WATER UTILITY ENTERPRISE FUND
OF THE
Santa Clara Valley Water District

San Jose, California

Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

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WATER UTILITY ENTERPRISE FUND
OF THE
SANTA CLARA VALLEY WATER DISTRICT
Basic Financial Statements
For the Year Ended June 30, 2009

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Directors of the
Santa Clara Valley Water District

We have audited the accompanying basic financial statements of the Santa Clara Valley Water District (the District), as of and for the fiscal year ended June 30, 2009. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present the financial activity of the Water Enterprise Fund only, and do not purport to, and do not, present the financial position and results of operations of the Santa Clara Valley Water District as a whole, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2009, and the changes in financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Budget Revenues and Expenses have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respect in related to the financial statements taken as a whole.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
May 28, 2010

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Management's Discussion and Analysis

Our discussion and analysis of the Santa Clara Valley Water District's Water Utility Enterprise Fund (the "Fund") financial performance provides an overview of the Water Utility Enterprise Fund financial activities for the fiscal year ended June 30, 2009. This information is presented in conjunction with the audited financial statements that follow this section.

The Fund manages and supplies wholesale treated water, groundwater, recycled water and surface water for the residents of Santa Clara County. The Fund is a separate enterprise fund of the Santa Clara Valley Water District (District) that was established to account for the water utility transactions of the District. 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 Water Utility Enterprise Fund for the fiscal year ended June 30, 2009. 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 Water Utility Enterprise Fund, the North County zone and the South County zone.

Overview of the Financial Statements

The accounting policies of the Fund 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) and the American Institute of Certified Public Accountants.

The financial statements include the financial activity of the Water Enterprise Fund only. The Fund was established to account for the revenues and expenses of the Fund. These financial statements are not intended to present the financial position and results of operations of the Santa Clara Valley Water District as a whole, in conformity with accounting principles generally accepted in the United States of America. The Fund is accounted for as a Proprietary Fund. When the District charges users for the services it provides, these services are generally reported in proprietary funds. The following are the statements of the Fund:

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

The Statement of Revenues, Expenses and Changes in Net Assets provides information about the Fund's revenues and expenses on accrual basis.

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

Notes to Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the Fund's financial statements. The Fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss and the Fund is intended to be entirely or predominantly self supported from user charges.

Financial Highlights

Water Utility Enterprise Fund's Net Assets
(Dollars in Thousands)

	2009	2008
Current and other assets	$ 224,869	$ 241,790
Capital assets	678,846	648,049
Total assets	903,715	889,839
Current liabilities	26,792	31,974
Litigation claim	5,930	-
Long-term liabilities outstanding	231,533	231,505
Total liabilities	264,255	263,479
Net assets:		
Investment in capital assets, net of related debt	514,102	500,821
Restricted	22,824	24,011
Unrestricted	102,534	101,528
Total net assets	$ 639,460	$ 626,360

- The total net assets of the Fund exceeded its liabilities by $639.5 million. Of this amount, $102.5 million (unrestricted net assets) may be used to meet the Fund's ongoing obligations to citizens and creditors.

- The largest portion of the Fund's net assets (80.4 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, equipment, and contract water rights), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the Fund's 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 increased by $13.3 million due to the planning and design costs for the San Tomas Well Field water supply storage facility of $2.5 million and the ongoing major water treatment plant improvements.

Water Utility Enterprise Fund's Changes in Net Assets
(Dollars in Thousands)

	2009	2008
Revenues:		
Ground water charges	$ 61,103	$ 60,998
Treated water charges	74,012	71,879
Surface and recycled water charges	1,241	2,600
Operating grants and contributions	3,923	2,437
Capital grants and contributions	-	708
Property taxes	21,372	22,945
Investment earnings	8,245	9,556
Miscellaneous	4,602	992
Total revenues	174,498	172,115
Expenses:		
Operating expenses	158,069	131,799
Nonoperating and other expenses	9,868	9,812
Total expenses	167,937	141,611
Increase in net assets before transfers	6,561	30,504
Transfers	6,539	(1,398)
Increase in net assets	13,100	29,106
Net assets, beginning	626,360	597,254
Net assets, ending	$ 639,460	$ 626,360

- The net assets of the Fund increased by $13.1 million. Compared to the previous fiscal year, key elements of the changes are as follows:

  a. Revenues from ground water charges increased slightly by $105 thousand or 0.2 percent due to increases in rates, but were offset by the reduction in the total acre feet of ground water deliveries. The rates per acre foot for non-agricultural usage increased by approximately 9.5 percent and 7.8 percent in North and South Counties, respectively, while the rates per acre foot for agricultural usage went up by approximately 6.5 percent for both counties. Compared to prior fiscal year 2008, the total acre feet of ground water deliveries decreased from approximately 135 thousands to approximately 126 thousands.

  b. Receipts of treated water charges increased by $2.1 million or approximately 3.0 percent primarily due to a rate increase but were offset by the decrease in acre feet of deliveries of treated water. The rates for both contract and non-contract increased by approximately 7.8 percent. Total acre feet deliveries of treated water declined from approximately 125 thousands in fiscal year 2008 to approximately 119 thousands in fiscal year 2009.

  c. Revenues from surface and recycled water charges decreased by $1.4 million or 52.3 percent due to lower acre feet deliveries but were offset by increases in rates per acre foot. The total acre feet deliveries of surface and recycled waters declined by 46.3 percent and 33.8 percent, respectively. The rates per acre foot of surface water for non-agricultural usage increased by 9.5 percent and 7.8 percent in North and South Counties, respectively. Likewise, the rates per acre foot of recycled water for agricultural usage went up by 2.4 percent and non-agricultural usage increased by 12.7 percent.

d. Operating grants increased by $1.5 million or 61.0 percent. The increase represents the receipt of a Safe Drinking, Clean Water and Watershed Protection Act grant of $557 thousand, higher reimbursement from the San Benito Water District, and additional funding from other local and county reimbursements.

