

**WATER UTILITY ENTERPRISE FUNDS
OF THE
Santa Clara Valley Water District
San Jose, California**

Annual Financial Report
For the Fiscal Year Ended June 30, 2015

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OF THE
SANTA CLARA VALLEY WATER DISTRICT
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Santa Clara Valley Water District
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Enterprise Funds (Funds) of the Santa Clara Valley Water District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Funds basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Funds, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the District, as of June 30, 2015, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 10 and 14 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date— an amendment of GASB Statement No. 68*, effective July 1, 2014. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer pension contributions and other postemployment schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Revenues and Expenses by Zone, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
May 27, 2016

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Management's Discussion and Analysis

Our discussion and analysis of the Santa Clara Valley Water District's Water Utility Enterprise Funds (the "Funds") financial performance provide an overview of the Water Utility Enterprise Funds financial activities for the fiscal year ended June 30, 2015. This information is presented in conjunction with the audited financial statements that follow this section.

The Funds account for the management and supply of wholesale treated water, groundwater, recycled water and surface water for the residents of Santa Clara County. The Funds are separate enterprise funds of the Santa Clara Valley Water District (District) that were established to account for the water utility transactions of the District. The Funds are comprised of two funds – Water Enterprise Fund and State Water Project Fund. The Water Enterprise Fund accounts for ongoing water utility operations, with revenues comprised primarily of charges to the District's groundwater and treated water customers. The State Water Project Fund accounts specifically for state water project tax revenue and state water project contractual costs.

Because service needs are different in the northern and southern portions of the county, operations and expenditures are tracked based on the relative benefit to North County and South County zones. Likewise, the District's water charges between the two zones are set separately.

The District engaged Vavrinek, Trine, Day & Co., LLP to conduct an audit of the District's Funds for the fiscal year ended June 30, 2015. The purpose of the audit was to analyze the reasonableness of the allocations of cost and revenue between the two groundwater charge zones within the Funds, the North County zone and the South County zone.

Overview of the Financial Statements

The accounting policies of the Funds of the Santa Clara Valley Water District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The financial statements of the Funds, as presented here, are for the District's Water Enterprise Funds activities only and do not reflect the financial position of the Santa Clara Valley Water District as a whole. The Funds are accounted for as Proprietary Funds where the cost of providing goods and services to the general public are financed and recovered primarily through user charges.

Management Discussion and Analysis (continued)

The following are the statements of the Funds:

The Statement of Net Position presents information on all of the Funds' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Funds are improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position provides information about the Funds' revenues and expenses on an accrual basis.

The Statement of Cash Flows provides relevant information of the Funds' cash receipts and cash payments during the period. This statement presents changes in the Funds' cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities.

The Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Funds' financial statements.

The Funds account for operations in a manner similar to a private business enterprise. Operations are accounted for to show net income or loss. The Funds are intended to be entirely or predominantly self supported from user charges.

Management Discussion and Analysis (continued)

Financial Highlights

Water Utility Enterprise Funds Net Position
(Dollars in Thousands)

	2015	2014
Current and other assets	\$ 182,408	\$ 190,993
Capital assets	894,338	848,116
Other non current assets	5,995	7,483
Total assets	1,082,741	1,046,592
Deferred Outflow of Resources		
Deferred amount on refunding	1,951	2,074
Pension activities	6,147	-
	8,098	2,074
Current liabilities	154,745	98,295
Litigation - claim	7,386	7,386
Long-term liabilities outstanding	264,502	207,135
Total liabilities	426,633	312,816
Deferred Inflow of Resources	15,261	-
Net position:		
Net investment in capital assets	575,873	573,410
Restricted	26,087	30,019
Unrestricted	46,985	132,421
Total net position	\$ 648,945	\$ 735,850

- The total net position of the Funds exceeded their liabilities by \$648.9 million. The largest portion of the Funds' net position (88.7%) reflects investment in capital assets (e.g., land, buildings, infrastructure, machinery, equipment, and contract water rights) less any related debt outstanding used to acquire the capital assets. These capital assets are used to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the Funds' investment in its capital assets is reported net of related debts, 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.
- Investment in capital assets, net of related debt, for the Funds went up 0.4% or \$2.5 million from the previous fiscal year.
- Current fiscal year major additions to capital assets for business type activities include the following (in millions): Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications - \$12.2, Rinconada Water Treatment Plant Reliability Improvement - \$9.2, Infrastructure Reliability Program—Seismic

Management Discussion and Analysis (continued)

Study Retrofit Water Treatment Plant -\$ 6.3, Anderson Dam Seismic Retrofit - \$ 5.7, Recycled Water Advanced Treatment Facility - \$5.4, 5-year Pipeline Rehabilitation - \$4.9, South County Recycled Water Short Term 1B - \$ 3.9, Rinconada Water Treatment Plant Treated Water Valves Upgrades - \$3.8, Calero-Guadalupe Dams Seismic Retrofits - \$2.9, Almaden Dam Improvements - \$1.8, Dam Safety Seismic Stability - \$ 1.1, Wolfe Road Recycled Water Facility - \$ 1.0, and Fluoridations at Water Treatment Plants - \$ 1.0.

- The balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens, customers, and creditors. The Funds' unrestricted net position decreased by \$85.4 million or 64%, during the current fiscal year.

Management Discussion and Analysis (continued)

Water Utility Enterprise Funds Change in Net Position (Dollars in Thousands)

	2015	2014
Revenues:		
Ground water charges	\$ 77,095	\$ 84,308
Treated water charges	76,799	86,386
Surface and recycled water charges	925	1,680
Operating grants	2,149	1,232
Capital grants and contributions	847	3,532
Property taxes	27,701	26,989
Investment income	1,621	1,624
Miscellaneous	3,113	3,283
Total revenues	190,250	209,034
Expenses:		
Operating expenses	180,825	165,042
Nonoperating and other expenses	8,432	8,450
Total expenses	189,257	173,492
Change in net position before transfers	993	35,542
Transfers	(11,406)	(272)
Change in net position	(10,413)	35,270
Net position, beginning	735,850	707,723
Prior period adjustment	(76,492)	(7,143)
Net position, ending	\$ 648,945	\$ 735,850

Net position of the Funds decreased by \$86.9 million during the fiscal year. Total revenues of \$190.3 million were offset by \$189.3 million of expenses, netting revenues before transfers of \$1.0 million. Charges for services of \$154.8 million were offset by \$189.3 million of total expenses. The remaining revenue receipts came from property taxes (\$27.7 million), capital and operating grants (\$3.0 million), investment earning (\$1.6 million) and miscellaneous revenues (\$3.1 million). Transfer out and the implementation of GASB 68 to recognize the net pension liability as of July 1, 2014 caused a reduction to net position of \$11.4 million and \$76.5 million, respectively.

Compared to the prior fiscal year, total revenues decreased \$18.8 million while expenses increased \$15.8 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Charges for services went down by \$17.6 million or 10.2%. The decrease was due to conservation efforts made by users in response to the historic drought that the State is experiencing. The volumes of ground water and treated water deliveries decreased by 16.1 % and 9.5%, respectively, compared to last fiscal year. The decreases in the volume of water deliveries were mitigated by the

Management Discussion and Analysis (continued)

32% average rate increases for ground water, surfaced water, reclaimed water and treated water rates.

- Capital grants and contributions decreased \$2.7 million or 76.0% due to the higher reimbursement receipt in the prior year from the Bay Area Clean Water for a one-time grant reimbursement for the South Bay Recycled Water Advanced Treatment Facility Reverse Osmosis.
- Operating grants increased by \$917 thousand or 74.4%. The increase was the result of higher cost sharing funds received from various agencies for the Water Conservation Program, as well as receipt of \$324 thousand contribution from Cinnabar Hills to partially fund the District's effort to develop recycled water.
- Due to the lingering drought experienced during the fiscal year, water enterprise expenses increased by \$15.8 million or 9.1% mainly from the higher cost incurred for water purchases and the increased spending on the water conservation rebate program.

