices • Conduct follow-up interviews, as needed, with CPRU management and staff

Timeline –

Audit Activity	**Estimated Due Date**
Data collection and analysis	**1/22/2021**
Preliminary results meetings	**2/28/2021**
Technical review of Preliminary Draft Report	**3/15/2021**
Draft report submittal to Audit Committee	**February**
Final Report to Audit Committee	**March**

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File No.: 20-1108

Agenda Date: 1/13/2021
Item No.: 5.5.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Receive and Discuss a Status Update on the Implementation of Audit Recommendations.

RECOMMENDATION:
Receive and discuss a status update on the implementation of audit recommendations.

SUMMARY:
The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

Currently there are a total of 51 currently pending audit recommendations represented in the table below. The full description of the 51 pending audit recommendations is provided as Attachment 1.

Audit Name	Total Number of Recommendations	# of Recommendations Not Selected for Further Analysis	%	# of Recommendations Either Pending or Underway	%	# of Recommendations Either Completed or Implemented	%
2011 Diversity and Inclusion Audit	54	0	0%	0	0%	54	100%
2014 Staff Resources Plan - Phase 1	46	4	9%	0	0%	42	91%
2014 Values and Ethics Team	31	1	3%	0	0%	30	97%
2014 Treated Water Revenue Audit	28	2	7%	0	0%	26	93%
2014 Transparency Compliance Audit	22	2	9%	2	9%	18	82%
2015 Mitigation and Monitoring Compliance Audit	15	0	0%	1	7%	14	93%
2015 Consultant Contracts Audit	11	0	0%	8	73%	3	27%
2015 Staff Resources Plan - Phase II	8	0	0%	0	0%	8	100%
2017 Safe, Clean Water Audit	12	0	0%	0	0%	12	100%
2019 Lower Silver Creek Audit	27	0	0%	16	59%	11	41%
2019 Contract Change Order Audit	7	0	0%	6	86%	1	14%
2020 Real Estate Services Audit	13	0	0%	13	100%	0	0%
2020 District Counsel Audit	5	0	0%	5	100%	0	0%
TOTALS:	**279**	**9**	**3%**	**51**	**18%**	**219**	**78%**

Aside from the Board-approved on-call consultant agreement with TAP International, Inc. (TAP) for Board independent auditing services, there are four management audits with audit recommendations that remain pending. The four audits are listed as follows: 2014 Transparency Compliance Audit; 2015 Mitigation and Monitoring Compliance Audit; 2015 Consultant Contracts Audit; and 2019 Lower Silver Creek Audit.

In 2014, TAP conducted the Transparency Compliance Audit that resulted in 22 recommendations that the Board of Directors and Chief Executive Officer considered implementing to advance to the next generation of transparency and accountability activities. Currently, there are 2 remaining audit recommendations assigned to the Chief Executive Officer involving structural and operational changes.

In 2015, Panorama Environmental, Inc., conducted the Mitigation and Monitoring Compliance audit that resulted in 15 recommendations based on Valley Water's operations and maintenance activities and capital projects in the Watershed Management and Water Utility divisions, and included all mitigation associated with Valley Water's multi-year Stream Maintenance Program. Currently there is 1 remaining audit recommendation that is pending Maximo upgrades.

In 2015, Navigant Consulting, Inc., conducted the Consultant Contracts Audit that resulted in 11 recommendations based on the extent to which compliance issues have been present during the review period (2009 - 2014), and areas of improvement to the "as-is" post-award contract management framework (including relevant policies, processes, and protocols). Currently there are 8 remaining audit recommendations that are scheduled for status update and review at the February 17, 2021 BAC meeting.

In 2019, PMA Consultants, LLC conducted the Lower Silver Creek Audit that resulted in 27 recommendations based on a review of: (1) allegations of conflict of interest, fund reallocation, and firewall; (2) financial allegations; (3) District Attorney investigation; (4) sole sourcing; and (5) performance review. Currently there are 16 remaining audit recommendations with entirely new audit recommendation owners researching and developing plans for implementation.

Under the Board-approved on-call consultant agreement with TAP for Board independent auditing services, TAP initiated audits as identified in the Annual Audit Work Plan. These Board-initiated audits are listed as follows: 2019 Contract Change Order Audit; 2020 Real Estate Services Audit; and 2020 District Counsel Audit. Two additional audits for Grants Management Performance and Permitting Best Practices are currently underway.

In 2019, TAP International Inc., (TAP) conducted the Contract Change Order Audit that resulted in 7 recommendations to enhance change order management and administration activities for very large capital construction projects. Currently there are 6 audit recommendations that remain pending. A status update and review of these pending audit recommendations were discussed at the November 18, 2020 BAC meeting.

In 2020, TAP conducted the Real Estate Services Audit that resulted in 13 recommendations to minimize undue hardships to property owners, enhance the timeliness of real estate transactions, increase revenue, and improve transparency and accountability of Real Estate Services Unit current operations. Currently all 13 audit recommendations remain pending.

Also, in 2020, TAP International Inc., conducted the District Counsel Audit that resulted in 5 recommendations to improve service delivery and performance through an enhanced operating strategy, implementing structural and process improvement changes that will enhance the efficiency and effectiveness of legal services provided to Valley Water's operational and administrative units. Currently all 5 audit recommendations remain pending. A status update and review of these pending audit recommendations were reviewed at the November 18, 2020. BAC meeting. Presentation of the District Counsel Audit final report was approved and recommended by the BAC on December 16, 2020, to be presented to the full Board at the January 26, 2021, Board meeting.

On September 2, 2020, TAP subconsultants, Greta MacDonald and Drummond Kahn, initiated the Grant Management Performance Audit to assess whether Valley Water can provide assurance that risks are being managed appropriately and whether the department's internal control environment is operating effectively to ensure the safeguarding of public funds, with the focus on improving grant management operations and aligning current processes with best practices. Additionally, it will assess the timeliness of grant/contract approvals, and grant payments.

On October 13, 2020, the full Board approved the Permitting Best Practices Audit to be the latest audit undertaken by TAP.

ATTACHMENTS:
Attachment 1: Audit Recommendations Tracking Table

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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Audit Recommendations Status

Valley Water

7 Audits Total

51 Pending Audit Recommendations Total

Table of Contents

BRIEF OVERVIEW

Audit Name	Total Number of Recommendations	# of Recommendations Not Selected for Further Analysis	%	# of Recommendations Either Pending or Underway	%	# of Recommendations Either Completed or Implemented	%
2011 Diversity and Inclusion Audit	54	0	0%	0	0%	54	100%
2014 Staff Resources Plan - Phase 1	46	4	9%	0	0%	42	91%
2014 Values and Ethics Team	31	1	3%	0	0%	30	97%
2014 Treated Water Revenue Audit	28	2	7%	0	0%	26	93%
2014 Transparency Compliance Audit	22	2	9%	2	9%	18	82%
2015 Mitigation and Monitoring Compliance Audit	15	0	0%	1	7%	14	93%
2015 Consultant Contracts Audit	11	0	0%	8	73%	3	27%
2015 Staff Resources Plan - Phase II	8	0	0%	0	0%	8	100%
2017 Safe, Clean Water Audit	12	0	0%	0	0%	12	100%
2019 Lower Silver Creek Audit	27	0	0%	16	59%	11	41%
2019 Contract Change Order Audit	7	0	0%	6	86%	1	14%
2020 Real Estate Services Audit	13	0	0%	13	100%	0	0%
2020 District Counsel Audit	5	0	0%	5	100%	0	0%
TOTALS:	**279**	**9**	**3%**	**51**	**18%**	**219**	**78%**

2014 TRANSPARENCY COMPLIANCE AUDIT

In 2014, TAP International Inc., conducted the Transparency Compliance Audit that resulted in 22 recommendations that the Board of Directors and Chief Executive Officer considered implementing to advance to the next generation of transparency and accountability activities. Currently, there are 2 remaining audit recommendations assigned to the Chief Executive Officer involving structural and operational changes.

2015 MITIGATION AND MONITORING COMPLIANCE AUDIT

In 2015, Panorama Environmental, Inc., conducted the Mitigation and Monitoring Compliance audit that resulted in 15 recommendations based on Valley Water's operations and maintenance activities and capital projects in the Watershed Management and Water Utility divisions, and included all mitigation associated with Valley Water's multi-year Stream Maintenance Program. Currently there is 1 remaining audit recommendation that is pending Maximo upgrades.

2015 CONSULTANT CONTRACTS AUDIT

In 2015, Navigant Consulting, Inc., conducted the Consultant Contracts Audit that resulted in 11 recommendations based on the extent to which compliance issues have been present during the review period (2009 – 2014), and areas of improvement to the "as-is" post-award contract management framework (including relevant policies, processes, and protocols). Currently there are 8 remaining audit recommendations that are scheduled for status update and review at the February 17, 2021, Board Audit Committee meeting.

2019 LOWER SILVER CREEK AUDIT

In 2019, PMA Consultants, LLC conducted the Lower Silver Creek Audit that resulted in 27 recommendations based on a review of: (1) allegations of conflict of interest, fund reallocation, and firewall; (2) financial allegations; (3) District Attorney investigation; (4) sole sourcing; and (5) performance review. Currently there are 16 remaining audit recommendations with entirely new audit recommendation owners researching and developing plans for implementation.

2019 CONTRACT CHANGE ORDER AUDIT

In 2019, TAP International Inc., conducted the Contract Change Order Audit that resulted in 7 recommendations to enhance change order management and administration activities for very large capital construction projects. Currently there are 6 audit recommendations that remain pending. A status update and review of these pending audit recommendations were reviewed at the November 18, 2020. Board Audit Committee meeting.

2020 REAL ESTATE SERVICES AUDIT

In 2020, TAP International, Inc., conducted the Real Estate Services Audit that resulted in 13 recommendations to minimize undue hardships to property owners, enhance the timeliness of real estate transactions, increase revenue, and improve transparency and accountability of Real Estate Services Unit current operations. Currently all 13 audit recommendations remain pending. Presentation of the Real Estate Services Audit final report was approved and recommended by the Board Audit Committee on October 21, 2020, to be presented to the full Board at the November 10, 2020, Board meeting.

2020 DISTRICT COUNSEL AUDIT

In 2020, TAP International Inc., conducted the District Counsel Audit that resulted in 5 recommendations to improve service delivery and performance through an enhanced operating strategy, implementing structural and process improvement changes that will enhance the efficiency and effectiveness of legal services provided to Valley Water's operational and administrative units. Currently all 5 audit recommendations remain pending. A status update and review of these pending audit recommendations were reviewed at the November 18, 2020. Board Audit Committee meeting. Presentation of the District Counsel Audit final report was approved and recommended by the Board Audit Committee on December 16, 2020, to be presented to the full Board at the January 26, 2021, Board meeting.

