Water Utility Enterprise Funds of the Santa Clara Valley Water District

Annual Financial Report

Fiscal Year Ended June 30, 2025

655 N. Central Avenue
Suite 1550
Glendale, CA 91203

www.vasquez.cpa

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Water Utility Enterprise Funds (the Funds) of the Santa Clara Valley Water District (District or Valley Water), which comprise the statement of net position as of June 30, 2025, the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Enterprise Funds of the Santa Clara Valley Water District as of June 30, 2025, and the 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the Santa Clara Valley Water District as of June 30, 2025, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 Management's Discussion and Analysis (MD&A) in accordance with GAAS, 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 Management's Discussion and Analysis (MD&A) because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The supplementary schedules on pages 52 through 54 as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual financial report. The other information on page 55 comprises the 2025 Water Service Rate Schedule by Zone but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vasquez & Company LLP

Glendale, California
July 8, 2026

Our discussion and analysis of the financial performance of Santa Clara Valley Water District's (Valley Water) Water Utility Enterprise Funds (the "Funds") provide an overview of the Funds' financial activities for the fiscal year ended June 30, 2025. 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 comprised of two separate enterprise funds that were established to account for the water utility transactions of Valley Water. The Funds consist of the Water Enterprise Fund and the State Water Project Fund. The Water Enterprise Fund is used to record ongoing water utility operations, with revenues comprised primarily of charges to Valley Water's groundwater and treated water customers. The State Water Project Fund is used to account 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 separately based on the relative benefits to the North County and South County zones. Likewise, the Funds' water charges between the zones are set independently.

In fiscal year 2021, the Valley Water Board modified the existing groundwater benefit zones W-2 and W-5 and created two new zones: zone W-7, which overlays the Coyote Valley, and zone W-8, which includes areas below Uvas and Chesbro Reservoirs. The modified and new zone boundaries ensure that rate payers are grouped in a way that reflects the most recent and relevant data regarding services and benefits received by well users. The "North County zone" consists of benefit zone W-2, while the "South County zone" is comprised of benefit zones W-5, W-7 and W-8.

Overview of the Financial Statements

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

The financial statements of the Funds, as presented here, are for Valley Water's Water Utility Enterprise Funds activities only and do not reflect the financial position of Valley Water as a whole. Because the Funds are business-type activities of Valley Water, the Funds are accounted for as proprietary-type funds, where the cost of providing goods and services to the general public are financed and recovered primarily through user charges. The Funds record the financial transactions in a manner similar to a private business enterprise. Operations are recorded on the accrual basis of accounting. The Funds are intended to be entirely or predominantly self-supported by user charges.

The Funds' financial statements are comprised of the following:

- The Statement of Net Position presents information on the Funds' assets, deferred outflow of resources, deferred inflow of resources and liabilities, with the difference 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 is 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 on 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 better understanding of the data provided in the Funds' financial statements.

Financial Highlights

	June 30 (in thousands)		Change	
	2025	2024	Dollar	Percent
Cash and investments	**$ 533,577**	$ 505,388	28,189	5.6%
Other assets	**237,320**	215,038	22,282	10.4%
Capital assets	**2,170,111**	1,891,587	278,524	14.7%
Total assets	**2,941,008**	2,612,013	328,995	12.6%
Deferred outflow of resources				
Deferred amount on refunding	**146**	176	(30)	-17.4%
Pension and OPEB related	**63,502**	78,766	(15,264)	-19.4%
Total deferred outflows of resources	**63,648**	78,942	(15,294)	-19.4%
Current liabilities	**380,239**	271,801	108,438	39.9%
Long- term liabilities	**1,223,015**	1,196,134	26,881	2.2%
Total liabilities	**1,603,254**	1,467,935	135,319	9.2%
Deferred inflow of resources				
Pension and OPEB related	**2,117**	2,901	(784)	-27.0%
Capital leases	**17**	69	(52)	-75.4%
Total deferred inflows of resources	**2,134**	2,970	(836)	-28.1%
Net position:				
Net investment in capital assets	**960,500**	822,531	137,969	16.8%
Restricted	**98,497**	74,334	24,163	32.5%
Unrestricted	**340,271**	323,185	17,086	5.3%
Total net position	**$ 1,399,268**	$ 1,220,050	179,218	14.7%

Net investment in capital assets increased by $138.0 million from the previous fiscal year. Capital assets, net of depreciation, increased by $278.5 million, reflecting the increase in work in progress for the following main projects: RWTP Reliability Improvement ($80.6 million), Anderson Dam Tunnel ($77.0 million), Anderson Dam Seismic Retrofit ($37.1 million), 10-year Pipeline Inspection and Rehab ($17.0 million), Coyote Creek Flood Management Measures ($16.7 million), Pacheco Reservoir Expansion ($15.1 million), Coyote Creek Chillers ($14.0 million), and San Jose Purified Water Project - Phase 1 ($6.0 million). Noncurrent liabilities, which include related debt outstanding, increased by $26.9 million due mainly to WIFIA loan drawdowns of $27.7 million.

Unrestricted net position may be used to meet Valley Water's ongoing obligations to citizens, customers, and creditors. For the current fiscal year, Valley Water's total unrestricted net position of $340.3 million increased by $17.1 million or 5.3%.

	June 30 (in thousands)		Change	
	2025	2024	Dollar	Percent
Revenues:				
Program revenues:				
Water charges	**$ 381,972**	$ 320,638	61,334	19.1%
Operating grants and contributions	**4,885**	5,184	(299)	-5.8%
Capital grants and contributions	**3,030**	3,544	(514)	-14.5%
General revenues:				
Property Taxes	**41,236**	39,058	2,178	5.6%
Investment earnings	**17,842**	20,230	(2,388)	-11.8%
Miscellaneous	**17,344**	7,692	9,652	125.5%
Total revenues (including non-operating items)	**466,309**	396,346	69,963	17.7%
Expenses:				
Water enterprise	**288,403**	370,913	(82,510)	-22.2%
Total Expenses	**288,403**	370,913	(82,510)	-22.2%
Increase in net position before transfer	**177,906**	25,433	152,473	599.5%
Transfers	**584**	(2,833)	3,417	-120.6%
Change in net position	**178,490**	22,600	155,890	689.8%
Net position, beginning of year, as previously reported	**1,220,050**	1,197,450	22,600	1.9%
GASB 101 adoption restatement	**728**	-	728	-
Net position, beginning of year, as restated	**1,220,778**	1,197,450	23,328	1.9%
Net Position, ending	**$ 1,399,268**	$ 1,220,050	179,218	14.7%

Net position of the Funds increased by $179.2 million during the current fiscal year. Total revenues and expenses were $466.3 million and $288.4 million, respectively. Net revenues before transfers were $177.9 million. Net transfers in during the current fiscal year were $0.6 million.