e. Investment earnings decreased by $1.3 million or 13.7 percent due to lower interest rates but were offset by the positive impact from the GASB 31 fair market value adjustment of $1.0 million.

f. Miscellaneous revenues were higher by $3.6 million or 363.9 percent due to the receipt of $3.0 million water banking revenue from Poso Creek Water Company and higher refund from the Department of Water Resources to reflect actual cost of water deliveries.

g. Total expenses increased by $26.3 million or 18.6 percent. The increase represents higher depreciation expense of $8.4 million due to the transfer of completed projects to Structure and Improvements account, the one-time recognition of prior years' compensated absences of $6.8 million, the recognition of the $5.9 million claims and adjustments related to the Great Oaks litigation, the net cost of other post employment benefits in the amount of $1.7 million in compliance with the GASB 45 provisions, and higher maintenance cost associated with the infrastructure maintenance.

Water Utility Enterprise Fund's Schedule of Revenues and Expenses
(Budgetary Basis)
(Dollars in Thousands)

	North County		South County		Total	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Operating Revenues:						
Groundwater charges	$ 51,392	$ 53,063	$ 9,711	$ 7,935	$ 61,103	$ 60,998
Treated water charges	74,012	71,879	-	-	74,012	71,879
Surface and recycled water charges	886	2,176	355	424	1,241	2,600
Total water charges	126,290	127,118	10,066	8,359	136,356	135,477
Operating grants	3,892	1,693	53	744	3,945	2,437
Total Operating revenues	130,182	128,811	10,119	9,103	140,301	137,914
Operating Expenses:						
Source of supply	72,697	52,754	9,402	8,149	82,099	60,903
Water treatment	32,505	23,307	-	17	32,505	23,324
Transmission and distribution:						
Raw water	7,704	6,225	1,548	1,238	9,252	7,463
Treated water	3,710	1,897	-	-	3,710	1,897
Cost of goods sold	116,616	84,183	10,950	9,404	127,566	93,587
Administration and general	16,426	22,711	2,159	2,239	18,585	24,950
Capital cost recovery	-	-	1,815	1,752	1,815	1,752
Total operating expenses	133,042	106,894	14,924	13,395	147,966	120,289
Operating income (loss)	(2,860)	21,917	(4,805)	(4,292)	(7,665)	17,625
Non-operating income (expenses):						
Property taxes	19,419	20,924	1,954	2,021	21,373	22,945
Investment income	8,245	9,556	-	-	8,245	9,556
Rental income	20	22	25	25	45	47
Other	4,012	369	522	576	4,534	945
Interest/fiscal agent fees	(9,868)	(9,812)	-	-	(9,868)	(9,812)
Open space credit transfer	(1,256)	(1,255)	1,256	1,255	-	-
Interest earned credit	33	6	(33)	(6)	-	-
Net non-operating Income	20,605	19,810	3,724	3,871	24,329	23,681
Income (loss)	$ 17,745	$ 41,727	$(1,081)	$ (421)	$ 16,664	$ 41,306

- The Fund's total revenues from water charges were $136.4 million in fiscal year 2008-09. Ninety-three percent of those revenues, or $126.3 million were collected from customers in the North County, while the remaining seven percent or $10.1 million were collected from South County customers.

- Operating grants applied for and received were $3.9 million to augment North County revenue and $53 thousand in the South County. These grants helped to fund water conservation, desalination, and recycled/reclaimed water programs.

- Operating expenses for the North County include $116.6 million in cost of goods sold, or 90 percent of its total operating revenues. Whereas, for the South County, cost of goods sold is $10.9 million or 108 percent of its total operating revenues.

- Administration and general expenses make up 13 percent of total operating revenues in the North County and 21 percent of total operating revenues in the South County.

- Total operating revenues of $140.3 million less total operating expenses of $148.0 million results in a $7.7 million loss from operations. The loss from North County operations is $2.9 million, while the loss from South County operations is $4.8 million.

Operations is supplemented with property tax and investment earnings of $29.6 million overall.

- Property taxes collected in the North County amounted to $19.4 million while $2.0 million were collected in South County for a total of $21.4 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.

- $8.2 million of investment earnings resulted from an average return of 3.8 percent on average balances of $110.9 million was allocated to the North County.

Overall net income from total income and total expenses was $16.7 million; $17.8 million income was allocated to North County and $1.1 million loss to South County.

The actual revenue and cost allocations for prior fiscal year 2008 between the North and the South County zones are based on best available data at the time which includes estimates. The allocations were adjusted subsequently as better data became known. The net impact is that the income of the North County Zone W-2 increased while the South County Zone W-5 decreased by $553 thousand. The adjustment is not reflected in the fiscal year 2008 numbers in this report.

The following table shows the rates for water services for fiscal year 2008-09:

Water Utility Enterprise Fund's Rate Summary
Adopted 2008-09

		Rate
Groundwater		
North County – Agricultural	$	16.50
North County – Non-Agricultural		520.00
South County – Agricultural		16.50
South County – Non-Agricultural		275.00
Treated Water		
Contract (Scheduled)		620.00
Non-Contract		620.00
Untreated Water		
North County – Agricultural		16.50
North County – Non-Agricultural		520.00
South County – Agricultural		16.50
South County – Non-Agricultural		275.00
Water Master		11.75
Minimum Charge		
North County		390.00
South County		206.25
Reclaimed Water		
Gilroy Reclamation Facility – Agricultural		41.50
Gilroy Reclamation Facility – Non-Agricultural		275.00

Capital Assets

The Fund's investment in capital assets as of June 30, 2009, amounts to $678.8 million (net of accumulated depreciation). The investment in capital assets includes intangible rights, land, buildings, structures and improvements, machinery and equipment. During fiscal year 2008-09, the total increase in the Fund's investment in capital assets for the current year was $30.8 million.