2014 TRANSPARENCY COMPLIANCE AUDIT			
Action Item Owner	**Ref #**	**Summary of Recommendation**	**Updates/Notes**
CEO Rick Callender	2	Reorganize the Internal Audit Unit to formulate a Business Intelligence Unit that includes business intelligence analysis and program evaluation in support of continuous process improvement efforts and performance monitoring. To support business analysis activities, assign at least three additional positions.	11/22/16: To be re-evaluated. As its performance management efforts continue to improve, the District will evaluate necessary resources subject to program needs and to staff planning and budgeting processes. 10/17/18: Still to be re-evaluated. Recommendation to remain open. 7/2/19: Per 5/3/19 Chief's Meeting, directed to obtain a third-party internal auditor to conduct QEMS & specialized technical audits. Also, considering adjusting the frequency of the internal audits. This will be revisited after the Contract Change Order Audit is completed.
CEO Rick Callender	19	Meet on a quarterly basis with District leadership, mid-level managers, and staff to analyze performance data to assess the District's progress and identify improvements in processes to accomplish the District's key strategic goals.	11/22/16: On hold. Review the measures and process, as part of the District-wide effort to enhance performance measurement, and implement improvements, such as this recommendation. 10/17/18: Round table discussions have been incorporated into MLT meeting. Will look into formalization of performance data discussion in future meetings. 7/2/19: Recommendation to stay open. Look into ways to incorporate current performance data into MLT/LT meetings.

2015 MITIGATION AND MONITORING COMPLIANCE AUDIT			
Action Item Owner	**Ref #**	**Summary of Recommendation**	**Updates/Notes**
Senior Water Resource Specialist - Doug Titus Environmental Planning UM - Kirsten Struve Environmental Services Manager-Watershed - Scott Akin Water Resources Planning and Policy UM - Afshin Rouhani Environmental Health & Safety UM - Larry Lopez	2	Consolidate the Mitigation Tracking Databases and include a GIS Element.	7/1/15: The District currently has multiple databases that track varying levels of environmental permitting and CEQA requirements. The District Permit Management System (DPMS) was developed to track permit conditions and compliance with those conditions, however; it is not used consistently, does not include a GIS element, and does not have a simple method for accessing mitigation monitoring data. We agree that there should be one District-wide database that tracks permit requirements including mitigation obligations. Additionally, there should be clear procedures and processes in place to ensure the database is effective and is utilized as intended. Action: Recommend the CEO create a cross-functional team to evaluate current District permitting and mitigation databases and make recommendations for inclusion into the IT Master Plan. Due Date: 8/30/15 7/25/18 (K.L. and L.P.): Description from 7/1/15 still applies. Recommendation still pending. 5/2/19 (Doug Titus): In addition to 7/1/15 response, mitigation databases include the Stream Maintenance Program (SMP), SCVWD Native Plant Mitigation Sites (GIS-based), and continued construction of EM-IMS (water temperature, Hg, wildlife, and fisheries data available). Recent discussions involve integrating Maximo with its planned upgrade and consolidation of environmental staff in Watersheds. A cross-functional team was formed and meets quarterly (prior meeting was 4/25/19). 2/10/20 (D.T.): Same update from 5/2/19 still applies. Recommendation still pending.

			9/15/20 (D.T.): Same status as 5/2/19, EM-IMS continues to be developed, and is waiting for Maximo upgrades to investigate linkages. The Program/Permit Coordination team last met on 4/7/20.

2015 CONSULTANT CONTRACTS AUDIT			
Action Item Owner	**Ref #**	**Summary of Recommendation**	**Updates/Notes**
General Services DAO Roslyn Fuller	1	Write a consolidated business policy concerning contracting management (including consultant contracting), which establishes the governance framework and functional accountability for contract management at the District. Include in this document a "Certificate of Acknowledgement" that staff must sign annually (or more frequently, as required).	October 2015: The overarching policy documents also include the District Act and Board Governance Policies which were not identified in the findings. These policies cover both the Financial and Procurement aspects of the District and provide guidance regarding controls, expenditure limits, approval authority, and other policy direction. The District has many documents that collectively establish the policy framework for contracting, including the "Guiding Principles of Public Procurement," the "Guide to Doing Business with the District," Document No. Q-741-005 "Procurement of Consulting Services," and AD.6.3 "Approval Authority for Consultant Services Contracts." The District's QEMS includes many documents that pertain to the policy and process of obtaining consulting contract services. In combination, these documents provide guidance in a variety of control and governance-related areas. However, most of these documents pertain to the pre-award process. We do not disagree with the recommendation to develop a consolidated overarching business policy that includes post-award contract management. However, such an overarching policy is a rarity in the public sector, often as a result of decentralized organizational structures similar to the District and probably with the understanding that financial policies and controls would be sufficient. The audit did not include examples of such a policy in the public sector or a benchmark study of public agencies. Therefore, the District decided to conduct such a study to see how peer agencies have developed and implemented such a policy and to look at other recommendations made in Navigant's report. Between July and September of 2015 the District conducted a benchmark study of public agencies. The study found that out of fourteen comparator agencies only one, San Francisco Public Utilities Commission, had procedures, checklists, and compliance requirements for post-award contract management. No agency had a single overarching business policy concerning contracting

			management (including consulting contracting), which established the governance framework and functional accountability for contract management. The District will develop such a policy with guidance and assistance from the California Association of Public Procurement Officials. 08/19/16: Consultant Contracts Services staff went through four rounds of recruitment with assistance from HR and the District's contracted temporary staffing services company. They were unable to find candidates who were either willing to take on this project or were qualified to implement such projects. After consultation with the Chiefs at their meeting on July 25, 2016, they directed Katherine Oven, DOO of Water Utility Capital Division and Ravi Subramanian, DAO of General Services Division to work together to develop an implementation plan. 8/15/18: In Process. The "Certificate of Acknowledgement" will be addressed through the Consultant Contracts Improvement Process. Development of the overarching policy is in process and will align with the District's policy and procedure standards. Anticipated Completion: FY 19. 4/22/19 (Thomas Esch): In Process. As part of an internal audit by the Unit Manager, all consulting contract policy and procedures are under review, including post-award processes. Project Manager Guides and checklists will relate processes to roles and responsibilities in post-award period. The "Certificate of Acknowledgement" will be addressed during this review. Anticipated Completion: Q1 FY20.
General Services DAO Roslyn Fuller	2	Establish common “ways of working” through directive desk manual business processes for contract management activities; create oversight structures and “checks” for contract management activities.	October 2015: The District has some QEMS procedures like Q710010 (Capital Project Initiation, Oversight, and Commissioning Procedure), Q710D01 (Capital Improvement Program Planning), and Q751D01 (Capital Project Delivery) that pertain to Capital Project planning and delivery, but no procedures for contract management activities. We agree with the recommendation to develop desk manual type

			business processes and procedures for post-award contract management and create oversight structures and internal controls for such activities. However, due to the decentralized organizational structure of such activities, common procedures are often not available in the public sector. The audit did not include examples of such procedures in the public sector or a benchmark study of public agencies. The District's benchmark study of public agencies found that out of fourteen comparator agencies, San Francisco Public Utilities Commission, had procedures, checklists, and compliance requirements for post-award contract management. The District will develop a desk manual of business processes for contract management activities with guidance and assistance from the California Association of Public Procurement Officials. 8/19/16: Consultant Contracts Services staff went through four rounds of recruitment with assistance from HR and the District's contracted temporary staffing services company. They were unable to find candidates who were either willing to take on this project or were qualified to implement such projects. After consultation with the Chiefs at their meeting on July 25, 2016, they directed Katherine Oven, DOO of Water Utility Capital Division and Ravi Subramanian, DAO of General Services Division to work together to develop an implementation plan. 8/15/18: In Process. This recommendation is being addressed regarding pre-award process through Consultant Contracts Improvement Process. Development of post-award process have been assigned to designated staff resources. Anticipated Completion: FY 19. 4/22/19 (Thomas Esch): In Process. Implementation of the Consultant Contracts Improvement Process has identified areas where a dedicated Project Manager Guide and Contracts Analyst Guide would benefit both clients and contracts staff, providing guidance, explaining best practices, and aligned with policies and

			procedures. These guides will include sections dedicated to post-award contract roles and responsibilities. Anticipated Completion: FY 20.
General Services DAO Roslyn Fuller	3	Alternative organizational structures can be considered for the Contracts Group: Create a centralized contract management function, focused on on-going contract administration; create analyst positions within specific units to support PMs with contracting activities. Centralization has multiple advantages over the creation of analyst positions, including principally: Increased standardization and consistency; focused governance; greater efficiency and reduced cost. To this end, Navigant recommends the centralization of the contract management function. Staffing levels for a centralized Contracts Group would be determined through a comprehensive workflow and workload analysis, considering contract management activity levels, the impact of improved and enhanced use of technology, and re-engineered business processes. (This type of staffing analysis would also be appropriate for areas that impact the end-to-end consultant contract process, including specifically accounting.) Further, specific technical competencies for contract staff would be clearly defined, reflecting the specific characteristics of supply chain and procurement professionals. To be successful, the	October 2015: In 2014, the District conducted a staffing resources analysis as part of a Capital Projects resource study. It determined that the District needed approximately 13 Limited Time Equivalent staff to work on Capital Projects proposed over the next few years. The study confirmed that Consultants Contract Program was understaffed and recommended adding a Senior Management Analyst (Limited Time Equivalent) for 4-5 years. The Contracts group is in the process of hiring a Senior Management Analyst. Lack of sufficient staffing in the Capital Projects resource study was identified only to preform pre-award functions, not post-award contract management. The Capital Projects resource study was silent on post-award contract management resources because the decentralized resources are adequate to perform those functions. The study did not consider centralizing the function. There are pros and cons to both centralized and decentralized organizational structures. The audit did not perform a comparative benchmark analysis of these models. As noted in the recommendation, a staffing analysis would also be necessary to arrive at the appropriate decision. The District currently uses a decentralized model to perform these functions. The District's contract management functions are distributed throughout the organization and draw upon the expertise and resources accordingly. The District's benchmark study of public agencies found that the contract management function was decentralized in twelve of the fourteen comparator agencies. The remaining agencies that had the centralized model were the SFPUC and the Metropolitan Water District which have very large procurement departments with approximately 48 and 100 staff respectively. District will keep its current decentralized model. However, the District will reinforce and improve standard policies, procedures, and documentation and will implement them as part of the other recommendations.

