

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

Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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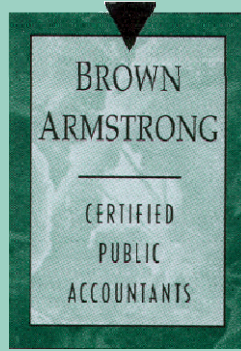
**WATER UTILITY ENTERPRISE FUND  
OF THE  
SANTA CLARA VALLEY WATER DISTRICT  
Basic Financial Statements  
For the Year Ended June 30, 2010**

**Table of Contents**

<i>Independent Auditor's Report</i> .....	1
<i>Management's Discussion and Analysis</i> .....	3
<b>Basic Financial Statements:</b>	
Statement of Net Assets.....	13
Statement of Revenues, Expenditures and Changes in Net Assets .....	14
Statement of Cash Flows .....	15
Notes to Basic Financial Statements .....	17
 <i>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards.</i> .....	 49
 <i>Independent Auditor's Report on Applying Agreed-Upon Procedures.</i> .....	 51
 <i>Schedule of Revenues and Expenses – Budgetary Basis</i> .....	 53

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors  
Santa Clara Valley Water District  
San Jose, California

We have audited the accompanying financial statements of the Water Utility Enterprise Fund of the Santa Clara Valley Water District (the District) as of and for the year ended June 30, 2010, as listed in the table of contents. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Water Utility Enterprise Fund and do not purport to, and do not, present fairly the financial position of the District, as of June 30, 2010, and the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

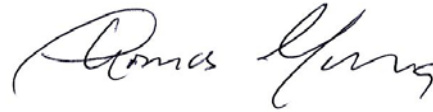
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Enterprise Fund of the District, as of June 30, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in cursive script, appearing to read "Ronald Young".

Bakersfield, California  
May 6, 2011

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

**Management's Discussion and Analysis**

Our discussion and analysis of the Santa Clara Valley Water District's Water Utility Enterprise Fund (the "Fund") financial performance provides an overview of the Water Utility Enterprise Fund financial activities for the fiscal year ended June 30, 2010. 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 Brown Armstrong Accountancy Corporation to conduct an audit of the District's Water Utility Enterprise Fund for the fiscal year ended June 30, 2010. 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 Fund is improving or deteriorating.

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

**Management Discussion and Analysis**

*The Statement of Revenues, Expenses and Changes in Net Assets* provides information about the Fund's revenues and expenses on an 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)

	<u>2010</u>	<u>2009<sup>1</sup></u>
Current and other assets	\$ 192,992	\$ 224,869
Capital assets	<u>706,608</u>	<u>678,846</u>
Total assets	<u>899,600</u>	<u>903,715</u>
Current liabilities	23,881	20,485
Litigation claim	6,090	5,930
Long-term liabilities outstanding	<u>227,965</u>	<u>237,840</u>
Total liabilities	<u>257,936</u>	<u>264,255</u>
Net assets:		
Investment in capital assets, net of related debt	518,237	514,102
Restricted	22,944	22,824
Unrestricted	<u>100,483</u>	<u>102,534</u>
Total net assets	<u>\$ 641,664</u>	<u>\$ 639,460</u>

<sup>1</sup> Fiscal year 2008-09 current liabilities and long-term liabilities were restated to report claims payable and other post employment benefits payable as noncurrent.

- The total net assets of the Fund exceeded its liabilities by \$641.7 million. Of this amount, \$100.5 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 (80.8 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



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

**Management Discussion and Analysis**

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 \$4.1 million due to the costs of the Rinconada Water Treatment Plant Valve Replacement project for \$3.7 million and the ongoing major water treatment plant improvements.

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

	<u>2010</u>	<u>2009</u>
Revenues:		
Ground water charges	\$ 55,189	\$ 61,103
Treated water charges	64,157	74,012
Surface and recycled water charges	918	1,241
Operating grants and contributions	1,696	3,923
Capital grants and contributions	1,602	-
Property taxes	24,241	21,372
Investment earnings	3,787	8,245
Miscellaneous	5,447	4,602
Total revenues	<u>157,037</u>	<u>174,498</u>
Expenses:		
Operating expenses	145,537	158,069
Nonoperating and other expenses	9,027	9,868
Total expenses	<u>154,564</u>	<u>167,937</u>
Increase in net assets before transfers	2,473	6,561
Transfers	<u>(269)</u>	<u>6,539</u>
Increase in net assets	2,204	13,100
Net assets, beginning	<u>639,460</u>	<u>626,360</u>
Net assets, ending	<u>\$ 641,664</u>	<u>\$ 639,460</u>

- The net assets of the Fund increased by \$2.2 million. Compared to the previous fiscal year, key elements of the changes are as follows:
  - a. Revenues from ground water charges decreased by \$5.9 million or 9.7 percent due to the reduction in the total acre feet of ground water usage. Compared to prior fiscal year 2009, the total acre feet of ground water usage of major customers decreased by approximately 14.0 thousands or 11.1 percent.
  - b. Receipts of treated water charges decreased by \$9.9 million or approximately 13.3 percent primarily due to decline in acre feet of usage of treated water.

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

**Management Discussion and Analysis**

The total acre feet usage of treated water were down by approximately 15.7 thousand or approximately 13.2 percent, if compared to prior fiscal year 2009 usage.

- c. Operating grants and contributions decreased by \$2.2 million or 56.7 percent. The decrease was due to the change in recording the capital cost reimbursement from the Safe Drinking, Clean Water and Watershed Protection Act project of \$1.1 million and from the San Benito County's share of capital costs of \$0.5 million from operating grants and contribution to capital grants. One-time operating grants were also received in fiscal year 2008-09 but not in fiscal year 2009-10 that included \$153 thousand from Weather Based Irrigation Controller Installation Program and \$554 thousand from Innovative Commercial, Industrial and Institutional Retrofit Program.
- d. Capital grants and contributions increased by \$1.6 million due to the change in recording reimbursement of capital cost from operating grants and contributions to capital grants and contributions. Reimbursements included capital costs from Safe Drinking, Clean Water and Water Protection Act project of \$1.1 million and from San Benito County's share of capital costs for \$0.5 million.
- e. Property taxes increased by \$2.9 million due to higher assessment to fund State Water Project contractual obligations.
- f. Investment earnings decreased by \$4.5 million or 54.1 percent due to lower interest rates, lower cash balances maintained in the fund, and net negative impact from the GASB 31 fair market value adjustment of \$275 thousand.
- g. Miscellaneous revenues were higher by \$845 thousand or 18.4 percent due to the receipt of reimbursement of litigation expenses incurred in prior years related to the Hartford/Cinnabar Mines settlement case involving clean up of mercury contamination in the streams and Olin settlement reimbursement of expenses incurred in prior years related to the perchlorate issue.
- h. Total expenses decreased by \$13.4 million or 7.9 percent due to cost saving measures and one-time charges that occurred in prior fiscal year 2008-09 but not in current fiscal year. One-time charges incurred in fiscal year 2008-09 include recognition of prior years compensated absences of \$6.8 million and accrual of judgment claims and adjustments related to the Great Oaks Water Company litigation for \$5.9 million.