Major capital projects expenses during the current fiscal year include the following:

- San Tomas Well Field - $2.5 million
- Pacheco Pumping Plant Regulating Tank Recoating - $2.2 million
- Jacques Gulch Restoration - $1.5 million
- Leniham Dam Outlet Modifications - $20.0 million
- Santa Teresa Water Treatment Plant Incompatible Materials - $1.4 million
- Rinconada Water Treatment Plant Chemical System Upgrade - $1.3 million

Water Utility Enterprise Fund's Capital Assets
(Net of Accumulated Depreciation)
(Dollars in Thousands)

	2009	2008
Land	$ 22,522	$ 22,461
Contract water and storage rights	61,236	62,591
Buildings	1,631	1,665
Structures and improvements	387,302	386,498
Equipment	9,791	10,785
Construction in progress	196,364	164,049
Total	$ 678,846	$ 648,049

Debt Administration

At the end of the current fiscal year, the Fund had total debt outstanding of $237.6 million. This Fund's long-term obligations outstanding as of June 30, 2009 consisted of the following:

Water Utility Enterprise Fund's Outstanding Obligations
(Dollars in Thousands)

	2009	2008
General obligation bonds	$ 1,390	$ 2,025
Revenue bonds	224,760	226,980
Compensated absences	7,308	280
Semitropic water banking	6,424	7,408
State revolving fund loan	6,225	6,350
Bond discount	(944)	(982)
Deferred amount on refunding	(2,687)	(2,810)
Deferred interest swap	(7,851)	(8,132)
Premium on bond issue	2,967	3,073
Total	$ 237,592	$ 234,192

The Fund's outstanding long-term obligations as of the end of the current fiscal year increased by a net of $3.4 million, primarily due to the recognition of prior years compensated absences liabilities of $7.0 million and offset by the reduction in principal balances of $3.6 million. The decreases in obligations were from the normal repayment of principal on existing outstanding debts.

The bond rating of the revenue bonds of the Fund from Moody's is Aa2 and from Standard & Poor's is AA.

Additional information on the Fund's long-term debt can be found in note 6 on pages 29 to 33 of this report.

Economic Factors and Next Year's Budgets and Rates

The annual budget outlines the staff's plan to carry out the District's mission, "A healthy, safe, and enhanced quality of living in Santa Clara County through watershed stewardship and comprehensive management of water resources in a practical, cost-effective, and environmentally sensitive manner for current and future generations"

The District is responding to the impact of the ongoing recession in our community by demonstrating our commitment to fiscal responsibility and accountability through increased efficiencies and cost savings. These cost savings allow the District to propose no increase in groundwater production charges, and address possible structural budget deficits in the Watersheds and Stream Stewardship programs.

In considering the District's budget for fiscal year 2009-10, the Board of Directors and District management issued the following directions:

- A mandatory 15 percent water conservation due to continued water shortages into a third year. This is projected to result in reduction to water utility revenue by approximately $9.5 million in fiscal year 2009-10.
- Elimination of twenty nine positions and approximately $12 million net operating outlays reduction as compared to the fiscal year 2008-09 budget.
- Realignment of priorities to address critical needs and to eliminate or postpone lower-priority projects
- Reduction of temporary staff, overtime, and non-mandatory training.

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 Water Utility Enterprise's finances and to demonstrate the Water Utility Enterprise's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the General Accounting Unit at 5750 Almaden Expressway, San Jose, CA 95118, or call (408) 265-2600.

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SANTA CLARA VALLEY WATER DISTRICT

Statement of Net Assets

June 30, 2009

(Dollars in Thousands)

ASSETS		
Current assets:		
Cash and investments (Note 3)	$	124,712
Restricted cash and investments (Note 3)		74,000
Receivables:		
Accounts		20,715
Taxes		75
Deferred charge		1,323
Deposits and other assets		4,044
Total current assets		224,869
Non current assets:		
Capital assets: (Note 5)		
Contract water rights, net		61,236
Nondepreciable		218,886
Depreciable, net		398,724
Total non current assets		678,846
Total assets		903,715
LIABILITIES		
Current liabilities:		
Accounts payable		10,224
Accrued liabilities		6,293
Deposits payable		3,288
Accrued interest payable		680
Other post employment benefits payable (Note 10)		248
General obligation bonds - current (Note 6)		480
Revenue bonds - current (Note 6)		4,224
Other Debt (Note 7)		1,355
Total current liabilities		26,792
Non current liabilities:		
Litigation claim (Note 14)		5,930
Long-term debt: (Note 6)		
General obligation bonds - non current		910
Revenue bonds (net of unamortized discount and deferred amount on refunding)		212,021
Other debt		18,602
Total long-term debt		231,533
Total non current liabilities		237,463
Total liabilities		264,255
NET ASSETS (Note 8)		
Investment in capital assets, net of related debt		514,102
Restricted for:		
Debt service		4,966
State revolving loan requirement		401
San Felipe operations		3,772
Operating reserves		12,344
Rate stabilization		1,341
Unrestricted:		102,534
Total net assets		639,460

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2009

(Dollars in Thousands)

Operating revenues:	
Ground water charges	$ 61,103
Treated water charges	74,012
Surface and recycled water charges	1,241
Operating grants	3,923
Other	22
Total operating revenues	140,301
Operating expenses:	
Sources of supply	71,809
Water treatment	33,088
Transmission and distribution:	
Raw water	9,412
Treated water	3,326
Administration and general	13,091
Claims and Adjustments	5,930
Depreciation and amortization	21,413
Total operating expenses	158,069
Operating income (loss)	(17,768)
Nonoperating revenues (expenses):	
Property taxes (Note 7)	21,372
Investment income (Note 4)	8,245
Rental income	45
Other	4,535
Interest and fiscal agent fees	(9,868)
Net nonoperating revenues	24,329
Income before capital contributions and transfers	6,561
Transfers in (Note 12)	6,890
Transfers out (Note 12)	(351)
Change in net assets	13,100
Net assets, beginning of year	626,360
Net assets, end of year	$ 639,460