		transition of contracting activities from PMs to the centralized contracting group would have to be implemented according to a well-managed multi step approach.	8/15/18: Under review. Navigant had also recommended centralization of the contract management function. In response to that recommendation, the District conducted a benchmark study of public agencies, which found that the contract management function was decentralized in 12 of the 14 comparator agencies. The remaining agencies that had the centralized models were the San Francisco Public Utilities Commission and the Metropolitan Water District, both of which have very large procurement departments, with approximately 48 and 100 staff respectively. Since receiving this recommendation, the District has focused on reinforcing and improving standard policies, procedures, and documentation. The recommendation to centralize the contract management function is under review by District management. Anticipated Completion: FY 19. 4/22/19 (Thomas Esch): Under review. An internal audit is being conducted by the new Purchasing and Consultant Contracts unit manager that looks not just at internal processes and procedures, but overall District practices as well as alignment with best practices. Contract management functions spread around different departments will be reviewed and recommendations made. The internal audit will be completed in Q1 FY20.
General Services DAO Roslyn Fuller	5	SCVWD's systems should all be integrated. In parallel, robust systems and data governance policy and processes should be developed and implemented.	October 2015: The District agrees with the recommendation and two years ago initiated work on integration of various systems as part of the upgrade of the District's ERP system - PeopleSoft. As part of the project, a new eProcurement system would replace CAS and integrate with many other new modules proposed to be implemented as part of the upgrade. The PeopleSoft Upgrade project is underway and is expected to be completed by 2018. Action: Implementation of the PeopleSoft Upgrade. 8/19/16: The consultant's recommendation was to develop and implement an integrated systems project. The District had the same intent and work on integration was initiated two years ago as part of the PeopleSoft upgrade project. The District will implement the

			recommendation. 8/15/18: In process. The District is in the process of implementing the recommendation. An RFP has been initiated and will be released in Q3, FY18 for a new Enterprise Resource System, which will replace the current PeopleSoft system. District will replace the existing CAS system with the new ERP system. Anticipated Completion: FY 20 - FY 21. 4/22/19 (Thomas Esch): In process. The District is in the process of implementing the recommendation. A contract for the vendor of the new Enterprise Resource System is expected to be approved in Q1, FY20, which will replace the current PeopleSoft system. District will replace the existing CAS system with the new ERP system. Anticipated Completion: FY 21 - FY 22.
General Services DAO Roslyn Fuller	7	The District should develop specific contract compliance processes, which should include clear governance guidelines.	October 2015: The District has a decentralized model to perform post-award contract management functions and under this structure, the respective Unit Managers, Deputy Officers, and Chiefs monitor and manage the various processes that are specific to each project. There are processes that could be standardized and the District will develop them. Action: The District will develop specific contract compliance processes, including clear governance guidelines with assistance and guidance from the California Association of Public Procurement Officials. The District's benchmark study of public agencies found that out of fourteen comparator agencies only one, San Francisco Public Utilities Commission, had procedures, checklists, and compliance requirements for post-award contract management. 8/19/16: Consultant Contracts Services staff went through four rounds of recruitment with assistance from HR and the District's contracted temporary staffing services company. They were unable to find candidates who were either willing to take on this project or were qualified to implement such projects. After consultation with the Chiefs at their meeting on July 25, 2016, they directed Katherine Oven, DOO of Water Utility Capital Division and Ravi Subramanian, DAO of General Services Division to work together to develop an

			implementation plan. 8/15/18: The District will develop specific contract compliance processes, including clear governance guidelines. This has been assigned to designated staff resources. Anticipated Completion: FY 19. 4/22/19 (Thomas Esch): In process. Staff are conducting an internal audit that will result in a report with recommendations. The report will include recommended governance structure and guidelines for consultant contract processes and procedures. Anticipated Completion: Q1 FY20.
General Services DAO Roslyn Fuller	8	A) Develop and implement a policy and business processes defining the evaluation of consultant performance. B) Develop and implement the necessary tools to support the assessment of consultant performance, including performance evaluation scorecards and a database of consultant past performance evaluations. C) In the event of sub-par performance, the tools should inform the development of root cause analyzes and corrective action plans	October 2015: The District agrees with the recommendation. The District has a project-by-project decentralized consultant evaluation mechanism along with reference checks. Action: The District's benchmark study of public agencies found that only three out of fourteen comparator agencies conducted consultant performance evaluations. They are Sonoma County Water Agency, SFPUC and Zone 7. The District will develop and implement a more formal consultant performance evaluation program with guidance and assistance from the California Association of Public Procurement Officials. 8/19/16: The District's benchmark study of public agencies found that only three out of fourteen comparator agencies conducted consultant performance evaluations. They are Sonoma County Water Agency, SFPUC and Zone 7. The District will develop and implement a more formal consultant performance evaluation program. 8/15/18: Status: A) In Process, B) Competed, C) Completed A) The District is evaluating implementation of a policy and business processes to define and record the evaluation of consultant performance. B) and C) Management concurs with the recommendation. Project managers currently evaluate consultant

			performance for compliance with agreement requirements for scope, schedule, and budget. Anticipated Completion: FY 19. 4/22/19 (Thomas Esch): A) The District has deferred evaluating implementation of a policy and business processes to define and record the evaluation of consultant performance to FY20. B) and C) Management concurs with the recommendation. Project managers currently evaluate consultant performance for compliance with agreement requirements for scope, schedule, and budget.
General Services DAO Roslyn Fuller	9	Design a limited performance management program for contract management. Improve CAS or other technology platform(s) to capture the information linked to the performance management program and key metrics. Design standard reports to enable enhanced decision-making around contract management operations.	October 2015: October 2015: The District agrees with the recommendation. CAS was not developed as a performance management tool or software system. Additionally, with the impending migration from CAS to PeopleSoft's eProcurement system, the District does not plan to spend additional funds for such a major enhancement of CAS. Performance management software will be incorporated into the PeopleSoft upgrade project as part of the new supplier chain and supplier management modules. Action: The District's benchmark study of public agencies found that only one of fourteen comparator agencies, SFPUC, had a performance management program. However, Sonoma County Water Agency and Metropolitan Water District of Southern California had some mechanisms for contract compliance. The District will develop and implement a more formal performance management program with guidance and assistance from the California Association of Public Procurement Officials. The District will proceed with the procurement and implementation of the new supplier chain and supplier management modules in PeopleSoft. 8/19/16: The District's benchmark study of public agencies found that only one of fourteen comparator agencies, SFPUC, had a performance management program. However, Sonoma County Water Agency and Metropolitan Water District of Southern California had some mechanisms for contract compliance. The District will develop and implement a more formal performance management program. The District will proceed with the procurement and implementation of the new supplier chain and supplier management modules in PeopleSoft.

			8/15/18: The District had the same intent and has been working on procuring a new Enterprise Resource System, which will replace the current PeopleSoft system and address this recommendation. Anticipated Completion: FY 20 - FY 21. 4/22/19: The District is procuring a new Enterprise Resource Planning (ERP) System, which will replace the current PeopleSoft system and address this recommendation. Elements of the ERP that may permit performance measures will be evaluated when the ERP is being developed. Anticipated Completion: FY 21 - FY 22.
General Services DAO Roslyn Fuller	10	A) Improve and maintain a “boiler plate” Standard Agreement. Only the scope of services and project schedule sections should be drafted by Project Managers. B) All other sections should be owned by the Legal Department. The existing control procedures for contract approval should be reviewed and redesigned.	October 2015: The District agrees with the recommendation. The long cycle time is predominately due to multiple reviews of scope of services, tasks, and terms and conditions associated with the project. Standard templates, checklists, and training Project Managers on writing better scope of services will help improve cycle times. The District's Counsel's Office, Capital Division and Consultant Contracts Staff have developed and implemented a "boiler plate" Standard Agreement. The District's benchmark study found that only six out of fourteen comparator agencies had cycle times. Of those, four agencies had cycle times better than the District's cycle time. The Consultant Contract staff monitor cycle time on a weekly basis and publish reports weekly, monthly, and quarterly on the District's internet pages. Additionally, link to the reports are emailed each week to Deputy Operating/Administrative Officers. Action: The District will develop and implement a training program, with guidance and assistance from the California Association of Public Procurement Officials, for Project Managers on writing better scope of services. 8/19/16: Standard Agreements are in place and being used. We will be posting them online in the next few weeks so that all employees have access to the agreements and other contract templates and documents. Control procedures for contract approval were reviewed. This recommendation is specific to the Lower Silver Creek project. The Board’s audit will address it in further detail and make

			suggestions for redesign. 8/15/18: Status: A) Completed, B) In Process A) Standard Template Agreements were developed by a committee of internal stakeholders in FY15 and FY16, and are updated on an annual basis. Additional standards terms, conditions, and required templates are also in place, and are included in the Agreements, when appropriate. District project managers are only responsible for developing scope, budget, and schedule of completion for their specific agreements. B) Control procedures for contract approval were reviewed. This recommendation is specific to the Lower Silver Creek project. The Board's audit will address it in further detail and make suggestions for redesign. In FY18, the District initiated a Consultant Contracts Improvement Process, which included a comprehensive review of all existing processes to identify areas of improvement. Anticipated Completion: FY 19. 4/22/19: (Thomas Esch): Status: A) Completed, B) In Process A) Standard Template Agreements were developed by a committee of internal stakeholders in FY15 and FY16, and are updated on an annual basis. B) Staff are implementing a streamlined consulting contract process and reporting on progress. A more thorough review of processes and procedures is being conducted through an internal audit with the intent on reporting findings in Q1 FY20 to further identify areas of improvement.

2019 LOWER SILVER CREEK AUDIT			
Action Item Owner	**Ref #**	**Summary of Recommendation**	**Updates/Notes**
WU Capital DOO Heath McMahon	R10	The District should develop general guidelines for consistent invoice review.	2/26/19: Management Response: Management concurs with this recommendation. District Action: A general invoice review procedure for project managers will be developed. Auditor Response to Management Response: Agree with the proposed District Action. District should provide an estimated completion date.
General Services DAO Roslyn Fuller	R11	The District should implement a guideline for Delegation of Authority	2/26/19: Management Response: Management concurs with this recommendation. However, the recommendation is broad as the term "delegation of authority" is granted to various units and divisions, not just contracts (example: payment of rent of District owned property, settlement of claims, etc.). The scope of Management's response is limited to consultant and service agreements. District Action: There are a number of separate policies and work instructions that provide roles and responsibilities, including authority levels. A new guideline that pulls all this information together and provides clarity on delegation of authority, would benefit all District personnel. This guideline should also align with the ERP project processes. Auditor Response to Management Response: Agree with the proposed District Action. Please provide an estimated completion date.

PCCSU Manager Jason Reed	R13	If substitute or additional employees are allowable, that the contract should provide a generic employee title which will tie to the amount being invoiced.	2/26/19: Management Response: Management acknowledges this recommendation. However, contractor employee titles must be common to the industry for the work being performed, especially to understand the working level of the position and pay rates for comparison. Furthermore, the form FC1165 Agreement Status Change Request is used to provide any changes to key personnel and rates. It is the responsibility of the Project Manager to keep a master list of positions and rates and the name of individuals filling those positions and use that information when verifying rates provided in consultant invoices. Auditor Response to Management Response: District should document the responsibilities as described in their "Management Response" into a formal Policy and provide an estimated completion date for the Policy. The Policy should also include a Quality Control requirement to ensure that the Project Manager's performance complies with Policy. 2/14/20 (T.E.): FC1165 changes to Consultant Key Personnel, subs key personnel rates are documented in CAS and Project Folders. FC1165 includes routing process. All changes from FC 1165 are later incorporated into an official Amendment to the agreement. Refer to Attachment One to Schedule, Fees & Payments (in all Consultant Agreements). Suggested Action: Need Procedures (or policy) regarding: 1. PM keeping master list of positions and rates and names filling those roles. 2. PM job to verify rates when reviewing invoices. 9/30/20 (J.R.): This item is still pending and currently under review. Multiple parties are working on a solution; updates to follow.

