

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

Annual Financial Report
For the Fiscal Year Ended June 30, 2014

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OF THE
SANTA CLARA VALLEY WATER DISTRICT
Annual Financial Report
For the Year Ended June 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Enterprise Funds (Funds) of the Santa Clara Valley Water District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Funds, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Individual Funds Financial Statements

As discussed in Note 1, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the District, as of June 30, 2014, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Funds' basic financial statements. The other supplementary information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2015, on our consideration of the Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
April 24, 2015

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

Management's Discussion and Analysis

Our discussion and analysis of the Santa Clara Valley Water District's Water Utility Enterprise Funds (the "Funds") financial performance provide an overview of the Water Utility Enterprise Funds financial activities for the fiscal year ended June 30, 2014. This information is presented in conjunction with the audited financial statements that follow this section.

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

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

The District engaged Vavrinek, Trine, Day & Co., LLP to conduct an audit of the District's Funds for the fiscal year ended June 30, 2014. The purpose of the audit was to analyze the reasonableness of the allocations of cost and revenue between the two groundwater charge zones within the Funds, the North County zone and the South County zone.

Overview of the Financial Statements

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

The Funds were established to account solely for the financial transactions related to the Water Enterprise Funds activities. The financial statements presented here are not intended to show the financial position and results of operations of the Santa Clara Valley Water District as a whole. The Funds are accounted for as Proprietary Funds. When the District charges users for the services it provides, these services are generally reported in proprietary funds.

Management Discussion and Analysis (continued)

The following are the statements of the Funds:

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

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

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

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

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

Financial Highlights

Water Utility Enterprise Funds Net Position (Dollars in Thousands)

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 190,993	\$ 174,636
Capital assets	848,116	811,932
Other non current assets	7,483	-
Total assets	<u>1,046,592</u>	<u>986,568</u>
Deferred Outflow of Resources		
Deferred amount on refunding	<u>2,074</u>	<u>-</u>
Current liabilities	98,295	62,945
Litigation - claim	7,386	7,062
Long-term liabilities outstanding	207,135	208,838
Total liabilities	<u>312,816</u>	<u>278,845</u>
Net position:		
Net investment in capital assets	573,410	575,683
Restricted	30,019	30,131
Unrestricted	132,421	101,909
Total net position	<u>\$ 735,850</u>	<u>\$ 707,723</u>

Management Discussion and Analysis (continued)

- The total net position of the Funds exceeded their liabilities by \$735.9 million. The largest portion of the Funds' net position (77.9%) reflects investment in capital assets (e.g., land, buildings, infrastructure, machinery, equipment, and contract water rights) less any related debt outstanding used to acquire the capital assets. These capital assets are used to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the Funds' investment in its capital assets is reported net of related debts, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.
- Investment in capital assets, net of related debt, for the Funds went down slightly by 0.4% or \$2.3 million from the previous fiscal year. The increase in capital spending for the fiscal year was more than offset by the increase in related debt outstanding.
- Current fiscal year major additions to capital assets for the Funds include the following projects (in millions): Rinconada Water Treatment Plant Reliability Improvement - \$8.6, Silicon Valley Advanced Water Purification Center - \$5.8, Santa Teresa Water Treatment Plant Incompatible Materials - \$4.5, 5-year Pipeline Rehabilitation - \$4.4, Anderson Dam Seismic Retrofit - \$ 4.3, Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications - \$4.3, Water Protection Project - \$3.2, Rinconada Water Treatment Plant Facility Renewal Program Chemical Structure and Pump Valves Upgrades - \$2.7, South County Recycled Water Plant Pipeline - \$1.9, Kirk Diversion Dam and Fish Screen Improvements - \$1.8, Infrastructure Reliability Program – Seismic Study Retrofit Water Treatment Plant - \$ 1.9, Calero-Guadalupe Dams Seismic Retrofits - \$1.7, Microwave Telecommunications - \$1.2, and Water Banking Project - \$1.1.
- Current fiscal year unrestricted net position of \$132.4 million may be used to meet the Funds' ongoing obligations to citizens and creditors. The District's unrestricted net position increased by \$30.5 million or 29.9 percent, during the current fiscal year.

Management Discussion and Analysis (continued)

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

	2014	2013
Revenues:		
Ground water charges	\$ 84,308	\$ 62,084
Treated water charges	86,386	92,359
Surface and recycled water charges	1,680	1,275
Operating grants	1,232	980
Capital grants and contributions	3,532	4,610
Property taxes	26,989	24,200
Investment income	1,624	1,163
Miscellaneous	3,283	5,561
Total revenues	209,034	192,232
Expenses:		
Operating expenses	165,042	151,987
Nonoperating and other expenses	8,450	8,878
Total expenses	173,492	160,865
Change in net position before transfers	35,542	31,367
Transfers	(272)	3,729
Change in net position	35,270	35,096
Net position, beginning	707,723	672,627
Prior period adjustment	(7,143)	-
Net position, ending	\$ 735,850	\$ 707,723

The net position of the Funds increased by \$28.1 million during the fiscal year. Revenues from water services of \$172.3 million were offset by \$173.5 million of expenses. The remaining revenue receipts came from property taxes (\$27.0 million), capital and operating grants (\$4.8 million), investment earning (\$1.6 million) and miscellaneous (\$3.3 million). The implementation of GASB 65 required a \$7.1 million downward adjustment to net position to write off bond issuance cost previously being amortized.

Compared to the prior fiscal year, revenues increased \$16.8 million while expenses increased \$12.6 million. Key elements of the changes in revenues and expenses from those of the prior year are as follows:

- Ground water revenue posted the biggest revenue increase for the fiscal year at \$22.2 million or 36%. The increase was due to the rise in volume of ground water deliveries by 35.8 %, as well as the 9% average increase in the ground water and treated water rates. The rise in volume of water sales can be attributed to dry weather experienced during the fiscal year.

Management Discussion and Analysis (continued)

- Capital grants and contributions decreased \$1.1 million or 23.4% due to the higher reimbursement receipt in the prior year from the Department of Water Resource for the San Luis Bypass Feasibility Study Program.
- Property taxes increased \$2.8 million or 11.5%, reflecting the increase in the assessed value of property in the valley due to the improving trend in the real estate market.
- Miscellaneous revenues were \$2.3 million or 41% lower from the previous fiscal year due to a \$2.3 million one-time purchase of imported water by the United States Bureau of Reclamation made during the prior year.
- Water enterprise expenses increased by \$12.6 million or 7.9% as a result of increase in water purchases and the added program cost from the campaign efforts to address the drought being experienced in California.