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2009

(Dollars in Thousands)

Cash flows from operating activities:		
Receipts from customers and users	$	139,403
Payments to suppliers		(85,270)
Payments to employees		(44,375)
Payments for internal services used		(4,248)
Other receipts		4,535
Net cash provided by operating activities		10,045
Cash flows from noncapital financing activities:		
Property taxes received		21,437
Transfers in from other funds		6,890
Transfers out to other funds		(351)
Net cash provided by noncapital financing activities		27,976
Cash flows from capital and related financing activities:		
Principal payments on general obligation bonds		(635)
Principal payments on revenue bonds		(2,220)
Principal payments on other loans		(1,109)
Interest and fiscal agent fees paid		(9,636)
Acquisition of contract water rights		(8,167)
Acquisition and construction of capital assets		(44,043)
Net cash used by capital and related financing activities		(65,810)
Cash flows from investing activities:		
Sale of restricted investments		1,195
Rental income received		45
Interest received on cash and investments		8,245
Net cash provided by investing activities		9,485
Net decrease in cash and cash equivalents		(18,304)
Cash and cash equivalents, beginning of year		211,491
Cash and cash equivalents, end of year	$	193,187
Cash and cash equivalents are reported on the Statement of Net Assets as follows:		
Cash and investments	$	124,712
Restricted cash and investments		74,000
Less cash and investments not meeting the definition of cash equivalents		(5,525)
Cash and cash equivalents, end of year	$	193,187
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$	(17,768)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization		21,413
Other receipts		4,535
Change in operating assets and liabilities:		
(Increase) in deposits and other assets		(1,683)
(Increase) in accounts receivable		(898)
(Increase) in inventory		(114)
Increase/(Decrease) increase in accounts payable		(687)
Increase/(Decrease) increase in accrued liabilities		(3,221)
Increase in deposits payable		1,303
Increase in litigation claim		5,930
Increase in other post employment benefits & compensated absences		1,235
Net cash provided (used) by operating activities	$	10,045

See accompanying notes to basic financial statements.

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(1) THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

The Santa Clara Valley Water District (the 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. Five of the members are elected from the area of each of the five District supervisorial districts and two members are appointed from specific geographic areas by the Board of Supervisors to represent the District at large. The term of office for the directors is four years.

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 Fund (the “Fund”) is a separate enterprise fund of the District that was established to account for the water utility transactions of the District. The Water Utility Enterprise supplies wholesale treated water, ground water, recycled water, and surface water for the residents of the Santa Clara County.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Fund’s 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 fund is included in the District’s Comprehensive Annual Financial Report and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the District.

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

(b) Basis of Accounting

The Fund 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.

For its Fund, the District has elected, under Governmental Accounting Standard's Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

The Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Fund's principal ongoing operations. The principal operating revenues of the Fund is the sale of water to outside customers. Operating expenses for the Fund 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.

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

(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, investments that mature beyond one year from the date of acquisition at fair value, and investments that mature within one year or less from the date of acquisition at amortized cost. The fair value of investments is based on current market prices.

For purposes of the Statement of Cash Flows, the Fund considers 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

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

The estimated useful lives are as follows:

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

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

(f) Amortization of Contract Water Rights

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 Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(g) Amortization of Water Banking Rights

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 Fund has capitalized the cost of the program and amortizes its cost over the 40 year entitlement period using the straight-line method.

(h) Amortization of Water Delivery Rights

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 Fund capitalized the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(i) Receivables

Receivables include amounts due from water utility customers as well as amounts due for property taxes and interest on investments. All receivables are shown net of an allowance for doubtful accounts of $6,000.

(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 assets.

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, the eligible employees will be paid a portion of unused sick leave at the employee’s base pay rate at the time of termination. The percentage of unused sick leave to be paid out varies with the employee’s length of service at the District.

(k) Bond Premiums, Discounts and Issuance Costs

The Fund bond discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Issuance costs are reported as deferred charges.

On the statement of net assets the Revenue Bond premiums and Certificates of Participation, as well as issuance costs, are deferred and amortized over the life of the certificates. Revenue COP payable and Revenue Bonds payable are reported net of the applicable bond premium and bond discounts. Issuance costs are reported as deferred charges.

(l) 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 reservations of fund balance since they are not treated as current expenditures or outstanding liabilities at year end for GAAP financial reporting.

(m) 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.

(3) CASH AND INVESTMENTS

Total Fund cash and investments at June 30, 2009 are as follows (in thousands):

Statement of Net Assets:	
Cash and investments	$ 124,712
Restricted cash and investments	74,000
	$ 198,712

Investments

At June 30, 2009, cash and investments consist of the following (in thousands):

Investment held by fiscal agent	
Cash	$ 3
Guaranteed Investment Contracts	4,745
Money Market Funds	125
Mutual Funds	652
Nonnegotiable Certificates of Deposit	68,354
Total investments held by fiscal agent	73,879
Santa Clara County Investment Pool	121
District's Pooled Cash and Investment	124,712
Total cash and Investments	$ 198,712

As of June 30, 2009, the District’s investment in the State investment pool Local Agency Investment Fund (LAIF) is $40,055,000. The total amount invested by all public agencies in LAIF at that date is $50,743,268,000. Of that amount, 85.29 percent is invested in non-derivative financial products and 14.71 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 value of the District's position in LAIF.

As of June 30, 2009, the Fund's investment in the Santa Clara County Investment Pool (Pool) is $121,000, which is restricted for interest and redemption of the 1963 water utility bonds. The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool. Participants' equity in the Pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. The value of the Fund's shares in the Pool is determined on an amortized cost basis, which is different than the fair value of the Fund's position in the Pool. The Fund's investment in the Pool is stated at fair value, available upon demand and considered a cash equivalent.