PCCSU Manager Jason Reed	R14	If rates are expected to change over the life of the contract, the contract should either specify the rate changes, or provide for an escalation clause.	2/26/19: Management Response: Management acknowledges this recommendation. However, the current Contract (Terms and Conditions) template includes a Fees and Payments schedule that explains the process for rate changes. Specifically, consultants may request a rate change every 12 months, based on an approved percentage increase or based on the Employment Cost Index (ECI) for the Bay area, whichever is less. Auditor Response to Management Response: District response does not explain how they document and approve these changes. Suggest they develop a policy (or reference an updated policy) and include an estimated completion date. 2/14/20 (T.E.): FC1165 changes to Consultant Key Personnel, subs key personnel rates are documented in CAS and Project Folders. FC1165 includes routing process. All changes form FC1165 are later incorporated into an official Amendment to the agreement. Refer to Attachment One to Schedule, Fees & Payments (in all Consultant Agreements). Suggested Action: Need Procedures (or policy) regarding: 1. Justification process for new rates before they are routed. 2. Who reviews and approves the new rates before FC1165 is turned in. 9/30/20 (J.R.): This item is still pending and currently under review. Multiple parties are working on a solution; updates to follow.
WU Capital DOO Heath McMahon	R15	The District's invoice review process should include a component of tracing invoice rates to contractual rates.	2/26/19: Management Response: Management concurs with this recommendation. District Action: A general invoice review procedure for project managers will

			be developed. This component will be included in the procedure. Auditor Response to Management Response: Agree with the proposed District Action. Provide an estimated completion date.
WU Capital DOO Heath McMahon	R17	The District should ensure task level billings from subcontractors agree with that of the consolidated invoice from the prime contractor.	2/26/19: Management Response: Management concurs with this recommendation. District Action: A general invoice review procedure for project managers will be developed. This component will be included in the procedure. Auditor Response to Management Response: Agree with the proposed District Action. Provide an estimated completion date.
WU Capital DOO Heath McMahon	R18	Accurate task level reporting should be a component of consistent invoice review.	2/26/19: Management Response: Current consultant agreements for capital projects require the consultant to submit a monthly progress report with each monthly invoice. District Action: A general invoice review procedure for project managers will be developed. This component will be included in the procedure. Auditor Response to Management Response: Agree with the proposed District Action. Provide an estimated completion date.
PCCSU Manager Jason Reed	R19	Specifying date ranges on invoices should be added to invoicing requirements and should be a component of consistent invoice review.	2/26/19: Management Response: Management acknowledges this recommendation. However, the contract currently requires the consultant to provide beginning and end date for billing period that services were

			provided. The Project Manager has the responsibility to verify services were completed and only then agree to payment via the invoice. District Action: A general invoice review procedure for project managers will be developed. This component will be included in the procedure. Auditor Response to Management Response: Agree with the proposed District Action. Provide an estimated completion date. 2/14/20 (T.E.): See Consultant Agreement Terms and Conditions Section 4, Fees and Payments, of standard consultant agreements that explain what needs to be provided when submitting an invoice. Subsection 2.F. In addition to ensuring that each invoice is accompanied with a monthly progress report, Consultant must also ensure that each invoice contains the following information: 1) Agreement Number; 2) Full Legal Name of Consultant/Firm; 3) Payment Remit-to Address; 4) Invoice Number; 5) Invoice Date (the date invoice is mailed); and 6) Beginning and end date for billing period that services were provided. Suggested Action: Need Procedures (or policy) regarding: 1. Verifying start and end dates for services when reviewing invoices. 2. PM must verify and certify invoice amount meets contract requirements including posting of start/end dates. 9/30/20 (J.R.): This item is still pending and currently under review. Multiple parties are working on a solution; updates to follow.

WU Capital DOO Heath McMahon	R20	Ensure project management training is in place, allowing for inter-task transfer process intent to be better understood.	2/26/19: Management Response: Project management training is in place in the Capital Program divisions. 1. The most valuable and effective training occurs on the job, with direct guidance and mentoring provided by a unit manager or experienced project manager. 2. The Capital Program's Quality Environmental Management System (QEMS) framework, that follows the International Organization for Standardization (ISO), provides step-by-step directions and instructions for review and preparation of key project deliverables and quality records that document project changes in scope, schedule, or cost. The supervising engineer or unit manager is responsible for his or her unit staff's performance in working within the QEMS framework. 3. Project management classes are made available through the District's Workforce Development Program. Training on all QEMS capital project delivery procedures is provided to all staff in the Capital Program divisions every two years. District Action: QEMS training classes were held in August and September 2017, in accordance with the 2-year cycle for QEMS training. Each Unit Manager is to ensure that trainings are effective by ongoing review of capital project work and deliverables prepared by his/her unit staff. A review of the training classes will be conducted prior to the next training cycle to improve staff's understanding of the procedures, work instructions, and forms. Auditor Response to Management Response: During the course of the performance review, the Auditors interviewed a number of employees and inquired about their respective opinions related to policy intent. Responses included varying

			perspectives on policy intent, signifying that then-current training was likely not effective. It is the Auditor's opinion that intent of documentation was not always well grasped and that a more formal training plan would be beneficial. Implementing follow-up audit ("as you go") at key project intervals (mobilization, 30% design, pre-construction, etc.) would provide an on-going basis to gauge employee understanding, and policy conformance.
WU Capital DOO Heath McMahon	R21	Modify existing project document control practice (and/or implementation of practice) to be less autonomous, in line with industry standard.	2/26/19: Management Response: The existing District File Instructions for Capital Projects is a QEMS document that provides guidelines and instructions to establish a standard file management system for the Capital Program project files (hardcopy and electronic), including a naming convention and organizational structure for the creation, maintenance and retention of project files, and ensuring that files are created, maintained and archived in a consistent manner in accordance with the District Records Retention Schedule. District Action: Capital Program staff will review this procedure and agree on updates to align it with industry standards. The District File Instructions for Capital Projects (QEMS Document W42302, Revision F, Effective Date: February 14, 2013) was reviewed and revised in October 2018. Auditor Response to Management Response: Agree. Once again, a policy and procedure audit at key project stages would help to ensure employee understanding and compliance with District QEMS.

WU Capital DOO Heath McMahon	R22	There is currently no explicit process or direction for interface of project document control systems between consultant and the District. Recommend implementing a detailed practice for project document control interface between District and Consultant. Though the Project Work Plan could serve as a platform for a description of this interaction, a framework for its use should be provided.	2/26/19: Management Response: When originally prepared, the File Instructions for Capital Projects (W42302) procedure required a document administrator (DA) staff person to manage the document filing system for each project. Over the past 5 years, as the Capital Program has grown significantly, staff dedicated to this effort have been reassigned to higher-priority work, and new staff positions have not been approved to support this effort. District Action: As part of the District Action Item for Recommendation R21, capital staff will be convened to review this procedure and determine how it should be improved, and what staff resources would be required to assure consistent document control interface between the District and its consultants. The District File Instructions for Capital Projects (QEMS Document W42302, Revision G, Effective Date: October 2018) will be reviewed and revised by March 2019. Auditor Response to Management Response: Agree
WU Capital DOO Heath McMahon	R23	There is no current practice for project management (and key personnel) turnover. QEMS discusses transition between phases, but does not require transition reporting between key personnel i.e. there is no formal practice for project management turnover. The project management position was transitioned in October 2013, near the end of the RMC contract; there is no evidence of a formal project management transition plan, or documentation of a transition meeting. Though lack of transition is a risk	2/26/19: Management Response: The lack of a focused transition of the Lower Silver Creek Project due to the unexpected retirement of key personnel, was a detriment to the continuity of project leadership. District Action: The Deputy Officers of the Capital divisions have discussed this issue among themselves and with their unit managers. The DOOs will hold the UMs accountable for proper transition of projects due to key personnel retirements. Auditor Response to Management Response: Recommend use of a turnover practice including tools (perhaps a checklist)

		in and of itself, a lack of attention to project document control and change management practice exacerbates this risk, as the history of the project is not well documented. Recommend implementing a project management and key personnel transition / turnover practice including tools and templates, and roles and responsibilities.	to help ensure smooth transition. A standard District policy/procedure audit checklist (in line with R24) is developed to support performance auditing, it could be used as a basis for turnover. This should be documented in a Policy and an estimated completion date provided.
General Services DAO Roslyn Fuller	R24	There is no current practice for project performance or compliance audit. Performance evaluation is not currently a requirement of QEMS and there are no systems or processes in place to support implementation of performance or compliance evaluation. The impact of the lack of performance evaluation increases the risk of District and consultant noncompliance and poor performance. Recommend developing and implementing process compliance audit requirements at key stages of project execution including processes, tools, and roles and responsibilities. Of note and predicated on industry best practice, audit should be implemented during project mobilization (early in the project) to allow for course correction if necessary.	2/26/19: Management Response: Management acknowledges this recommendation. District staff is exploring the parameters, benefits and risk related to a formalized performance evaluation. District staff has also reached out to other regional agencies to benchmark best practices and gain insight from established programs utilizing performance evaluations. District Action: Staff to continue exploring the parameters, benefits and risk related to a formalized performance evaluation. Auditor Response to Management Response: Highly recommend implementing compliance auditing requirements. It can help to ensure projects are setup in accordance with District QEMS, helps to ensure employee understanding of policies and procedures, helps to identify areas that need improvement, and in general can serve as a roadmap for project managers and staff to ensure they're implementing and maintaining key project management knowledge areas, as deemed important by the District. District response does not provide a firm commitment to addressing the recommendation and implementing a change. Suggest they develop a Policy and include an estimated

			completion date. Said policy can be revised as part of the District's commitment to continuous improvement.
WU Capital DOO Heath McMahon	R25	Risk Management is not a requirement of QEMS practices; rather it is included as an optional section within the Project Work Plan practice. Project Risk Management is a well-accepted core project management knowledge area, and industry best practice. The impact of not identifying and documenting risks greatly increases the likelihood of project budget and schedule overruns. Recommend implementing a risk management procedure.	2/26/19: Management Response: The current QEMS planning and design procedures do not contain instructions for including risk management in each capital project. Risk management is performed on large and complex projects, most often by the design phase consultant. District Action: A currently active program management consultant agreement for the District's Expedited Purified Water Program includes tasks for the development of District staff, and several risk management training sessions have been held for interested staff. This consultant was tasked with developing a project risk management practice for the QEMS framework that aligns with industry standards. The new work instruction was completed and published in March 2018. Auditor Response to Management Response: This document was not provided to PMA as part of the audit; if provided, PMA will review pursuant to its recommendation.
WU Capital DOO Heath McMahon	R26	Per the Executed Agreement, providing progress status reports is a requirement of invoice submittal. However, the demonstration of progress basis (either in a Project Work Plan or through the invoicing process) is not required. The impact of not requiring a demonstration of progress basis could in some cases lead to over-invoicing and ensuing over-payment. Recommend implementing a defined	2/26/19: Management Response: Current consultant agreements for capital projects require the consultant to submit a monthly progress report with each monthly invoice. This can be further strengthened by requiring a measure of task completion (as a percentage) for each task that's being invoiced. District Action: Capital staff will evaluate the costs/benefits of developing and implementing an earned value approach to project invoicing for consultant agreements. A recommendation of

		procedure for earned value / progress measurement.	whether or not to proceed with such an effort, and the associated necessary short- and long-term financial and staff resources, will be solicited from the CEO/Chiefs by March 2019. Auditor Response to Management Response: Highly recommend implementing an Earned Value Management (EVM) requirement that relies on physical progress (rather than % spent, or % of schedule used) for large capital construction projects. It is typical for this requirement to be implemented by the GC, and/or CM. The District would review for compliance, and benefit from the additional cost and schedule assurances provided by EVM.
WU Capital DOO Heath McMahon	R27	Though some objectives are formalized in the Project Work Plan, some other objectives articulated in interviews (securing federal funding and optimizing use of federal funding) were not formally recorded either directly as objectives, or as project constraints or assumptions. Further, there is no current process for recording or documented District expectations, or satisfaction with consultant performance and methodologies. The impact of not formally recording expectations and satisfaction reduces the ability to continually improve, both from the standpoint of District procurement and consultant performance. Recommend reviewing the need for an expectation and satisfaction procedure. Practice should address objectives, requirements, process, and reporting as	2/26/19: Management Response: Management concurs with the recommendation and currently evaluates consultant performance for compliance with agreement requirements in terms of scope, schedule, and budget. The District's expectations for consultant performance are stated in agreements using a task and correlating deliverable format, including specific deadlines and financial limits per task. An assessment regarding the quality of consultant performance can best be determined at certain increments after the finished work is implemented and tested to operational standards and the passage of time. District Action: Capital Program staff will continue the current satisfaction survey/lessons learned practices. Auditor Response to Management Response: The referenced surveys and practices were not provided to PMA as part of the audit; if provided, PMA will review pursuant to its recommendation.