Compared to the prior fiscal year, total revenues increased by $70.0 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Total water revenue of $382.0 million was $61.3 million (19.1%) higher than the prior fiscal year. The increase was mainly from groundwater and treated water revenues of $27.4 million and $33.2 million, respectively.

- Capital grants and contributions decreased by $0.5 million compared to last fiscal year due mainly to lesser cost reimbursements received from the State of California, Department of Water Resources ($0.3 million) for the Pacheco Reservoir Expansion Project under the Water Storage Investment Program, and the US Bureau of Reclamation ($0.2 million) for the South Santa Clara County Recycled Water Project.

- Investment earnings for the current fiscal year was $17.8 million or $2.4 million lower than the $20.2 million investment gain posted in the prior fiscal year due mainly to the decrease in unrealized gain in investment market value. Investment earnings include an unrealized gain of $3.1 million due to the increase in the portfolio's fair value compared to the prior year. This unrealized gain is not expected to be realized in cash because Valley Water's investment policy generally is to hold all securities to maturity under normal operating conditions.

Capital Assets

Valley Water's capital assets, net of accumulated depreciation, amounted to $2.2 billion as of June 30, 2025. Capital asset components include construction in progress, intangible rights and software, lease assets, land, buildings, structures and improvements (which include the flood control improvement), and equipment. During fiscal year 2025, the net increase in Valley Water's capital assets was $278.5 million or 14.7%.

The Funds' capital assets are comprised of the following as of June 30, 2025 and 2024:

	June 30 (in thousands)		**Change**	
	2025	2024	Dollar	Percent
Land	**$ 21,574**	$ 20,001	1,573	7.9%
Intangible Easements	**33,396**	32,777	619	1.9%
Contracted water rights	**26,373**	28,796	(2,423)	-8.4%
Buildings	**83,538**	86,036	(2,498)	-2.9%
Structures and improvements	**698,575**	635,227	63,348	10.0%
Equipment	**2,804**	2,283	521	22.8%
Lease assets	**2,170**	2,441	(271)	-11.1%
Construction in progress	**1,301,681**	1,084,026	217,655	20.1%
Total	**$ 2,170,111**	$ 1,891,587	278,524	14.7%

Additional information on the Funds' capital assets activity for the current fiscal year is shown in Note 6 of this report.

Debt Administration

The Funds' total long-term liabilities at June 30, 2025 amounted to $1.4 billion. A comparative breakdown of long-term obligations is shown below:

	June 30 (in thousands)		Change	
	2025	2024	Dollar	Percent
Certificates of Participation	**$ 308,655**	$ 404,795	(96,140)	-23.8%
Revenue bonds	**824,495**	521,095	303,400	58.2%
Premium on debt issuances	**74,484**	61,597	12,887	20.9%
Notes payable	**27,747**	-	27,747	-
Total long-term debt	**1,235,381**	987,487	247,894	25.1%
Compensated absences	**7,946**	7,871	75	1.0%
Semitropic water banking liability	**14,158**	13,859	299	2.2%
Net pension liability	**135,399**	140,099	(4,700)	-3.4%
Other post-employment benefits liability	**41,059**	45,259	(4,200)	-9.3%
Lease liability	**2,404**	2,690	(286)	-10.6%
Total	**$ 1,436,347**	$ 1,197,265	239,082	20.0%

Total long-term liabilities increased by $239.1 million during the current fiscal year primarily due to the following:

- Issuance of 2024 Water System Refunding Revenue Bonds and Notes (Series 2024A-1, A-2, B-1, B-2) and 2024C Water System Revenue Bonds totaling $314.1 million (par value).
- Decrease in net pension liability of $4.7 million as reflected in Valley Water's actuarial study under GASB 68.
- Decrease in other post-employment benefits liability of $4.2 million as reflected in Valley Water's actuarial study under GASB 75.
- Increase in notes payable of $27.7 million due to drawdown on WIFIA loans.

Additional information on the Funds' long-term liabilities can be found in Note 7(b) of this report.

Next Year's Budgets

Valley Water's net operating and capital budget for the fiscal year 2026 is at $948.1 million[1]. This budget was developed to meet the objectives and challenges facing Valley Water that include the following:

- Maintaining optimal conditions in all Valley Water infrastructure such as levees, concrete channels, culverts, percolation ponds, dams and reservoirs, water distribution systems, water treatment plants, various operations buildings, and other facilities
- Delivering an ambitious capital program on time and within budget
- Advancing Valley Water's interests in countywide stormwater resource planning
- Actively participating in decisions regarding California Delta Conveyance
- Leading efforts to advance recycled and purified water efforts within Santa Clara County
- Pursuing new water supply and increased water storage opportunities
- Providing safe, clean water and natural flood protection equitably to all Santa Clara County while protecting ecosystem functions and enhancing habitats
- Attaining net positive impact on the environment when completing projects
- Addressing future impacts of climate change to Valley Water's mission and operations
- Addressing encampments in coordination with regional partners and progressing on an Unhoused Task Force framework

Requests for Information

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

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

[1] Valley Water FY2025-26 Operating and Capital Budget, chapter 3, page 7

BASIC FINANCIAL STATEMENTS

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Net Position
June 30, 2025
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Assets			
Current assets:			
Cash and investments (Note 3)	$ 335,362	$ 34,092	$ 369,454
Receivables:			
Accounts	59,541	-	59,541
Interest	499	-	499
Taxes	31	80	111
Inventory - water (Note 2e)	172,104	-	172,104
Deposits and other assets	5,065	-	5,065
Total current assets	572,602	34,172	606,774
Non current assets:			
Restricted cash and investments (Note 3)	164,123	-	164,123
Capital assets: (Note 6)			
Contract water rights, net	15,984	10,389	26,373
Depreciable, net	784,917	-	784,917
Lease assets, net	2,170	-	2,170
Nondepreciable	1,356,651	-	1,356,651
Total non current assets	2,323,845	10,389	2,334,234
Total assets	2,896,447	44,561	2,941,008
Deferred outflows of resources			
Deferred amount on refunding	146	-	146
Deferred outflows of resources - pension activities (Note 10)	40,494	-	40,494
Deferred outflows of resources - OPEB (Note 11)	23,008	-	23,008
Total deferred outflows of resources	63,648	-	63,648
Liabilities			
Current liabilities:			
Accounts payable	26,353	332	26,685
Accrued liabilities	46,022	266	46,288
Commercial paper debt (Note 7)	90,000	-	90,000
Deposits payable	3,934	-	3,934
Bonds payable - current (Note 7)	210,255	-	210,255
Compensated absence (Note 7)	2,787	-	2,787
Lease liability (Note 7)	290	-	290
Total current liabilities	379,641	598	380,239
Non current liabilities:			
Bonds payable - net of discounts and premiums (Note 7)	997,379	-	997,379
Notes payable (Note 7)	27,747	-	27,747
Compensated absence (Note 7)	5,159	-	5,159
Net pension liability (Note 10)	135,399	-	135,399
Other post employment benefits liability (Note 11)	41,059	-	41,059
Lease liability (Note 7)	2,114	-	2,114
Semitropic water banking liability (Note 7)	14,158	-	14,158
Total non current liabilities	1,223,015	-	1,223,015
Total liabilities	$ 1,602,656	$ 598	$ 1,603,254

(Continued)

See accompanying notes to basic financial statements.