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 instruments, provided the credit ratings of the issuers are acceptable to the District. The following table also identifies certain provisions of the District and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This 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.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Issues (A)	5 years	N/A	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%
Taxable Municipal Obligations	5 years	AAA	None	12%
California Local Agency Investment Fund (B)	N/A	N/A	(B)	(B)
Mutual Funds	N/A	AAA	10%	10%
Money Market Account with Union Bank	N/A	N/A	None	12%

(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), and 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 $40 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of the District's revenue bond resolutions and Installment Purchase Agreement for the 2000A & 2000B, 2006A & 2006B Water Utility Revenue and Refunding Bonds and 2007A Revenue Certificates of Participation, 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, 2009, the amount invested in assets held by fiscal agent amounted to $5.5 million and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

The Fund has construction funds from the 2007A and 2007B Revenue Certificates of Participation (COP) which is used to finance the cost of water utility system improvement projects. At June 30, 2009, the balance of this fund is $68,354,000.

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:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations (A)	N/A	N/A
U.S. Agency Securities (B)	N/A	N/A
State Obligations (C)	N/A	A
Commercial Paper	270 days	A1
Unsecured CD's, deposit accounts, time deposits, 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	AAA
Investment Approved in Writing by the Certificate Insurer	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 ("FNMAs"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association (“GNMAs”); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.

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

(D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than $3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

(E) Repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or"A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. if such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair 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):

	Total	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. Government Agencies	$ 153,018	$ 57,271	$ 60,186	$ 35,561	$ -
U.S. Government Agencies - Callable	178,660	-	12,045	166,615	-
Medium Term Notes	21,021	11,304	-	9,717	-
Local Agency Investment Fund	40,055	40,055	-	-	-
Guaranteed Investment Contracts	4,745	-	-	-	4,745
Santa Clara County Investment Pool	121	121	-	-	-
Mutual Funds	19,060	19,060	-	-	-
Money Market Funds	239	114	125	-	-
Nonnegotiable Certificates of Deposit	81,072	81,072	-	-	-
Total Investments	$ 497,991	$ 208,997	$ 72,356	$ 211,893	$ 4,745

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, 2009 for each investment type as provided by Standard and Poor's (in thousands):

		Minimum Legal	Rating as of Year-end			
	Total	Rating	AAA	AA	AA-	Not Rated
U.S. Government Agencies	$ 331,678	AA-	$ 331,678	$ -	$ -	$ -
Medium Term Notes	21,021	AA-	14,807	2,012	4,202	-
Local Agency Investment Fund	40,055	N/A	-	-	-	40,055
Guaranteed Investment Contracts	4,745	N/A	-	-	-	4,745
Santa Clara County Investment Pool	121	N/A	-	-	-	121
Mutual Funds	19,060	AAA	19,060	-	-	-
Money Market Funds	239	N/A	-	-	-	239
Nonnegotiable Certificates of Deposit	81,072	N/A	-	-	-	81,072
Total Investments	$ 497,991		$ 365,545	$ 2,012	$ 4,202	$ 126,232

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, 2009, those investments consisted of (in thousands):

Issuer	Investment Type	Reported Amount
District-Wide		
Federal Home Loan Mortgage Corp.	U.S. Government Agency	$82,220
Federal National Mortgage Association	U.S. Government Agency	52,143
Federal Home Loan Bank	U.S. Government Agency	170,536
Federal Farm Credit Bank	U.S. Government Agency	26,778

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 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) 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, the current year GASB 31 fair value adjustment, and the unadjusted investment income at June 30, 2009 (in thousands):

	Interest as Reported	GASB 31 Fair Value Adjustment	Earned Before Adjustment
Water Enterprise	$ 8,245	$ 966	$ 7,279

(5) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 was as follows (in thousands):

	Balance July 1, 2008	Additions	Deletions	Transfers / Reclassed	Balance June 30, 2009
Nondepreciable capital assets:					
Land	$ 22,461	$ 61	$ -	$ -	$ 22,522
Construction in progress	164,049	41,698	-	(9,383)	196,364
Total nondepreciable capital assets	186,510	41,759	-	(9,383)	218,886
Depreciable capital assets:					
Contract water and storage rights	124,666	8,166	-	-	132,832
Buildings	1,722	-	-	-	1,722
Structures and improvements	551,576	1,950	-	9,337	562,863
Equipment	19,518	335	(6)	46	19,893
Total depreciable capital assets	697,482	10,451	(6)	9,383	717,310
Less accumulated depreciation and amortization					
Contract water and storage rights	(62,075)	(9,521)	-	-	(71,596)
Buildings	(57)	(34)	-	-	(91)
Structures and improvements	(165,078)	(10,483)	-	-	(175,561)
Equipment:	(8,733)	(1,375)	6	-	(10,102)
Total accumulated depreciation and amortization	(235,943)	(21,413)	6	-	(257,350)
Net depreciable capital assets	461,539	(10,962)	-	9,383	459,960
Total capital assets, net	$ 648,049	$ 30,797	$ -	$ -	$ 678,846

New construction in progress increased in the Fund by $41.7 million. The planning costs for the construction of water supply storages, upgrades of the District's water treatment plants and dam modifications constitute the largest portion of construction expenses. Fifty-five projects were in progress during the fiscal year with major project listed below (in millions):

- San Tomas Well Field - $2.5M

- Pacheco Pumping Plant Regulating Tank Recoating - $2.2M
- Jacques Gulch Restoration - $1.5M
- Leniham Dam Outlet Modifications - $20.0M
- Santa Teresa Water Treatment Plant Incompatible Materials - $1.4M
- Rinconada Water Treatment Plant Chemical System Upgrade - $1.3M

Depreciation expense was charged to projects of the Fund as follows (in thousands):

Total depreciation and amortization expenses	$ 21,413

(6) SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

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

There was no commercial paper debt outstanding at June 30, 2009.