Management Discussion and Analysis (continued)

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

	North County		South County		Total	
	2014	2013	2014	2013	2014	2013
Operating Revenues:						
Ground water charges	\$ 74,200	\$ 52,116	\$ 10,108	\$ 9,968	\$ 84,308	\$62,084
Treated water charges	86,386	92,359	-	-	86,386	92,359
Surfaced and recycled water charges	1,226	804	454	471	1,680	1,275
Total water charges	161,812	145,279	10,562	10,439	172,374	155,718
Operating grants	1,176	944	56	36	1,232	980
Other	838	946	-	-	838	946
Total operating revenues	163,826	147,169	10,618	10,475	174,444	157,644
Operating Expenses:						
Source of supply	67,602	70,734	7,252	7,192	74,854	77,926
Water treatment	30,383	29,359	20	28	30,403	29,387
Transmission and distribution:						
Raw water	7,366	7,287	2,194	2,095	9,560	9,382
Treated water	1,601	1,934	8	85	1,609	2,019
Cost of goods sold	106,952	109,314	9,474	9,400	116,426	118,714
Administration and general	13,271	13,690	3,067	2,901	16,338	16,591
Capital cost recovery	(3,213)	(2,947)	3,213	2,947	-	-
Total operating expenses	117,010	120,057	15,754	15,248	132,764	135,305
Operating income (loss)	46,816	27,112	(5,136)	(4,773)	41,680	22,339
Non-operating income (expenses)						
Property taxes	24,598	21,883	2,391	2,317	26,989	24,200
Investment income	1,624	1,163	-	-	1,624	1,163
Rental income	68	66	32	30	100	96
Other	2,219	4,175	126	344	2,345	4,519
Interest/fiscal agent fees	(8,450)	(8,878)	-	-	(8,450)	(8,878)
Open space credit transfer	(6,300)	(7,076)	6,300	7,076	-	-
Interest earned credit	(35)	(10)	35	10	-	-
Net non-operating income	13,724	11,323	8,884	9,777	22,608	21,100
Income (loss)	\$ 60,540	\$ 38,435	\$ 3,748	\$ 5,004	\$ 64,288	\$43,439

Management Discussion and Analysis (continued)

- The Funds' total revenues from water charges were \$174.4 million in fiscal year 2014. Ninety-four percent of those revenues, or \$163.8 million were collected from customers in the North County, while the remaining six percent or \$10.6 million were collected from South County customers.
- Operating grants applied for and received were \$1.2 million and \$36 thousand for the North County and South County, respectively. These grants helped to fund water conservation, landscape water efficiency, raw water field maintenance and operations, and recycled/reclaimed water programs.
- Operating expenses for the North County include \$107 million in cost of goods sold, or 65 percent of its total operating revenues. For the South County, cost of goods sold is \$9.5 million or 89 percent of its total operating revenues.
- Administration and general expenses make up 8 percent of total operating revenues in the North County and 29 percent of total operating revenues in the South County.
- Total operating revenues of \$174.4 million less total operating expenses of \$132.7 million results in a \$41.7 million gain from operations. The gain from North County operations is \$46.8 million, while the loss from South County operations is \$5.1 million.

Operations is supplemented with property tax and investment earnings of \$28.6 million overall.

- Property taxes collected in the North County amounted to \$24.6 million while \$2.4 million were collected in South County for a total of \$27 million. These are comprised of voter approved obligations for State Water Project and Zone W-1 Debt service; and the water utility's allocated share of the countywide 1 percent ad valorem taxes.
- The North County investment earnings of \$1.6 million for the fiscal year are \$461 thousand higher compared to the previous year.

Overall net income was \$64.3 million. The North County earned \$60.5 million while the South County earned \$3.8 million.

Management Discussion and Analysis (continued)

The following table shows the rates for water services for fiscal year 2014

*Water Utility Enterprise Funds Rate Summary
Adopted 2013-14*

	Rate
<u>Groundwater</u>	
North County – Agricultural	\$ 18.30
North County – Non-Agricultural	680.00
South County – Agricultural	18.30
South County – Non-Agricultural	305.00
<u>Treated Water</u>	
Contract (Scheduled)	780.00
Non-Contract	755.00
<u>Untreated Water</u>	
North County – Agricultural	18.30
North County – Non-Agricultural	680.00
South County – Agricultural	18.30
South County – Non-Agricultural	305.00
<u>Water Master</u>	15.31
<u>Minimum Charge</u>	
North County – Non-Agricultural	510.00
South County – Non-Agricultural	228.75
North County – Agricultural ¹	13.72
South County – Agricultural ¹	13.72
<u>Reclaimed Water</u>	
Gilroy Reclamation Facility – Agricultural	42.10
Gilroy Reclamation Facility – Non-Agricultural	285.00

Note:

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

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

Capital Assets

The Funds' capital asset balance, net of accumulated depreciation, at June 30, 2014 amounts to \$848.1 million. Capital asset composition includes land, intangible rights, buildings, structures and improvements, machinery and equipment, and construction in progress. Capital assets for the current fiscal year went up \$36.2 million.

Management Discussion and Analysis (continued)

Major capital projects in progress, some of which are completed during the current fiscal year, include the following (in millions):

- Rinconada Water Treatment Plant Reliability Improvement - \$8.6
- Silicon Valley Advanced Water Purification Center - \$5.8
- Santa Teresa Water Treatment Plant Incompatible Materials - \$4.5
- 5-year Pipeline Rehabilitation - \$4.4
- Anderson Dam Seismic Retrofit - \$4.3
- Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications - \$4.3
- Water Protection Project - \$3.2
- Rinconada Water Treatment Plant Facility Renewal Program Chemical Structure and Pump Valves Upgrades - \$2.7
- South County Recycled Water Plant Pipeline - \$1.9
- Kirk Diversion Dam and Fish Screen Improvements - \$1.8
- Infrastructure Reliability Program – Seismic Study Retrofit Water Treatment Plant - \$1.9
- Calero-Guadalupe Dams Seismic Retrofits - \$1.7
- Microwave Telecommunications - \$1.2
- Water Banking Project - \$1.1

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

	2014	2013
Land	\$ 17,594	\$ 17,594
Contract water and storage rights	53,026	55,449
Buildings	82,789	2,699
Structures and improvements	478,742	418,425
Equipment	9,477	6,225
Construction in progress	206,488	311,540
Total	\$ 848,116	\$ 811,932

Information on the Funds capital assets activity for fiscal year 2014 is shown in Note 6, page 30 of this report.

Debt Administration

On December 17, 2002, the District Board of Directors authorized a commercial paper program. On May 15, 2012, the execution and delivery of certain agreements in connection with the District's commercial paper program in an aggregate amount not to exceed \$100 million was approved by the District Board of Directors.

Management Discussion and Analysis (continued)

At June 30, 2014, the Funds had \$67.8 million outstanding short-term commercial paper consisting of \$39.5 million, non-taxable and \$28.3 million, taxable.

The Funds' total long term obligations at June 30, 2014 amount to \$219.7 million. A comparative breakdown of its long-term obligations is shown below:

Water Utility Enterprise Funds Outstanding Obligations (Dollars in Thousands)

	2014	2013
Revenue bonds	\$ 197,045	\$ 203,780
Compensated absences	4,789	4,631
Semitropic water banking	5,359	6,045
State revolving fund	4,893	5,172
Other post employment benefits	605	2,746
Litigation claim	7,386	7,062
Bond discount	(753)	(791)
Deferred interest swap	-	(6,726)
Premium on bond issue	2,436	2,541
Total	\$ 221,760	\$ 224,460
Deferred amount on refunding	(2,074)	(2,196)

Long-term obligations decreased by \$2.7 million from the previous fiscal year. The drop in long term obligations came from the \$2.1 million reduction in other post employment liability, as well as from the normal repayments of existing outstanding debts.