		well as roles and responsibilities, tools, and templates	

2019 CONTRACT CHANGE ORDER AUDIT			
Action Item Owner	**Ref #**	**Summary of Recommendation**	**Updates/Notes**
WU Capital DOO: Heath McMahon General Services DAO: Roslyn Fuller Dam Safety & Capital Delivery DOO: Chris Hakes	R1	Update capital construction change order policies and procedures applicable to large-scale projects to: a) require an Independent Cost Estimate (ICE) for capital construction change orders, (b) use a separate advisory body to review and recommend the approval of change orders, and c) prohibit commencement of work until after change order approval.	Management Response: a. Management agrees with this recommendation. Management will require an Independent Cost Estimate (ICE) for capital construction change orders on contracts greater than $100M or on projects of a lesser value when the Chiefs deem the project to be higher risk. In addition, services of an on-call cost estimator will be required for complex cost estimates, as determined by the Capital Engineering Manager overseeing the project based on an evaluation of in-house experience relative to the scope of work. b. Management agrees with this recommendation. A Change Control Board (CCB) will be established as part of a systemic change order management approach. The CCB will review changes that have significant cost or schedule impacts. For large-scale projects, the addition of a Project Steering Committee will be established with project oversight to keep a pulse on progress or to address major design or construction changes. The Steering Committee would not replace the functions of the CCB, but will review items of substantial interest as determined by the Steering Committee. Staff will develop process and procedures for the CCB. The make-up of the CCB and Project Steering Committee will include senior and executive staff. Additional resources will provide input depending on the project issue under consideration, including the Engineer of Record, subject matter experts, legal counsel, and claims management and scheduling consultants. c. Management agrees with the recommendation. To responsibly and efficiently deal with changes, the responsibility and authority for change approvals must be

			delegated to personnel at the level most knowledgeable and most closely aligned with the project issue. However, certain field changes that must be performed immediately to mitigate an emergency or to avoid critical, immediate delays to the project may necessitate force-account work to address the immediate need. Force account work (i.e., time and materials work) constitutes an approved change order of variable cost and duration while the scope of the change is finalized. Target Implementation is December 2020. <u>Auditor Response</u>: a. Valley Water's response satisfies the recommendation. b. When staff develops procedures for the CCB, Valley Water should ensure that the Change Control Board will review change orders on contracts valued at $100M or on projects of lesser value that are deemed to be high risk , to be consistent with Valley Water's prior response. c. Valley Water could satisfy our recommendation and continue to provide autonomy to field personnel by allowing project managers/engineers the discretion to make changes to a project provided the changes can be implemented within the project's original budget. Delegating this authority then eliminates the need for a change order. Second, emergencies do happen, but even under the circumstances described by management, an expected budget for the work today's technology makes it possible for that budget to be quickly proposed, communicated, and approved in a very short period. A process for emergency work should be established. 11/18/2020 Status Update by Roslyn Fuller: a) Require an Independent Cost Estimate (ICE) by in-house and/or on-call cost estimator for change orders for capital

			construction contract over $100 million or lower is determined by respective Chief Operating Officers (COO) Actions: Request for Proposals being developed to solicit professional cost estimators to provide ICE; cost estimating classes identified to train VW project managers for in-house estimates Target Implementation: Revised from December 2020 to August 2021 b) Use a separate advisory body, Change Control Board (CCB) and Project Steering Committee (PSC) to review and recommend the approval of change orders Actions: CCB and PSC policies and procedures are being developed and subject matter experts will be included as required; percentage of change order will also trigger CCB review Target Implementation: Revised from December 2020 to August 2021 c) Prohibit commencement of work until after formal approval of change order Actions: Delegation of Authority policies in development Target Implementation: Revised from December 2020 to October 2021
WU Capital DOO: Heath McMahon General Services DAO: Roslyn Fuller Dam Safety & Capital Delivery DOO: Chris Hakes	R2	Enhance constructability reviews as part of the construction project design phase with the addition of independent subject matter experts to the review team to help mitigate the occurrence of change orders on large-scale capital projects.	Management Response: Management agrees with the recommendation. Third-party and/or peer review processes will continue to be required for all large-scaled projects to address constructability and identify risks and develop approaches to mitigate those risks. Staff will consider securing consultant services to provide third-party constructability reviews. Target Implementation is December 2020. Auditor Response:

			Our report affirmed that constructability reviews are being performed in-house by VW staff. However, CRB members said constructability reviews performed by independent third parties could further mitigate the need for change orders. We commend VW in their future efforts to consider consultant services for these constructability reviews. To ensure project transparency and predictability, staff should develop policies and procedures to identify the circumstances and other criteria that would trigger third-party constructability reviews, including the anticipated timelines and impacts on project design and delivery planning. 11/18/2020 Status Update by Roslyn Fuller: a) All large-scale and higher risk projects currently require third party and/or peer review. Staff will secure consultant services to provide third party constructability reviews. Actions: Scope of work in development for consultant solicitations. New & existing Design review forms & Master Checklist to be revised for more substantive QA/QC process. Staff to be trained to assume collateral duties for in-house peer reviews. Target Implementation: Revised from December 2020 to August 2021
WU Capital DOO: Heath McMahon General Services DAO: Roslyn Fuller Dam Safety & Capital Delivery DOO: Chris Hakes	R3	Enhance the review and approval process for change orders (including potential change orders, contract change orders, and directed change orders) on capital construction projects that are new to Valley Water and/or whose project costs exceed a specific level established by the CEO (i.e.$100M) to add and enhance support structures to aid project and construction managers in capital project delivery. Options include:	<u>Management Response</u>: Management agrees with the recommendation. The change-order approval process requires a review to ensure both processes and roles/responsibilities are clearly defined along with authority levels which will be clarified in the revised process. The role of review and approval of change orders would be delegated to the CCB, with defined governance and procedures, including defined authority levels. Due to the unique and unexpected issues encountered by large projects; a Project Steering Committee would be established for projects greater than $100M. The Project Steering Committee

		a. Create a Capital Project Steering Committee for each new project to review project progress and provide authority to review and approve change orders. The Committee should include Valley Water management, project, and construction manager, external subject matter experts, outsourced legal construction contract counsel, and a representative from the Purchasing and Consulting Contracts Services Unit.	will be established with project oversight to keep a pulse on progress or to address major design or construction changes. The Steering Committee would not replace the functions of the CCB but will review items of substantial interest as determined by the Steering Committee. Executive management will define the make-up and role of the Project Steering Committee. Target implementation is July 2021. <u>Auditor Response</u>: Valley Water's response satisfies the recommendation. The Independent Auditor continues to suggest that the Steering Committee includes external and outsourced personnel, which could help minimize financial and project delivery risks on large scale construction projects. 11/18/2020 Status Update by Roslyn Fuller: Create Capital Project Steering Committee (PSC) for large scale and high-risk projects for process and change order oversight as determined by the CEO Actions: The current change order flowchart will be revised to incorporate change order approval delegation to the Change Control Board (CCB). The PSC will provide oversight for projects over $100 million and high-risk projects for both design and construction changes. Target Implementation: Revised from July 2021 to December 2021.
WU Capital DOO: Heath McMahon General Services DAO: Roslyn Fuller Dam Safety &	R4	Create a Resources Services Office (RSO) or restructure the current Capital Program Planning and Analysis Unit and develop RSO roles and responsibilities, including the business processes and information systems needed to support large-scale	<u>Management Response</u>: Management agrees with the recommendation with the following exceptions. All responses below will use the term "Project Controls Office," which is a more common term in project and construction management instead of "Resources Services Office."

Capital Delivery DOO: Chris Hakes		capital construction projects and to serve as a resource for project and construction managers on smaller projects. Examples of expected RSO roles and responsibilities for large-scale capital construction projects include: integrate project design and construction management activities; develop large-scale construction management policies and procedures; ensure consistent and uniform implementation of capital project management and construction management standards; manage and administer the contract management and change order process; consolidate, analyze, and disseminate lessons learned activities and historical project information for future project planning; coordinate project and construction project activities; establish and manage project and construction management standardization; implement a centralized project management information system; enhance QEMS activities, including the preparation and updating of guidelines and checklists to be used by project and construction managers; prepare information about the reality of existing projects and corrective action plan development; promote continuous process improvement; and establish a performance-based management system to track effective change order management, project completion, and	Management agrees with the recommendation. The addition of the Project Controls Office will enhance Valley Water's ability to manage capital projects in a consistent manner, track and analyze historic change order trends, administer a robust lessons-learned program, and help develop a project management training program for capital project staff. Additionally, a Project Controls Office will provide project management staff the ability to focus on the details of the project. Management does not agree with the recommendation that the Project Controls Office also be given certain design and construction management activities. Project delivery and construction management activities should functionally be separate from the Project Controls Office, yet monitoring of the project schedule, costs, and scope would be done for the lifetime (design and construction) of the project by the Project Controls Office. The Project Manager, assigned as the responsible person for the project, is tasked to integrate design and construction management activities from start to completion of the project -- it is management's recommendation that this role should not be delegated to others, including the Project Controls Office. Management does not agree with the recommendation that the Project Controls Office be given responsibility to manage contract management and change order process. The Project Manager is responsible to manage all aspects of the project. It is management's recommendation that the responsibility should not be assigned to a separate entity. Expected roles in the change management process are as follows: The Project Manager and Construction Management staff manage contract change action and issue change orders, analyze and