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

**Management Discussion and Analysis**

*Water Utility Enterprise Fund's Schedule of Revenues and Expenses*

(Budgetary Basis)  
(Dollars in Thousands)

	<u>North County</u>		<u>South County</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Operating Revenues:						
Ground water charges	\$ 46,401	\$ 51,392	\$ 8,788	\$ 9,711	\$ 55,189	\$ 61,103
Treated water charges	64,157	74,012	-	-	64,157	74,012
Surface and recycled water charges	<u>440</u>	<u>886</u>	<u>478</u>	<u>355</u>	<u>918</u>	<u>1,241</u>
Total water charges	110,998	126,290	9,266	10,066	120,264	136,356
Operating grants	<u>1,467</u>	<u>3,892</u>	<u>230</u>	<u>53</u>	<u>1,697</u>	<u>3,945</u>
Total Operating revenues	<u>112,465</u>	<u>130,182</u>	<u>9,496</u>	<u>10,119</u>	<u>121,961</u>	<u>140,301</u>
Operating Expenses:						
Source of supply	67,914	72,697	8,573	9,402	76,487	82,099
Water treatment	24,960	32,505	13	-	24,973	32,505
Transmission and distribution:						
Raw water	7,075	7,704	1,573	1,548	8,648	9,252
Treated water	<u>1,196</u>	<u>3,710</u>	<u>-</u>	<u>-</u>	<u>1,196</u>	<u>3,710</u>
Cost of goods sold	101,145	116,616	10,159	10,950	111,304	127,566
Administration and general	15,446	16,426	2,651	2,159	18,097	18,585
Capital cost recovery	<u>(2,079)</u>	<u>-</u>	<u>2,079</u>	<u>1,815</u>	<u>-</u>	<u>1,815</u>
Total operating expenses	<u>114,512</u>	<u>133,042</u>	<u>14,889</u>	<u>14,924</u>	<u>129,401</u>	<u>147,966</u>
Operating income (loss)	<u>(2,047)</u>	<u>(2,860)</u>	<u>(5,393)</u>	<u>(4,805)</u>	<u>(7,440)</u>	<u>(7,665)</u>
Non-operating income (expenses):						
Property taxes	22,143	19,419	2,098	1,954	24,241	21,373
Investment income	4,062	8,245	-	-	4,062	8,245
Rental income	26	20	29	25	55	45
Other	3,560	4,012	1,832	522	5,392	4,534
Interest/fiscal agent fees	(9,027)	(9,868)	-	-	(9,027)	(9,868)
Open space credit transfer	(1,049)	(1,256)	1,049	1,256	-	-
Interest earned credit	<u>91</u>	<u>33</u>	<u>(91)</u>	<u>(33)</u>	<u>-</u>	<u>-</u>
Net non-operating Income	<u>19,806</u>	<u>20,605</u>	<u>4,917</u>	<u>3,724</u>	<u>24,723</u>	<u>24,329</u>
Income (loss)	<u>\$ 17,759</u>	<u>\$ 17,745</u>	<u>\$ (476)</u>	<u>\$ (1,081)</u>	<u>\$ 17,283</u>	<u>\$ 16,664</u>

- The Fund's total revenues from water charges were \$120.3 million in fiscal year 2009-10. Ninety-two percent of those revenues, or \$111.0 million were collected from customers in the North County, while the remaining eight percent or \$9.3 million were collected from South County customers.
- Operating grants applied for and received were \$1.5 million to augment North County revenue and \$230 thousand in the South County. These grants helped to fund water conservation, desalination, and recycled/reclaimed water programs.

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

**Management Discussion and Analysis**

- Operating expenses for the North County include \$101.1 million in cost of goods sold, or 90 percent of its total operating revenues. Whereas, for the South County, cost of goods sold is \$10.2 million or 107 percent of its total operating revenues.
- Administration and general expenses make up 14 percent of total operating revenues in the North County and 28 percent of total operating revenues in the South County.
- Total operating revenues of \$122.0 million less total operating expenses of \$129.4 million results in a \$7.4 million loss from operations. The loss from North County operations is \$2.0 million, while the loss from South County operations is \$5.4 million.

Operations is supplemented with property tax and investment earnings of \$28.3 million overall.

- Property taxes collected in the North County amounted to \$22.1 million while \$2.1 million were collected in South County for a total of \$24.2 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.
- \$4.1 million of investment earnings resulted from an average return of 2.5 percent on average monthly cash balances of \$113.1 million was allocated to the North County.

Overall net income was \$17.3 million. A total of \$17.8 million income was allocated to North County and \$0.5 million loss was allocated to South County.

The actual revenue and cost allocations for prior fiscal year 2009 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 \$815 thousand. The adjustment is not reflected in the fiscal year 2009 numbers in this report.

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

**Management Discussion and Analysis**

The following table shows the rates for water services for fiscal year 2009-10:

*Water Utility Enterprise Fund's Rate Summary  
Adopted 2009-10*

	<b>Rate</b>
<u>Groundwater</u>	
North County – Agricultural	\$ 16.50
North County – Non-Agricultural	520.00
South County – Agricultural	16.50
South County – Non-Agricultural	275.00
<u>Treated Water</u>	
Contract (Scheduled)	620.00
Non-Contract	670.00
<u>Untreated Water</u>	
North County – Agricultural	16.50
North County – Non-Agricultural	520.00
South County – Agricultural	16.50
South County – Non-Agricultural	275.00
<u>Water Master</u>	11.75
<u>Minimum Charge</u>	
North County	390.00
South County	206.25
<u>Reclaimed Water</u>	
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, 2010, amounts to \$706.6 million (net of accumulated depreciation). The investment in capital assets includes intangible rights, land, buildings, structures and improvements, machinery and equipment. During fiscal year 2009-10, the total increase in the Fund's investment in capital assets for the current year was \$27.8 million.