WATER UTILITY ENTERPRISE FUND
OF THE
SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2009

(b) Long-term liabilities

The Fund's long-term liabilities outstanding consisted of the following (in thousands):

Type of indebtedness	Maturity	Interest Rates	Authorized and Issued	June 30, 2009	Due Within One Year
1963 Water utility bonds - general obligation					
Series D	2012	2.25% - 7%	$ 8,850	$ 1,390	$ 480
2006A Water revenue bond	2035	3.5% - 5%	74,265	69,360	1,825
2006B Water revenue bond	2035	5.15%-5.31%	25,570	24,400	495
2007A Water revenue COP bond	2037	4.0% - 5.0%	77,270	77,270	1,310
2007B Water revenue COP bond	2037	5.50% -floating	53,730	53,730	930
Bond discount				(944)	(38)
Deferred amount on refunding				(2,687)	(123)
Interest rate swap deferral				(7,851)	(281)
Premium on debt issuance				2,967	106
Compensated absences				7,308	1,101
Semitropic water banking agreement	2035		46,900	6,424	-
State revolving fund loan	2027	2.39%	6,350	6,225	254
Total enterprise fund debt				$ 237,592	$ 6,059

The following is a summary of changes in long-term liabilities as of June 30, 2009 (in thousands):

	Balance 7/1/2008	Additions	Reductions	Balance 6/30/2009	Due Withn One Year
1963 Water Utility bonds	$ 2,025	$ -	$ (635)	$ 1,390	$ 480
2006A revenue bonds	71,110	-	(1,750)	69,360	1,825
2006B revenue bonds	24,870	-	(470)	24,400	495
2007A COP revenue bonds	77,270	-	-	77,270	1,310
2007B COP revenue bonds	53,730	-	-	53,730	930
Premium on issuance	3,073	-	(106)	2,967	106
Deferred amount on refunding	(2,810)	-	123	(2,687)	(123)
Bond Discount	(982)	-	38	(944)	(38)
Deferred Interest swap	(8,132)	-	281	(7,851)	(281)
Compensated absences	280	7,028	-	7,308	1,101
State revolving fund loan	6,350	-	(125)	6,225	254
Semitropic water storage agreement	7,408	-	(984)	6,424	-
Total enterprise debt	$ 234,192	$ 7,028	$ (3,628)	$ 237,592	$ 6,059

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

Year ending June 30:	Principal	Interest and amortization
2010	$ 5,294	$ 11,535
2011	5,525	11,302
2012	5,631	11,066
2013	5,473	10,821
2014	5,714	10,567
2015-2019	32,886	48,536
2020-2024	41,550	39,859
2025-2029	51,882	29,297
2030-2034	51,535	15,976
2035-2037	26,885	3,363
Total Requirements	232,375	$ 192,322
Add: semitropic water storage agreement	6,423	
Add: unamortized premium on issuance	2,967	
Add: compensated absences	7,308	
Less: unamortized bond discount and deferred amount on refunding	(11,481)	
Total principal outstanding at June 30, 2009	$ 237,592	

The following provides a brief description of the Fund's outstanding debt as of June 30, 2009:

<u>1963 Water Bonds</u>

The Water Bonds are general obligations of the District. These bonds were issued pursuant to the provisions of Resolution No. W-1.8, adopted November 12, 1963. Proceeds from these bonds have been used for construction of a comprehensive water treatment and distribution system. Debt service payments are funded through ad valorem taxes on property.

<u>2006 Water Enterprise Revenue Bonds</u>

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 Bonds 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. The District has pledged its net water utility revenues to secure the semi-annual debt service payments.

2007 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 Storage 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, 2009, the District has paid $40.5 million towards the obligation of this agreement.

Compensated absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized. Prior to fiscal year 2009, all funds reimbursed the general fund on a pro-rata basis of salary expense cost for the payment of these payouts at the end of each year and the funds were held in the reserve as designated for compensated absences. On June 24, 2008, the Board authorized the transfer of $17.7 million from the compensated absences reserve to a trust fund to prefund other post employment benefits. In fiscal year 2008, the compensated absences liability for the year was recognized in the Fund. Prior years and current year compensated absences liabilities were recognized in the Fund in fiscal year 2009.

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.

(7) PROPERTY TAXES AND BENEFIT ASSESSMENTS

The Fund derives certain revenues from the assessment of property tax parcel levies. The property tax levy is composed of three categories: (1) a 1 percent tax allocation; (2) voter approved levy to service the 1963 Water General Obligation bonds (G.O. bonds); and (3) voter approved levy to repay capital and operating costs related to State Water Projects.

Property tax revenues recorded for the year ended June 30, 2009 are as follows (in thousands):

Property taxes:	
1% tax allocation	$ 4,419
Voter approved indebtedness:	
State water	16,473
G.O. bonds	480
Total property taxes	$ 21,372

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 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.

(8) NET ASSETS/FUND BALANCES

The Fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. 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 Assets – 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 Assets – This category represents net assets of the District, not restricted for any project or other purpose.

Portions of unrestricted fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, require further legal authorization and may not result in expenditures or expenses. The Fund's unrestricted net asset as of June 30, 2009 is $102.5 million.