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

Additional information on the Funds' long-term debt can be found in Note 7, page 32 of this report.

Economic Factors and Next Year's Budgets and Rates

The annual budget outlines the District's mission, "Provide Silicon Valley safe, clean water for a healthy life, environment and economy".

The FY2014-15 budget is an investment in the future, both in terms of infrastructure and human capital. It provides adequate investments to protect, maintain and modernize drinking water and flood protection infrastructure; it ensures there is a sustainable and capable workforce that takes us into the future.

Management Discussion and Analysis (continued)

The budget is comprised of \$236.3 million in net operating outlays and \$232.8 million in capital projects. It focuses on:

- Increasing the operational reliability of drinking water, expanding the availability of recycled water, increasing our budget in conservation program
- Maintaining flood protection channels to protect communities
- Continuing to provide stream stewardship to safely transport storm water and provide wildlife habitat

The \$469.1 million total operating and capital budget is driven by a large capital improvement program to repair, replace and modernize aging infrastructure and deliver the Safe, Clean, Water and Natural Flood Protection projects.

Requests for Information

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

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

Statement of Net Position
June 30, 2014
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total
ASSETS			
Current assets:			
Cash and investments (Note 3)	\$ 154,521	\$ 5,888	\$ 160,409
Receivables:			
Accounts	26,781	160	26,941
Taxes	17	97	114
Deposits and other assets	3,529	-	3,529
Total current assets	<u>184,848</u>	<u>6,145</u>	<u>190,993</u>
Non current assets:			
Restricted cash and investments (Note3)	6,922	-	6,922
Prepaid Insurance	561	-	561
Capital assets: (Note 6)			
Contract water rights, net	32,249	20,777	53,026
Depreciable, net	571,008	-	571,008
Nondepreciable	224,082	-	224,082
Total non current assets	<u>834,822</u>	<u>20,777</u>	<u>855,599</u>
Total assets	<u>1,019,670</u>	<u>26,922</u>	<u>1,046,592</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred amount on refunding	<u>2,074</u>	<u>-</u>	<u>2,074</u>
LIABILITIES			
Current liabilities:			
Accounts payable	12,730	962	13,692
Accrued liabilities	5,630	-	5,630
Commercial paper, net of discount (Note 7)	67,800	-	67,800
Deposits payable	3,249	-	3,249
Accrued interest payable	672	-	672
Unearned revenue	13	-	13
Revenue bonds - current (Note 7)	5,753	-	5,753
Other Debt (Note 7)	1,486	-	1,486
Total current liabilities	<u>97,333</u>	<u>962</u>	<u>98,295</u>
Non current liabilities:			
Litigation claim	7,386	-	7,386
Long-term debt: (Note 7)			
Revenue bonds (net of unamortized discount)	192,975	-	192,975
Other post employment benefits payable (Note 11)	605	-	605
Other debt	13,555	-	13,555
Total long-term debt	<u>207,135</u>	<u>-</u>	<u>207,135</u>
Total non current liabilities	<u>214,521</u>	<u>-</u>	<u>214,521</u>
Total liabilities	<u>311,854</u>	<u>962</u>	<u>312,816</u>
NET POSITION (Note 9)			
Net investment in capital assets	552,633	20,777	573,410
Restricted			
Debt service	6,250	-	6,250
State revolving loan requirement	401	-	401
San Felipe operations	4,001	-	4,001
Operating reserves	13,140	-	13,140
Rate stabilization	1,751	-	1,751
State water projects	-	4,476	4,476
Unrestricted	<u>131,714</u>	<u>707</u>	<u>132,421</u>
Total net position	<u>\$ 709,890</u>	<u>\$ 25,960</u>	<u>\$ 735,850</u>

See accompanying notes to basic financial statements.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014
(Dollars in Thousands)

	Water Enterprise Fund	State Water Fund	Total
Operating revenues:			
Ground water production charges	\$ 84,308	\$ -	\$ 84,308
Treated water charges	86,386	-	86,386
Surface and recycled water revenue	1,680	-	1,680
Other	838	-	838
Total operating revenues	<u>173,212</u>	<u>-</u>	<u>173,212</u>
Operating expenses:			
Sources of supply	53,812	23,648	77,460
Water treatment	31,843	-	31,843
Transmission and distribution:			
Raw water	9,322	-	9,322
Treated water	1,868	-	1,868
Administration and general	19,332	-	19,332
Claims and Adjustments	324	-	324
Depreciation and amortization	23,949	944	24,893
Total operating expenses	<u>140,450</u>	<u>24,592</u>	<u>165,042</u>
Operating income (loss)	<u>32,762</u>	<u>(24,592)</u>	<u>8,170</u>
Nonoperating revenues (expenses):			
Property taxes (Note 8)	5,069	21,920	26,989
Investment income (Note 5)	1,624	-	1,624
Operating grants	1,232	-	1,232
Rental income	100	-	100
Other	1,113	1,232	2,345
Interest and fiscal agent fees	(8,450)	-	(8,450)
Net nonoperating revenues	<u>688</u>	<u>23,152</u>	<u>23,840</u>
Income before capital contributions and transfers	<u>33,450</u>	<u>(1,440)</u>	<u>32,010</u>
Capital contributions (Note 4)	3,532	-	3,532
Transfers in (Note 13)	2,562	-	2,562
Transfers out (Note 13)	(2,834)	-	(2,834)
Change in net position	36,710	(1,440)	35,270
Net position, beginning of year	680,323	27,400	707,723
Prior period adjustment (Note 14)	(7,143)	-	(7,143)
Net position, end of year	<u>\$ 709,890</u>	<u>\$ 25,960</u>	<u>\$ 735,850</u>

See accompanying notes to basic financial statements.

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

Statement of Cash Flows
For the Year Ended June 30, 2014
(Dollars in Thousands)