		project financial performance. Examples of RSO roles and responsibilities for smaller capital construction projects would be to share historical project information to support design activities and to assist project and construction managers on change order negotiation.	negotiate change orders, and prepare recommendations for contract changes to the Change Control Board; The Project Controls Office reviews scope, schedule, or budget changes as identified in the change order and interprets impact to the project, and coordinates change control functions (prep ERP, budget docs, schedule verification and impact analysis, etc.); and Construction management staff reviews preparation and negotiation of the change order to ensure compliance with contractual requirements, and reviews engineer's cost estimates and work statements to confirm the appropriate contract action. Staff will define the roles of project controls staff and define staffing levels for a new Project Controls Office. Target implementation is July 2021. Auditor Response: The Independent Auditor commends Valley Water for its internal discussions to determine how better to deliver capital construction projects. Management raised two concerns about the recommendation that our response may be beneficial to these ongoing discussions. First, in the development of the recommendation by the Independent Auditor, stakeholders participating in the audit raised concern about the potential risk that use of the traditional name, "Project Controls Office (PCO)" will likely create a "silo" effect, meaning that the PCO would serve only the Capital Construction Division when there was need for an office to serve both Watershed and the Capital Construction Divisions. The Independent Auditor understands through subsequent discussions with VW staff that the agency has moved away from centralizing project support activities. While creating a PCO only within the Capital Construction Division will likely have a positive impact on Valley Water, the reach of this

			impact could be greater if the office could be shared by other Divisions that also manage projects like Watersheds. Second, as stated in the recommendation, the role of the Resources Services Office (RSO) is to help Valley Water "coordinate" and "standardize" project management activities across the District. As a unit providing only support services to project managers, the RSO would not assume any design or construction management activities. Our audit report described gaps in the support systems for VW project managers. Similarly, VW disagrees with having the RSP manage the contract and change management processes. The audit report described the need for a better contract and change order management because the processes, as currently implemented by project managers, create a high project and financial risks on large capital construction projects. The RSO could provide the support project managers need -- and reduce the workload of project managers -- by helping project managers to prepare change orders, track change orders ensure necessary approvals have been sought, and help to coordinate contract changes with the Procurement and Contracts Division. 11/18/2020 Status Update by Roslyn Fuller: a) The term "Project Control Office" (PCO) will be used instead of Resource Services Office (RSO) as it's more applicable to the functions of the Capital Construction and Watersheds Divisions under the newly created Integrated Water Management under the ACEO. Actions: Staff reviewed recommendation and is in the process of defining the roles and responsibilities of the PCO which will support and reduce the workload of project managers and avoid the silo effect. The PCO will support but not manage the following activities: Monitoring of design and construction activities

			Contract management & change order process Target Implementation: Revised from July 2021 to December 2021
WU Capital DOO: Heath McMahon General Services DAO: Roslyn Fuller Dam Safety & Capital Delivery DOO: Chris Hakes	R5	Transfer the responsibility to administer procurement activities on capital projects (i.e. request for bid preparation and bid processing) from the Capital Program Planning and Analysis Unit to Valley Water's Purchasing and Consultant Contracts Services Unit to centralize procurement activities. The RSO should assume responsibility for contract administration and change order management on all capital projects upon execution of the contract by the Purchasing and Consultant Contracts Services Unit. The Purchasing and Consultant Contracts Services Unit, as an option, can also embed an employee into the RSO to oversee change order management or administer an oversight role in coordinating updated change order policies and procedures, and conduct spot audits to ensure change orders comply with contractual terms and conditions.	<u>Management Response</u>: Management agrees with the recommendation with the following exceptions. All responses below will use the term "Project Controls Office," which is a more common term in project and construction management instead of "Resources Services Office." Management agrees that procurement activities for capital construction contracts be transferred to the Purchasing and Contracts Unit. This recommendation has been executed. Management does not agree that the Project Controls Office would take responsibility for contract administration and change order management on all capital projects. Refer to the Management Response to Recommendation R4. Target implementation is January 2020 to transfer capital construction procurement activities to Purchasing and Contracts Unit. <u>Auditor Response</u>: As stated in our response under Recommendation 4, the audit report describes the benefits to the District from improved contract and change order management. Our audit report described opportunities for more implementation of change order processing, consistent documentation of the need for the changes, better review of pricing, etc. Enhancements to contract management for multi-million contracts were also identified. The RSP could help provide support to project managers for these activities, such as helping to prepare change orders, tracking change orders to

			ensure necessary approvals have been obtained, and in coordinating contract changes with the Procurement and Contracts Division. 11/18/2020 Status Update by Roslyn Fuller: a) The transfer of capital construction contracts procurement activities had been executed effective October 2019 to the newly established Construction Contracts and Support Unit b) Contract Administration and change order management will remain unchanged with the project managers
WU Capital DOO: Heath McMahon General Services DAO: Roslyn Fuller Dam Safety & Capital Delivery DOO: Chris Hakes	R6	Promote uniform implementation of change order management and administration for all capital projects by: a) developing and establishing specific criteria for establishing contingency budgets for change orders that consider project complexity and size (Example: $0 contingency for capital projects less than $100,000 ranging to an amount over $1M for projects over $500M) eliminating the need for the Board of Directors to separately approve contingency budgets for each capital construction contract; b) updating the Quality and Environmental Management System (QEMS) forms to: develop templates within the Capital Improvement Program Planning document to provide clarification on how the Quality Records should be completed.; add a step in the Close-Out Checklist for the review of open change orders and potential change orders; and enhance the Risk Management Process document to include a review of similar projects in the	<u>Management Response</u>: Management disagrees with the recommendation. In the interest of transparency, contingency will continue to be separately approved by the Board of Directors for each capital construction contract. Management agrees with the recommendation. Regarding the recommendation to enhance the Risk Management Process: Providing a risk register and methods to mitigate risks, with reference to past projects, would assist Risk Management in defining insurance requirements. Large-scale projects will require a robust Risk Register with identified costs and methods to mitigate risks. Staff will develop the following: 1) A work instruction that lists those quality records to be included in the "official" contract file. Furthermore, a defined standard electronic folder system with checklist of contents would accompany the work instruction and serve as a template for contract administration; 2) Staff will add additional details for the Close-out process that includes checklists and roles of the project manager, contract administration, and project controls; and 3) A risk management approach and procedures.

		Capital Improvement Program Historical Information Retrieval (CIPHIR) tool to identify additional project risks and corrective actions that may not have been previously identified; and c) enhance project management training to address change order management and administration, including negotiation, pricing analysis, and contract closeout activities.	Target Implementation is December 2020 a. Management agrees with the recommendation. All Project Managers and Construction Management staff will be trained on essential project management skills to help ensure uniformity of practices on all projects. Target implementation is December 2021. Auditor Response: The Independent Auditor acknowledges the importance of transparency and accountability in government. The intent of the recommendation is to reduce the financial risk of exceeding the original contract budget, which arises from the approval of the contingency budget in an open forum. Alternative processes can be implemented to minimize financial risk and accomplish the principles of transparency. For example, transparency may be accomplished by establishing specific policies, approved by the Board, that define the criteria for setting contingency budgets, such as project size, complexity, and procurement method (design-bid-build, design-build, etc.). The contingency budgets would then be established for projects according to the criteria. 11/18/2020 Status Update by Roslyn Fuller: a) Contingency will continue to be separately approved by the Board of Directors for each capital construction project for transparency; criteria for contingency will not be established b) Updating Quality and Environmental Management System (QEMS) Actions:

			Prepare risk register with reference to past projects for insurance requirements and large projects costs and method risk mitigation Identify list of quality records to be included in the contract file as well as standard electronic folder system Target Implementation: Revised from December 2020 to December 2021 & continuous c) Training on essential project management skills is a continuous process for change order management and administration, continue to explore Federal, State, non-profit and professional organizations training programs Target Implementation: December 2021 & continuous
WU Capital DOO: Heath McMahon General Services DAO: Roslyn Fuller Dam Safety & Capital Delivery DOO: Chris Hakes	R7	Develop, track, and report on performance metrics that monitor the timeliness, costs, and cost savings on large scale capital projects. Metrics established for monitoring final capital project close out costs against the original base contract amount should exclude contingency budget amounts.	<u>Management Response</u>: Management agrees with the recommendation. Management concurs with the recommendation to develop, track, and report on performance metrics for all projects that have been included within our CIP. Performance metrics and key performance indicators (KPIs) will be created for monitoring, reporting, requirements, and reporting methodology. Target implementation is December 2021. <u>Auditor Response</u>: Valley Water's response satisfies the recommendation. Management should consider reducing the two-year timeframe for implementation so that it can demonstrate sooner the effectiveness of its efforts to improve the construction contract change order process. 11/18/2020 Status Update by Roslyn Fuller: Actions: Development of project plans that include performance metrics for all projects have been included within the CIP module of VENA. Currently Change Management Memorandum is required when schedule

			and/or budget tolerances in the project plan are exceeded. Additional performance metrics and key performance indicators (KPI's) for monitoring and reporting are also in development. Target Implementation: December 2021 and continuous

2020 REAL ESTATE SERVICES AUDIT			
Action Item Owner	**Ref #**	**Summary of Recommendation**	**Updates/Notes**
Real Estate Services Manager: Eli Serrano	1	To improve RESU’s timeliness of the real estate transaction process, Valley Water’s CEO should ensure annual training is provided to all Valley Water divisions about the Valley Water real estate acquisition process, key steps, common pitfalls, and strategies to avoid these pitfalls. The training should include a planning guide for use by Valley Water that shows the timeline for requesting services, the information needed by RESU staff, and the time required to complete the service request.	Management Response: Management agrees with this recommendation. RESU staff will update and provide a training presentation to new and existing staff in capital engineering, operations and maintenance that require real estate services regarding Valley Water real estate acquisition processes. The training will include information on key steps, information needed for real estate service, common pitfalls, strategies to avoid pitfalls, and approximate timelines for completing a typical acquisition. In addition, RESU will create an online tutorial and place it on Aqua.gov website for easy reference and convenience of all Valley Water staff. Target Implementation: July 2021 Independent Auditor Response: Valley Water management's response satisfies the recommendation.
Real Estate Services Manager: Eli Serrano	2	To enhance transparency and accountability of RESU current operations, the RESU Manager should: (A) stipulate which form is to be used across all projects and acquisitions that RESU, project managers, and project owners come to an agreement on “just compensation,” (B) define what information defines “just compensation,” and (C) establish and routinely monitor and report on key performance measures, such as acquisition turnaround times, status of project manager requests, and outstanding “acquisition related” items needed by other Valley Water units.	Management Response: Management agrees with the recommendation. RESU will implement the following actions: Use a "Just Compensation Approval Form" for all transactions involving appraisals to be approved by the Senior Real Estate Agent and Project Manager. Research best practices defining "Just Compensation" and include that information in Real Estate procedures. Work with project managers and project owners to establish a real time report on key performance measures, such as acquisition turnaround times, status of real estate transaction requests, and other outstanding items related to each real estate transaction request. Target Implementation: July 2021