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

- Leniham Dam Outlet Modifications - \$5.2 million
- Rinconada Water Treatment Plant Valve Replacements - \$3.7 million
- Rinconada Water Treatment Plant FRP Clarifier Rehabilitation - \$3.7 million
- Recycled Water Advanced Treatment Facility - WPCP - \$2.9 million
- West Pipeline Rehabilitation, Cox Ave to Granger Ave - \$2.6 million
- Jacques Gulch Restoration - \$2.4 million
- Dam Safety Seismic Stability – 2.3 million
- East Pipeline Rehabilitation - \$1.8 million
- Water Banking Project - \$1.7 million
- Rinconada Water Treatment Plant Chemical System Upgrade - \$1.6 million

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

**Management Discussion and Analysis**

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

	<u>2010</u>	<u>2009</u>
Land	\$ 17,594	\$ 22,522
Contract water and storage rights	60,857	61,236
Buildings	1,596	1,631
Structures and improvements	390,657	387,302
Equipment	8,559	9,791
Construction in progress	<u>227,345</u>	<u>196,364</u>
 Total	 <u>\$ 706,608</u>	 <u>\$ 678,846</u>

Information on the Fund's capital assets activity for fiscal year 2009-10 can be found in Note 6 on page 29 of this report.

**Debt Administration**

At the end of the current fiscal year, the Fund had total debt outstanding of \$240.4 million. This Fund's long-term obligations outstanding as of June 30, 2010 consisted of the following:

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

	<u>2010</u>	<u>2009</u> <u>(Restated)<sup>1</sup></u>
General obligation bonds	\$ 910	\$ 1,390
Revenue bonds	220,200	224,760
Compensated absences	7,679	7,308
Semitropic water banking	5,311	6,423
State revolving fund loan	5,971	6,225
Other post employment benefits	2,389	248
Litigation claim	6,090	5,930
Bond discount	(906)	(944)
Deferred amount on refunding	(2,564)	(2,687)
Deferred interest swap	(7,570)	(7,850)
Premium on bond issue	<u>2,861</u>	<u>2,967</u>
 Total	 <u>\$ 240,371</u>	 <u>\$ 243,770</u>

<sup>1</sup>Fiscal year 2008-09 was restated to report other post employment benefits and litigation claims as long term obligations.

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

**Management Discussion and Analysis**

The Fund's outstanding long-term obligations as of the end of the current fiscal year decreased by a net of \$3.4 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 AA from Standard & Poor's.

Additional information on the Fund's long-term debt can be found in note 7 on pages 30 to 34 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"

In considering the District's budget for fiscal year 2010-11, the Board of Directors and District management issued the following directions:

- Scheduling construction of 23 capital projects which will generate estimated 1,100 – 2200 local jobs.
- Keeping water charges flat for the third straight year.
- Continuing the successful water conservation program, projected to reduce water utility revenue by \$5.8 million.
- Continuing with agency-wide efficiencies and consolidating services and functions and eliminating or delaying lower-priority projects.
- Cutting 25 positions and reducing consultant services.

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

Statement of Net Assets  
June 30, 2010  
(Dollars in Thousands)

**ASSETS**

Current assets:

Cash and investments (Note 3)	\$ 119,462
Restricted cash and investments (Note 3)	41,915
Receivables:	
Accounts	27,866
Taxes	50
Due from other governments (Note 9)	354
Deferred charge	1,270
Deposits and other assets	2,075
Total current assets	192,992

Non current assets:

Capital assets: (Note 6)	
Contract water rights, net	60,857
Nondepreciable	244,939
Depreciable, net	400,812
Total non current assets	706,608
Total assets	899,600

**LIABILITIES**

Current liabilities:

Accounts payable	7,737
Accrued liabilities	7,494
Deposits payable	1,551
Accrued interest payable	783
General obligation bonds - current (Note 7)	505
Revenue bonds - current (Note 7)	4,424
Other Debt (Note 7)	1,387
Total current liabilities	23,881

Non current liabilities:

Litigation claim (Note 17)	6,090
Long-term debt: (Note 7)	
General obligation bonds - non current	405
Revenue bonds (net of unamortized discount and deferred amount on refunding)	207,597
Other post employment benefits payable (Note 12)	2,389
Other debts	17,574
Total long-term debt	227,965
Total non current liabilities	234,055
Total liabilities	257,936

**NET ASSETS (Note 10)**

Investment in capital assets, net of related debt	518,237
Restricted for:	
Debt service	4,889
State revolving loan requirement	401
San Felipe operations	3,868
Operating reserves	12,139
Rate stabilization	1,647
Unrestricted:	100,483
Total net assets	641,664

See accompanying notes to basic financial statements.

**WATER UTILITY ENTERPRISE FUND  
OF THE  
SANTA CLARA VALLEY WATER DISTRICT**  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2010  
(Dollars in Thousands)

<b>Operating revenues:</b>	
Ground water charges	\$ 55,189
Treated water charges	64,157
Surface and recycled water charges	918
Operating grants	1,696
Other	8
	<hr/>
Total operating revenues	121,968
<b>Operating expenses:</b>	
Sources of supply	69,052
Water treatment	25,439
Transmission and distribution:	
Raw water	9,356
Treated water	2,242
Administration and general	18,241
Claims and Adjustments	160
Depreciation and amortization	21,047
	<hr/>
Total operating expenses	145,537
	<hr/>
Operating income (loss)	(23,569)
<b>Nonoperating revenues (expenses):</b>	
Property taxes (Note 8)	24,241
Investment income (Note 5)	3,787
Rental income	55
Other	5,384
Interest and fiscal agent fees	(9,027)
	<hr/>
Net nonoperating revenues	24,440
	<hr/>
Income before capital contributions and transfers	871
Capital contributions (Note 4)	1,602
Transfers out (Note 15)	(269)
	<hr/>
Change in net assets	2,204
Net assets, beginning of year	639,460
	<hr/>
Net assets, end of year	\$ 641,664
	<hr/> <hr/>

See accompanying notes to basic financial statements.