	Water Enterprise Fund	State Water Fund	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 175,420	\$ 252	\$ 175,672
Payments to suppliers	(59,346)	(22,686)	(82,032)
Payments to employees	(53,010)	-	(53,010)
Payments for internal services used	(4,532)	-	(4,532)
Other receipts	1,113	1,232	2,345
Net cash provided by (used for) operating activities	<u>59,645</u>	<u>(21,202)</u>	<u>38,443</u>
Cash flows from noncapital financing activities:			
Property taxes received	5,069	21,856	26,925
Transfers in from other funds	2,562	-	2,562
Transfers out to other funds	(2,834)	-	(2,834)
Net cash provided by noncapital financing activities	<u>4,797</u>	<u>21,856</u>	<u>26,653</u>
Cash flows from capital and related financing activities:			
Principal payments on general obligation bonds	(6,734)	-	(6,734)
Issuance of commercial papers, net of principal payments on other loans	30,730	-	30,730
Capital contributions received	3,532	-	3,532
Interest and fiscal agent fees paid	(8,285)	-	(8,285)
Acquisition of contract water rights	(7,650)	-	(7,650)
Acquisition and construction of capital assets	(53,428)	1	(53,427)
Net cash used by capital and related financing activities	<u>(41,835)</u>	<u>1</u>	<u>(41,834)</u>
Cash flows from investing activities:			
Sale of restricted investments	(293)	-	(293)
Rental income received	100	-	100
Interest received on cash and investments	1,624	-	1,624
Net cash provided by investing activities	<u>1,431</u>	<u>-</u>	<u>1,431</u>
Net increase (decrease) in cash and cash equivalents	24,038	655	24,693
Cash and cash equivalents, beginning of year	130,483	5,233	135,716
Cash and cash equivalents, end of year	<u>\$ 154,521</u>	<u>\$ 5,888</u>	<u>\$ 160,409</u>
Cash and cash equivalents are reported on the			
Statement of Net Position as follows:			
Cash and investments	\$ 154,521	\$ 5,888	\$ 160,409
Restricted cash and investments	6,922	-	6,922
Less cash and investments not meeting the definition of cash equivalents	(6,922)	-	(6,922)
Cash and cash equivalents, end of year	<u>\$ 154,521</u>	<u>\$ 5,888</u>	<u>\$ 160,409</u>
Reconciliation of operating income (loss) to net cash provided			
by operating activities:			
Operating income (loss)	\$ 32,762	\$ (24,592)	\$ 8,170
Adjustments to reconcile operating income (loss)			
to net cash provided (used) by operating activities:			
Depreciation and amortization	23,949	944	24,893
Other receipts	1,113	1,232	2,345
Operating grants	1,232	-	1,232
Change in operating assets and liabilities:			
Decrease in deposits and other assets	(616)	-	(616)
(Increase)/decrease in accounts receivable	(711)	252	(459)
Increase in due to due from other funds	1,699	-	1,699
(Increase)/decrease in property tax receivable	(12)	-	(12)
Decrease/(increase) in inventory	46	-	46
Decrease in accounts payable	2,217	962	3,179
Increase/(decrease) in accrued liabilities	(988)	-	(988)
Decrease in deposits payable	612	-	612
Increase in litigation claim	324	-	324
Inc/(dec) in other post employment benefits & compensated absences	(1,982)	-	(1,982)
Net cash provided (used) by operating activities	<u>\$ 59,645</u>	<u>\$ (21,202)</u>	<u>\$ 38,443</u>
Noncash investing, capital, and financing activity:			
Purchase of capital assets on account	\$ (1)	\$ -	\$ (1)

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements
For the Year Ended June 30, 2014

(1) THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

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

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

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

The District has broad powers relating to all aspects of flood control and storm waters within the District, whether or not such waters have their sources within the District. It is also authorized to store and distribute water for use within its jurisdictional boundaries and authorized to provide sufficient water for present or future beneficial use of the lands and inhabitants of the District. The District acquires, stores, and distributes water for irrigation, residential, fire protection, municipal, commercial, industrial, and all other uses. The District also directly supports the caring for the environment and the community through careful stewardship.

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

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Fund Financial Statements

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

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

(b) Basis of Accounting

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

The Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Funds' principal ongoing operations. The principal operating revenue of the Funds is the sale of water to outside customers. Operating expenses for the Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. *Operating* revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the Funds. Exchange transactions are those in which each party receives and gives up essentially equal value. *Non-operating* revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

(c) Cash and Investments

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

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

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

(d) Inventory

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

(e) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives.

The estimated useful lives are as follows:

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

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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

(f) Amortization of Contract Water Rights

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

(g) Amortization of Water Banking Rights

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

(h) Amortization of Water Delivery Rights

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

(i) Receivables

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

(j) Accrued Vacation and Sick Leave Pay

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

Maximum vacation accruals may not exceed three times the employee's annual accrual rate, per employee. All regular full-time employees are eligible for twelve (12) days of sick leave per fiscal year. Unused sick leave may be carried forward to the following fiscal year without

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

limitation. Upon termination, up to 480 hours of accrued sick leave shall be paid to the eligible employee at the rate of 50% of the equivalent cash value. Upon resignation with ten or more years of service or upon separation by layoff regardless of service, up to 480 hours of accrued sick leave shall be paid off at the rate of 25% of the cash value.

(k) Bond Premiums, Discounts and Issuance Costs

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

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

(l) Accounting for Encumbrances

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

(m) Net Position

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

(n) Estimates

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

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

(o) New Pronouncements

Future Accounting Pronouncements:

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

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of this Statement is to improve accounting and financial reporting by state and local government for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trust or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is not effective until beginning after June 15, 2014. The District has not determined the effect of this Statement.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. This Statement is not effective until beginning after June 15, 2013. GASB Statement No. 70 will not have any impact on the District's financial statement.

GASB Statement No. 71 – In November 2013, GASB issued Statement no. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. This Statement should be applied simultaneously with the provisions of Statement 68. The District has not determined the effect of this Statement.

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

(3) CASH AND INVESTMENTS

Total Fund cash and investments at June 30, 2014 are as follows (in thousands):

Statement of Net Assets:	
Cash and investments	\$ 160,409
Restricted cash and investments	<u>6,922</u>
	<u>\$ 167,331</u>

Investments

At June 30, 2014, cash and investments consist of the following (in thousands):

Investment Held by Fiscal Agent	
Guaranteed Investment Contracts	\$ 4,745
Money Market Funds	247
US Treasury Notes	399
Mutual Funds	<u>1,523</u>
Total Investments Held by Fiscal Agent	6,914
Santa Clara County Investment Pool	8
District's Pooled Cash and Investment	<u>160,409</u>
Total cash and investments	<u>\$ 167,331</u>

As of June 30, 2014, the Funds' investment in the Santa Clara County Investment Pool (Pool) is \$8 thousand which is restricted for repayment of funds advanced by the County in fiscal year 2012 for 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 market value of the District's position in the Pool. The District's investment in the Pool is stated at fair market value, available upon demand and considered a cash equivalent.

Authorized Investments by the District

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

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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%
		A-1 (short term) or		
		AA- (long term)	15%	1.8%
Commercial Paper	90 days	AA-	30%	3.6%
Negotiable Certificates of Deposit	1 year	Satisfactory CRA	5%	\$250,000 & FDIC Membership
Nonnegotiable Certificates of Deposit	5 years	AA-	None	None
Collateralized Repurchase Agreements	30 days	AA-	15%	1.8%
Medium Term Notes	5 years	AA-	15%	1.8%
Municipal Obligations	5 years	N/A	(B)	(B)
California Local Agency Investment Fund (B)	N/A	AAA	10%	--
Mutual Funds	N/A			

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

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

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of the District's revenue bond resolutions and Installment Purchase Agreement for the 2006A & 2006B Water Utility Revenue and Refunding Bonds, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee. As of June 30, 2014, the amount invested in assets held by fiscal agent amounted to \$6.9 million is equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

The District has issued commercial paper to provide for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District. At June 30, 2014, the balance of unspent commercial paper proceed is \$18 thousand.

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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	AA-
Investment Approved in Writing by the Certificate Insurer (G)	N/A	N/A
Local Agency Investment Fund of the State of California	N/A	N/A

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

(B) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMA's"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMA's"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration;

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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, GNMMAs, FNMMAs or FHLMMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. if such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.