Management Discussion and Analysis (continued)

Water Utility Enterprise Funds Schedule of Revenues and Expenses (Budgetary Basis) (Dollars in Thousands)

	North County		South County		Total	
	2015	2014	2015	2014	2015	2014
Operating Revenues:						
Ground water charges	\$ 68,050	\$ 74,200	\$ 9,045	\$ 10,108	\$ 77,095	\$ 84,308
Treated water charges	76,799	86,386	-	-	76,799	86,386
Surfaced and recycled water charges	537	1,226	388	454	925	1,680
Total water charges	145,386	161,812	9,433	10,562	154,819	172,374
Operating grants	2,030	1,176	119	56	2,149	1,232
Other	419	838	-	-	419	838
Total operating revenues	147,835	163,826	9,552	10,618	157,387	174,444
Operating Expenses:						
Source of supply	84,371	67,602	7,843	7,252	92,214	74,854
Water treatment	29,923	30,383	18	20	29,941	30,403
Transmission and distribution:						
Raw water	7,061	7,366	2,524	2,194	9,585	9,560
Treated water	1,539	1,601	-	8	1,539	1,609
Cost of goods sold	122,894	106,952	10,385	9,474	133,279	116,426
Administration and general	17,874	13,271	3,055	3,067	20,929	16,338
Capital cost recovery	(3,324)	(3,213)	3,324	3,213	-	-
Total operating expenses	137,444	117,010	16,764	15,754	154,208	132,764
Operating income (loss)	10,391	46,816	(7,212)	(5,136)	3,179	41,680
Non-operating income (expenses)						
Property taxes	25,122	24,598	2,579	2,391	27,701	26,989
Investment income	1,621	1,624	-	-	1,621	1,624
Rental income	72	68	33	32	105	100
Other	2,292	2,219	297	126	2,589	2,345
Interest/fiscal agent fees	(8,432)	(8,450)	-	-	(8,432)	(8,450)
Open space credit transfer	(6,061)	(6,300)	6,061	6,300	-	-
Interest earned credit	(43)	(35)	43	35	-	-
Net non-operating income	14,571	13,724	9,013	8,884	23,584	22,608
Income (loss)	\$ 24,962	\$ 60,540	\$ 1,801	\$ 3,748	\$ 26,763	\$ 64,288

Management Discussion and Analysis (continued)

Budgetary basis discussion:

- The Funds' total revenues from water charges were \$157.4 million in fiscal year 2016. Ninety-four percent of those revenues, or \$147.8 million were collected from customers in the North County, while the remaining six percent or \$9.6 million were collected from South County customers.
- Operating grants applied for and received were \$2.0 million and \$119 thousand for the North County and South County, respectively. These grants helped to fund water conservation, landscape water efficiency, raw water field maintenance and operations, and recycled/reclaimed water programs.
- Operating expenses for the North County include \$122.9 million in cost of goods sold, or 83 percent of its total operating revenues. For the South County, cost of goods sold is \$10.4 million or 109 percent of its total operating revenues.
- Administration and general expenses make up 8 percent of total operating revenues in the North County and 29 percent of total operating revenues in the South County.
- Total operating revenues of \$157.4 million less total operating expenses of \$154.2 million results in a \$3.2 million gain from operations. The gain from North County operations is \$10.4 million, while the loss from South County operations is \$7.2 million.

Operations is supplemented with property tax and investment earnings of \$29.3 million overall.

- Property taxes collected in the North County amounted to \$25.1 million while \$2.6 million were collected in South County for a total of \$27.7 million. These are comprised of voter approved obligations for State Water Project and Zone W-1 Debt service; and the water utility's allocated share of the countywide 1 percent ad valorem taxes.
- The North County investment earnings of \$1.6 million were at the same level as that of the previous fiscal year.

Overall budgetary basis net income was \$26.8 million. The North County earned \$25.0 million while the South County earned \$1.8 million.

Management Discussion and Analysis (continued)

The following table shows the rates for water services for fiscal year 2015

Water Utility Enterprise Funds Rate Summary Adopted 2014-15

	Rate
<u>Groundwater</u>	
North County – Agricultural	\$ 19.14
North County – Non-Agricultural	747.00
South County – Agricultural	19.14
South County – Non-Agricultural	319.00
 <u>Treated Water</u>	
Contract (Scheduled)	847.00
Non-Contract	897.00
 <u>Untreated Water</u>	
North County – Agricultural	19.14
North County – Non-Agricultural	747.00
South County – Agricultural	19.14
South County – Non-Agricultural	319.00
 <u>Water Master</u>	
	18.60
 <u>Minimum Charge</u>	
North County – Non-Agricultural	560.25
South County – Non-Agricultural	239.25
North County – Agricultural ¹	14.35
South County – Agricultural ¹	14.35
 <u>Reclaimed Water</u>	
Gilroy Reclamation Facility – Agricultural	42.94
Gilroy Reclamation Facility – Non-Agricultural	299.00

Note:

The surface water charge is the sum of the basic user charge plus the water master charge.

¹Beginning in Fiscal Year 2012-13, the agricultural minimum charge is now 75% of the agricultural basic user charge rather than the M&I basic user charge.

Capital Assets

The Funds' capital asset balance, net of accumulated depreciation, at June 30, 2015 amounts to \$894.3 million. Capital asset composition includes land, intangible rights, buildings, structures and improvements, machinery and equipment, and construction in progress. Capital assets for the current fiscal year went up \$46.2 million.

There were forty-two in progress and completed projects during the fiscal year, with the major projects listed below (in millions):

- Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications - \$12.2

Management Discussion and Analysis (continued)

- Rinconada Water Treatment Plant Reliability Improvement - \$9.2
- Infrastructure Reliability Program–Seismic Study Retrofit Water Treatment Plant -\$ 6.3
- Anderson Dam Seismic Retrofit - \$ 5.7
- Recycled Water Advanced Treatment Facility - \$5.4
- 5-year Pipeline Rehabilitation - \$4.9
- South County Recycled Water Short Term 1B - \$ 3.9
- Rinconada Water Treatment Plant Treated Water Valves Upgrades - \$3.8
- Calero-Guadalupe Dams Seismic Retrofits - \$2.9
- Almaden Dam Improvements - \$1.8
- Dam Safety Seismic Stability - \$ 1.1
- Wolfe Road Recycled Water Facility - \$ 1.0
- Fluoridations at Water Treatment Plants - \$ 1.0

Water Utility Enterprise Funds Capital Assets
(Net of Accumulated Depreciation)
(Dollars in Thousands)

	2015	2014
Land	\$ 17,929	\$ 17,594
Easements	90	-
Contract water and storage rights	50,603	53,026
Buildings	81,053	82,789
Structures and improvements	476,676	478,742
Equipment	8,431	9,477
Construction in progress	259,556	206,488
Total	\$ 894,338	\$ 848,116

Information on the Funds capital assets activity for fiscal year 2015 is shown in Note 6, page 32 of this report.

Debt Administration

On December 17, 2002, the District Board of Directors authorized a commercial paper program. On May 15, 2012, the execution and delivery of certain agreements in connection with the District's commercial paper program in an aggregate amount not to exceed \$100 million was approved by the District Board of Directors. On January 13, 2015, the District Board of Directors authorized an increase in the commercial paper program to an aggregate principal amount not to exceed \$150 million. The proceeds of the commercial paper may be used for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District.

Management Discussion and Analysis (continued)

As of June 30, 2015, the outstanding taxable-exempt commercial paper issued was \$58.52 million with interest rate of 0.09% to 0.12% maturing August 11, 2015, while the outstanding taxable commercial paper was \$55.93 million with interest rate of 0.15% to 0.18% maturing on August 11, 2015.

Addition and reduction to the Funds' short-term debt outstanding during the fiscal year is shown below (in millions):

	Authorized	Outstanding Amount
Commercial Paper Program		
Beginning balance	\$ 100.0	\$ 67.8
Additions	50.0	46.6
Reductions	-	-
Ending balance	\$ 150.0	\$ 114.4

The Funds' total long term obligations at June 30, 2015 amount to \$279.2 million. A comparative breakdown of its long-term obligations is shown below:

Water Utility Enterprise Funds Outstanding Obligations (Dollars in Thousands)

	2015	2014
Revenue bonds	\$ 189,875	\$ 197,045
Compensated absences	4,659	4,789
Net pension liability	65,892	-
Semitropic water banking	5,069	5,359
State revolving fund	4,607	4,893
Other post employment benefits	108	605
Litigation claim	7,386	7,386
Bond discount	(714)	(753)
Deferred interest swap	-	-
Premium on bond issue	2,329	2,436
Total	\$ 279,211	\$ 221,760

Total long-term obligations increased by \$57.5 million due to the implementation of GASB 68, Accounting and Financial Reporting for Pensions, which added \$65.9 million of net pension liability. The remaining components of long term obligations went down \$8.4 million due to the annual repayment of principal.

The credit ratings of the Funds revenue bonds are Aa1 from Moody's and AA from Standard & Poor's.

Management Discussion and Analysis (continued)

Additional information on the Funds' long-term debt can be found in Note 7, page 34 of this report.

Economic Factors and Next Year's Budgets and Rates

The District's budget outlines its mission - to provide Silicon Valley safe, clean water for a healthy life, environment and economy.

The District's \$478 million budget for FY2015-16 is a responsible investment in the future, shoring up water supplies and infrastructure to take the Santa Clara Valley through the unprecedented drought. \$276.7 million or 58% is allocated for net operating outlays and \$201.3 million or 42% for capital projects. \$76.5 million and 49 capital projects are included in the budget to help mitigate the effects of the drought.