			Independent Auditor Response: Valley Water management's response satisfies the recommendation.
Real Estate Services Manager: Eli Serrano	3	To increase the effectiveness of RESU's property management, the RESU manager should update Valley Water's RESU policies and procedures for property management to include residential property management, including procedures to ensure tenants have updated insurance, how staff will conduct physical inspections, and the payment of HOA fees when needed.	Management Response: Management agrees with the recommendation. RESU has begun working on some improvement activities that are related to this recommendation. Status of those items are described below: Updating existing property management policies and procedures to include residential property management. Implemented oversight by Senior staff to track non-residential insurance expirations. Residential structures owned by Valley Water are covered by Valley Water insurance policies managed by the Risk Management Unit. Planning to coordinate a weekly property management schedule to do on-site property inspections. Currently only one HOA fee is invoiced annually related to a District property, and it has been paid in accordance with the invoice terms. Target Implementation: July 2022 Independent Auditor Response: Valley Water management's response satisfies the recommendation, except for the payment of HOA fees when required. We encourage RESU as they continue work on implementing this recommendation to ensure to develop policies for the payment of HOA fees. Although an infrequent occurrence, formal documentation in policies supports consistency and guidance when the event occurs.
Real Estate Services Manager: Eli Serrano	4	To increase the effectiveness of RESU's property management, the RESU manager should establish procedures to track all staff costs, property maintenance expenses and revenue for all rental	Management Response: Management agrees with the recommendation. As reported in the audit report, annually staff prepares a summary in a non-agenda submittal to the Board on the income, expenses, and net income for residential and non-residential rental properties. RESU

		properties. RESU's annual report to the CEO should include financial analysis to determine whether Valley Water is covering its costs to maintain the leased/licensed properties it owns and the cost to lease/license property owned by others is fiscally prudent.	Manager will work with accounting staff to retrieve and include the following information in the annual summary of rental income and expenses to the Board: 1. Costs to maintain the property it has leased or licensed to others. 2. Trends in the rental income and expenses. 3. Expenses for Valley Water's non-residential property management including staff costs; and 4. Costs for the property that it leases from others. Target Implementation: July 2021 Independent Auditor Response: To assist the Board in its oversight responsibility, the annual summary should include a determination of whether Valley Water is covering its costs to maintain the leased/licensed properties it owns.
Real Estate Services Manager: Eli Serrano	5	To facilitate effective delivery of RESU services, the RESU Manager should develop a risk assessment process to help Valley Water staff identify real estate transactions that will need extensive participation and review by District Counsel and a plan for key consultation points.	Management Response: Management agrees with the recommendation. RESU staff will create a check list for potential risk factors associated with complicated acquisitions, for example, relocation or hazardous material issues, unwilling owner, or potential eminent domain matters. RESU will review potential risk factors with the project team early in the planning process to identify potential high-risk acquisitions and mitigation issues so that adequate schedule and budget can be considered for the project. RESU will also engage Legal counsel on complex legal issues and timing to resolve. Target Implementation: December 2021 Independent Auditor Response: Valley Water management's response satisfies the recommendation.

Real Estate Services Manager: Eli Serrano	6	To increase service delivery timeliness, Valley Water's CEO, in coordination with RESU's Manager, should work with District Counsel to evaluate the costs and benefits of developing additional templates for the different types of right-of-way agreements, with a goal of minimizing changes to these pre-approved standard contracts and reducing District Counsel's review time.	Management Response: Management agrees with the recommendation. RESU will work with Legal Counsel Office to identify and create standard templates for various right of way agreements. Standard templates may be considered for the following real property interests: Temporary Construction Easement Temporary Construction Easement and Permanent Easement Fee-Full Take Fee-Partial Take Fee, Temporary and Permanent Easement Ingress/Egress Easement Permanent Easement Target Implementation: July 2022 Independent Auditor Response: Valley Water management's response satisfies the recommendation.
Real Estate Services Manager: Eli Serrano	7	To enhance the effectiveness of capital project planning, the CEO should ensure the inclusion of RESU staff in early project design meetings for capital projects to assist project delivery teams with budgeting for real estate transactions and planning for adequate time to process those transactions, identify potential challenges for transactions given the project design, and allow RESU time to plan for these transactions and potential property management needs.	Management Response: Management agrees with the recommendation. Valley Water's current practice for capital improvement projects is to include key subject matter experts on its core project team. For projects that require right-of-way acquisitions, the project teams always include RESU staff. RESU staff serves as a task leader in planning and executing right-of-way acquisitions for each project. RESU staff input has always been requested and then incorporated into each project's schedule and budget. Deputies of Capital Improvement Projects will ensure that each capital improvement project, that require acquisition of right-of-way, continue to have participation of RESU staff as a key core team member. Target Implementation: On-going Independent Auditor Response: The audit found that RESU

			staff were not always included in the early phases of project planning. Capital Project staff are solely responsible for defining and planning acquisitions and RESU executes the real estate transaction process for the acquisition as defined by Capital Project staff. The purpose of the recommendation is for Capital Projects staff, when defining the parameters of each acquisition, to consult with RESU to prevent delays to the acquisition timeline in the execution of the transaction process that occurs later in the project lifecycle.
Real Estate Services Manager: Eli Serrano	8	To improve planning for the costs of real estate acquisitions, the RESU Manager should complete a one-time study on (A) the impact of property owner appraisals on acquisition purchase prices over the past five years to identify the differences in appraisal methodologies that led to different appraised values, and (B) the impact of a property owner's appraisal on the time to complete an acquisition. The RESU manager should share the research with District Counsel and Valley Water management to determine what changes, if any, should be made to the Valley Water acquisitions process.	Management Response: Management agrees with the recommendation. RESU will research how to best complete a one-time study of the impact of property owner appraisals on acquisition purchase prices and to identify the differences in appraisal methodologies that led to different appraised values. The evaluation will also include the impact of a property owner's appraisal on the time to complete an acquisition. Based on evaluation, RESU will recommend and made changes, if any, to RESU procedures for property acquisition. Target Implementation: December 2021 Independent Auditor Response: Valley Water management's response satisfies the recommendations.
Real Estate Services Manager: Eli Serrano	9	To ensure that Valley Water adheres to "just compensation" principles on delayed real estate acquisitions, Valley Water's CEO should ensure the development of criteria that would require the ordering of an updated appraisal, especially when there is a potential conflict between project deadlines and the need for additional time to finish the acquisition	Management Response: Management agrees with the recommendation. RESU will evaluate and update current policy and procedures regarding appraisal life expectancy (usually 6 months) and determine a trigger for requesting an updated appraisal in coordination with project team or owner. RESU staff will monitor status of each acquisition and recommend necessary updated appraisal to avoid delay to the acquisition schedule.

		process in accordance with Valley Water goals and state laws.	Target Implementation: December 2021 Independent Auditor Response: Valley Water management's response satisfies the recommendation.
Real Estate Services Manager: Eli Serrano	10	To facilitate effective communication with property owners and those wanting to use Valley Water owned land, Valley Water's CEO should leverage use of the existing Customer Resources Management Information System. The CEO should allow its use by RESU and all divisions/units (Community Projects Review Unit (CPRU), Watersheds, Utility) that deliver real estate services to track all external stakeholder contacts (dates, purpose, status) and to be able to research those contacts before connecting with property owners; and develop communication protocols/scripts for use by RESU, Watersheds, and Utility when contacting property owners about the need to use or acquire parcels.	Management Response: Management agrees with the recommendation. RESU will discuss with Information Technology (IT) Department the needs to track all external stakeholder contacts (dates, purpose, status) and to be able to research those contacts before connecting with property owners. RESU will invite other units that interact with property owners, such as Community Projects Review Unit (CPRU) or other units in Watershed or Water Utility on this discussion. As IT Department develops or acquires proper software to support the tracking of external stakeholder contacts, they will provide training on this new tool to RESU, CPRU, and other. Target Implementation: July 2022 Independent Auditor Response: Valley Water management's response satisfies the recommendations.
Real Estate Services Manager: Eli Serrano	11	To improve public confidence in its real estate services, the CEO should expand the information available on the Valley Water website about real estate services to describe generally the real estate acquisition process; provide brochures that explain the acquisition process and rights of property owners; provide a guide for property owners and other external parties showing which unit to call–either RESU or CPRU–depending on the service	Management Response: Management agrees with the recommendation. RESU will work with Office of Communications to create a webpage site on valleywater.org to provide information to the public about the Real Estate Services Unit and the real estate acquisition process. The webpage will also include information on property owner rights, a FAQ page and related standard brochure, "When the Water District Buys Your Property." The webpage will also provide information on who at Valley Water to contact regarding acquiring or using a property right from Valley Water or doing property transaction with Valley Water.

		needed; and a frequently asked questions section.	Target Implementation: July 2022 Independent Auditor Response: Valley Water management's response satisfies the recommendation.
Real Estate Services Manager: Eli Serrano	12	To enhance Valley Water's fiscal performance and asset management strategy, the CEO should: (A) conduct an annual review of the fee schedules maintained by Valley Water to ensure that the fees cover the costs to lease, license, and permit the use of its, and (B) shorten the duration and establish regular fee adjustments on future longer term lease agreements.	Management Response: Management agrees with the recommendation. CPRU will conduct an annual review of the Valley Water's fee schedules to ensure that the fees cover the cost to lease, license, and permit the use of its land. Currently, appraisals are performed for every request to establish fair market value. CPRU will recommend to the CEO revisions to the fee schedules as needed. We will include a clause in each lease/license to adjust the annual rate based on the Consumer Price Index (CPI) for San Francisco-Oakland-San Jose area. Additionally, for leases that have a term longer than 10 years, we will include a clause to review and revise the rate every 10 years. Target Implementation: December 2021 Independent Auditor Response: Valley Water management's response satisfies the recommendation.
Real Estate Services Manager: Eli Serrano	Other Matters for Consideration	Other Matters for Consideration - Should the Valley Water Board desire to update the current role of RESU from providing support services only to be a proactive partner in strategy planning for future water management activities, the Board could consider the following: A. Direct the CEO to develop a five-year strategic plan that includes a new mission, goals, and objectives for all Valley Water Real Estate Services (including asset	Management Response: Management agrees to the additional recommendations. Management agrees that the roles and responsibilities of RESI and CPRU can be clarified and communicated better so that the public can have a better understanding of the services provided and proper points of contact at Valley Water. Management agrees that the roles and responsibilities for real property asset management need to be developed and implemented and Valley Water has already begun this effort. In 2019 Valley Water created the Lands Management Program to lead agency-level coordination for many of the

		management) that proactively meets the needs of future Valley Water projects, goals, and objectives. The strategic plan should include an implementation plan that addresses the following: 1. Define the future roles and responsibilities for each unit that delivers or helps to deliver real estate and asset management services. If Valley Water continues to use its current organizational structure to deliver real estate services, roles and responsibilities should be identified by each type of real estate service and asset management function and function performed, clear lines of accountability created for each unit performing each task, and key points of coordination and collaboration across the units defined. 2. Assess the feasibility of consolidating the delivery of its real estate services and permitting services by combining the RESU and CPRU into a single unit to leverage opportunities. Consolidation will make the real estate transaction process and property management activities more efficient and effective, as well as providing a one-stop shop to constituents. 3. Describe how Valley Water will collect, analyze, and verify the accuracy of data about its real property to allow Valley Water management to perform effective business analytics. 4. Develop a communication strategy that	broad aspects pertaining to lands management activities. The lands management function is resided in the Watershed Business Planning & Analysis Unit (WBPAU). Additional information on the roles and responsibilities of those 3 units will be posted on Valley Water Web Page as needed so the public can understand better and know who to contact for services provided by those 3 units. Target Implementation: July 2021 Management does not agree with the recommendation to combine RESU and CPRU to make real estate transaction process property management activities more efficient and effective, as well as providing a one-stop shop to constituents. Currently, RESU and CPRU are in the Watersheds Design & Construction Division under the Chief Operating Officer Watersheds. These units have clear roles and responsibilities, and a portion of their functions involves Valley Water real property. They coordinate and collaborate with each other and other units/operations for management and protection of Valley Water real properties. RESU is responsible for real estate services which includes buying and selling property, leasing and licensing of non-residential and residential properties, as well as negotiation, appraisal, title, and relocation services. CPRU is responsible for protecting Valley Water Watersheds and Water Utility assets and interests from external activities and threats as defined by the Water Resources Protection Ordinance. CPRU accomplishes this through the review of development projects from external parties and issuance of encroachment permits for activities on Valley Water rights of way, and ordinance enforcement for activities undertaken without appropriate permits. The issuance of encroachment permits for long term uses of Valley Water property may include a license or lease