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

Statement of Cash Flows  
For the Year Ended June 30, 2010  
(Dollars in Thousands)

<b>Cash flows from operating activities:</b>	
Receipts from customers and users	\$ 114,817
Payments to suppliers	(67,907)
Payments to employees	(49,856)
Payments for internal services used	(5,109)
Other receipts	6,986
Net cash provided by operating activities	<u>(1,069)</u>
<b>Cash flows from noncapital financing activities:</b>	
Property taxes received	23,912
Transfers out to other funds	(269)
Net cash provided by noncapital financing activities	<u>23,643</u>
<b>Cash flows from capital and related financing activities:</b>	
Principal payments on general obligation bonds	(480)
Principal payments on revenue bonds	(4,560)
Principal payments on other loans	(1,367)
Interest and fiscal agent fees paid	(8,535)
Acquisition of contract water rights	(8,646)
Acquisition and construction of capital assets	(40,163)
Net cash used by capital and related financing activities	<u>(63,751)</u>
<b>Cash flows from investing activities:</b>	
Sale of restricted investments	114
Rental income received	55
Interest received on cash and investments	3,787
Net cash provided by investing activities	<u>3,956</u>
Net decrease in cash and cash equivalents	(37,221)
Cash and cash equivalents, beginning of year	193,187
Cash and cash equivalents, end of year	<u>\$ 155,966</u>
<b>Cash and cash equivalents are reported on the Statement of Net Assets as follows:</b>	
Cash and investments	\$ 119,462
Restricted cash and investments	41,915
Less cash and investments not meeting the definition of cash equivalents	(5,411)
Cash and cash equivalents, end of year	<u>\$ 155,966</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating income (loss)	\$ (23,569)
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>	
Depreciation and amortization	21,047
Other receipts	6,986
<b>Change in operating assets and liabilities:</b>	
Decrease in deposits and other assets	1,893
(Increase)/decrease in accounts receivable	(7,151)
Decrease in prepaid asset	-
Decrease in inventory	76
Decrease in accounts payable	(2,488)
Increase/(decrease) in accrued liabilities	1,201
Decrease in deposits payable	(1,737)
Increase in claims payable	-
Increase in litigation claim	161
Increase in other post employment benefits & compensated absences	2,512
Net cash provided (used) by operating activities	<u>\$ (1,069)</u>

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**(1) THE FINANCIAL REPORTING ENTITY**

**(a) Description of the Reporting Entity**

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

The District is governed by a seven member Board of Directors. 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.

On October 12, 2009, Assembly Bill 466 was signed by the Governor of California revising the composition of the board of the District by requiring the board to transition to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. The board also would be required to adopt a resolution establishing boundaries of the seven electoral districts. On May 14, 2010, the Board of Directors adopted a resolution that officially set the boundaries of the seven electoral districts.

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**

*Fund Financial Statements*

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

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

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. *Non-operating* revenues, such as subsidies and investment earnings, result from non-exchange 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

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

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

**(d) Inventory**

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	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.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**(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.

**(h) 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.

**(i) 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.

**(j) 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.

**(k) Due from Other Governments**

Amounts due from other governments represent amounts due from various government agencies for reimbursement of the District's expenditures/expenses in association with construction projects.

**(l) 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



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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

at the employee's base pay rate at the time of termination. The percentage of unused sick leave varies with the employee's length of service at the District.

**(m) 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 and Certificate of Participation premiums, 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. Issuance costs are reported as deferred charges.

**(n) 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.

**(o) 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.

**(p) New Pronouncements**

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. Application of this Statement is effective for the District's fiscal year ending June 30, 2010.

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes new categories for reporting fund balance and revises the definitions for governmental fund types. Application of this Statement is effective for the District's fiscal year ending June 30, 2011.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**(3) CASH AND INVESTMENTS**

Total Fund cash and investments at June 30, 2010 are as follows (in thousands):

Statement of Net Assets:	
Cash and investments	\$ 119,462
Restricted cash and investments	41,915
	<u>\$ 161,377</u>

**Investments**

At June 30, 2010, cash and investments consist of the following (in thousands):

Investment Held by Fiscal Agent	
Guaranteed Investment Contracts	\$ 4,745
Money Market Funds	124
Mutual Funds	541
Nonnegotiable Certificates of Deposit	<u>36,244</u>
Total Investments Held by Fiscal Agent	41,654
Santa Clara County Investment Pool	261
District's Pooled Cash and Investment	<u>119,462</u>
Total cash and investments	<u>\$ 161,377</u>

As of June 30, 2010, the District's investment in the State investment pool (LAIF) is \$43,965,000. The total amount invested by all public agencies in LAIF at that date is \$69,385,967,000. Of that amount, 94.58 percent is invested in non-derivative financial products and 5.42 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, 2010, the Fund's investment in the Santa Clara County Investment Pool (Pool) is \$261,000 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 District shares in the Pool is determined on an amortized cost basis, which is different than the fair value of the District's position in the Pool. The District's investment in the Pool is stated at fair value, available upon demand and considered a cash equivalent.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**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 table does not address the District's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the Entity's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Government Agency Issues (A)	5 years	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 Time 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	12.0%
California Local Agency Investment Fund (B)	N/A	N/A	(B)	(B)
Mutual Funds	N/A	AAA	10%	10.0%
Money Market Account with Union Bank	N/A	N/A	None	12.0%

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

(B) LAIF will accept no more than \$50 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

**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, 2010, the amount invested in assets held by fiscal agent amounted to \$5.4 million and was equal to or in excess of the amount required at that date.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**Restricted Cash and Investments for Capital Projects**

The Fund has construction and acquisition funds from the 2007A & 2007B Revenue COPs which is used to finance the cost of the water utility system improvement projects. At June 30, 2010, the balance of this fund is \$36,244,000.