The Fund's restricted and designated net assets as of June 30, 2009 are represented below (in thousands):

Restricted Net Assets	
Restricted for Debt Service	$ 4,966
Restricted for State Revolving Fund Loan	401
Restricted for Operating Reserve	12,344
Restricted for San Felipe Operations	3,772
Restricted for Rate Stabilization	1,341
Sub-total for Restricted Net Assets	22,824
Designated for Operations & Contingencies	
Designated for Encumbrances	43,224
Designated for Market Valuation	1,494
Designated for Operating and Capital Reserves	23,395
Designated for Supplemental Water Supply	6,319
Designated for Floating Rate Debt Payment Stabilization	496
Sub-total for Designated for Operations & Contingencies	74,928
Designated for Capital Projects	
Designated for Current Authorized Projects	27,606
Investment in capital assets, net of related debt	514,102
Net Assets	$ 639,460

(9) EMPLOYEES' RETIREMENT PLAN

Plan Description

All permanent employees are eligible to participate in the miscellaneous plan with the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries based on member's years of service, age and final compensation. District employees vest after five years of service and are eligible to receive retirement benefits at age fifty. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District's ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Status and Progress

District employees are required to contribute 8.0 percent of their annual covered salary to CalPERS. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the District for fiscal year 2008/09 was 13.628 percent. In January 2003, the District amended its contract with CalPERS to include the enhanced retirement formula of 2.5% at 55. District employees pay 2.5% of their salaries towards the District's cost of this amended retirement plan. The contribution requirements of plan members are established by State statute and employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2008/09, the District's annual pension cost of $11,026,929 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses) and (b) projected annual salary increases that vary by duration of service. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of CalPERS assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. All annual pension costs are paid upon receipt of invoices.

THREE-YEAR TREND INFORMATION FOR CalPERS
(Dollars in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2007	$10,425	100%	$0
6/30/2008	11,025	100%	0
6/30/2009	11,027	100%	0

FUNDED STATUS OF PLAN
(Dollars in Thousands)

Actuarial Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability/ (Excess Assets) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	Unfunded (Overfunded) Actuarial Accrued Liability As a % of Payroll [(a)-(b)]/(c)
6/30/2006	$331,605	$285,793	$45,812	86.2%	$72,982	62.8%
6/30/2007	365,735	318,839	$46,896	87.2%	76,696	61.1%
6/30/2008	400,906	351,175	$49,731	87.6%	79,154	62.8%

(10) POST-EMPLOYMENT BENEFITS

The District provides post-employment healthcare 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 who meet the eligibility requirements and elect the option. For employees who retired prior to June 30, 1988 with at least 10 years of service, the District provides reimbursement of medical premiums of $165 per month payable quarterly.

For employees who retired after June 30, 1988, the District pays 100 percent of medical premiums provided the employee has 10 years of service with the District, the employee retires from the District at minimum age 50, and the employee is receiving a monthly allowance from CalPERS. For employees who retired after June 30, 1990, the District provides additional medical coverage for one dependent provided the employee has 15 years of service with the District and their dependent does not have coverage from a current employer. For employees who were hired after March 1, 2007, the District pays 100 percent of the medical premiums provided the employee has 15 years of continuous service. An employee retiring with 20 years or more of continuous service will receive medical coverage with the premium paid by the District for the employee plus one eligible dependent.

As of August 1, 2007, all current retirees not yet 65 years of age and Medicare eligible and all future retires 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.

Employees retiring from the unclassified group are eligible for dental, vision, and life insurance benefits. The District pays a 100 percent of the medical premium to those that retire with 10 years of service and retires from the District at a minimum age of 50, and is receiving a monthly allowance from CalPERS. The District provides medical, dental and vision for the retiree and one eligible dependent that retires with 15 or more years of continuous District service. Medical, dental, and vision coverage is paid for retired employees and two eligible dependents with 25 or more years of continuous service. For unclassified employees who were hired after March 1, 2007, the District pays 100 percent of the medical premium provided the employee has 15 years of continuous service. An employee retiring with 20 years or more of continuous service will receive medical coverage with the premium paid by the District for the employee plus one eligible dependent. 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.

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

As of June 30, 2009, there were 259 retirees and 254 active employees eligible for the post employment benefits.

During fiscal year 2007-08, 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.* 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 Public 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.

The following table shows the components of the District's annual OPEB cost for fiscal year 2008-09, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual Required Contribution	$ 14,638,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	14,638,000
Contributions made	(24,056,987)
Increase (decrease) in Net OPEB obligation	(9,418,987)
Net OPEB obligation, June 30, 2008	10,068,019
Net OPEB obligation, June 30, 2009	$ 649,032

The Fund's proportionate share of the net OPEB obligation as of June 30, 2009 is $247,643.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30	Annual Required Contribution	Amount Contributed	Percentage Contributed	NET OPEB Obligation
2008	$14,212,000	$4,143,981	29.16%	$10,068,019
2009	14,638,000	24,056,987	164.36%	649,032

Funded Status and Funding Progress

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 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 Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)
June 30, 2007	$ -	$141,459,000	$141,459,000	0%	$78,300,000

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 June 30, 2007 actuarial valuation used the Entry Age Normal (EAN) cost method. The actuarial assumptions included a discount rate of 7.75% and a 3% inflation rate. Healthcare cost trend rates ranged from an initial rate range of 11 to 5 percent after eight years. The unfunded liability is being amortized as a percent of payroll over 30 years. The remaining amortization period at June 30, 2009 was 28 years.

(11) 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):

Coverage Descriptions	Deductibles	Commercial Insurance Coverage
General liability	$2,000	$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	100	125,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	500,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2009, the liability for self-insurance claims was $7,781,000. 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, 2007 are as follows (in thousands):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2007	$ 3,102	$ 5,645	$ 8,747
Current year premiums, incurred claims and changes in estimates	870	(461)	409
Net payments	(160)	(430)	(590)
Claims payable at June 30, 2008	3,812	4,754	8,566
Current year premiums, incurred claims and changes in estimates	(349)	178	(171)
Net payments	(208)	(406)	(614)
Claims payable at June 30, 2009	$ 3,255	$ 4,526	$ 7,781

(12) TRANSFERS IN AND OUT

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

In the year ended June 30, 2009, the Fund transferred $351 thousand to General Fund for its share in information technology relevant to water operations. Conversely, the General Fund transferred $6.9 million to the Fund for the refund of prior years' transfers to fund compensated absences reserve for $6.8 million and capital projects for $0.1 million.