(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Deferred inflows of resources			
Deferred inflows of resources - OPEB (Note 11)	$ 2,117	$ -	$ 2,117
Deferred inflows of resources - leases (Note 2d)	17	-	17
Total deferred inflows of resources	2,134	-	2,134
Net position (Note 9)			
Net investment in capital assets	950,111	10,389	960,500
Restricted			
Debt service	31,937	-	31,937
San Felipe operations	3,797	-	3,797
GP5 reserve	2,810	-	2,810
Rate stabilization	20,572	-	20,572
State water project	-	33,574	33,574
Advanced water purification center	530	-	530
Supplemental water supply	5,277	-	5,277
Unrestricted	340,271	-	340,271
Total net position	$ 1,355,305	$ 43,963	$ 1,399,268

See accompanying notes to basic financial statements.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2025
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Operating revenues:			
Ground water production charges	$ 176,173	$ -	$ 176,173
Treated water charges	202,844	-	202,844
Surface and recycled water revenue	2,955	-	2,955
Charges for services	-	-	
Other	747	7,200	7,947
Total operating revenues	382,719	7,200	389,919
Operating expenses:			
Sources of supply	65,570	28,023	93,593
Water treatment	55,929	-	55,929
Transmission and distribution:			
Raw water	20,201	-	20,201
Treated water	1,854	-	1,854
Administration and general	49,718	-	49,718
Equipment maintenance	-	-	-
Depreciation and amortization	22,954	944	23,898
Total operating expenses	216,226	28,967	245,193
Operating income (loss)	166,493	(21,767)	144,726
Nonoperating revenues (expenses):			
Property taxes (Note 8)	11,679	29,557	41,236
Investment income (Note 5)	17,842	-	17,842
Operating grants	4,885	-	4,885
Rental income	102	-	102
Lease revenue	51	-	51
Other	6,855	2,389	9,244
Interest and fiscal agent fees	(43,210)	-	(43,210)
Net nonoperating revenues (expenses)	(1,796)	31,946	30,150
Income before capital contributions and transfers	164,697	10,179	174,876
Capital contributions (Note 4)	3,030	-	3,030
Transfers in from District (Note 13)	11,428	-	11,428
Transfers out to District (Note 13)	(10,844)	-	(10,844)
Change in net position	168,311	10,179	178,490
Net position, beginning of year	1,186,266	33,784	1,220,050
GASB 101 adoption restatement	728	-	728
Net position, beginning of year, restated	1,186,994	33,784	1,220,778
Net position, end of year	$ 1,355,305	$ 43,963	$ 1,399,268

See accompanying notes to basic financial statements.

(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Cash flows from operating activities:			
Receipts from customers and users	$ 360,263	$ 7,217	$ 367,480
Payments to suppliers	(22,185)	(27,976)	(50,161)
Payments to employees	(149,929)	-	(149,929)
Other receipts	6,961	2,389	9,350
Net cash provided by (used for) operating activities	195,110	(18,370)	176,740
Cash flows from noncapital financing activities:			
Property taxes received	11,679	29,562	41,241
Operating grant	4,885	-	4,885
Transfers in from other funds	11,428	-	11,428
Net cash provided by noncapital financing activities	27,992	29,562	57,554
Cash flows from capital and related financing activities:			
COP/ revenue bonds issuance	337,398	-	337,398
COP/ revenue bonds payment	(117,219)	-	(117,219)
Notes payable issuance	27,747	-	27,747
Commercial paper issuance	90,000	-	90,000
Commercial paper payment	(208,600)	-	(208,600)
Capital grants	3,030	-	3,030
Interest and fiscal agent fees paid	(43,210)	-	(43,210)
Acquisition and construction of capital assets	(302,422)	-	(302,422)
Transfers out to other funds	(10,844)	-	(10,844)
Net cash used for capital and related financing activities	(224,120)	-	(224,120)
Cash flows from investing activities:			
Sale/(purchase) of investments	(11,187)	-	(11,187)
Rental income received	102	-	102
Interest received on cash and investments	17,913	-	17,913
Net cash provided by investing activities	6,828	-	6,828
Net increase in cash and cash equivalents	5,810	11,192	17,002
Cash and cash equivalents, beginning of year	329,552	22,900	352,452
Cash and cash equivalents, end of year	$ 335,362	$ 34,092	$ 369,454
Cash and cash equivalents are reported on the Statement of Net Position:			
Cash and investments	$ 335,362	$ 34,092	$ 369,454
Restricted cash and investments	164,123	-	164,123
Less cash and investments not meeting the definition of cash equivalents	(164,123)	-	(164,123)
Cash and cash equivalents, end of year	$ 335,362	$ 34,092	$ 369,454

(Continued)

See accompanying notes to basic financial statements.

(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	$ 166,493	$ (21,767)	$ 144,726
Adjustments to reconcile operating income (loss) to net cash provided by (used for) by operating activities:			
Other receipts	6,961	2,389	9,350
Depreciation and amortization	22,954	944	23,898
Change in operating assets and liabilities:			
(Increase) decrease in: Deposits and other assets	755	-	755
(Increase) decrease in: Accounts receivable	(6,000)	17	(5,983)
(Increase) decrease in: Water inventory	(16,456)	-	(16,456)
Increase (decrease) in: Accounts payable	2,795	138	2,933
Increase (decrease) in: Accrued liabilities	13,473	(91)	13,382
Increase (decrease) in: Lease payable	(286)	-	(286)
Increase (decrease) in: Compensated absences	(653)	-	(653)
Increase (decrease) in: Deposits payable	(753)	-	(753)
Increase (decrease) in: Payable to Semitropic	299	-	299
Increase (decrease) in: Pension liability	(4,701)	-	(4,701)
Increase (decrease) in: Other post employment benefits liability	(4,200)	-	(4,200)
Increase (decrease) in: Deferred inflows/ outflows of resources	14,429	-	14,429
Net cash provided by (used for) operating activities	$ 195,110	$ (18,370)	$ 176,740
Noncash investing, capital, and financing activity:			
Acquisition of capital assets	$ 58	$ -	$ 58

See accompanying notes to basic financial statements.