**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:

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

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

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

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

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.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**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	\$191,781	68,921	65,876	56,984	-
U.S. Government Agencies - Callable	174,281	-	20,066	154,215	-
Medium Term notes	9,783	-	9,783	-	-
Local Agency Investment Fund	43,965	43,965	-	-	-
Guaranteed Investment Contracts	4,745	-	-	-	4,745
Santa Clara County Investment Pool	261	261	-	-	-
Mutual Funds	5,437	5,437	-	-	-
Money Market Funds	238	238	-	-	-
Nonnegotiable Certificates of Deposit	39,680	39,680	-	-	-
Total Investments	<u>\$ 470,171</u>	<u>\$ 158,502</u>	<u>\$ 95,725</u>	<u>\$ 211,199</u>	<u>\$ 4,745</u>
Fund's Investment in District's Pooled Cash and Investment	<u>\$ 119,462</u>				

**Credit Risk**

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

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

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, 2010 for each investment type as provided by Standard and Poor's (in thousands):

	Total	Minimum Legal Rating	Rating as of Year-end			
			AAA	AA	AA-	Not Rated
U.S. Government Agencies	\$ 366,062	AA-	\$ 366,062	\$ -	\$ -	\$ -
Medium Term notes	9,783	AA-	9,783	-	-	-
Local Agency Investment Fund	43,965	N/A	-	-	-	43,965
Guaranteed Investment Contracts	4,745	N/A	-	-	-	4,745
Santa Clara County Investment Pool	261	N/A	-	-	-	261
Mutual Funds	5,437	AAA	5,437	-	-	-
Money Market Funds	238	N/A	-	-	-	238
Nonnegotiable Certificates of Deposit	39,680	N/A	-	-	-	39,680
<b>Total Investments</b>	<b>\$ 470,171</b>		<b>\$ 381,282</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 88,889</b>
Fund's Investment in District's Pooled Cash and Investment	<u>\$ 119,462</u>					

### 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, 2010, those investments consisted of (in thousands):

Issuer	Investment Type	Reported Amount
<b>District-Wide</b>		
Federal Home Loan Mortgage Corp.	U.S. Government Agency	\$50,030
Federal National Mortgage Association	U.S. Government Agency	89,996
Federal Home Loan Bank	U.S. Government Agency	189,257
Federal Farm Credit Bank	U.S. Government Agency	36,778
US Bank	Certificate of Deposit	39,580

### 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.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

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 the trust department of the financial institutions in the District's name.

**(4) REIMBURSEMENT OF CAPITAL COSTS**

The Fund derives certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following is a summary of such reimbursements in fiscal year 2009/10 (in thousands):

	<u>Business- Type Activity</u>
San Benito County Water District Department of Water Resources	\$ 535 <u>1,067</u>
<b>Total</b>	<b><u>\$ 1,602</u></b>

**(5) INVESTMENT INCOME**

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

The following represents the investment income as reported in the financial statements, the current year GASB 31 fair value adjustment, and the unadjusted investment income at June 30, 2010 (in thousands):

	Interest as Reported	FY 2010 GASB 31 Fair Value Adjustment	Interest Earned Before Adjustment
Water Enterprise	3,787	(275)	4,062



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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**(6) CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2010 was as follows (in thousands):

	Balance July 1, 2009	Additions	Deletions	Transfers / Reclassified	Balance June 30, 2010
Nondepreciable capital assets:					
Land	\$ 22,522	\$ -	\$ (4,928)	\$ -	\$ 17,594
Construction in progress	196,364	44,935	-	(13,954)	227,345
Total nondepreciable capital assets	<u>218,886</u>	<u>44,935</u>	<u>(4,928)</u>	<u>(13,954)</u>	<u>244,939</u>
Depreciable capital assets:					
Contract water and storage rights	132,832	8,645	-	-	141,477
Buildings	1,722	-	-	-	1,722
Structures and improvements	562,863	-	-	13,954	576,817
Equipment	19,893	157	-	-	20,050
Total depreciable capital assets	<u>717,310</u>	<u>8,802</u>	<u>-</u>	<u>13,954</u>	<u>740,066</u>
Less accumulated depreciation and amortization					
Contract water and storage rights	(71,596)	(9,024)	-	-	(80,620)
Buildings	(91)	(35)	-	-	(126)
Structures and improvements	(175,561)	(10,599)	-	-	(186,160)
Equipment:	(10,102)	(1,389)	-	-	(11,491)
Total accumulated depreciation and amortization	<u>(257,350)</u>	<u>(21,047)</u>	<u>-</u>	<u>-</u>	<u>(278,397)</u>
Net depreciable capital assets	<u>459,960</u>	<u>(12,245)</u>	<u>-</u>	<u>13,954</u>	<u>461,669</u>
Total capital assets, net	<u><u>\$678,846</u></u>	<u><u>\$ 32,690</u></u>	<u><u>\$ (4,928)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 706,608</u></u>

During fiscal year 2009-10, new construction in progress increased in the Fund by \$44.9 million. Sixty-two projects were in progress during the fiscal year with major project listed below (in millions):

- Leniham Dam Outlet Modifications - \$5.2
- Rinconada Water Treatment Plant Valve Replacements - \$3.7
- Rinconada Water Treatment Plant FRP Clarifier Rehabilitation - \$3.7
- Recycled Water Advanced Treatment Facility – WPCP - \$2.9
- West Pipeline Rehabilitation, Cox Ave to Granger Ave - \$2.6
- Jacques Gulch Restoration - \$2.4
- Dam Safety Seismic Stability - \$2.3
- East Pipeline Rehabilitation - \$1.8
- Water Banking Project - \$1.7
- Rinconada Water Treatment Plant Chemical System Upgrade - \$1.6

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

Total depreciation and amortization expenses \$21,047

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**(7) SHORT-TERM AND LONG-TERM LIABILITIES**

**(a) Short-term debt**

On December 17, 2002, the District Board of Directors authorized a commercial paper program 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 as of June 30, 2010.