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

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

Interest Rate Risk

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

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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	\$ 287,506	\$ 99,166	\$ 65,803	\$ 122,537	\$ -
U.S. Government Agencies - Callable	110,055	-	19,758	90,297	-
U.S. Treasury Obligations	25,618	-	15,011	10,208	399
Medium Term Notes	13,194	-	10,122	3,072	-
Local Agency Investment Fund	60,395	60,395	-	-	-
Guaranteed Investment Contracts	4,745	-	-	-	4,745
Santa Clara County Investment Pool	8	8	-	-	-
Mutual Funds	46,412	46,412	-	-	-
Time Certificates of Deposit	1,736	-	1,736	-	-
Money Market Funds	538	538	-	-	-
Total Investments	<u>\$ 550,207</u>	<u>\$ 206,519</u>	<u>\$ 112,430</u>	<u>\$ 226,114</u>	<u>\$ 5,144</u>
Fund's Investment in District's Pooled Cash and Investments	<u>\$ 160,409</u>				

Credit Risk

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

Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements and the actual rating as of June 30, 2014 for each investment type as provided by Standard and Poor's (in thousands):

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end			Not Rated
				AAA	AA+	AA	
U.S. Government Agencies	\$ 397,561	AA-	\$ -	\$ -	\$397,561	\$ -	\$ -
U.S. Treasury Obligations	25,618	N/A	25,618	-	-	-	-
Medium Term Notes	13,194	AA-	-	3,099	998	9,097	-
Local Agency Investment Fund	60,395	N/A	-	-	-	-	60,395
Guaranteed Investment Contracts	4,745	N/A	-	-	-	-	4,745
Santa Clara County Investment Pool	8	N/A	-	-	-	-	8
Mutual Funds	46,412	AAA	-	46,412	-	-	-
Time Certificates of Deposit	1,736	N/A	-	-	-	-	1,736
Money Market Funds	538	N/A	-	-	-	-	538
Total Investments	<u>\$ 550,207</u>		<u>\$ 25,618</u>	<u>\$ 49,511</u>	<u>\$398,559</u>	<u>\$ 9,097</u>	<u>\$ 67,422</u>
Fund's Investment in District's Pooled Cash and Investments	<u>\$ 160,409</u>						

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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, 2014, those investments consisted of (in thousands):

Issuer	Investment Type	Reported Amount
District-Wide		
Federal Home Loan Mortgage Corp.	U.S. Government Agency	\$130,646
Federal National Mortgage Association	U.S. Government Agency	139,643
Federal Home Loan Bank	U.S. Government Agency	89,536
Federal Farm Credit Bank	U.S. Government Agency	37,736
Fund Level		
FSA Capital Management Services LLC	Guaranteed Investment Contract	\$4,745

Custodial Credit Risk

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

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair market value of 105% to 150% of the District's cash on deposit. All of the District's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in trust department of the financial institutions in the District's name.

(4) REIMBURSEMENT OF CAPITAL COSTS

The Funds derive certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following is a summary of such reimbursements in fiscal year 2014 (in thousands):

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Local Agencies:		<u>Amount</u>
San Benito County Water District	\$	520
City of Sunnyvale		202
State Agency:		
Department of Water Resources		325
Bay Area Clean Water		<u>2,485</u>
Total	<u>\$</u>	<u>3,532</u>

(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, 2014 (in thousands):

	Interest as Reported	FY 2014 GASB 31 Fair Value Adjustment	Interest Earned Before Adjustment
Water Enterprise	<u>\$ 1,624</u>	<u>\$ 399</u>	<u>\$ 1,225</u>

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

(6) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 was as follows (in thousands):

	Balance July 1, 2013	Additions	Deletions	Transfers / Reclassified	Balance June 30, 2014
Nondepreciable capital assets:					
Land	\$ 17,594	\$ -	\$ -	\$ -	\$ 17,594
Construction in progress	311,540	52,746	-	(157,798)	206,488
Total nondepreciable capital assets	<u>329,134</u>	<u>52,746</u>	<u>-</u>	<u>(157,798)</u>	<u>224,082</u>
Depreciable capital assets:					
Contract water and storage rights	165,063	7,650	-	-	172,713
Buildings	2,992	-	-	80,987	83,979
Structures and improvements	638,425	-	-	72,614	711,039
Equipment	21,862	681	(807)	4,197	25,933
Total depreciable capital assets	<u>828,342</u>	<u>8,331</u>	<u>(807)</u>	<u>157,798</u>	<u>993,664</u>
Less accumulated depreciation and amortization					
Contract water and storage rights	(109,614)	(10,073)	-	-	(119,687)
Buildings	(293)	(897)	-	-	(1,190)
Structures and improvements	(220,000)	(12,297)	-	-	(232,297)
Equipment:	(15,637)	(1,626)	807	-	(16,456)
Total accumulated depreciation and amortization	<u>(345,544)</u>	<u>(24,893)</u>	<u>807</u>	<u>-</u>	<u>(369,630)</u>
Net depreciable capital assets	<u>482,798</u>	<u>(16,562)</u>	<u>-</u>	<u>157,798</u>	<u>624,034</u>
Total capital assets, net	<u>\$ 811,932</u>	<u>\$ 36,184</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 848,116</u>

During fiscal year 2014, new construction in progress amounted to \$52.8 million. There were forty-six in progress and completed projects during the fiscal year, with the major projects listed below (in millions):

- Rinconada Water Treatment Plant Reliability Improvement - \$8.6
- Silicon Valley Advanced Water Purification Center - \$5.8
- Santa Teresa Water Treatment Plant Incompatible Materials - \$4.5
- 5-year Pipeline Rehabilitation - \$4.4
- Anderson Dam Seismic Retrofit - \$ 4.3
- Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications - \$4.3
- Water Protection Project - \$3.2
- Rinconada Water Treatment Plant Facility Renewal Program Chemical Structure and Pump Valves Upgrades - \$2.7
- South County Recycled Water Plant Pipeline - \$1.9
- Kirk Diversion Dam and Fish Screen Improvements - \$1.8
- Infrastructure Reliability Program – Seismic Study Retrofit Water Treatment Plant - \$ 1.9
- Calero-Guadalupe Dams Seismic Retrofits - \$1.7
- Microwave Telecommunications - \$1.2
- Water Banking Project - \$1.1

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Depreciation expense charged to projects for fiscal year 2014 amounted to \$24.9 million.

(7) SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

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

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

As of June 30, 2014, the District's outstanding non-taxable commercial paper issued was \$39.5 million, with an interest rate of 0.06% to 0.18% maturing August 29, 2014, while the outstanding taxable commercial paper was \$28.3 million, with interest rate of 0.12% maturing on August 29, 2014.