NOTE 1 THE FINANCIAL REPORTING ENTITY

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

Valley Water is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. Valley Water encompasses all of Santa Clara County. Valley Water is governed by a seven-member Board of Directors (Board). Each member represents one of the 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 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. On May 14, 2010, the Board adopted a resolution that officially set the boundaries of the seven electoral districts. As required by state law, Valley Water redrew its boundaries to reflect 2010 Census results, and on October 11, 2011, the Board adopted Resolution No.11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

The Funds have two groundwater charge zones as follows:

- North County Zone, which is comprised of benefit zone W-2; and
- South County Zone, which is comprised of benefit zones W-5, W-7, and W-8.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

<u>Fund Financial Statements</u>
The Fund financial statements are prepared in conformity with the generally accepted accounting principles (GAAP) in the United States of America. The Governmental 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 financial statements of the Funds do not purport to represent the financial position and changes in the financial position of Valley Water 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 Funds give (or receive) 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 are recognized in the fiscal year for which the taxes 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.

(c) Cash and Investments

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

Valley Water records 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.

Investment income, which includes changes in fair value, is allocated to all funds on the basis of average monthly cash and investment balances. The Funds' cash and investments pooled with Valley Water are carried at fair value based on the value of each participating dollar.

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, and their equity in the cash and investment pool to be cash equivalents.

(d) Lease Receivable

Lease receivable is measured at the present value of lease payments expected to be received during the lease term.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Lease Receivable (Continued)
Valley Water has entered into property leases with telecommunication companies and other parties for antennae and pipeline sites for a term of 5 years and 10 years, respectively. The discount rate used is equivalent to Valley Water's average annual investment earnings rate of 1.1%.

Deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. Deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

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

Water inventory is valued based on the rolling average of imported water purchase cost. The components of water inventory as of June 30, 2025 are shown below.

	Acre Feet		
Type	Volume	Average Unit Cost	Total (in thousands)
Semitropic storage	304,084	$ 430	$ 130,756
Local reservoir storage	46,803	430	20,125
San Luis Reservoir Storage	49,355	430	21,223
Total			$ 172,104

(f) Lease or Right to Use Assets
The Funds have recorded lease or right to use leased assets as a result of implementing GASB 87, Leases, and GASB 96, Subscription-based Information Technology Arrangements. The lease assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The lease assets are amortized on straight-line basis over the term of the related leases or the useful life of the underlying assets, whichever is shorter.

(g) Capital Assets
Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition value on the date contributed. The Funds define 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Capital Assets (Continued)
The estimated useful lives are as follows:

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

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

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

(i) Amortization of Water Banking Rights
Valley Water has contracted with the Semitropic Water Storage District and its Improvement Districts for the water banking and exchange program. The program is in effect through calendar year 2035. Participation in the program provides Valley Water a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Funds have capitalized the cost of the program and amortized the cost over the 40-year entitlement period using the straight-line method. See Note 14c for more information on Valley Water's participation in the Semitropic water banking and exchange program.

(j) Amortization of Water Delivery Rights
Valley Water has contracted with the United States Department of the Interior Bureau of Reclamation for water deliveries from the California 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 San Felipe Division transports water from San Luis Reservoir to the Santa Clara – San Benito service area through the Pacheco Tunnel and other project features, which include 48.5 miles of closed conduits, two pumping plants and one small reservoir. The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Receivables

Receivables include amounts due from water utility customers, as well as from other miscellaneous revenue sources. All receivables are shown net of an allowance for doubtful accounts. At the end of the fiscal year, a review of outstanding receivables results in an updated estimate of the bad debt allowance at year-end, whereby delinquent balances greater than 3 years are assigned a weight of 75%, up to 3 years a weight of 50%, up to 2 years a weight of 20%, and up to 1 year a weight of 5%. The totals of each of these amounts are then combined to determine the fiscal year's ending bad debt allowance. At June 30, 2025, the bad debt allowance was $1.0 million.

(l) Compensated Absences - Accrued Vacation and Sick Leave Pay

Valley Water recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. Based on the criteria listed, two types of leaves qualify for liability recognition for compensated absences - vacation and sick leave.

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

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

Compensated absences liability is measured at the employees' pay rates in effect at fiscal year-end, plus salary-related payments directly and incrementally associated with the payment or settlement of the leave.

(m) 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 premiums or discounts. Refunding differences associated with debt refinancing are reported as deferred outflows or inflows of resources and amortized over the life of the bonds. Issuance costs are recorded as an expense of the current period.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Net Position

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

(o) Use of Estimates

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

(p) Pensions

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

(q) Other Post-Employment Benefits (OPEB)

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

(r) Deferred Outflows and Inflows of Resources

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

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

(s) New Pronouncements

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New Pronouncements (Continued)

GASB Statement No. 105 - In December 2024, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. Moreover, this Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the financial statements.

GASB Statement No. 104 – In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement also requires additional disclosures for capital assets held for sale. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the financial statements.

GASB Statement No. 103 – In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the financial statements.

GASB Statement No. 102 – In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Valley Water has implemented GASB 102 as of and for the year ended June 30, 2025. The implementation of this standard does not have an impact on Valley Water's financial statements. Management evaluated the requirements of GASB 102 and determined whether any required concentration or constraint disclosures apply to the Funds.

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Valley Water has implemented GASB 101 as of and for the year ended June 30, 2025. See Note 17 for the details of beginning net position restatement.

NOTE 3 CASH AND INVESTMENTS

Valley Water maintains a cash and investments pool, which includes the cash balances of all Valley Water funds, and are invested by the Treasurer to enhance interest earnings. The pooled interest earned, net of administrative fees, is allocated to each fund based on their respective average daily balances.

The Funds' cash and investments at June 30, 2025 are as follows (in thousands):

Cash and investments	$	369,454
Restricted cash and investments		164,123
Total cash and investments pool	$	533,577

Deposits and Investments

At June 30, 2025, Valley Water's cash and investments pool consists of the following (in thousands):

U.S. Government Agencies	$	384,635
U.S. Treasury Obligations		94,102
Medium Term Notes		22,025
State of California Investment Pool - Local Agency Investment Fund (LAIF)		72,255
Mutual Funds		200,916
Supranational Obligations		9,971
Municipal Bonds		45,992
Time Certificates of Deposit		169,704
Money Market Funds		65,963
Total Investments		1,065,563
Deposits		1,181
Total Deposits and Investments	$	1,066,744

The investment type table represents Valley Water's pooled investments in total, and is not limited to the Water Utility Enterprise (WUE) Funds. As of June 30, 2025, the fair value of Valley Water's investment in the State of California investment pool (LAIF) was $72.3 million. The Local Investment Advisory Board (LIA Board) has oversight responsibility for LAIF. The LIA Board consists of five members as designated by State Statute. Valley Water is a voluntary participant in the pool. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of Valley Water's position in LAIF. The pool is not registered with the Securities Exchange Commission.