**(b) Long-term liabilities**

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

<u>Type of indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
1963 Water utility bonds - general obligation					
Series D	2012	2.25 - 7%	\$ 8,850	\$ 910	\$ 505
2006A Water revenue bond	2035	3.5% - 5%	74,265	67,535	1,900
2006B Water revenue bond	2035	5.15%-5.31%	25,570	23,905	515
2007A Water revenue COP bond	2037	4% - 5.0%	77,270	75,960	1,375
2007B Water revenue COP bond	2037	5.50%-floating	53,730	52,800	970
Bond discount				(906)	(38)
Deferred amount on refunding				(2,564)	(123)
Deferrend interest rate swap				(7,570)	(281)
Premium on debt issuance				2,861	106
Compensated absences				7,679	1,127
Other post employment benefits				2,389	-
Semitropic water banking agreement	2035		46,900	5,311	-
State revolving fund loan	2027		6,350	5,971	260
Litigation claim				6,090	-
Total Fund debt				<u>\$ 240,371</u>	<u>\$ 6,316</u>

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

The following is a summary of changes in long-term liabilities as of June 30, 2010 (in thousands):

	Balance 7/1/2009	Additions	Reductions	Balance 6/30/2010	Due Within One Year
1963 Water Utility bonds	\$ 1,390	\$ -	\$ (480)	\$ 910	\$ 505
2006A revenue bonds	69,360	-	(1,825)	67,535	1,900
2006B revenue bonds	24,400	-	(495)	23,905	515
2007A COP revenue bonds	77,270	-	(1,310)	75,960	1,375
2007B COP revenue bonds	53,730	-	(930)	52,800	970
Bond discount on refunding	(944)	-	38	(906)	(38)
Deferred amount on refunding	(2,687)	-	123	(2,564)	(123)
Deferred interest rate swap	(7,850)	-	280	(7,570)	(281)
Premium on debt issuance	2,967	-	(106)	2,861	106
Compensated absences	7,308	4,443	(4,072)	7,679	1,127
Other post employment benefits	248	2,141	-	2,389	-
Semitropic water banking agreement	6,423	-	(1,112)	5,311	-
State revolving fund loan	6,225	-	(254)	5,971	260
Litigation claim	5,930	160	-	6,090	-
Total Fund debt	<u>\$ 243,770</u>	<u>\$ 6,744</u>	<u>\$ (10,143)</u>	<u>\$ 240,371</u>	<u>\$ 6,316</u>

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

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

Year ending June 30:	<u>Principal</u>	<u>Interest and amortization</u>
2011	\$ 5,525	\$ 11,302
2012	5,631	11,066
2013	5,473	10,821
2014	5,714	10,567
2015	5,971	10,313
2016 - 2020	34,472	46,947
2021 - 2025	43,510	37,898
2026 - 2030	53,855	29,854
2031 - 2035	50,340	13,215
2036 - 2037	<u>16,590</u>	<u>649</u>
 Total Requirements	 227,081	 <u>\$ 182,632</u>
Add: unamortized premium on issuance	 2,861	
Less: unamortized discount and deferred amount on refunding	 (3,470)	
Less: deferred interest rate swap	 (7,570)	
Add: compensated absences	 7,679	
Add: other post employment benefits	 2,389	
Add: semitropic water banking agreement	 5,311	
Add: litigation claim	 <u>6,090</u>	
 Total principal outstanding at June 30, 2010	  <u>\$ 240,371</u>	

The following provides a brief description of the Fund's debt outstanding as of June 30, 2010:

1963 Water Bonds

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.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

2006 Water Enterprise Revenue Bonds

In December 2006, the District issued \$99,835,000 of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B. The proceeds of \$57,415,000 of the 2006A and 2006B Bonds were used to refinance \$55,265,000 of the remaining 2000A and 2000B and the proceeds of \$42,420,000 of 2006A and 2006B Bonds were used to repay approximately \$40.9 million of commercial paper notes. The District funded the 2006A Debt Service Reserve Fund with proceeds of the 2000A Debt Service Reserve Fund and purchased a surety bond to fund the 2006B Debt Service Reserve Fund. Additionally, the District used funds accumulated in the 2000A and 2000B Debt Service Reserve Funds, and other 2000A and 2000B Bonds accounts to reduce the size of the 2006A and 2006B Bonds issuance. As a result, the 2000A and 2000B Bonds are considered defeased and the liabilities have been removed from the Statement of Net Assets. 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 Banking Agreement

In December 1995, the Santa Clara Valley Water District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The Santa Clara Valley Water District's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering water. At June 30, 2010, the District has paid \$41.6 million towards the obligation of this agreement.

State Revolving Fund Loan

In November 2004, the District entered into a loan agreement with the State of California Department of Water Resources, on behalf of State of California Department of Health

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

Services, under the Safe Drinking Water State Revolving Fund Law of 1997 for \$6.3 million. The loan was used to fund the construction of filter-to-waste and wash water clarification projects at the Santa Teresa Water Treatment Plant. At June 30, 2010, the District has paid \$379 thousand towards the principal balance of this obligation.

Litigation Claim

In fiscal year 2009, the District recorded a liability of \$5.9 million, which was the potential judgment amount from the tentative ruling on the case Great Oaks Water Company vs. Santa Clara Valley Water District. On February 3, 2010, the judge issued Judgment After Trial and ordered the District to pay Great Oaks Water Company \$5.9 million plus post judgment interest of \$886.62 per day. For fiscal year 2010, the District recorded post judgment interest of \$160 thousand. Additional information regarding this litigation is disclosed in Note 17 (a), Contingencies.

Compensated Absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized. 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 District's enterprise funds. Prior years and current year compensated liabilities were recognized in the District's enterprise funds in fiscal year 2010.

Other Post Employment Benefits (OPEB)

The District provides post-employment healthcare benefits to retired employees and/or their surviving spouses in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors. The District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* during fiscal year 2007-08. OPEB expense and obligation are recognized in the proprietary funds in full accrual basis while governmental funds are in modified accrual basis. OPEB expense and obligation reported in government wide financial statements are recognized in full accrual basis. Additional information on OPEB is disclosed in Note 12, Post Employment Benefits.

Compliance with Bond Covenants

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

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**(8) 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 imported water from the State Water Project.

Property tax revenues recorded for the year ended June 30, 2010 are as follow (in thousands):

	Water Enterprise Fund
Property taxes:	
1% tax allocation	\$ 4,308
Voter approved indebtedness:	
State water	19,253
G.O. bonds	<u>680</u>
Total property taxes	<u><u>\$ 24,241</u></u>

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. Property taxes are accounted for as collected and remitted by the District within the governmental fund revenues. The proprietary fund records property taxes as they are levied. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

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

**(9) PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA**

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, supplemental property tax,

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was \$4.8 million.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. The Fund recognized \$354 thousand as revenues in its financial statement in fiscal year 2009-10.

**(10) 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 unreserved 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.