Key deliverables for the FY2015-16 budget are as follows:

- Provide resources to respond to the drought.
- Deliver high-quality drinking water through local and imported water supply.
- Deliver high-quality recycled and advanced purified water.
- Ensure dam safety and manage infrastructure.
- Deliver capital projects to decrease flood risk or maintain stream capacity.
- Clean trash and mercury from creeks and watersheds.
- Improve fish habitat and passage.
- Make principal and interest payments on water district's long-term debt.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors of the North and South Counties with a general overview of the Funds' finances and to demonstrate accountability for the money that the Funds receive. If you have any questions about this report or need any additional information, contact the General Accounting Unit at 5750 Almaden Expressway, San Jose, CA 95118, or call (408) 265-2600.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**
Statement of Net Position
June 30, 2015
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total
ASSETS			
Current assets:			
Cash and investments (Note 3)	\$ 149,915	\$ 5,158	\$ 155,073
Receivables:			
Accounts	22,988	-	22,988
Taxes	63	190	253
Deposits and other assets	4,094	-	4,094
Total current assets	<u>177,060</u>	<u>5,348</u>	<u>182,408</u>
Non current assets:			
Restricted cash and investments (Note3)	5,461	-	5,461
Prepaid Insurance	534	-	534
Capital assets: (Note 6)			
Contract water rights, net	30,770	19,833	50,603
Depreciable, net	566,160	-	566,160
Nondepreciable	<u>277,575</u>	<u>-</u>	<u>277,575</u>
Total non current assets	<u>880,500</u>	<u>19,833</u>	<u>900,333</u>
Total assets	<u>1,057,560</u>	<u>25,181</u>	<u>1,082,741</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred amount on refunding	1,951	-	1,951
Deferred outflow of resources - pension activities	<u>6,147</u>	<u>-</u>	<u>6,147</u>
	<u>8,098</u>	<u>-</u>	<u>8,098</u>
LIABILITIES			
Current liabilities:			
Accounts payable	18,000	692	18,692
Accrued liabilities	5,279	-	5,279
Commercial paper, net of discount (Note 7)	114,450	-	114,450
Deposits payable	8,340	-	8,340
Accrued interest payable	661	-	661
Revenue bonds - current (Note 7)	6,043	-	6,043
Other Debt (Note 7)	<u>1,280</u>	<u>-</u>	<u>1,280</u>
Total current liabilities	<u>154,053</u>	<u>692</u>	<u>154,745</u>
Non current liabilities:			
Litigation claim	7,386	-	7,386
Long-term debt: (Note 7)			
Revenue bonds (net of unamortized discount)	185,447	-	185,447
Net pension liability (Note 11)	65,892	-	65,892
Other post employment benefits payable (Note 11)	108	-	108
Other debt	<u>13,055</u>	<u>-</u>	<u>13,055</u>
Total long-term debt	<u>264,502</u>	<u>-</u>	<u>264,502</u>
Total non current liabilities	<u>271,888</u>	<u>-</u>	<u>271,888</u>
Total liabilities	<u>425,941</u>	<u>692</u>	<u>426,633</u>
DEFERRED OUTFLOW OF RESOURCES - Pension Activities			
	<u>15,261</u>	<u>-</u>	<u>15,261</u>
NET POSITION (Note 9)			
Net investment in capital assets	556,040	19,833	575,873
Restricted			
Debt service	4,801	-	4,801
State revolving loan requirement	401	-	401
San Felipe operations	4,027	-	4,027
Operating reserves	13,893	-	13,893
Rate stabilization	2,139	-	2,139
State water projects	-	826	826
Unrestricted	<u>43,155</u>	<u>3,830</u>	<u>46,985</u>
Total net position	<u>\$ 624,456</u>	<u>\$ 24,489</u>	<u>\$ 648,945</u>

See accompanying notes to basic financial statements.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015
(Dollars in Thousands)

	Water Enterprise Fund	State Water Fund	Total
Operating revenues:			
Ground water production charges	\$ 77,095	\$ -	\$ 77,095
Treated water charges	76,799	-	76,799
Surface and recycled water revenue	925	-	925
Charges for services	-	-	-
Other	419	-	419
Total operating revenues	<u>155,238</u>	<u>-</u>	<u>155,238</u>
Operating expenses:			
Sources of supply	68,294	23,920	92,214
Water treatment	29,941	-	29,941
Transmission and distribution:			-
Raw water	9,585	-	9,585
Treated water	1,539	-	1,539
Administration and general	20,929	-	20,929
Claims and Adjustments	-	-	-
Equipment maintenance		-	-
Insurance		-	-
Depreciation and amortization	25,673	944	26,617
Total operating expenses	<u>155,961</u>	<u>24,864</u>	<u>180,825</u>
Operating income (loss)	<u>(723)</u>	<u>(24,864)</u>	<u>(25,587)</u>
Nonoperating revenues (expenses):			
Property taxes (Note 8)	5,607	22,094	27,701
Investment income (Note 5)	1,621	-	1,621
Operating grants	2,149	-	2,149
Rental income	105	-	105
Other	1,290	1,299	2,589
Interest and fiscal agent fees	(8,432)	-	(8,432)
Net nonoperating revenues	<u>2,340</u>	<u>23,393</u>	<u>25,733</u>
Income before capital contributions and transfers	1,617	(1,471)	146
Capital contributions (Note 4)	847	-	847
Transfers in (Note 13)	1,880	-	1,880
Transfers out (Note 13)	(13,286)	-	(13,286)
Change in net position	(8,942)	(1,471)	(10,413)
Net position, beginning of year	709,890	25,960	735,850
Capital asset restatement	21	-	21
Beginning net pension liability and deferrals	(76,513)	-	(76,513)
Net position, end of year	<u>\$ 624,456</u>	<u>\$ 24,489</u>	<u>\$ 648,945</u>

See accompanying notes to basic financial statements.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Statement of Cash Flows

For the Year Ended June 30, 2015

(Dollars in Thousands)

	Water Enterprise Fund	State Water Fund	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 158,985	\$ 160	\$ 159,145
Payments to suppliers	(75,743)	(24,190)	(99,933)
Payments to employees	(50,457)	-	(50,457)
Payments for internal services used	(1,556)	-	(1,556)
Other receipts	1,290	1,299	2,589
Net cash provided by (used for) operating activities	<u>32,519</u>	<u>(22,731)</u>	<u>9,788</u>
Cash flows from noncapital financing activities:			
Property taxes received	5,607	22,001	27,608
Operating grants	2,149	-	2,149
Transfers in from other funds	1,880	-	1,880
Transfers out to other funds	(13,286)	-	(13,286)
Net cash provided by noncapital financing activities	<u>(3,650)</u>	<u>22,001</u>	<u>18,351</u>
Cash flows from capital and related financing activities:			
Principal payments on revenue bonds	(2,328)	-	(2,328)
Issuance of commercial papers, net of principal payments on other loans	46,074	-	46,074
Capital contributions received	847	-	847
Interest and fiscal agent fees paid	(8,415)	-	(8,415)
Acquisition of contract water rights	(7,920)	-	(7,920)
Acquisition and construction of capital assets	(64,921)	-	(64,921)
Net cash used by capital and related financing activities	<u>(36,663)</u>	<u>-</u>	<u>(36,663)</u>
Cash flows from investing activities:			
Increase in restricted investments	1,461	-	1,461
Rental income received	105	-	105
Interest received on cash and investments	1,622	-	1,622
Net cash provided by investing activities	<u>3,188</u>	<u>-</u>	<u>3,188</u>
Net increase (decrease) in cash and cash equivalents	<u>(4,606)</u>	<u>(730)</u>	<u>(5,336)</u>
Cash and cash equivalents, beginning of year	154,521	5,888	160,409
Cash and cash equivalents, end of year	<u>\$ 149,915</u>	<u>\$ 5,158</u>	<u>\$ 155,073</u>
Cash and cash equivalents are reported on the Statement of Net Position as follows:			
Cash and investments	\$ 149,915	\$ 5,158	\$ 155,073
Restricted cash and investments	5,461	-	5,461
Less cash and investments not meeting the definition of cash equivalents	(5,461)	-	(5,461)
Cash and cash equivalents, end of year	<u>\$ 149,915</u>	<u>\$ 5,158</u>	<u>\$ 155,073</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (723)	\$ (24,864)	\$ (25,587)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	25,673	944	26,617
Other receipts	1,290	1,299	2,589
Change in operating assets and liabilities:			
Decrease in deposits and other assets	(586)	-	(586)
(Increase)/decrease in accounts receivable	3,793	160	3,953
(Increase)/decrease in property tax receivable	(46)	-	(46)
Decrease/(increase) in inventory	21	-	21
Decrease in accounts payable	5,248	(270)	4,978
Increase/(decrease) in accrued liabilities	(328)	-	(328)
Decrease in deposits payable	290	-	290
Inc/(dec) in other post employment benefits & compensated absences	(627)	-	(627)
Increase in retirement payable	(1,486)	-	(1,486)
Net cash provided (used) by operating activities	<u>\$ 32,519</u>	<u>\$ (22,731)</u>	<u>\$ 9,788</u>
Noncash investing, capital, and financing activity:			
Purchase of capital assets on account	\$ (2)	\$ -	\$ (2)

See accompanying notes to basic financial statements.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

(1) THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

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

The District 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 the District 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 District 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.

The District has broad powers relating to all aspects of flood control and storm waters within the District, whether or not such waters have their sources within the District. 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. The District acquires, stores, and distributes water for irrigation, residential, fire protection, municipal, commercial, industrial, and all other uses. The District also directly supports the caring for the environment and the community through careful stewardship.

The Water Utility Enterprise Funds (the "Funds") are separate enterprise funds of the District that were established to account for the water utility related transactions of the District. The Water Utility Enterprise Funds supply wholesale treated water, ground water, recycled water, and surface water for the residents of the Santa Clara County. The Funds are comprised of two funds – Water Enterprise Fund and State Water Project Fund. The Water Enterprise Fund accounts for ongoing water utility operations, with revenues comprised primarily of charges to the District's groundwater and treated water customers. The State Water Project Fund accounts for the state water project tax revenue and state water project contractual costs.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Fund Financial Statements

The Water Enterprise Fund and the State Water Project Fund (the Funds) financial statements are prepared in conformity with the generally accepted accounting principles (GAAP) in the United States of America. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. The Funds are included as part of the District's Comprehensive Annual Financial Report. Therefore, these financial statements do not purport to represent the financial position and changes in financial position of the District as a whole.

The Funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

(b) Basis of Accounting

The Funds 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 the District 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.

The Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Funds' principal ongoing operations. The principal operating revenue of the Funds is the sale of water to outside customers. Operating expenses for the 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. *Operating* revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the Funds. 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 non-exchange transactions or ancillary activities.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

(c) Cash and Investments

While maintaining safety and liquidity, the District 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.

The District 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 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

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 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 fair market value on the date contributed. The District 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.

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	80 Years
Office furniture, fixtures, and equipment	5 - 20 Years
Automobiles and trucks	6 - 12 Years
Computer equipment	5 Years

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

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

The District has contracted with the State 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 Funds capitalize the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(g) Amortization of Water Banking Rights

The District 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 the District a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Funds have capitalized the cost of the program and amortizes the cost over the 40 year entitlement period using the straight-line method.

(h) Amortization of Water Delivery Rights

The District 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 Funds capitalized the capital cost component and amortize 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 amounts due for property taxes and interest on investments. All receivables are shown net of an allowance for doubtful accounts of \$365 thousand.

(j) Accrued Vacation and Sick Leave Pay

It is the policy of the District 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 termination, up to 480 hours of accrued sick leave shall be paid to the eligible

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

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

The Funds' bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Refunding costs associated with debt refinancing are reported as deferred outflows of resources. Issuance costs are recorded as an expense of the current period.

On the statement of net position and the statement of revenues, expenses, and changes in net position, the 2006A COP and 2012A COP premiums and discounts are deferred and amortized over the life of the certificates. COP payable are reported net of the applicable bond premium. Prepaid insurance associated with the issuance of debts are reported as prepaid expenses.

(l) Accounting for Encumbrances

The District 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

The net position of the Funds is classified based primarily to the extent to which the District is bound to observe constraints imposed upon the use of the resources. When both restricted and unrestricted resources are available for expenses, the District 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 the District'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.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

(p) New Pronouncements

Future Accounting Pronouncements:

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

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The primary objective of this statement is to define fair value and describe how fair value should be measured, define what assets and liabilities should be measured at fair value, and determine what information about fair value should be disclosed in the notes to the financial statements. The Statement is effective for periods beginning after June 15, 2015, or the 2015-16 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The Statement is effective for periods beginning after June 15, 2015, or the 2015-2016 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of the Statement is to address the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement requires more extensive note disclosures and Required Supplementary Information related to the measurement of the OPEB liabilities for which assets have been accumulated. The Statement is effective for periods beginning after June 15, 2016, or the 2016-2017 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning June 15, 2017, or the 2017-2018 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 76 – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to reduce the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. The Statement is effective for the periods

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

beginning after June 15, 2015, or the 2015-2016 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 77 – In August 2015, GASB issued Statement No 77, *Tax Abatement Disclosures*. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for the periods beginning after December 15, 2015, or the 2016-2017 fiscal year. The District has not determined the effect of that statement.

(3) CASH AND INVESTMENTS

The Fund pools its cash and investments with the District. The pool balance at June 30, 2015 was as follows (in thousands):

Statement of Net Position:	
Cash and investments	\$ 542,602
Restricted cash and investments	22,250
Statement of Fiduciary Net Position:	
Cash and investments	201
	<u>\$ 565,053</u>

Investments

At June 30, 2015, cash and investments based on fair market value consist of the following (in thousands):

U.S. Government Agencies	\$ 408,721
U.S. Treasury Obligations	25,525
Medium Term Notes	15,073
Local Agency Investment Fund	60,424
Guaranteed Investment Contracts	4,745
Mutual Funds	181
Time Certificates of Deposit	1,739
Municipal Bonds	636
Money Market Funds	42,640
Total Investments	<u>559,684</u>
Carrying amount of cash	5,369
Total Cash and Investments	<u>\$ 565,053</u>

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

As of June 30, 2015, the fair market value of the District's investment in the State investment pool (LAIF) is \$60.4 million which consists of \$50.0 million in non-restricted cash and \$10.4 million in restricted bond proceeds. The \$10.4 million bond proceeds are related to the 2012A Certificate of Participation Acquisition and Construction fund. The total amount invested by all public agencies in LAIF at that date is \$69.61 billion. Of that amount, 97.92 percent is invested in non-derivative financial products and 2.08 percent in asset-backed securities and medium-term and short-term structured notes. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. 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 market value of the District's position in LAIF.

Authorized Investments by the District

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Government Agency Issues (A)	5 years	AA-	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	1 year	AA-	30%	3.6%
Nonnegotiable Certificates of Deposit	1 year	N/A	5%	\$100,000 & FDIC Membership
Collateralized Repurchase Agreements	30 days	AA-	None	None
Medium Term Notes	3 years	AA-	15%	1.8%
Municipal Obligations	3 years	AAA	None	12.0%
California Local Agency Investment Fund (B)	N/A	N/A	(B)	(B)
Mutual Funds	N/A	AAA	10%	10.0%

(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 \$50 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of the District's revenue bond resolutions and Installment Purchase Agreement for the 2006A & 2006B Water Utility Revenue and Refunding Bonds, 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, 2015, the amount invested in assets held by fiscal agent amounted to \$5.0 million for revenue bonds, which was equal to or in excess of the amount required at that date. In addition, the District has \$0.4 million in the safe drinking water state revolving loan fund, a reserve fund for debt service payment to the California State Department of Water Resources.

Restricted Cash and Investments for Capital Projects

The District has also issued commercial paper to provide for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District. At June 30, 2015, the balance of the tax-exempt commercial paper certificate account is \$20 thousand, and the balance of the taxable commercial paper certificate account is \$18 thousand. Both account balances were cash transfers from the District to fiscal agent to fund maturing interest payments on commercial papers outstanding.

Authorized Investments by Debt Agreements

The District 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 the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District ordinances, bond indentures or State statutes. The following table identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>
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, 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 California	N/A	N/A

(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 ("FNMA's"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMA's"); 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.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

(E) Repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA's or FHLMC's 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 market 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. The District generally manages its own interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution to the District's investments by maturity or earliest call date (in thousands):

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

	<u>Total</u>	<u>12 Months or less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
U.S. Government Agencies	\$ 346,127	\$ 103,370	\$100,819	\$ 141,938	\$ -
U.S. Government Agencies - Callabl	62,594	-	-	62,594	-
U.S. Treasury Obligations	25,525	15,004	10,122	-	399
Medium Term Notes	15,073	10,046	3,047	1,980	-
Local Agency Investment Fund	60,424	60,424	-	-	-
Guaranteed Investment Contracts	4,745	-	-	-	4,745
Mutual Funds	181	181	-	-	-
Time Certificates of Deposit	1,739	1,739	-	-	-
Municipal Bonds	636	-	-	636	-
Money Market Funds	42,640	42,640	-	-	-
Total Investments	<u>\$ 559,684</u>	<u>\$ 233,404</u>	<u>\$113,988</u>	<u>\$ 207,148</u>	<u>\$ 5,144</u>

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.

Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements and the actual rating as of June 30, 2015 for each investment type as provided by Standard and Poor's (in thousands):

	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>Rating as of Year-end</u>			<u>Not Rated</u>
				<u>AAA</u>	<u>AA+</u>	<u>AA</u>	
U.S. Government Agencies	\$ 408,721	AA-	\$ -	\$ -	\$408,721	\$ -	\$ -
U.S. Treasury Obligations	25,525	N/A	25,525	-	-	-	-
Medium Term Notes	15,073	AA-	-	3,037	2,979	9,057	-
Local Agency Investment Fund	60,424	N/A	-	-	-	-	60,424
Guaranteed Investment Contracts	4,745	N/A	-	-	-	-	4,745
Mutual Funds	181	AAA	-	181	-	-	-
Time Certificates of Deposit	1,739	N/A	-	-	-	-	1,739
Municipal Bonds	636	AA-	-	-	-	636	-
Money Market Funds	42,640	N/A	-	-	-	-	42,640
Total Investments	<u>\$ 559,684</u>		<u>\$ 25,525</u>	<u>\$ 3,218</u>	<u>\$411,700</u>	<u>\$ 9,693</u>	<u>\$ 109,548</u>

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Concentration of Credit Risk

The District's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code. However, the District is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual District Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2015, those investments consisted of (in thousands):

Issuer	Investment Type	Reported Amount
Government-Wide		
Federal Home Loan Mortgage Corp.	U.S. Government Agency	\$123,097
Federal National Mortgage Association	U.S. Government Agency	110,039
Federal Home Loan Bank	U.S. Government Agency	82,912
Federal Farm Credit Bank	U.S. Government Agency	62,664

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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.

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 market value of 105% to 150% of the District's cash on deposit. All of the District's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in trust department of the financial institutions in the District's name.