Interfund transfers for the year ended June 30, 2009, is as follows (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Water Enterprise	$ 351
Water Enterprise	General Fund	$ 6,890

(13) COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2009, the Fund had open purchase commitments of approximately $43.3 million related to new or existing contracts and agreements. These encumbrances represent commitments for the expenditure of funds and do not represent expenditures 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.

The estimated commitment for the payment of allocated capital and capital interest charges of the contracted water service component as of September 30, 2008 was $27,287,716. The total commitment, including applicable interest, of the repayment contract was $439,261,342. The remaining commitment as of June 30, 2009 was $401,927,008.

(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 water supplies. The 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 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, 2009, the District has paid $40.5 million towards the obligation of this agreement. During the first 10 years, the District had a reservation for the full 35 percent 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 would have been 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, 2009, the District has 238,491 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of $15,829,000 has been recorded through fiscal year 2009.

(14) CONTINGENCIES

(a) Litigation

As a public entity and due to its size and its activities, at virtually all times, the District is a defendant, co-defendant, or cross-defendant in various court cases in which money damages are sought. The largest case in which the District is involved in currently is Great Oaks Water Company v. Santa Clara Valley Water District.

On February 2, 2010, Santa Clara County Judge Kevin Murphy issued his Judgment After Trial by Court in the case Great Oaks Water Company v. Santa Clara Water District. The court ruled that the District's 2005-2006 groundwater production charges were subject to Proposition 218, which governs the imposition of certain "property-related" charges, and concluded that these charges must receive voter approval to be valid. The court then determined that Great Oaks was entitled to a refund of the groundwater production charges it paid during fiscal year 2005-2006 in the amount of $4.6 million. The court also found that the District's violation of the District Act damaged Great Oaks Water Company in the amount of $1.3 million, but this amount is duplicative and included in the full refund. The District immediately filed an appeal in the case.

Although the decision occurred after the end of fiscal year 2008-09, the District has decided to accrue the potential judgment amount. In accordance with the requirements of *Statement of Financial Accounting Standards No. 5 – Accounting for Contingencies,* the District has recorded a liability in the amount of $5.9 million, which includes the decision amount plus interest. The accrual was presented under the caption "Litigation Claim" in the Fund's Statement of Net Assets and "Claims and Adjustments" in the Fund's Statement of Revenues, Expenses, and Changes in Net Assets.

Other than the case noted above, the outcome of other lawsuits is not presently determinable. Counsel for the District has indicated that material losses, if any, arising from these lawsuits are adequately provided for under indemnification agreements or insurance coverage and therefore, would not have material effect on June 30, 2009 basic financial statements.

(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 led to development of new CVP water rate policies. These policies, coupled with the terms of the original contract, resulted in the District facing significant rate 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.

In past years, to minimize the potential adverse effects of possible future CVP water rate increases, the District collected additional revenue through its water rates. The District has designated the related incremental portion of net assets of the Water Enterprise Fund as Designated for CVP. However, the District recently determined that the risk of being required to fund a future liability associated with the original contract with the U.S. Bureau of Reclamation had been substantially eliminated. Consequently, $16.1 million was reallocated from Designated for CVP to the Supplemental Water Supply and Operating and Capital Reserves.

(d) Perchlorate

In 2003, an investigation performed under the direction of state water officials detected a chemical called perchlorate in several water wells in South County. The contamination is under the jurisdiction of the Central Coast Regional Water Quality Control Board. The District is a groundwater management agency; as such, its primary role is ensuring water supply reliability through monitoring and preventing contamination.

(15) SUBSEQUENT EVENT

Financial Impact of Proposition 1A Borrowing

On July 28, 2009, State of California Governor Arnold Schwarzenegger signed the Budget Revise for 2009-2010 in which the legislature invoked the borrowing provisions of Proposition 1A as part of the state budget. The borrowing provision allows the state to direct county auditors to reduce ad valorem property revenues to cities, counties, and special districts by 8%. Approximately $4.8 million in property tax revenue is estimated will be withheld from the District for fiscal year 2009-10.

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WATER UTILITY ENTERPRISE FUND
OF THE
SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues and Expenses
(Budgetary Basis)
For the Year Ended June 30, 2009
(Dollars in Thousands)

	North County	South County	Total
Operating revenues:			
Ground water charges	$ 51,392	$9,711	$ 61,103
Treated water charges	74,012	-	74,012
Surface and recycled water charges	886	355	1,241
Operating grants	3,892	53	3,945
Total operating revenues	130,182	10,119	140,301
Operating expenses:			
Sources of supply	72,697	9,402	82,099
Water treatment	32,505	-	32,505
Transmission ad distribution:			
Raw water	7,704	1,548	9,252
Treated water	3,710	-	3,710
Administration and general	16,426	2,159	18,585
Capital cost recovery	-	1,815	1,815
Total operating expenses	133,042	14,924	147,966
Operating income (loss)	(2,860)	(4,805)	(7,665)
Nonoperating revenues (expenses):			
Property taxes	19,419	1,954	21,373
Investment income	8,245	-	8,245
Rental income	20	25	45
Other	4,012	522	4,534
Interest and fiscal agent fees	(9,868)	-	(9,868)
Open Space Credit transfer	(1,256)	1,256	-
Interest earned credit	33	(33)	-
Net nonoperating revenues	20,605	$3,724	24,329
Income (Loss)	$ 17,745	$ (1,081)	$ 16,664

Reconciliation to Statement of Revenues, Expenses and changes in Net Assets:

Income (Loss)	$ 16,664
Less: Depreciation Expense not allocated between Zones	(21,413)
Less: Transfers out	(351)
Add back: Capital cost recovery expense allocated to South County	1,815
Add back: Encumbrances included in total Water Utility expenses	9,495
Add back: Transfers In	6,890
Total Income (Loss) per Statement of Revenues, Expenses and Changes in Net Assets	$ 13,100

See accompanying notes to basic financial statements.