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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

The Fund's restricted and designated net assets as of June 30, 2010 are represented below (in thousands):

<b>Restricted Net Assets</b>	
Restricted for Debt Service	\$ 4,889
Restricted for State Revolving Fund Loan	401
Restricted for Operating Reserve	12,139
Restricted for San Felipe Operations	3,868
Restricted for Rate Stabilization	<u>1,647</u>
Sub-total Restricted Net Assets	<u>22,944</u>
 <b>Designated for Operations &amp; Contingencies</b>	
Designated for Encumbrances	43,606
Designated for Market Valuation	1,219
Designated for Operating and Capital Reserves	24,031
Designated for Supplemental Water Supply	8,840
Designated for Floating Rate Debt Payment Stabilization	<u>605</u>
Sub-total Designated for Operations & Contingencies	<u>78,301</u>
 <b>Designated for Capital Projects</b>	
Designated for Current Authorized Projects	22,182
 <b>Investment in capital assets, net of related debt</b>	 <u>518,237</u>
 <b>Net Assets</b>	 <u><u>\$ 641,664</u></u>

**(11) 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.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**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 2009-10 was 13.465 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 2009-10, the District's annual pension cost of \$10,962,175 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2008 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.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

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

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	11,025	100%	\$ -
6/30/2009	11,027	100%	-
6/30/2010	10,962	100%	-

**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)
6/30/2007	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%

**(12) POST-EMPLOYMENT BENEFITS**

The District provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses 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.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

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.

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 retire from the District at a minimum age of 50, and are 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 upon retirement with a five-year phase out in declining increments of \$10,000 per year after retirement.

As of June 30, 2010, there were 296 retirees and surviving spouses and 770 active employees eligible for the post employment benefits.

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

On June 24, 2008, the District's Board of Directors adopted a resolution approving the agreement and election of the District to prefund OPEB through CalPERS under its California Employer's Retiree Benefit Trust (CERBT) Program. On September 9, 2008, the District joined CERBT, an agent multiple-employer plan consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Employees' Retirement System, P. O. Box 942703, Sacramento, CA 94229-2703.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**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 2009-10, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 4,637,135
Interest on net OPEB obligation	916,839
Adjustment to annual required contribution	<u>7,752,586</u>
Annual OPEB cost (expense)	13,306,561
Contributions made	<u>( 7,785,320)</u>
Increase (decrease) in Net OPEB obligation	5,521,241
Net OPEB obligation, June 30, 2009	<u>649,032</u>
 Net OPEB obligation, June 30, 2010	 <u>\$ 6,170,273</u>

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

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Amount Contributed</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>	
				<u>WUE Enterprise Fund</u>	<u>Governmental/ Internal Service Funds</u>
2008	\$14,212,000	\$ 4,143,981	29.16%	\$ 6,040,811	\$ 4,027,208
2009	14,638,000	24,056,987	164.35%	247,642	401,390
2010	13,306,561	7,785,320	58.51%	2,388,932	3,781,341

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**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.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Entry Age Normal (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>
December 31, 2008	\$ 19,580,319	\$ 150,156,794	\$ 130,576,475	13.04%	\$76,369,316

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 December 31, 2008 actuarial valuation used the Entry Age Normal (EAN) cost method. The actuarial assumptions included a discount rate of 7.4% and a 3% inflation rate. Healthcare cost trend rates ranged from an initial rate range of 9% to 4.5 percent. The unfunded liability is being amortized as a percent of payroll over 30 years.

**(13) 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.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

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

<u>Coverage Descriptions</u>	<u>Deductibles</u>	Commercial Insurance <u>Coverage</u>
General liability	\$2,000	\$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	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, 2010, the liability for self-insurance claims was \$7,606,000. 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, 2008 are as follows (in thousands):

	General Liability	Workers' Compensation	Total
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	<u>3,255</u>	<u>4,526</u>	<u>7,781</u>
Current year premiums, incurred claims and changes in estimates	236	569	805
Net payments	(464)	(516)	(980)
Claims payable at June 30, 2010	<u>\$ 3,027</u>	<u>\$ 4,579</u>	<u>\$ 7,606</u>

**(14) ADVANCES TO AND FROM OTHER FUNDS**

There were no transactions related to advances to and from other funds during the fiscal year 2009-10.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**(15) 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, 2010, the Fund transferred \$269 thousand for its share in information technology costs relevant to water operations.

Interfund transfer for the year ended June 30, 2010, is as follows (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Water Utility Enterprise Fund	\$ 269

**(16) COMMITMENTS**

**(a) Contract and Purchase Commitments**

As of June 30, 2010, the Fund had open purchase commitments of approximately \$43.6 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, 2010 was \$386,993,274.



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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**(c) Participation Rights in Storage Facilities**

In December 1995, the District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The District's share of the total program capital costs is \$46.9 million based on a 35 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, 2010, the District has paid \$41.6 million towards the obligation of this agreement. During the first 10 years the District has 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 will be reduced. The District decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

The District currently has a storage allocation of 350,000 acre-feet. As of June 30, 2010, the District has 242,976 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of \$17,001,000 has been recorded through fiscal year 2010.

**(17) 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 3, 2010, the Honorable Kevin Murphy issued Judgment After Trial and decided that the District owes Great Oaks Water Company a refund of groundwater charges in the amount of \$4,623,095.52 plus interest at 7% per annum. The award of pre-judgment interest as of December 1, 2009 amounts to \$1,285,523.65. Judge Murphy also awarded post-judgment interest at the rate of \$886.62 per day until the date of the entry of judgment. Judge Murphy also decided that the District owes Great Oaks Water Company damages in the amount of \$1,306,830.00. Recovery of this damages amount is in the alternative to the award of refund described above, and is not subject to application of any interest.

The District does not believe that the decision regarding its 2005-06 groundwater production charges is supported by the record. The District has timely appealed the trial court's decision and a decision by the Sixth District Court of Appeal is anticipated in late 2011 or early 2012.

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 Judgment After Trial decision amount plus interest in fiscal year 2008-09.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

In fiscal year 2009-10, the District recorded \$160 thousand as liability for the post-judgment interest from January 1, 2010 through June 30, 2010 at the rate of \$886.62 per day. The accrual was presented under the caption "Litigation Claim" in the Statement of Net Assets – Proprietary Funds, and "Claims and Adjustments" in the Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds.

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, 2010 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 have led to the development of new CVP water rate policies. These policies, coupled with the terms of the original contract, resulted in the District facing significant increases for repayment of the San Felipe Division.