(4) REIMBURSEMENT OF CAPITAL COSTS

The Funds derive certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following table is a summary of the reimbursements made during fiscal year 2015 (in thousands):

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Local Agencies:	Amount
California Waters	\$ 150
San Benito County Water District	175
City of Sunnyvale	413
Health Trust	110
State Agency:	
Bay Area Clean Water	(1)
Total	\$ 847

(5) INVESTMENT INCOME

The District earns income from the investment of cash not required for current expenditures. Beginning after June 15, 1997, the Governmental Accounting Standard Board issued GASB pronouncement number 31 to establish accounting and financial reporting standards for all investments. One provision of this standard was to report investments at fair value in the balance sheets. Because of this requirement, investment income must be adjusted upwards or downwards to reflect the fair value change from one fiscal year to the next fiscal year. In making the adjustment, the investment income earned directly by the investments is modified.

The following represents the investment income as reported in the financial statements of the Funds, the current year GASB 31 fair value adjustment, and the unadjusted investment income at June 30, 2015 (in thousands):

Investment Income as Reported	Current Year GASB 31 Fair Value Adjustment	Investment Income Before Adjustment
\$ 1,621	\$ 110	\$ 1,511

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

(6) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 was as follows (in thousands):

	Balance July 1, 2014	Additions	Deletions	Transfers / Reclassified	Balance June 30, 2015
Nondepreciable capital assets:					
Land	\$ 17,594	\$ 335	\$ -	\$ -	\$ 17,929
Intangible - Easement	-	\$ 90	-	-	90
Construction in progress	206,488	63,689	-	(10,621)	259,556
Total nondepreciable capital assets	<u>224,082</u>	<u>64,114</u>	<u>-</u>	<u>(10,621)</u>	<u>277,575</u>
Depreciable capital assets:					
Contract water and storage rights	172,713	7,920	-	-	180,633
Buildings	83,979	-	-	-	83,979
Structures and improvements	711,039	-	-	10,621	721,660
Equipment	25,933	805	-	-	26,738
Total depreciable capital assets	<u>993,664</u>	<u>8,725</u>	<u>-</u>	<u>10,621</u>	<u>1,013,010</u>
Less accumulated depreciation and amortization					
Contract water and storage rights	(119,687)	(10,343)	-	-	(130,030)
Buildings	(1,190)	(1,736)	-	-	(2,926)
Structures and improvements	(232,297)	(12,687)	-	-	(244,984)
Equipment:	(16,456)	(1,851)	-	-	(18,307)
Total accumulated depreciation and amortization	<u>(369,630)</u>	<u>(26,617)</u>	<u>-</u>	<u>-</u>	<u>(396,247)</u>
Net depreciable capital assets	<u>624,034</u>	<u>(17,892)</u>	<u>-</u>	<u>10,621</u>	<u>616,763</u>
Total capital assets, net	<u>\$ 848,116</u>	<u>\$ 46,222</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 894,338</u>

During fiscal year 2015, new construction in progress amounted to \$63.7 million. There were forty-two in progress and completed projects during the fiscal year, with the major projects listed below (in millions):

- Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications - \$12.2
- Rinconada Water Treatment Plant Reliability Improvement - \$9.2
- Infrastructure Reliability Program—Seismic Study Retrofit Water Treatment Plant - \$ 6.3
- Anderson Dam Seismic Retrofit - \$ 5.7
- Recycled Water Advanced Treatment Facility - \$5.4
- 5-year Pipeline Rehabilitation - \$4.9
- South County Recycled Water Short Term 1B - \$ 3.9
- Rinconada Water Treatment Plant Treated Water Valves Upgrades - \$3.8
- Calero-Guadalupe Dams Seismic Retrofits - \$2.9
- Almaden Dam Improvements - \$1.8
- Dam Safety Seismic Stability - \$ 1.1

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

- Wolfe Road Recycled Water Facility - \$ 1.0
- Fluoridations at Water Treatment Plants - \$ 1.0

Depreciation and amortization expenses for fiscal year 2015 amounted to \$26.6 million.

(7) SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

On December 17, 2002, the District Board of Directors authorized a commercial paper program. The commercial paper program allows the District to finance capital acquisitions while taking advantage of short term rates. This program is used in conjunction with issuing long-term liabilities to obtain the least expensive financing for the District.

On May 15, 2012, the District Board of Directors authorized the execution and delivery of certain agreements in connection with the District's commercial paper program in an aggregate principal amount not to exceed \$100 million. Subsequently, on January 13, 2015, the District Board of Directors authorized an increase in the commercial paper program to an aggregate principal amount not to exceed \$150 million. The proceeds of the commercial paper may be used for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District.

As of June 30, 2015, the outstanding taxable-exempt commercial paper issued was \$58.52 million with interest rate of 0.09% to 0.12% maturing August 11, 2015, while the outstanding taxable commercial paper was \$55.93 million with interest rate of 0.15% to 0.18% maturing on August 11, 2015.

The District's short-term debt outstanding consists of the following, as of June 30, 2015 (in millions):

	Authorized	Outstanding Amount
Commercial Paper Program		
Beginning balance	\$ 100.0	\$ 67.8
Additions	50.0	46.6
Reductions	-	-
Ending balance	\$ 150.0	\$ 114.4

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

(b) Long-term liabilities

The long-term liabilities outstanding for the current fiscal year consisted of the following (in thousands):

<u>Type of indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding Balance</u>	<u>Due Within One Year</u>
2006A Water revenue bond	2035	3.5% - 5%	\$ 74,265	\$ 57,270	\$ 2,320
2006B Water revenue bond	2035	5.15%-5.31%	25,570	21,040	670
2007A Water revenue COP bond	2037	4% - 5.0%	77,270	68,380	1,770
2007B Water revenue COP bond	2037	5.55%-floating	53,730	43,185	1,215
Bond discount				(714)	(38)
Premium on debt issuance				2,329	106
Compensated absences				4,659	988
Net pension liability				65,892	
Other post employment benefits				108	-
Semitropic water banking agreement	2035		46,900	5,069	-
State revolving fund loan	2027		6,350	4,607	292
Litigation claim				7,386	-
Total Fund debt				<u>\$ 279,211</u>	<u>\$ 7,323</u>

The following is a summary of changes in long-term liabilities as of June 30, 2015 (in thousands):

	Restated Balance *			Balance End of Year	Due Within One Year
	Start of Year	Additions	Reductions		
2006A revenue bonds	\$ 59,475	\$ -	\$ (2,205)	\$ 57,270	\$ 2,320
2006B revenue bonds	21,675	-	(635)	21,040	670
2007A COP revenue bonds	70,070	-	(1,690)	68,380	1,770
2007B COP revenue bonds	45,825	-	(2,640)	43,185	1,215
Bond discount on refunding	(753)	-	39	(714)	(38)
Premium on debt issuance	2,436	-	(107)	2,329	106
Compensated absences	4,789	3,647	(3,777)	4,659	988
Net pension liability	82,596		(16,704)	65,892	
Other post employment benefits	605	-	(497)	108	-
Semitropic water banking agreement	5,359	-	(290)	5,069	-
State revolving fund loan	4,893	-	(286)	4,607	292
Litigation claim	7,386	-	-	7,386	-
Total Fund debt	<u>\$ 304,356</u>	<u>\$ 3,647</u>	<u>\$ (28,792)</u>	<u>\$ 279,211</u>	<u>\$ 7,323</u>

* July 1, 2014 balances were restated to include net pension liability at the beginning of the fiscal year

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

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

Year Ending June 30:	<u>Principal</u>	<u>Interest and amortization</u>
2016	\$ 6,268	\$ 9,632
2017	6,565	9,328
2018	6,877	9,017
2019	7,204	8,691
2020	7,557	8,336
2021 - 2025	43,510	35,955
2026 - 2030	53,855	24,972
2031 - 2035	50,340	11,959
2036 - 2037	12,306	1,126
Total requirements	<u>194,482</u>	<u>\$ 119,016</u>
Add: unamortized premium on issuance	2,329	
Less: unamortized discount on refunding	(714)	
Add: compensated absences	4,659	
Add: other post employment benefits	108	
Add: net pension liability	65,892	
Add: semitropic water banking agreement	5,069	
Add: litigation claim	7,386	
Total principal outstanding at June 30, 2015	<u>\$ 279,211</u>	

The following provides a brief description of the Funds' debt outstanding as of June 30, 2015:

2006A/B Water Enterprise Revenue Bonds

In December 2006, the District issued \$99,835,000 of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B. 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 Bonds were used to repay approximately \$40.9 million of commercial paper notes. The District funded the 2006A Debt Service Reserve Fund with proceeds of the 2000A Debt Service Reserve Fund and purchased a surety bond to fund the 2006B Debt Service Reserve Fund. Additionally, the District used funds accumulated in the 2000A and 2000B Debt Service Reserve Funds, and other 2000A and 2000B Bonds accounts to reduce the size of the 2006A and 2006B Bonds issuance. As a result, the 2000A and 2000B Bonds are considered defeased and the liabilities have been removed from the Statement of Net position. The District has pledged its net water utility revenues to secure the semi-annual debt service payments.