		address how Valley Water will promote a culture of information sharing and enterprise-wide decision making both internally and externally, for delivery of its real estate services. 5. Develop an asset management strategy. B. Direct the CEO to begin a plan to implement a new, off-the-shelf real property and asset management software to track and capture all real property activities, including transactions, encroachment permits, contact management, lease/permit management, and workflow management performed by RESU and CPRU. The system should support business analytics for real property management, enhancing delivery of real estate services using technology.	which is established by CPRU staff and managed by RESU. Target Implementation: On-going operations Management agrees that having a central location for information related to its real property can facilitate effective evaluation and decision making. Data about Valley Water's real property is collected and analyzed by CPRU and WBPAU. CPRU is responsible for verifying the accuracy of land rights data shown in GIS and to correct the Land Parcels, Fee, and Easement layers for Valley Water real property. As needed, CPRU staff provides corrections to the County of Santa Clara Assessor to ensure that Valley Water's ownership data is represented accurately in County of Santa Clara's records. WBPAU is in the process of procuring and implementing an Enterprise Content Management (ECM) system that will be utilized as an agency-wide central repository for documents and information pertaining to Valley Water land rights and obligations. As appropriate, metadata and summarized information on real property documentation will be incorporated in the ECM system so that Valley Water staff can query and retrieve real property information and perform analytics-based evaluations as needed to support strategic decision-making. Part of the Land Management Program will enhance the utilization of Geographic Information System (GIS) functionality to expand access to information on real property rights and obligations, and will advance the integration of internal GIS systems with many of the documents and associated information that will be stored in the ECM system. Target Implementation: July 2022 Management agrees to develop a communication strategy

			that addresses how Valley Water will promote a culture of information sharing and enterprise-wide decision making. We are planning to: Develop, enhance, and/or consolidate internal and external web pages to provide easily accessible information to Valley Water staff and the public pertaining to real estate services program descriptions, policies and processes, roles and responsibilities, and contact information. Hold regularly scheduled internal coordination meetings with relevant business areas to ensure strategic alignment, information sharing, and coordinated execution of business processes. Explain the utilization of information technology solutions to aid in the access and distribution of real property information to contribute to coordinated and strategic decision-making. In addition to maintaining the Fee and Easement GIS layers, CPRU has created layers for: Adopt-a-Creek locations (adopted and available segments), Encroachments (Fee, Easement and Suspected), Joint Use Agreement locations (with links to the JUA documents), and is in the process of populating a layer representing the locations of Agreements and Leases (which will also contain links to the relevant documents). These are all updated as new information becomes available. The Adopt-a-Creek and Encroachment layers (with the exception of the Suspected Encroachments) are available to all staff via the GIS data menu. The Joint Use Agreement layer has been made available to the Maintenance and Vegetation Management staff to facilitate their work and will be added to the data menu shortly. Members of the public can request deed information about or Fee and Easement rights and pipeline or creek plans at any time. Target Implementation: July 2021

			Management agrees with the recommendation to develop an asset management strategy. WBPAU is developing the Lands Management Program and is responsible for coordination for many of the broad aspects pertaining to lands management activities. WBPAU will continue to develop and implement an integrated real property asset management strategy to align the acquisition, sustainment, use, and disposal of real property with agency goals, objectives, and service delivery requirements. Several of the components of a real property asset management strategy noted below are currently in development and will continue to be advanced by the Lands Management Program in collaboration with RESU, CPRU, and other business areas throughout Valley Water: Short and long-term asset management goals and objectives. A strategic property evaluation process for real property acquisition (fee and easement), surplus sale, and easement termination. Integrated process(es) for the planning and budgeting, acquisition, sustainment, and disposition of real property. Leveraging of information technology solutions to inventory and track real property assets and provide centralized access to real property documents and information. Coordination for the planning and execution of corrective, preventative, and deferred maintenance. Consolidated information on real property ownership and current use. Land use planning assessments. Use of industry standards and benchmarks for continuous improvement. Mechanisms to periodically measure progress, assure continued relevance, and update asset management strategy as necessary.

			Target Implementation: July 2022 C. RESU will work with Information Technology (IT), CPRU and Facilities Management to collaboratively analyze the current software systems and capabilities, including transactions, encroachment permits, contact management, lease/permit management, and workflow management performed by RESU. RESU will work with IT staff and discuss future integrations and updates which will include feedback from other departments involved in the Real Estate/Property Management and Asset Management processes. RESU will implement training for staff which will provide transparency on the basic uses of the current RESU system by providing tutorials and help menus for continued assistance. The end product and objective are to ensure that Valley Water staff has all the tools needed to access Valley Water owned property information, as needed in a clear and easy to access method. Target Implementation: July 2022 Independent Auditor Response: The Auditor has presented these as matters for consideration only. We commend Valley Water for their proactive response. The matter regarding assessing the feasibility of consolidating the CPRU and RESU units were developed with an emphasis on improving service delivery for Valley Water residents. Upon completion of clarifying roles and responsibilities between the two units, identify opportunities for continued collaboration and coordination to better serve customers.

2020 DISTRICT COUNSEL AUDIT			
Action Item Owner	**Ref #**	**Summary of Recommendation**	**Updates/Notes**
District Counsel's Office	1	The District Counsel's Office should develop and implement a written strategy for approval by the Board that provides an updated operating model for efficient service delivery. In the development of the strategy, the District Counsel can consider, for example, enhanced policy and procedure development and new/enhanced tools described throughout this report. These tools, for example, can include workflow management, SLAs, added performance measurement, use of multi-source feedback assessments, and risk -based criteria assessments.	11/17/2020 Summary of Management Response: Management agrees with the recommendation. The District Counsel agrees to develop and implement a written strategy with an updated operating model for efficient service delivery for approval by the Board. The District Counsel further commented on the many suggested solutions included in the audit report, describing the varied potential benefits or concerns. Target Implementation: The District Counsel recommends that implementation should await appointment of a successor District Counsel so that he or she can have critical input on the ultimate strategy proposed for the office. With respect to implementation of a future written strategy, it is suggested that the Board consider this as a goal for the successor District Counsel. Direction is requested from the Board of Directors if it would like the strategy to be developed prior to the appointment of a successor District Counsel. Independent Auditor Response: TAP International agrees that the development and implementation of the updated operating strategy should await appointment of a successor District Counsel because of the need for organizational and operational changes to address the issues described in the audit report. Although TAP International did not formally recommend implementation of the multiple potential solutions described in the audit report, the solutions suggested are standard management practices to address the District Counsel's Office's service delivery issues that were identified by the audit (such as timeliness, communication, and non-uniform approaches to providing services). TAP International opted

			against prescribing the use of these tools to provide management flexibility to tailor or adopt alternative solutions as part of an updated operating model. The current District Counsel in describing concerns with a suggested solution contained in the audit report, such as the development of criteria for risk management unit decision-making, dedicating staff to serve the Board only, and tracking attorney time, has the flexibility to implement other alternative strategies that could enhance Office performance and accountability.
District Counsel's Office	2	The District Counsel and the Information Technology & Administrative Services Chief Operating Officer should update Valley Water Administrative Policies that (1) identify areas that require the development of new contractual and agreement templates, and (2) identify the responsible party for updating existing contract, agreement, and amendment templates as well as non-disclosure agreements (NDAs). These updates should also include the responsible party for NDA monitoring.	11/17/2020 Summary of Management Response: Management agrees with the recommendation. The District Counsel reported that efforts to develop an administrative policy to address non-disclosure agreement are underway with an expected completion date of April 2021 or earlier. Target Implementation: July 1, 2021. Independent Auditor Response: TAP International commends District Counsel initiation of activities to address this recommendation.
District Counsel's Office	3	The District Counsel should convene a workgroup on planning activities or projects involving contracting opportunities with key stakeholders (E.g., Chief Executive Officer (CEO) and Chief Operating Officers (COOs)) to develop a decision-making guide for early engagement with the District Counsel Office and Risk Management.	11/17/2020 Summary of Management Response: Management agrees with the recommendation. District Counsel agrees that early involvement by the District Counsel's Office and Risk Management on complex, high-value, or large-scale Valley Water projects that will involve contracts would generally be beneficial. While there have been recent efforts to include the District Counsel's Office in the early planning processes for some projects (e.g., the Anderson Dam Retrofit Project), more consistency would be beneficial. This consistency can be increased through the development of the recommended decision-making guide and its use by the CEO and Chief Operating Officers since they

			are the ones who will be aware of future projects and project needs. The District Counsel is happy to attempt to convene the recommended workgroup and hopes the other BAOs and Valley Water's Chief Operating Officers and Chief Financial Officer will support and participate in the workgroup. Target Implementation: May 1, 2021. Unless different direction is received from the Board of Directors, the District Counsel does not believe that implementation of this recommendation needs to wait upon the appointment of a successor District Counsel. Independent Auditor Response: TAP International commends District Counsel initiation of activities to address this recommendation.
District Counsel's Office	4	The District Counsel should discuss with the Board the use of a master services agreement to add another procurement mechanism for legal services.	11/17/2020 Summary of Management Response: Management agrees with the recommendation. The District Counsel requested that in the event the Board determines that a master services agreement should be used to procure legal services in the future, it should continue to be allowed to retain legal services separately from master services agreements in cases where there is a need for legal services that cannot be fulfilled, or cannot be best fulfilled, by firms on the list of pre-vetted firms, or there is insufficient time to use a competitive process to secure a new firm. Target Implementation: To be determined. Independent Auditor Response: TAP International commends the District Counsel for initiating discussions with the Board about the use of alternative contracting mechanisms. The District Counsel noted concerns about retaining its authority to sole source legal services, but the purpose of the recommendation is to add to the procurement strategies versus eliminating them.

District Counsel's Office	5	The Board Audit Committee should ensure that the scope of the audit currently proposed in the annual audit work plan for the risk management function, include an evaluation of the advantages and disadvantages of implementing alternative organizational alignments for the Risk Management Unit and the Workers' Compensation programs.	11/17/2020 Summary of Management Response: Not applicable for a management response. The District Counsel commented on this recommendation and argued against organizational changes describing that Workers' Compensation activities should not be consolidated under Environmental, Health and Safety because claims administration of the Workers' Compensation program is more closely aligned with Risk Management. Independent Auditor Response: This recommendation was made to the Board Audit Committee. The audit report describes the issues that were raised that support further study of a potential organizational change. Should the Audit Committee wish to expand the scope of the current risk management audit listed on the annual work, the arguments presented by the District Counsel will be considered.

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