In compliance with the Central Valley Improvement Act (CVPIA), the District entered into negotiations, along with all other CVP contractors, with the U.S. Bureau of Reclamation for contract renewal. Because of concerns related to litigation challenging the renewal process, the District entered into an amended contract. The amendment maintained the basic provisions of the original contract, implemented provisions of CVPIA, and allowed the establishment of a fixed repayment for the San Felipe Division facilities.

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

Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2010

**(g) Perchlorate**

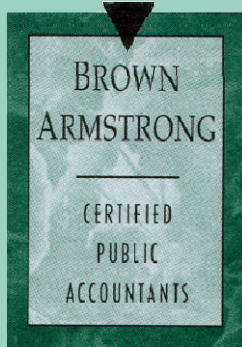
In 2003, an investigation performed under the direction of state water officials detected a chemical called perchlorate in several water wells in South County. The contamination is under the jurisdiction of the Central Coast Regional Water Quality Control Board. The District is a groundwater management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

**(18) SUBSEQUENT EVENT**

On October 26, 2010, the Board of Directors approved the establishment of the new "State Water Project" fund. The purpose of the fund is to account for all revenues and costs associated with the state water project pursuant to Water Code Section 11654. The new fund will be established effective July 1, 2010.

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

To the Honorable Members of the Board of Directors  
Santa Clara Valley Water District  
San Jose, California

We have audited the financial statements of the Water Utility Enterprise Fund of the Santa Clara Valley Water District (the District), as of and for the year ended June 30, 2010, and have issued our report thereon dated May 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

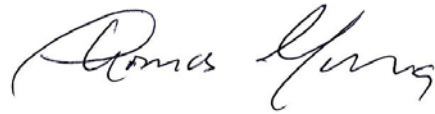
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

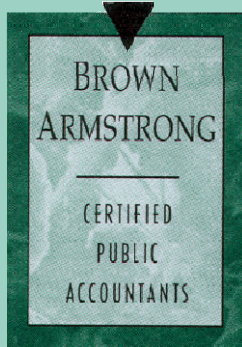
This information is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "Roman Gung". The signature is written in a cursive style with a large initial 'R' and a long, sweeping tail.

Bakersfield, California  
May 6, 2011

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## INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED UPON PROCEDURES

To the Honorable Members of the Board of Directors  
Santa Clara Valley Water District  
San Jose, California

We have performed the procedures enumerated below, which were agreed to by the Santa Clara Valley Water District (the District), to review allocation of revenues and expenses between the North and South Zone of the Water Enterprise service area for the year ended June 30, 2010, for the purpose of determining the rate charges between the two zones. We used the allocation methodologies used by the District's management which involves estimates based on actual revenues and both actual and encumbered expenses between the two zones. Management of the District is responsible for the compliance with District resolutions. The sufficiency of these procedures is solely the responsibility of those specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

### Agreed Upon Procedures Performed

1. Verify that the revenues and expenses of the Water Utility Enterprise Fund were properly allocated between the North and South Zones consistently between the current and prior years.
2. Verify the reasonableness of the allocation of the budgeted revenues and budgeted expenses by observing the methodologies used by management and by examining the reasonableness of the assumptions behind those allocations.

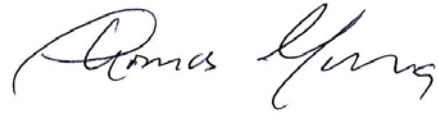
### Results of Procedures

1. The revenues and expenses were allocated between the North and the South Zone consistently in the current year compared to the prior year.
2. The allocation of revenues and expenses based on procedures used by management appear to be reasonable. Management has determined allocations based on water usage, labor costs, and estimated benefits to the North and South Zones.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information use of Board of Directors and management of the Santa Clara Valley Water District and is not intended to be and should not be used by anyone other than those specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "Ronald Young". The signature is written in a cursive style with a large initial "R" and a long, sweeping underline.

Bakersfield, California  
May 6, 2011



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

Schedule of Revenues and Expenses  
(Budgetary Basis)

For the Year Ended June 30, 2010  
(Dollars in Thousands)

	<u>North County</u>	<u>South County</u>	<u>Total</u>
<b>Operating revenues:</b>			
Ground Water Charges	\$ 46,401	\$ 8,788	\$ 55,189
Treated Water Charges	64,157	-	64,157
Surface and recycled water charges	440	478	918
Operating Grants	1,467	230	1,697
Total operating revenues	<u>112,465</u>	<u>9,496</u>	<u>121,961</u>
<b>Operating expenses:</b>			
Sources of Supply	67,914	8,573	76,487
Water Treatment	24,960	13	24,973
Transmission and distribution:			
Raw Water	7,075	1,573	8,648
Treated Water	1,196	-	1,196
Administration and general	15,446	2,651	18,097
Capital Cost Recovery	(2,079)	2,079	-
Total operating expenses	<u>114,512</u>	<u>14,889</u>	<u>129,401</u>
Operating income (loss)	<u>(2,047)</u>	<u>(5,393)</u>	<u>(7,440)</u>
<b>Nonoperating revenues (expenses):</b>			
Property taxes	22,143	2,098	24,241
Investment income	4,062	-	4,062
Rental income	26	29	55
Other	3,560	1,832	5,392
Interest and fiscal agent fees	(9,027)	-	(9,027)
Open Space Credit transfer	(1,049)	1,049	-
Interest earned credit	91	(91)	-
Net nonoperating revenues	<u>19,806</u>	<u>4,917</u>	<u>24,723</u>
Income (loss)	<u>\$ 17,759</u>	<u>\$ (476)</u>	<u>\$ 17,283</u>

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

Income (Loss)	\$ 17,283
Less: Depreciation Expense not allocated between Zones	(21,047)
Less: Transfers out	(269)
Less: Prior years' budget expenditure	(9,396)
Less: Expenditures not assigned to a project	(165)
Less: Inc in Oper Exp due to Reduction to Capitalized cost	(7,592)
Less: Increase in Reserve for Market Valuation	(275)
Add back: Capital cost reimbursements	1,602
Add back: Encumbrances included in total Water Utility expenses	12,305
Add back: Reduction in program expenditures due to capitalized and prepaid expenses	9,758
Total Income (Loss) per Statement of Revenues, Expenses and Changes in Net Assets	<u>\$ 2,204</u>

See accompanying notes to basic financial statements