Authorized Investments by Valley Water

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Valley Water (Continued)

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

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

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

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

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of Valley Water's revenue bond resolutions and Installment Purchase Agreement for the 2012A, 2016C, 2016D, 2017A, 2019C, 2020C, 2020D, 2022B, 2023C, 2023C-1, 2023C-2 and 2023D Certificates of Participations (COPs) and Water Utility Revenue Bonds 2016A, 2016B, 2017A, 2019A, 2019B, 2020A and 2020B, 2022A, 2023A and 2023B, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Restricted Cash and Investments for Bond Interest and Redemption (Continued)
As of June 30, 2025, the Funds' cash and investments held by fiscal agents within Valley Water's cash and investment pool was $43.4 million and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects
On June 30, 2025, Valley Water had $165.0 million of cash deposited with the fiscal agent that is restricted for capital-related projects.

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

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

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.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Debt Agreements (Continued)

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

(B) 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.

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

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Debt Agreements (Continued)

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

Interest Rate Risk

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

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

		Maturity			
	Total	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. Government Agencies	$ 215,424	$ -	$ 146,586	$ 68,838	$ -
U.S. Government Agencies - Callable	169,211	-	24,565	134,637	10,009
U.S. Treasury Obligations	94,102	-	41,793	52,309	-
Medium Term Notes - Callable	22,025	-	6,968	15,057	-
Local Agency Investment Fund	72,255	72,255	-	-	-
Mutual Funds	200,916	200,916	-	-	-
Supranational Obligations	9,971	-	6,897	3,074	-
Municipal Bonds	45,992	-	17,341	24,104	4,547
Negotiable Certificates of Deposit	-	-	-	-	-
Time Certificates of Deposit	169,704	169,704	-	-	-
Money Market Funds	65,963	65,963	-	-	-
Total Investments	$ 1,065,563	$ 508,838	$ 244,150	$ 298,019	$ 14,556

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.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)
The following table shows the minimum rating required by the` California Government Code, Valley Water's investment policy, or debt agreements and the actual rating as of June 30, 2025 for each investment type as provided by Standard and Poor's (in thousands):

		Minimum	Rating as of Year-end					
	Total	Legal Rating	Exempt from Disclosure	AAA	AA+	AA	AA-	Not Rated
U. S. Government Agencies	$ 384,635	AA-	$ -	$ -	$ 264,881	$ -	$ -	$ 119,754
U. S. Treasury Obligations	94,102	AA-	94,102	-	-	-	-	-
Medium Term Notes	22,025	AA-	-	4,978	7,719	9,328	-	-
Local Agency Investment Fund	72,255	N/A	-	-	-	-	-	72,255
Mutual Funds	200,916	AAA	-	-	-	-	-	200,916
Supranational Obligations	9,971	AA	-	9,971	-	-	-	-
Municipal Bonds	45,992	AA-	-	15,430	10,441	12,770	2,902	4,449
Time Certificates of Deposit	169,704	N/A	-	-	-	-	-	169,704
Money Market Funds	65,963	N/A	-	-	-	-	-	65,963
Total Investments	$ 1,065,563		$ 94,102	$ 30,379	$ 283,041	$ 22,098	$ 2,902	$ 633,041

Concentration of Credit Risk
Valley Water's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and Valley Water's investment policy, whichever is more restrictive. However, Valley Water is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual Valley Water Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2025, such investments are as follows (in thousands):

Issuer	Investment Type	Reported Amount
Government- wide		
Federal Farm Credit Bank	U. S. Government Agency	$ 73,505
Federal Home Loan Bank	U. S. Government Agency	$ 110,210
Federal National Mortgage Association	U. S. Government Agency	$ 68,335

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

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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

Fair Value Measurement and Application
Government Accounting Standards Board Statement No. 72*, Fair Value Measurement and Application*, (GASB 72) provides the framework for measuring fair value and the fair value hierarchy. Valley Water measures and records its investments using fair value measurement guidelines in accordance with GASB 72. These guidelines recognize a three-tiered fair value hierarchy as shown below:

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

The following table summarizes by level, within the fair value hierarchy, Valley Water's investments at fair value at June 30, 2025 (in thousands):

	June 30, 2025	Level 1	Level 2	Uncategorized
Investments by Fair Value Level				
U.S. Government Agencies	$ 384,635	$ -	$ 384,635	$ -
U.S. Treasury Obligations	94,102	94,102	-	-
Medium Term Notes	22,025	-	22,025	-
Mutual Funds	200,916	-	200,916	-
Supranational Obligations	9,971	-	9,971	-
Municipal Bonds	45,992	-	45,992	-
Negotiable Certificates of Deposit	-	-	-	-
Time Certificates of Deposit	169,704	-	169,704	-
Subtotal - Leveled Investments	927,345	94,102	833,243	-
Local Agency Investment Fund	72,255	-	-	72,255
Money Market Funds	65,963	-	-	65,963
Subtotal - Uncategorized	138,218	-	-	138,218
Total Investments	$ 1,065,563	$ 94,102	$ 833,243	$ 138,218

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement and Application (Continued)
Deposits and withdrawals in LAIF are made on the basis of $1 and are recorded on an amortized cost basis. Accordingly, LAIF is uncategorized.

NOTE 4 REIMBURSEMENT OF CAPITAL COSTS

The Funds derive certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following table shows a summary of such capital contributions during fiscal year 2025 (in thousands):

	Amount
Local Agencies:	
San Benito Water Agency	$ 35
State Agencies:	
Department of Water Resources	2,995
Total reimbursement of capital costs	$ 3,030

NOTE 5 INVESTMENT INCOME

The following table represents the components of the Funds' investment income for the year ended June 30, 2025 (in thousands):

	Unrealized Gain	Interest Income	Investment Earnings, Net
Water Enterprise Fund	$ 3,142	$ 14,700	$ 17,842

NOTE 6 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2025 is as follows (in thousands):