The District's short-term debt outstanding consists of the following, as of June 30, 2014 (in millions):

	<u>Authorized</u>	<u>Issued</u>	<u>Available</u>
Commercial Paper Program	\$100	\$67.8	\$32.2

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

(b) Long-term liabilities

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

<u>Type of indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding Balance</u>	<u>Due Within One Year</u>
2006A Water revenue bond	2035	3.5% - 5%	\$ 74,265	\$ 59,475	\$ 2,205
2006B Water revenue bond	2035	5.15%-5.31%	25,570	21,675	635
2007A Water revenue COP bond	2037	4% - 5.0%	77,270	70,070	1,690
2007B Water revenue COP bond	2037	5.55%-floating	53,730	45,825	1,155
Bond discount				(753)	(38)
Premium on debt issuance				2,436	106
Compensated absences				4,789	1,201
Other post employment benefits				605	-
Semitropic water banking agreement	2035		46,900	5,359	-
State revolving fund loan	2027		6,350	4,893	286
Litigation claim				7,386	-
Total Fund debt				<u>\$ 221,760</u>	<u>\$ 7,240</u>
Deferred amount on refunding				<u>\$ (2,074)</u>	<u>\$ (123)</u>

The following is a summary of changes in long-term liabilities as of June 30, 2014 (in thousands):

	<u>Balance Start of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
2006A revenue bonds	\$ 61,610	\$ -	\$ (2,135)	\$ 59,475	\$ 2,205
2006B revenue bonds	22,275	-	(600)	21,675	635
2007A COP revenue bonds	71,650	-	(1,580)	70,070	1,690
2007B COP revenue bonds	48,245	-	(2,420)	45,825	1,155
Bond discount on refunding	(791)	-	38	(753)	(38)
Deferred interest rate swap	(6,726)	-	6,726	-	-
Premium on debt issuance	2,541	-	(105)	2,436	106
Compensated absences	4,631	3,853	(3,695)	4,789	1,201
Other post employment benefits	2,746	-	(2,141)	605	-
Semitropic water banking agreement	6,045	-	(686)	5,359	-
State revolving fund loan	5,172	-	(279)	4,893	286
Litigation claim	7,062	324	-	7,386	-
Total Fund debt	<u>\$ 224,460</u>	<u>\$ 4,177</u>	<u>\$ (6,877)</u>	<u>\$ 221,760</u>	<u>\$ 7,240</u>
Deferred amount on refunding	<u>\$ (2,196)</u>	<u>\$ -</u>	<u>\$ 122</u>	<u>\$ (2,074)</u>	<u>\$ (123)</u>

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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

Year Ending June 30:	<u>Principal</u>	<u>Interest and amortization</u>
2015	\$ 5,971	\$ 9,924
2016	6,268	9,632
2017	6,565	9,328
2018	6,877	9,017
2019	7,204	8,691
2020 - 2024	41,550	37,917
2025 - 2029	51,882	27,354
2030 - 2034	51,535	14,551
2035 - 2037	<u>24,086</u>	<u>2,720</u>
Total requirements	<u>201,938</u>	<u>\$ 129,134</u>
Add: unamortized premium on issuance	2,436	
Less: unamortized discount on refunding	(753)	
Add: compensated absences	4,789	
Add: other post employment benefits	605	
Add: semitropic water banking agreement	5,359	
Add: litigation claim	<u>7,386</u>	
Total principal outstanding at June 30, 2013	<u>\$ 221,760</u>	
Deferred amount on refunding	<u>(2,074)</u>	

The following provides a brief description of the Funds' debt outstanding as of June 30, 2014:

2006A/B Water Enterprise Revenue Bonds

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

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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

2007A/B Water Enterprise Revenue Certificates of Participation

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

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

Semitropic Water Banking Agreement

In December 1995, the Santa Clara Valley Water District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The Santa Clara Valley Water District's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering water. At June 30, 2014, the District has paid \$41.5 million towards the base fee obligation of this agreement.

State Revolving Fund Loan

In November 2004, the District entered into a loan agreement with the State of California Department of Water Resources, on behalf of State of California Department of Health Services, under the Safe Drinking Water State Revolving Fund Law of 1997 for \$6.3 million. The loan was used to fund the construction of filter-to-waste and wash water clarification projects at the Santa Teresa Water Treatment Plant. At June 30, 2014, the District has paid \$1.4 million towards the principal balance of this obligation.

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Litigation Claim

In fiscal year 2009, the District recorded a liability of \$5.9 million, which was the potential judgment amount from the tentative ruling on the case Great Oaks Water Company vs. Santa Clara Valley Water District. On February 3, 2010, the judge issued Judgment After Trial and ordered the District to pay Great Oaks Water Company \$5.9 million plus post judgment interest of \$886.62 per day. The District recorded post judgment interest of \$160 thousand in fiscal year 2009-10, \$324 thousand in fiscal year 2010-11, \$325 thousand in fiscal year 2011-12, \$324 thousand in fiscal years 2012-13 and 2013-14. Additional information regarding this litigation is disclosed in Note 16 (a), Contingencies.

Compensated Absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized. 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. Effective fiscal year 2008, the compensated absences liability for the year has been recognized in the District's enterprise funds.

Other Post Employment Benefits (OPEB)

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

Compliance with Bond Covenants

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

(8) PROPERTY TAXES AND BENEFIT ASSESSMENTS

The Funds derive certain revenues from the assessment of property tax parcel levies. The property tax levy is composed of the following categories: (1) a 1 percent tax allocation; and (2) voter approved levy to repay capital and operating costs related to imported water from the State Water Project. Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments.

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Property tax revenues recorded for the year ended June 30, 2014 are as follow (in thousands):

	Amount
Property taxes:	
1% tax allocation	\$ 5,072
Voter approved indebtedness:	
State water	21,920
G.O. bonds	(3)
Total property taxes	\$ 26,989

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) NET POSITION

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

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

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

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

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Below is the detailed schedule of the Funds' net position as of June 30, 2014 (in thousands):

	Water Enterprise Fund	State Projects Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Restricted Net Assets			
Debt Service	\$ 6,250	\$ -	\$ 6,250
State Revolving Fund Loan Requirement	401	-	401
San Felipe Emergency Reserve	4,001	-	4,001
Operating Reserve	13,140	-	13,140
Rate Stabilization	1,751	-	1,751
State Water Projects	-	4,476	4,476
Total restricted net position	<u>25,543</u>	<u>4,476</u>	<u>30,019</u>
Unrestricted Net Position			
Operating & Capital Contingencies	18,578	-	18,578
Currently Authorized Projects	35,114	-	35,114
Market Valuation	32	-	32
Floating Rate Debt Payment Stabilization	353	-	353
Supplemental Water Supply	9,729	-	9,729
Encumbrances	67,908	707	68,615
Total unrestricted net position	<u>131,714</u>	<u>707</u>	<u>132,421</u>
Net investment in capital assets	<u>552,633</u>	<u>20,777</u>	<u>573,410</u>
Net Position	<u>\$709,890</u>	<u>\$ 25,960</u>	<u>\$ 735,850</u>

(10) 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 Q Street, Sacramento, CA 95811.

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

Funding Policy

District employees are required to contribute 8.0% 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 2014 was 17.749%.