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

The 2006A Debt Service Reserve Fund is invested in an Investment Agreement by and between FSA Capital Management Services LLC (FSA) and U.S. Bank National Association (US Bank) as Fiscal Agent dated as of May 3, 2007. On January 22, 2013, FSA was downgraded by Moody's to A2. Pursuant to the provisions of the Investment Agreement, FSA delivered collateral with a par value of \$5.5 million to Wells Fargo Bank National Association, and entered into a Third Party Custodian Agreement executed on March 18, 2013 among US Bank (Fiscal Agent), FSA (Provider) and Wells Fargo Bank (the Custodian).

2007A/B Water Enterprise Revenue Certificates of Participation

In October 2007, the District issued \$131,000,000 of Water Utility Revenue Certificates of Participation Bonds, Series 2007A and Taxable Series 2007B. The proceeds of the 2007A and 2007B bonds will be used to finance capital construction projects in the Water Utility Enterprise. The District funded the 2007A Debt Reserve Fund by purchasing a surety. The 2007A issuance was \$77,270,000 fixed rate bonds with a 30 year maturity. The 2007B issuance of \$53,730,000 are floating rate notes based on the three month LIBOR rate plus 32 basis points with a 30 year maturity. The District has pledged its net water utility revenues to secure the semi-annual debt service payments for the 2007A issuance and quarterly debt service payments for the 2007B issuance.

The District entered into two interest rate locks in anticipation of the issuance of the 2007 Series A and B. The interest rate locks successfully locked in the interest rate the District had been projecting in its water rate financing models on a net present value basis. The interest rate locks were terminated at the time of bonds issuance in which the District paid the counterparties a termination fee in the amount of \$8.5 million.

Semitropic Water Banking Agreement

In December 1995, the Santa Clara Valley Water District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The Santa Clara Valley Water District's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering water. At June 30, 2015, the District has paid \$41.8 million towards the base fee obligation of this agreement.

State Revolving Fund Loan

In November 2004, the District entered into a loan agreement with the State of California Department of Water Resources, on behalf of State of California Department of Health Services, under the Safe Drinking Water State Revolving Fund Law of 1997 for \$6.3 million. The loan was used to fund the construction of filter-to-waste and wash water clarification projects at the Santa Teresa Water Treatment Plant. At June 30, 2015, the District has paid \$1.7 million towards the principal balance of this obligation.

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Litigation Claim

In fiscal year 2009, the District recorded a liability of \$5.9 million, which was the potential judgment amount from the tentative ruling on the case Great Oaks Water Company vs. Santa Clara Valley Water District. On February 3, 2010, the judge issued Judgment After Trial and ordered the District to pay Great Oaks Water Company \$5.9 million plus post judgment interest of \$886.62 per day. The District recorded post judgment interest of \$160 thousand in fiscal year 2009-10, \$324 thousand in fiscal year 2010-11, \$325 thousand in fiscal year 2011-12, \$324 thousand in fiscal years 2013 and 2014. On March 26, 2015, the Sixth District Court of Appeal issued a favorable judgment for the District and no further interest was booked in fiscal year 2015. Additional information regarding this litigation is disclosed in Note 16 (a), Contingencies.

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 as of fiscal year end amounted to \$4.7 million.

Other Post Employment Benefits (OPEB)

The District provides post-employment healthcare benefits to retired employees and/or their surviving spouses in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors. The District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* during fiscal year 2007-08. OPEB expense and obligation are recognized in the proprietary funds in full accrual basis while governmental funds are in modified accrual basis. OPEB expense and obligation reported in government wide financial statements are recognized in full accrual basis. Additional information on OPEB is disclosed in Note 11, Post Employment Benefits.

Compliance with Bond Covenants

Resolutions associated with the District's bonds and certificates of participation contain a number of covenants, limitations, and restrictions. The District believes it is in compliance with all significant covenants, limitations, and restrictions.

(8) PROPERTY TAXES AND BENEFIT ASSESSMENTS

The Funds derive certain revenues from the assessment of property tax parcel levies. The property tax levy is composed of the following categories: (1) a 1 percent tax allocation; and (2) voter approved levy to repay capital and operating costs related to imported water from the State Water Project.

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments. The Funds did not receive any benefit assessment revenues for fiscal year 2015.

Property tax revenues recorded for the year ended June 30, 2015 are as follow (in thousands):

	Amount
Property taxes:	
1% tax allocation	\$ 5,602
Voter approved indebtedness:	
State water	22,094
G.O. bonds	5
Total property taxes	\$ 27,701

The County is responsible for the assessment, collection, and apportionment of property taxes for the District. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). The District 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. The proprietary fund records property taxes as they are levied. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

The District has elected to participate in the “Teeter Plan” offered by the County whereby the District 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) NET POSITION

The Funds financial statements utilize a net position presentation. Net position are categorized as invested capital assets (net of related debt), restricted and 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 the Funds, not restricted for any project or other purpose.

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Below is the detailed schedule of the Funds' net position as of June 30, 2015 (in thousands):

	Water Enterprise Fund	State Projects Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Restricted Net Assets			
Debt Service	\$ 4,801	\$ -	\$ 4,801
State Revolving Fund Loan Requirement	401	-	401
San Felipe Emergency Reserve	4,027	-	4,027
Operating Reserve	13,893	-	13,893
Rate Stabilization	2,139	-	2,139
State Water Projects	-	826	826
Total restricted net position	<u>25,261</u>	<u>826</u>	<u>26,087</u>
Unrestricted Net Position			
Operating & Capital Contingencies	11,380	-	11,380
Currently Authorized Projects	42,239	-	42,239
Market Valuation	142	-	142
Floating Rate Debt Payment Stabilization	148	-	148
Supplemental Water Supply	1,330	-	1,330
Encumbrances	63,489	3,830	67,319
Santa Clara Advanced Water Purification Center	939	-	939
Net pension liability	(76,512)	-	(76,512)
Total unrestricted net position	<u>43,155</u>	<u>3,830</u>	<u>46,985</u>
Net investment in capital assets	<u>556,040</u>	<u>19,833</u>	<u>575,873</u>
Net Position	<u>\$ 624,456</u>	<u>\$ 24,489</u>	<u>\$ 648,945</u>

(10) 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 District's resolution. CalPERS issues publicly

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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

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.

The Plan's provisions and benefits in effect at June 30, 2015, 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 service	5 years	5 years
Benefit payments	monthly for life	monthly for life	monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee	8.0% + 1.08%*	7.0% + 2.08%*	6.75%
Required employer	21.147%	21.147%	21.147%
* Member additional contribution towards District's CalPERS cost per negotiated agreement with the bargaining units			

Employees Covered – At June 30, 2015, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	409
Active employees	651

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

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costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Net Pension Liability

The District'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, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry-age normal cost method
Discount rate	7.50%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return ⁽¹⁾	7.5%
Mortality rate table ⁽²⁾	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.75% unit purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.
⁽¹⁾ Net of pension plan investment expenses, including inflation	
⁽²⁾ The mortality rate table was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuarial Scale BB.	

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under "Forms and Publications".

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate

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is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked and deemed the difference to be an immaterial threshold to the agent multiple-employer plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed its methodology.

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 (11-60 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 and rounded down to the nearest one quarter of one percent.

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

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expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 – 10 ⁽¹⁾	Real Return Years 11+ ⁽²⁾
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100.0%		

⁽¹⁾An expected inflation of 2.5% used for this period.

⁽²⁾An expected inflation of 3.0% used for this period.

Changes in the Net Pension Liability

The following table shows the changes in net pension liability for the District recognized over the measurement period.

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	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at 6/30/2013 ⁽¹⁾	\$ 622,149,061	\$ 434,729,646	\$ 187,419,415
Changes Recognized for the Measurement Period:			
Service Cost	14,351,245	-	14,351,245
Interest on Total Pension Liability	46,261,670	-	46,261,670
Changes if Benefit Terms Difference between Expected and Actual Experience	-	-	-
Changes of Assumptions	-	-	-
Contribution from Employer	-	13,804,460	(13,804,460)
Contribution from Employees	-	9,036,853	(9,036,853)
Net Investment Income ⁽²⁾	-	75,675,314	(75,675,314)
Benefit Payments, including Refunds of Employee Contribution	(25,004,849)	(25,004,849)	-
Net Changes During 2013-14	35,608,066	73,511,778	(37,903,712)
Balance at 6/30/2014 ⁽¹⁾	\$ 657,757,127	\$ 508,241,424	\$ 149,515,703

⁽¹⁾ The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense.

⁽²⁾ Net of administrative expenses.

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

The following presents the net pension liability of the District, calculated using the current discount rate, as well as what the District'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:

	Discount Rate - 1%	Current Discount	Discount Rate +1%
	6.50%	7.50%	8.50%
Plan Net Pension Liability/(Assets)	\$ 237,533,470	\$ 149,515,703	\$ 76,397,766

Pension Plan Fiduciary Net Position

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

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Pension Expenses and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2015, the District recognized pension expense of \$10.5 million. At June 30, 2015, the District 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	\$ 13,948,105	\$ -
Net differences between projected and actual earnings on plan investments	-	34,629,299
Total	\$ 13,948,105	\$ 34,629,299

\$13.9 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending June 30	Net Decrease in Pension Expense
2016	\$ 8,657,325
2017	8,657,325
2018	8,657,325
2019	8,657,324
Total	\$ 34,629,299

(11) POST-EMPLOYMENT BENEFITS

The District 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. The District must be the employee's last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay. As of June 30, 2015, there were 409 retirees and surviving spouses receiving these health care benefits.