	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
Nondepreciable capital assets:					
Land	$ 20,001	$ 1,573	$ -	$ -	$ 21,574
Intangible - Easement	32,777	672	-	(53)	33,396
Construction in progress	1,084,026	299,246	(81,591)	-	1,301,681
Total nondepreciable capital assets	1,136,804	301,491	(81,591)	(53)	1,356,651
Depreciable capital assets:					
Contracted water and storage rights	270,408	11,916	-	-	282,324
Buildings	107,634	-	-	-	107,634
Structures and improvements	1,016,646	-	81,591	-	1,098,237
Equipment	30,759	988	-	(166)	31,581
Intangible-software	113	-	-	-	113
Lease assets	3,254	-	-	-	3,254
Total depreciable capital assets	1,428,814	12,904	81,591	(166)	1,523,143
Less: accumulated depreciation and amortization					
Contracted water rights	(241,612)	(14,339)	-	-	(255,951)
Buildings	(21,598)	(2,498)	-	-	(24,096)
Structures and improvements	(381,419)	(18,243)	-	-	(399,662)
Equipment	(28,476)	(462)	-	161	(28,777)
Intangible-software	(113)	-	-	-	(113)
Lease assets	(813)	(271)	-	-	(1,084)
Total accumulated depreciation and amortization	(674,031)	(35,813)	-	161	(709,683)
Net depreciable capital assets	754,783	(22,909)	81,591	(5)	813,460
Total capital assets, net	$ 1,891,587	$ 278,582	$ -	$ (58)	$ 2,170,111

During the fiscal year 2025, new construction-in-progress amounted to $299.2 million. There were 32 in-progress and completed projects during the fiscal year, with major projects listed below (in millions):

- $77.0 – Anderson Dam Tunnel Project
- $16.7 – Coyote Creek Flood Management Measures
- $80.6 – RWTP Reliability Improvement
- $17.0 – 10-Yr PL Inspection and Rehab
- $15.1 – Pacheco Reservoir Expansion
- $37.1 – Anderson Dam Seismic Retrofit
- $14.0 – Coyote Creek Chillers
- $6.0 – San Jose Purified Water Project – Phase 1

NOTE 6 CAPITAL ASSETS (CONTINUED)

Right to Use Assets
The Funds have recorded right to use assets for leased land. The related lease liabilities are discussed in Note 7. The right to use assets are amortized on a straight-line basis over the term of the related leases or the useful life of the underlying assets, whichever is shorter.

Right to use leased asset activity included in capital assets for the year ended June 30, 2025 are as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Lease assets:				
Land	$ 3,254	$ -	$ -	$ 3,254
Total	3,254	-	-	3,254
Less: accumulated amortization				
Land	(813)	(271)	-	(1,084)
Total accumulated amortization	(813)	(271)	-	(1,084)
Total lease assets, net	$ 2,441	$ (271)	$ -	$ 2,170

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt
On April 28, 2020, the Board authorized a $170.0 million Revolving Line of Credit program (“Revolver”), through the PFFC, to provide short-term financing for Valley Water. The proceeds of the Revolver may be used for any Valley Water purpose, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water. Prior to the expiration date of the initial term on April 29, 2025, Valley Water executed an amendment with U.S. Bank N.A. to extend the Revolver for an additional three years to April 28, 2028, for an amount up to $150 million, in accordance with the terms set forth in Resolution 20-11.

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(a) Short-term debt (Continued)
On October 22, 2024, the Board authorized a Direct Issue Commercial Paper Program (the "Commercial Paper Notes" and together with the Revolver, the "Short Term Debt Program") for an amount up to $250 million, supported by a Letter of Credit (LOC) provided by the Sumitomo Mitsui Banking Corporation (SMBC) with an initial term of five (5) years and an option for extensions in accordance with the terms set forth in Resolution 24-49.

As of June 30, 2025, the combined authorized amount for Short Term Debt Program is $400 million. As of June 30, 2025, Valley Water has $90.0 million of Revolver Certificates for certain Water Utility capital projects.

The Funds' short-term debt as of June 30, 2025 consisted of the following (in thousands):

Type of indebtedness	Maturity Date	Interest Rate	June 30, 2025
Taxable revolving certificate*	9/10/2025	4.81%	$ 90,000
Total short-term liabilities			$ 90,000

*Taxable revolving certificate interest rate:
The interest rate resets monthly based on 1-month Term SOFR plus 0.50%(interest rate on 6/30/25 was 4.81176%)

The following is the summary of changes in short-term debt for the year ended June 30, 2025 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 150,000	$ -	$ (150,000)	$ -
Taxable revolving certificate	-	90,000		90,000
Revolving line of credit	58,600	-	(58,600)	-
Total short-term liabilities	$ 208,600	$ 90,000	$ (208,600)	$ 90,000

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities

The Funds' long-term liabilities as of June 30, 2025 consisted of the following (in thousands):

Type of indebtedness	Maturity	Interest Rate*	Authorized and Issued	June 30, 2025	Due Within One Year
2016A Water revenue bond	2046	3.25%	$ 106,315	$ 106,315	$ -
2016B Water revenue bond	2046	4.32%	75,215	75,215	-
2016C Water revenue COP	2029	2.13%	43,075	17,060	4,035
2016D Water revenue COP	2029	3.14%	54,970	21,385	5,060
2017A Water revenue bond	2037	3.13%	54,710	39,255	2,440
2019A Water revenue bond	2049	3.75%	15,225	13,665	305
2019B Water revenue bond	2049	3.81%	80,030	69,635	1,895
2019C Water revenue COP	2036	2.76%	38,280	26,345	2,245
2020A Water revenue bond	2050	3.33%	24,120	24,120	-
2020B Water revenue bond	2050	2.98%	68,530	68,530	-
2020C Water revenue COP	2041	2.07%	41,765	34,820	1,830
2020D Water revenue COP	2041	2.20%	81,560	68,215	3,510
2023A-2 Water revenue bond	2052	4.19%	52,090	52,090	-
2023B-2 Water revenue bond	2052	5.11%	69,045	66,640	1,280
2023C-1 Water revenue COP	2026	2.35%	117,365	64,185	64,185
2023C-2 Water revenue COP	2041	3.22%	42,285	39,150	1,655
2023D Water revenue COP	2026	4.33%	62,615	37,495	37,495
2024A-1 Water revenue bond	2054	4.10%	104,765	104,765	-
2024A-2 Water revenue notes	2026	2.49%	50,590	50,590	50,590
2024B-1 Water revenue bond	2054	4.80%	90,500	87,385	
2024B-2 Water revenue notes	2026	4.25%	25,025	25,025	25,025
2024C Water revenue bond	2038	2.73%	43,155	41,265	2,330
WIFIA Loan N22115CA	2059	3.77%	27,747	27,747	-
Bond discount				(792)	(29)
Bond premium				75,276	6,404
Total long-term debt				1,235,381	210,255
Compensated absences				7,946	2,787
Net pension liability (See Note 10)				135,399	-
Other post employment benefits liability (See Note 11)				41,059	-
Semitropic water banking liability	2035		46,900	14,158	-
Lease liability				2,404	290
Total enterprise funds debt				$ 1,436,347	$ 213,332

*Interest rate represents the total cost of a bond financing, taking into account any accrued interest, original issue premium or discount and costs of issuance.