In January 2003, the District amended its contract with CalPERS to include the enhanced retirement formula of 2.5% at 55. In December 2011, the District and its bargaining units agreed on a new three year Memorandum of Understanding (MOU), January 1, 2012 to December 31, 2014. The current MOUs implemented a contract amendment with CalPERS to add a second-tier retirement formula of 2.0% at 60. District employees hired on or after March 19, 2012 are covered under this formula with a required contribution of 7.0% of their annual covered salary to CalPERS. Under the Public Employees' Pension Reform Act of 2013 (PEPRA), district employees hired after January 1, 2013 will have a third-tier retirement formula of 2.0% at 62 and they are required to contribute 6.75% of their annual covered salary to CalPERS. In addition, the current MOUs require all District employees to contribute 3.0% of their salary to reimburse the District's annual required employer contribution. 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 2013-14, the District's annual pension cost of \$13,706,044 for CalPERS was equal to the District's required and actual contributions, which included \$11,431,636 employer contribution and \$2,274,408 "on-behalf" employee contribution. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.50% 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 2.75%. 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 FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 14,379	100%	\$ -
6/30/2013	12,842	100%	-
6/30/2014	13,706	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)
6/30/2010	\$ 487,009	\$ 400,422	\$ 86,587	82.2%	\$ 81,624	106.1%
6/30/2011	528,826	429,944	98,882	81.3%	80,604	122.7%
6/30/2012	565,851	457,603	108,248	80.9%	76,988	140.6%

(11) POST-EMPLOYMENT BENEFITS

The District provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses, and to certain employees who retire due to disability who meet the eligibility requirements and elect the option. The District must be the employee's last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay. As of June 30, 2014, there were 397 retirees and surviving spouses receiving these health care benefits.

**WATER UTILITY ENTERPRISE FUNDS
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
<u>Classified</u> Employee Association (AFSCME – Local 101) Engineers Society (IFPTE-Local 21) Professional Managers Association (IFPTE – Local 21)	Retired prior to July 1, 1988		Fixed amount of \$165 per month
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree
	Retired from July 1, 1990 or later and hired prior to December 31, 2006	10 years	100% medical premium for retiree
		15 years	100% medical premium for retiree plus one eligible dependent
	Retired from July 1, 1990 or later and hired between December 31, 2006 and March 1, 2007	10 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
15 years		Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.	
Hired on or after March 1, 2007	15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.	
	20 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.	

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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

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

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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

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

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

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

Funding Policy

The District's policy is to prefund these benefits as part of its multi-year financial planning strategy. On June 24, 2008, the Board of Directors approved the reallocation of \$17.7 million from its existing reserve for the initial prefunding of the unfunded liability for the first year of reporting. Subsequent years' funding, pursuant to the annual budget approved by the Board of Directors, would be phased in to gradually reach full funding by the sixth year in order to limit its immediate impact on groundwater charge increases and the funding of core services within limited available revenues.

Annual OPEB Cost and Net OPEB Obligation

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

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

The following table shows the components of the District's annual OPEB cost for fiscal year 2014, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution		\$	11,112,004
Interest on net OPEB obligation			529,933
Adjustment to annual required contribution			<u>(466,998)</u>
Annual OPEB cost (expense)			11,174,939
Contributions made – FY2014 cost	\$(11,174,939)		
Contributions made – Prior years' unfunded ARC	<u>(5,508,959)</u>		
Total Contributions made in FY2014			<u>(16,683,898)</u>
Increase (decrease) in Net OPEB obligation			(5,508,959)
Net OPEB obligation, June 30, 2013			<u>7,065,773</u>
 Net OPEB obligation, June 30, 2014			 <u>\$ 1,556,814</u>

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

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation	Fund OPEB Obligation
6/30/2012	\$ 11,095,000	87.38%	\$ 11,328,192	\$ 4,425,137
6/30/2013	11,080,800	138.47%	7,065,773	2,745,838
6/30/2014	11,174,939	149.30%	1,556,814	604,995

Funded Status and Funding Progress

As of June 30, 2013, the latest valuation date, the funded status of the OPEB plan was as follows:

Actuarial accrued liability (AAL)	\$ 169,864,833
Actuarial value of plan assets	\$ 51,888,319
Unfunded actuarial accrued liability (UAAL)	\$ 117,976,514
Funded ratio (actuarial value of plan assets/AAL)	31%
Covered payroll	\$ 81,600,000
UAAL as a percentage of covered payroll	144.6%

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,

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

The July 1, 2013 actuarial valuation used the Entry Age Normal (EAN) cost method. The actuarial assumptions included a discount rate of 7.5% and a 3.25% inflation rate. Healthcare cost trend rates ranged from an initial rate range of 8% to 4.5%. The unfunded liability is being amortized as a percent of payroll over 30 years on a closed basis. The remaining years in amortization period at June 30, 2014 was 24 years.

(12) RISK MANAGEMENT

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

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

<u>Coverage Descriptions</u>	<u>Deductibles</u>	Commercial Insurance <u>Coverage</u>
General liability	\$2,000	\$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	250,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	100,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2014, the liability for self-

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

insurance claims was \$7,011,000. 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, 2012 are as follows (in thousands):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2012	\$ 1,859	\$ 4,271	\$ 6,130
Current year premiums, incurred claims and changes in estimate	1,273	(210)	1,063
Claim payments	(221)	(293)	(514)
Claims payable at June 30, 2013	<u>2,911</u>	<u>3,768</u>	<u>6,679</u>
Current year premiums, incurred claims and changes in estimate	1,976	620	2,596
Claim payments	(1,922)	(342)	(2,264)
Claims payable at June 30, 2014	<u>\$ 2,965</u>	<u>\$ 4,046</u>	<u>\$ 7,011</u>

The total claims payable in the amount of \$7.01 million is recorded in the District's Risk Management Internal Service Fund. No portion of this amount is recorded in the Funds.

(13) TRANSFERS IN AND OUT

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

During the fiscal year, the Funds received \$2.6 million for the Open Space credit on property tax receipts and transferred out \$2.8 million for capital cost reimbursements.

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Water Utility Enterprise Fund	General Fund	\$ 1,281
Water Utility Enterprise Fund	Watershed & Stream Stewardship	1,281
Total Transfer In		\$ 2,562
General Fund	Water Utility Enterprise Fund	\$ 2,834
Total Transfer Out		\$ 2,834

(14) RESTATEMENT

During fiscal year 2013-14, the District implemented GASB 65, “*Items Previously Reported as Assets and Liabilities*”. It was determined that debt issuance costs do not meet the definition of an asset or a deferred outflow and should be recognized as an outflow of resources in the period in which they were incurred.

GASB 65 required that the beginning net position of the Water Utility Enterprise Fund be restated as follows (in thousands):

Net Position	Amount
Beginning Balance, as previously reported	\$ 680,323
Cost of Issuance	(7,143)
Beginning Balance, restated	\$ 673,180

(15) COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2014, the Funds have open purchase commitments of approximately \$137.0 million related to new or existing contracts and agreements. These encumbrances represent commitments of the Funds and do not represent actual expenses or liabilities.

(b) San Felipe Project Water Deliveries

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

During fiscal year 2006-07, the District amended this contract. The amended contract provided for compliance with the Central Valley Project Improvement Act and converted the

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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, 2012 was \$6,306,471. The total commitment, including applicable interest, of the repayment contract was \$439,261,342. The remaining commitment as of June 30, 2014 was \$327,258,840.

(c) Participation Rights in Storage Facilities

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

The District pays the program capital costs when storing and recovering Tier 1 water. As of June 30, 2014, the District has paid \$41.5 million towards the base fee obligation of this agreement. During the first 10 years the District has a reservation for the full 35% allocation; by January 1, 2006, if the District's contributions towards the program capital costs did not equal \$46.9 million the District's permanent storage allocation will be reduced. The District decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

The District currently has a storage allocation of 350,000 acre-feet. As of June 30, 2014, the District has 259,493 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of \$21,691,250 has been recorded through fiscal year 2014.