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	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
<u>Classified</u>	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 31, 2006	10 years	100% medical premium for retiree
		15 years	100% medical premium for retiree plus one eligible dependent
	Employee Association (AFSCME – Local 101) Engineers Society (IFPTE-Local 21) Professional Managers Association (IFPTE – Local 21)	Retired from July 1, 1990 or later and hired between December 31, 2006 and March 1, 2007	10 years 15 years
Hired on or after March 1, 2007	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.	
	20 years	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)	District's Required Contribution	
	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	100% medical premium for retiree	
		15 years	100% medical premium for retiree plus one eligible dependent	
<u>Unclassified</u>	Retired from June 19, 1995 through October 21, 1996	10 years	100% medical premium for retiree	
		15 years	100% medical premium for retiree plus one eligible dependent	
At Will		25 years	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	100% medical premium for retiree
			15 years	100% medical, dental, and vision coverages for the retiree plus one eligible dependent
		25 years	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	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.	
		15 years	Medical, dental, and vision coverages are provided for retiree and one eligible dependent. Medical premium	

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	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
<u>Unclassified</u> At Will	Hired on or after December 30, 2006 and prior to March 1, 2007	15 years (con't) 25 years	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 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 the District's health plan, must also enroll in Medicare upon their eligibility date. The District reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly.

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

The District provides the unclassified group of retiree \$50,000 life insurance upon retirement with a five-year phase out in declining increments of \$10,000 per year after retirement.

During fiscal year 2007-08, the District implemented the provisions of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other than Pensions*. This Statement establishes standards for the measurement, recognition, and financial reporting for employers providing postemployment benefits other than pensions (OPEB). The provisions of this Statement are implemented prospectively and do not affect prior year's financial statements.

On June 24, 2008, the District's Board of Directors adopted a resolution approving the agreement and election of the District to prefund OPEB through CalPERS under its California Employer's Retiree Benefit Trust (CERBT) Program. On September 9, 2008, the District joined CERBT, an agent multiple-employer plan consisting of an aggregation of single-employer plans. 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.

Funding Policy

The District's policy is to prefund these benefits as part of its multi-year financial planning strategy. On June 24, 2008, 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, would be phased in to gradually reach full funding by the sixth year in order to limit its immediate impact on groundwater charge increases and the funding of core services within limited available revenues.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and the amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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The following table shows the components of the District's annual OPEB cost for fiscal year 2015, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution		\$	11,112,254
Interest on net OPEB obligation			106,853
Adjustment to annual required contribution			<u>(96,598)</u>
Annual OPEB cost (expense)			11,122,509
Contributions made – FY2015 cost	\$(11,122,509)		
Contributions made – Prior years' unfunded ARC	<u>(1,278,942)</u>		
Total Contributions made in FY2015			<u>(12,401,451)</u>
Increase (decrease) in Net OPEB obligation			(1,278,942)
Net OPEB obligation, June 30, 2014			<u>1,556,814</u>
Net OPEB obligation, June 30, 2015		\$	<u><u>277,872</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the current year and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 11,080,800	138.47%	\$ 7,065,773
6/30/2014	11,174,939	149.30%	1,556,814
6/30/2015	11,122,509	111.50%	277,872

Funded Status and Funding Progress

As of July 1, 2015, the latest valuation date, the estimated funded status of the OPEB plan for FY 2015, was as follows:

Actuarial accrued liability (AAL)		\$	186,660,555
Actuarial value of plan assets		\$	80,783,751
Unfunded actuarial accrued liability (UAAL)		\$	105,876,804
Funded ratio (actuarial value of plan assets/AAL)			43.28%
Covered payroll		\$	86,172,345
UAAL as a percentage of covered payroll			122.87%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past

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expectations and new estimates are made in the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

The July 1, 2013 actuarial valuation used the Entry Age Normal (EAN) cost method. The actuarial assumptions included a discount rate of 7.5% and a 3.25% inflation rate. Healthcare cost trend rates ranged from an initial rate range of 8% to 4.5%. The unfunded liability is being amortized as a percent of payroll over 30 years on a closed basis. The remaining years in amortization period at June 30, 2015 was 23 years.

(12) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District reports all of its risk management activities in its Risk Management Internal Service Fund.

The District's deductibles and maximum coverage are as follows (in thousands):

<u>Coverage Descriptions</u>	<u>Deductibles</u>	Commercial Insurance <u>Coverage</u>
General liability	\$2,000	\$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	250,000
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

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claims, and other economic and social factors. At June 30, 2015, the liability for self-insurance claims was \$6,092,000. This liability is the District'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, 2013 are as follows (in thousands):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2013	\$ 2,911	\$ 3,768	\$ 6,679
Current year premiums, incurred claims and changes in estimates	1,976	620	2,596
Claim payments	(1,922)	(342)	(2,264)
Claims payable at June 30, 2014	<u>2,965</u>	<u>4,046</u>	<u>7,011</u>
Current year premiums, incurred claims and changes in estimates	(335)	(206)	(541)
Claim payments	313	(691)	(378)
Claims payable at June 30, 2015	<u>\$ 2,943</u>	<u>\$ 3,149</u>	<u>\$ 6,092</u>

The total claims payable in the amount of \$6.09 million is recorded in the District's Risk Management Internal Service Fund. No portion of this amount is recorded in the Funds.

(13) 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.

During the fiscal year, the Funds received \$1.9 million for the Open Space credit on property tax receipts and transferred out \$13.3 million for capital cost reimbursements.

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Details of the interfund transfers for the fiscal year are as follows (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Water Utility Enterprise Fund	General Fund	\$ 940
Water Utility Enterprise Fund	Watershed & Stream Stewardship	940
Total Transfer In		\$ 1,880
General Fund	Water Utility Enterprise Fund	\$ 13,286
Total Transfer Out		\$ 13,286

(14) RESTATEMENT

In fiscal year 2015, the Funds made the following restatement of beginning fund balance:

	Net Position	Amount
Beginning balance		\$ 735,850
Net pension liability		(82,596)
Deferred outflows of resources		6,083
Capital asset adjustment		21
Beginning balance, restated		\$ 659,358

(15) COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2015, the Funds have open purchase commitments of approximately \$68.5 million related to new or existing contracts and agreements. These encumbrances represent commitments of the Funds and do not represent actual expenses or liabilities.

(b) San Felipe Project Water Deliveries

The District has contracted with the U.S. Department of the Interior for water deliveries from the Central Valley Project through the San Felipe Division. The contract requires the District to operate and maintain Reach 1, Reach 2, and Reach 3 of the facilities.

During fiscal year 2006-07, the District 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 amended contract preserved the attributes of a water service contract for other Central Valley Project costs.

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The estimated commitment for the payment of allocated capital and capital interest charges of the contracted water service component as of September 30, 2013 was \$6,493,354. The total commitment, including applicable interest, of the repayment contract was \$439,261,342. The remaining commitment as of June 30, 2015 was \$312,324,607.

(c) Participation Rights in Storage Facilities

In December 1995, the District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The District's share of the total program capital costs is \$46.9 million based on a 35% vesting in the program. The District pays the program capital costs when storing and recovering Tier 1 water. The agreement terminates in December 2035.

The District pays the program capital costs when storing and recovering Tier 1 water. As of June 30, 2015, the District has paid \$41.8 million towards the base fee obligation of this agreement. During the first 10 years the District has a reservation for the full 35% allocation; by January 1, 2006, if the District's contributions towards the program capital costs did not equal \$46.9 million the District's permanent storage allocation will be reduced. The District decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

The District currently has a storage allocation of 350,000 acre-feet. As of June 30, 2015, the District has 259,493 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of \$22,863,750 has been recorded through fiscal year 2015.

(16) CONTINGENCIES

(a) Litigation

It is normal for a public entity like the District, 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 the District is aware of which are significant and may have a potentially impact on the financial statements.

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Great Oaks Water Company v. Santa Clara Valley Water District

In 2005, Great Oaks Water Company (hereinafter "Great Oaks") filed an administrative claim alleging that the groundwater charges for 2005-06 violated the Santa Clara Valley Water District Act (California Water Code, Appendix 60). 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 were used to fund projects and services that benefit the general public, not just payers. In its lawsuit, Great Oaks is demanding a partial refund as well as declaratory, injunctive and mandamus relief.

On February 3, 2010, the Honorable Kevin Murphy issued Judgment After Trial and decided that the District owes Great Oaks a refund of groundwater charges in the amount of \$4,623,096 plus interest at 7% per annum. The award of pre-judgment interest as of December 1, 2009, amounted to \$1,285,524. Judge Murphy also awarded post-judgment interest at the rate of \$886.62 per day until the date of the entry of judgment. Judge Murphy also decided that the District owes Great Oaks damages in the amount of \$1,306,830. Recovery of this damages amount is in the alternative to the award of refund described above.

Listed below are all of Great Oaks' cases filed with the Santa Clara Superior Court seeking refund actions for subsequent years of annual groundwater charges, all of which are currently stayed:

Santa Clara Superior Court Case Nos. 107-CV-087884; 108-CV-119465;
108-CV-123064; 109-CV-146018; 110-CV-178947; 111-CV-205462;
112-CV-228340; and 113-CV-249349.