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)

The following is a summary of changes in long-term liabilities as of and for the year ended June 30, 2025 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long-term
2016A revenue bonds	$ 106,315	$ -	$ -	$ 106,315	$ -	$ 106,315
2016B revenue bonds	75,215	-	-	75,215	-	75,215
2016C COPS	20,940	-	(3,880)	17,060	4,035	13,025
2016D COPS	26,255	-	(4,870)	21,385	5,060	16,325
2017A revenue bonds	41,530	-	(2,275)	39,255	2,440	36,815
2019A revenue bonds	13,955	-	(290)	13,665	305	13,360
2019B revenue bonds	71,475	-	(1,840)	69,635	1,895	67,740
2019C COPS	28,600	-	(2,255)	26,345	2,245	24,100
2020A revenue bonds	24,120	-	-	24,120	-	24,120
2020B revenue bonds	68,530	-	-	68,530	-	68,530
2020C COPS	36,610	-	(1,790)	34,820	1,830	32,990
2020D COPS	71,650	-	(3,435)	68,215	3,510	64,705
2023A revenue bonds	52,090	-	-	52,090	-	52,090
2023B revenue bonds	67,865	-	(1,225)	66,640	1,280	65,360
2023C-1 COPS	117,365	-	(53,180)	64,185	64,185	-
2023C-2 COPS	40,760	-	(1,610)	39,150	1,655	37,495
2023D COPS	62,615	-	(25,120)	37,495	37,495	-
2024A-1 Water revenue bond	-	104,765	-	104,765	-	104,765
2023A-2 Water revenue notes	-	50,590	-	50,590	50,590	-
2024B-1 Water revenue bond	-	90,500	(3,115)	87,385	-	87,385
2023B-2 Water revenue notes	-	25,025	-	25,025	25,025	-
2024C Water revenue bond	-	43,155	(1,890)	41,265	2,330	38,935
WIFIA Loan N22115CA	-	27,747	-	27,747	-	27,747
Bond discount	(821)	-	29	(792)	(29)	(763)
Bond premium	62,418	23,362	(10,504)	75,276	6,404	68,872
Total long-term debt	987,487	365,144	(117,250)	1,235,381	210,255	1,025,126
Compensated absences**	7,871	75	-	7,946	2,787	5,159
Net pension liability (See Note 10)	140,099	-	(4,700)	135,399	-	135,399
Other post employment benefits liability (See Note 11)	45,259	-	(4,200)	41,059	-	41,059
Semitropic water banking liability	13,859	299	-	14,158	-	14,158
Lease and subscription liability	2,690	-	(286)	2,404	290	2,114
Total business- type activity long- term liabilities	$ 1,197,265	$ 365,518	$ (126,436)	$ 1,436,347	$ 213,332	$ 1,223,015

**The District implemented GASB 101 in fiscal year 2024-25 which resulted in a restatement of fiscal year 2023-24 balances as described in Note 2(s) and Note 17. The change in compensated absences above is the net change for the year.

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)
The aggregate maturities of bonds payable are as follows (in thousands):

	Year Ending June 30	Principal	Interest
Bonds payable	2026	$ 203,880	$ 49,354
	2027	29,220	40,705
	2028	30,320	39,598
	2029	31,490	38,424
	2030	32,725	38,397
	2031-2035	169,890	170,765
	2036-2040	173,650	133,571
	2041-2045	203,095	93,408
	2046-2050	189,401	47,915
	Thereafter	97,226	13,803
Total bonds payable requirements		$ 1,160,897	$ 665,940

Leases
Valley Water has entered into agreements to lease certain land, building office spaces and equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of July 1, 2021, the implementation date of GASB 87. There are no variable payment components of the leases.

The lease liabilities are measured at the discount rate of 1.6%, Valley Water's average interest rate. As a result of the leases, Valley Water recorded right to use assets with a net book value of $2.3 million at June 30, 2025. The right to use assets are included in Note 6.

The future minimum lease payments as of June 30, 2025 are as follows (in thousands):

Year Ending June 30	Principal	Interest
2026	$ 290	$ 25
2027	1,494	81
2028	620	10
	$ 2,404	$ 116

Water Infrastructure Financing and Innovation Agreements (WIFIA)
In fiscal year 2023, Valley Water entered into a WIFIA loan agreement with the United States of America's Environmental Protection Agency for the Anderson ($73.9 million) related projects. This agreement provides Valley Water with an expedient and significant funding source for supporting the renovation and construction costs for these major projects.

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)

Water Infrastructure Financing and Innovation Agreements (WIFIA) (Continued)
As of June 30, 2025, Valley Water has drawn a total of $27.7 million under the Anderson WIFIA loan agreement, leaving an unused commitment of approximately $46.2 million available for future draws, subject to compliance with loan covenants and the U.S. Environmental Protection Agency's (EPA) disbursement requirements.

In accordance with GASB Statement No. 88, Certain Disclosures Related to Debt, the Funds disclose the following with respect to the WIFIA loan: (a) the WIFIA loan is secured by Net Water Utility System Revenues on a subordinate basis to the Funds' parity water utility revenue bonds and certificates of participation (becoming a parity obligation upon certain bankruptcy-related events); (b) events of default include failure to make scheduled payments, breach of covenants under the loan agreement, and bankruptcy-related events; (c) upon default, the EPA may accelerate the WIFIA loan and exercise other remedies; and (d) there are no significant subjective acceleration clauses in the loan documents.

The following provides a brief description of the Funds’ long-term debt outstanding as of June 30, 2025:

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

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

2017A Water System Refunding Revenue Bonds
In May 2017, Valley Water issued $54.7 million of Water System Refunding Revenue Bonds to refund the $64.8 million outstanding balance of the Water Utility System Revenue Certificates of Participation Series 2007A and pay costs of issuance of the 2017A Bonds. The obligation of Valley Water to pay principal and interest on the 2017A Bonds is secured by a pledge of and lien on Valley Water’s Water

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)

Water Infrastructure Financing and Innovation Agreements (WIFIA) (Continued)

2017A Water System Refunding Revenue Bonds (Continued)
Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility System Parity Master Resolution (16-10).