(16) 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 court cases in which money damages are sought. Such a case is Great Oaks Water Company v. Santa Clara Valley Water District, Santa Clara County Superior Court Case No. 107-CV-087884; Cal. Court of Appeals Nos. HO35260 and HO35885 ("Great Oaks case").

In 2005, Great Oaks Water Company (hereinafter "Great Oaks") filed an administrative claim alleging that the groundwater charges for 2005-06 violated the Santa Clara Valley Water District Act (California Water Code, Appendix 60) and sought a partial refund. After the claim was deemed denied, Great Oaks filed its lawsuit that subsequently included an allegation that the groundwater production charges violated Proposition 218, or Article XIID of the state

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

constitution because proceeds are used to fund projects and services that benefit the general public, not just payers. Great Oaks demanded a partial refund as well as declaratory, injunctive and mandamus relief.

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

The District does not believe that the trial court decision regarding its 2005-06 groundwater production charges is supported by the record. The District has timely appealed this decision to the Sixth District Court of Appeals and its decision is anticipated in 2014.

In accordance with the requirements of *GASB Statement No. 62*, the District has recorded a liability in the amount of \$5.93 million, which includes the Judgment After Trial decision amount plus interest in fiscal year 2008-09. The District recorded \$160 thousand in fiscal year 2009-10, \$324 thousand in fiscal year 2010-11, \$325 thousand in fiscal year 2011-12, and \$324 thousand in fiscal years 2012-13 and 2013-14 as liability for the post-judgment interest from January 1, 2010 through June 30, 2014 at the rate of \$886.62 per day. The total liability as of June 30, 2014 in the amount of \$7.386 million is presented under the caption "Litigation Claim" in the Statement of Net position – Proprietary Funds. The interest for fiscal year 2014 of \$324 thousand is presented under the caption "Claims and Adjustments" in the Statement of Revenues, Expenses, and Changes in Net position – Proprietary Funds.

Great Oaks has filed refund actions for subsequent years of annual groundwater charges, all of which are currently stayed:

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

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

Additionally, Shatto Corporation, Mike Rawitser Golf Shop and Santa Teresa Golf Club have filed a refund action, Santa Clara Superior Court Case No. 111-CV-195879. This action is currently stayed. Other water retailers including San Jose Water Company, the cities of Morgan Hill, Gilroy, and Santa Clara and the Los Altos Golf and Country Club, and Stanford University dispute the District's groundwater charges and have subsequently entered tolling agreements with the District pending the final decision in the Great Oaks case.

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

For the fiscal year ended June 30, 2014, total groundwater revenues amounted to approximately \$84 million. The above referenced claims could result in refunds of a significant portion of groundwater production charges paid between 2005 and 2008 and could result in refunds of all groundwater production revenue collected since 2008. The District believes, however, that, as in the Great Oaks case, it has meritorious defenses to these claims, and does not believe that it will ultimately be liable for any payments or refunds which would materially impair its operations or the District's ability to pay its debts and other obligations.

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

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 with self-insured District funds or under indemnification agreements or insurance coverage and therefore, would not have material effect on June 30, 2014 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.

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

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2014

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

(d) Perchlorate

In 2003, perchlorate was discovered at the Olin Corporation facility and over a wide area in the Llagas subbasin in South County, impacting a number of water supply wells. The investigation and clean-up of the contamination are under the jurisdiction of the Central Coast Regional Water Quality Control Board. As of June 2014, perchlorate is present above the Maximum Contaminant Level (MCL) in less than 10 water supply wells. The perchlorate plume exceeding MCLs extends off-site for approximately 3 miles. Olin's remedial efforts focused on clean-up of the site, including soil removal and groundwater treatment, from 2004 through 2012. Olin's ongoing remediation effort is focused on clean-up of the off-site groundwater plume. The groundwater extraction and treatment systems were expanded to include 2 off-site extraction wells in 2012.

(17) SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 24, 2015, which is the issuance date of the financial statements. There are no reportable subsequent events through this date.

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**Required
Supplementary
Information**

**WATER ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**
Schedule of Funding Progress - Other Post Retirement Benefit Plan
June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	([b-a]/c)
12/31/2008	\$ 19,580,319	\$ 150,156,794	\$ 130,576,475	13.0%	\$ 76,369,316	171.0%
6/30/2011	32,273,200	156,061,200	123,788,000	20.7%	81,761,500	151.4%
6/30/2014	51,888,319	169,864,833	117,976,514	30.5%	81,600,000	144.6%

Other Information

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water Enterprise Funds (Funds) of the Santa Clara Valley Water District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated April 24, 2015. Our report included an emphasis of a matter paragraph regarding the Funds' financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the District.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
April 24, 2015



INDEPENDENT ACCOUNTANT'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 Utility Enterprise Funds service area for the year ended June 30, 2014, 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 Funds 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
April 24, 2015

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

Schedule of Revenues and Expenses
(Budgetary Basis)
For the Year Ended June 30, 2014

	<u>North County</u>	<u>South County</u>	<u>Total</u>
Operating Revenues:			
Ground Water Charges	\$ 74,200	\$ 10,108	\$ 84,308
Treated Water Charges	86,386	-	86,386
Surface and recycled water charges	1,226	454	1,680
Operating Grants	1,176	56	1,232
Other	838	-	838
Total Operating revenues	<u>163,826</u>	<u>10,618</u>	<u>174,444</u>
Operating Expenses			
Sources of Supply	67,602	7,252	74,854
Water Treatment	30,383	20	30,403
Transmission and distribution:			
Raw Water	7,366	2,194	9,561
Treated Water	1,601	8	1,608
Administration and general	13,271	3,067	16,338
Capital Cost Recovery	(3,213)	3,213	-
Total Operating Expenses	<u>117,010</u>	<u>15,754</u>	<u>132,764</u>
Operating income (loss)	<u>46,816</u>	<u>(5,136)</u>	<u>41,680</u>
Nonoperating revenues (expenses):			
Property Taxes	24,598	2,391	26,989
Investment Income	1,624	-	1,624
Rental Income	68	32	100
Other	2,219	126	2,345
Interest and fiscal agent fees	(8,450)	-	(8,450)
Open Space Credit Transfer	(6,300)	6,300	-
Interest earned credit	(35)	35	-
Net Operating revenues	<u>13,724</u>	<u>8,884</u>	<u>22,608</u>
Change in Net Position	<u>\$ 60,540</u>	<u>\$ 3,748</u>	<u>\$ 64,288</u>

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

Income (Loss)	\$ 64,288
Depreciation and amortization expenses not budgeted	(24,893)
Capitalized expenditures	61,077
Debt principal and interest adjustments	(7,144)
GAAP basis expenses and other liabilities	2,441
Capital improvement projects	(84,643)
Reversal of overhead charges	(1,348)
Other post employment benefits contributed	(2,141)
Capital cost reimbursements	3,532
Interfund transfers	(272)
Prior year encumbrances	(37,789)
Current year encumbrances	55,019
Prior period adjustment	7,143
Change in net position per Statement of Revenues, Expenses, and Change in Net Position	<u>\$ 35,270</u>

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