If the trial court's judgment in the Great Oaks case is affirmed in full, Great Oaks would recover some \$6 million for 2005, and could recover refunds of groundwater charges paid in 2006, 2007, 2008, 2009, 2010, 2011, 2012, and 2013 plus interest. By its nine cases, Great Oaks could recover amounts in excess of \$45 million. Great Oaks' actions covering fiscal year 2008-09 and forward are validation actions challenging the annual resolutions setting the groundwater production charge.

In accordance with the requirements of *GASB Statement No. 62*, the District has recorded a liability in the amount of \$5.93 million, which includes the Judgment After Trial decision amount plus interest in fiscal year 2009. The District recorded \$160 thousand in fiscal year 2010, \$324 thousand in fiscal year 2011, \$325 thousand in fiscal year 2012, and \$324 thousand in fiscal years 2013 and 2014 as liability for the post-judgment interest from January 1, 2010 through June 30, 2014 at the rate of \$886.62 per day. The total liability as of June 30, 2015 in the amount of \$7.386 million is presented under the caption "Litigation Claim" in the Statement of Net position – Proprietary Funds.

The District does not believe that the Santa Clara Superior Court decision regarding its 2005-06 groundwater production charges is supported by the record and has since filed an appeal with the California Sixth District Court of Appeals (Cal. Court of Appeals Nos. HO35260 and HO35885 "Great Oaks case").

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

On March 26, 2015, the Sixth District Court of Appeal issued its final decisions in the two matters decided by the Superior Court of the County of Santa Clara.

On the first matter, the Sixth District Court of Appeal, in its eighty page opinion, unanimously reversed the Santa Clara Superior Court's determination that the District had violated Article XIII D of the state constitution by failing to obtain voter approval of groundwater charges; that the District had violated certain provisions of the District Act; that Great Oaks receive a full refund of 2005-2006 groundwater charges and damages. This means that the District does not need to pay any refund or damages to Great Oaks.

On the second matter, the Sixth District Court of Appeal, again, unanimously affirmed the Santa Clara Superior Court's determination not to award Great Oaks any of its attorney fees. This means that Great Oaks is solely responsible for its attorney fees.

As of June 30, 2015, the District has recorded \$7.4 million related to this litigation as shown in the Statement of Net Position, under the caption "Litigation Claim". The liability is being retained should Great Oaks decides to file another appeal with the courts.

Shatto Corporation, Mike Rawitser Golf Shop and Santa Teresa Golf Club, et al v. Santa Clara Valley Water District

Similar to the Great Oaks litigation, Shatto Corporation, Mike Rawitser Golf Shop and Santa Teresa Golf Club have filed a refund action, Santa Clara Superior Court under Case No. 111-CV-195879. This action is currently stayed.

Other water retailers including San Jose Water Company, the cities of Morgan Hill, Gilroy, and Santa Clara and the Los Altos Golf and Country Club, and Stanford University dispute the District's groundwater charges and have subsequently entered tolling agreements with the District pending the final decision in the Great Oaks case.

The outcome of the above-described actions and disputes is not presently determinable. The District cannot predict the outcome of the cases and any statements on potential liability referenced above are purely estimates.

The most recent favorable ruling from the Sixth District Court of Appeal on the Great Oaks litigation makes damages emanating from these lawsuits to be highly unlikely. In addition, Counsel for the District has indicated that material losses, if any, arising from these lawsuits are adequately provided for with self-insured District funds and indemnification agreements/ insurance coverage and therefore, would not have material effect on June 30, 2015 financial statements.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

(b) Grants and Subventions

The District 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, the District 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.

The District'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.

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, the District 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 was discovered at the Olin Corporation facility and over a wide area in the Llagas Subbasin in South County, impacting a number of water supply wells. The investigation and clean-up of the contamination are under the jurisdiction of the Central Coast Regional Water Quality Control Board. As of June 2015, perchlorate is present above the Maximum Contaminant Level (MCL) in less than 10 water supply wells. The perchlorate plume exceeding MCLs extends off-site for approximately 3 miles. Olin's remedial efforts focused on clean-up of the site, including soil removal and groundwater treatment, from 2004 through 2012. The groundwater extraction and treatment systems were expanded to include 2 off-site extraction wells in 2012. Olin's current efforts are focused on ongoing remediation of the off-

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

site groundwater plume, characterization of the perchlorate plume east of the site, and preparation of a feasibility study for the middle deep aquifer.

(17) SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 27, 2016, which is the issuance date of the financial statements. There are no reportable subsequent events through this date.

**Required
Supplementary
Information**

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Changes In Net Pension Liability and Related Ratios
as of June 30, 2015
Last 10 Years*

		2015
Total pension liability		
Service cost	\$	14,351,245
Interest on total pension liability		46,261,670
Differences between expected and actual experience		-
Changes in assumptions		-
Changes in benefits		-
Benefit payments, including refunds of employee contributions		(25,004,849)
Net change in pension liability		35,608,066
Total pension liability, beginning		622,149,061
Total pension liability, ending (a)	\$	657,757,127
 Plan fiduciary net position		
Contributions - employer	\$	13,804,460
Contributions - employee		9,036,853
Net investment income		75,675,314
Benefits payment		(25,004,849)
Net change in fiduciary net position		73,511,778
Plan fiduciary net position, beginning		434,729,646
Plan fiduciary net position, ending (b)	\$	508,241,424
 Net pension liability, ending (a - b)	\$	149,515,703

Plan fiduciary net position as a percentage of total pension liability	77.27%
Covered payroll	\$ 77,885,844
Net pension liability as a percentage of covered payroll	191.97%

* Fiscal year 2015 was the first year of GASB 68 implementation, therefore only one year is shown.

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Employer Pension Contributions
June 30, 2015*

Actuarially determined contribution	\$ 13,948,105
Contributions in relation to the actuarially determined contribution	(13,948,105)
Contribution Deficiency	\$ -
Covered payroll	\$ 77,885,844
Contribution as a percentage of covered payroll	17.91%

Notes to schedule:

Valuation date: June 30, 2011 CalPERS public agency valuations
Measurement date: June 30, 2014

Methods and Assumptions:

Actuarial cost method	Entry age normal.
Amortization method/period	For details, see June 30, 2011 Funding Valuation Report.
Actuarial valuation method	Actuarial value of assets; for details, see June 30, 2011 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service.
Payroll growth	3.00%
Investment rate of return	7.50% net of pension plan investment and administrative expenses; includes inflation.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* Fiscal year 2015 was the first year of GASB 68 implementation, therefore only one year is shown.

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Funding Progress - Other Post Employment Benefit Plan
June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	([b-a]/c)
7/1/2011	\$ 32,273,200	\$ 156,061,200	\$ 123,788,000	20.7%	\$ 81,761,500	151.4%
7/1/2013	51,888,319	169,864,833	117,976,514	30.5%	81,600,000	144.6%
7/1/2015	80,783,751	186,660,555	105,876,804	43.3%	86,172,345	122.9%

Other Information

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

Board of Directors
Santa Clara Valley Water District
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate fund information of Santa Clara Valley Water District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated November 16, 2015. Our report included an emphasis of matter paragraph regarding the District's adoption of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date – An amendment of GASB Statement No. 68*, both effective July 1, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
November 16, 2015

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICTS**

Schedule of Revenues and Expenses

(Budgetary Basis)

For the Year Ended June 30, 2015

	<u>North County</u>	<u>South County</u>	<u>Total</u>
Operating Revenues:			
Ground Water Charges	\$ 68,050	\$ 9,045	\$ 77,095
Treated Water Charges	76,799	-	76,799
Surface and recycled water charges	537	388	925
Operating Grants	2,030	119	2,149
Other	419	-	419
Total Operating revenues	<u>147,835</u>	<u>9,552</u>	<u>157,387</u>
Operating Expenses			
Sources of Supply	84,371	7,843	92,214
Water Treatment	29,923	18	29,941
Transmission and distribution:			
Raw Water	7,061	2,524	9,585
Treated Water	1,539	-	1,539
Administration and general	17,874	3,055	20,929
Capital Cost Recovery	(3,324)	3,324	-
Total Operating Expenses	<u>137,444</u>	<u>16,764</u>	<u>154,208</u>
Operating income (loss)	<u>10,391</u>	<u>(7,212)</u>	<u>3,179</u>
Nonoperating revenues (expenses):			
Property Taxes	25,122	2,579	27,701
Investment Income	1,621	-	1,621
Rental Income	72	33	105
Other	2,292	297	2,589
Interest and fiscal agent fees	(8,432)	-	(8,432)
Open Space Credit Transfer	(6,061)	6,061	-
Interest earned credit	(43)	43	-
Net Operating revenues	<u>14,571</u>	<u>9,013</u>	<u>23,584</u>
Change in Net Position	<u>\$ 24,962</u>	<u>\$ 1,801</u>	<u>\$ 26,763</u>

Reconciliation to Statement of Revenues, Expenses and Changes in Net Position:

Income (Loss)	\$ 26,763
Depreciation and amortization expenses not budgeted	(26,617)
Capital contribution	847
Transfers In	1,880
Transfers Out	(13,286)
Change in net position per Statement of Revenues, Expenses, and Change in Net Position	<u>\$ (10,413)</u>

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