2019A/B Water System Refunding Revenue Bonds
In April 2019, Valley Water issued $95.2 million of Water System Refunding Revenue Bonds consisting of Series 2019A for $15.2 and Series 2019 B for $80.0 million to repay the outstanding Commercial Paper Certificates to free up capacity in Valley Water's commercial paper program to finance on-going capital costs and costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019A/B Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

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

2020A/B Water System Refunding Revenue Bonds
In September 2020, Valley Water issued $92.6 million of Water System Refunding Revenue Bonds comprised of Series 2020A for $24.1 million and Taxable Series 2020B for $68.5 million. Proceeds of the 2020A Revenue Bonds, along with the original issue premium, were used to repay $31.0 million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2020B Revenue Bonds were used to repay $68.3 million of outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay principal and interest of the 2020A/B Water System Refunding Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

2020C/D Water Utility Revenue Certificates of Participation
In September 2020, Valley Water issued $123.4 million of Water Utility Revenue Certificates of Participation, comprised of Series 2020C for $41.8 million and Taxable Series 2020D for $81.6 million, executed and delivered through the PFFC. Proceeds of the 2020C and 2020D COPs, along with the original issue premium, are being used to finance capital construction projects in the Water Utility Enterprise and costs of issuance. The 2020C and 2020D COPs are payable from 2020 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)

Water Infrastructure Financing and Innovation Agreements (WIFIA) (Continued)

2023A/B Water System Refunding Revenue Bonds
In January 2023, Valley Water issued $121.1 million of Water System Refunding Revenue Bonds comprised of Series 2023A for $52.1 million and Taxable Series 2023B for $69.0 million. Proceeds of the 2023A Revenue Bonds, along with the original issue premium, were used to repay $58.6 million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2023B Revenue Bonds were used to repay $67.7 million of outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay principal and interest of the 2023A/B Water System Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System

Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

2023C/D Water Utility Revenue Certificates of Participation
In January 2023, Valley Water issued $222.3 million of Water Utility Revenue Certificates of Participation, comprised of Series 2023C-1 for $117.4 million, 2023C-2 for $42.3 million, and Taxable Series 2023D for $62.6 million. Proceeds of the 2023C/D COPs, along with the original issue premium, are being used to finance capital construction projects in the Water Utility Enterprise, fund capitalized interest and to pay costs of issuance. The 2023C/D COPs are payable from Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10). A portion of the 2023C-1 and 2023D Certificates have been refunded by the Water Utility Refunding Revenue Notes, Series 2024A-2 and 2024B-2.

2024A-1/A-2/B-1/B-2 Water System Refunding Revenue Bonds/Notes
In September 2024, Valley Water issued $270.9 million of Water System Refunding Revenue Bonds and Notes, comprised of Series 2024A-1 for $104.8 million, Series 2024A-2 for $50.6 million, Taxable Series 2024B-1 for $90.5 million, and Taxable Series 2024B-2 for $25.0 million.

Proceeds of the 2024 Refunding Revenue Bonds, Series A-1 and B-1, along with the original issue premium, were used to repay $150 million of outstanding commercial paper notes and $58.6 million taxable revolving certificates. Proceeds of the 2024 Refunding Revenue Notes, Series A-2, along with the original issue premium, were used to repay $53.2 million of 2023C-1 Certificates maturing on December 1, 2024. Proceeds of the 2024 Refunding Revenue Notes, Series B-2 were used to repay $25.1 million of 2023D Certificates maturing on December 1, 2024. Proceeds of the foregoing obligations were also used to pay costs of issuance. The obligation of Valley Water to pay principal and interest of the 2024 Water System Refunding Revenue Bonds/Notes is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)

Water Infrastructure Financing and Innovation Agreements (WIFIA) (Continued)

2024C Water System Revenue Bonds
In September 2024, Valley Water issued $43.2 million of Water System Revenue Bonds, Series 2024C. Proceeds of the Revenue Bonds, Series 2024C, along with the original issue premium, were used to provide $50 million of project funds and to pay costs of issuance. The obligation of Valley Water to pay principal and interest of the Revenue Bonds, Series 2024C is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and is payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

Semitropic Water Banking Liability
In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is $46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering water. As of June 30, 2025, Valley Water has an outstanding liability of $14.2 million related to water storage and banking rights. See Note 15c for further information on Valley Water's Semitropic water banking program.

(c) Other Debt Related Information

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

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

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(c) Other Debt Related Information (Continued)

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

Valley Water has pledged water utility system revenues to repay $1.2 billion in debt outstanding as of June 30, 2025, that was issued to finance and refinance the cost of capital construction projects for the Water Utility Enterprise Fund. The secured debt includes revenue bonds, COPs, and WIFIA loans. The revenue bonds are payable from net water utility system revenues; the revenue COPs, and the WIFIA loans are payable from installments that are secured by net water utility system revenues. The WIFIA loans are secured by net water utility system revenues on a subordinate basis; however, the WIFIA loans will be secured on a parity basis upon the occurrence of certain bankruptcy-related events. The long-term debt is payable through fiscal year 2059. The total principal outstanding and interest costs remaining to be paid on the combined debt are $1.8 billion.

NOTE 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 two categories: (1) an allocation of the County of Santa Clara's 1 percent tax; and (2) voter-approved levy to repay capital and operating costs related to imported water from the State Water Project.

Property tax revenues for the year ended June 30, 2025, are as follows (in thousands):

	Amount
Property taxes:	
1% tax allocation	$ 11,679
Voter approved indebtedness:	
State Water Project Fund	29,557
Total property tax revenues	$ 41,236

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

NOTE 9 NET POSITION

The Funds' financial statements utilize a net position presentation. Net position is categorized as follows: (1) net investment in capital assets, (2) restricted and (3) unrestricted.

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

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

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

The following table shows the detailed schedule of the Funds' net position at June 30, 2025 (in thousands):

		Total Water Utility Enterprise Funds
Net investment in capital assets	$	960,500
Restricted Net Position		
Debt Service		31,937
San Felipe Emergency Reserve		3,797
GP5 reserve		2,810
Rate Stabilization		20,572
Advance Water Purification Center		530
Supplemental Water Supply Reserve		5,277
State water project		33,574
Total restricted net position		98,497
Unrestricted Net Position		
Operating & Capital Contingencies		48,329
Water inventory		172,104
Purchase Commitments		227,777
Net Pension Liability		(76,513)
Net Other Post Employment Benefit Liability		(32,154)
Compensated absence liability		728
Total unrestricted net position		340,271
Net Position	$	1,399,268
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds		(19,285)
Net Position of Business-Type Activities	$	1,379,983

NOTE 10 EMPLOYEES' RETIREMENT PLAN

Plan Description

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

Benefits Provided

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

The Plan's provisions and benefits in effect for fiscal year June 30, 2025, are summarized as follows:

Hire date	**Prior to 3/19/2012**	**3/19/2012 to 12/31/2012**	**On or after 1/1/2013**
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%*	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.00%	6.75%
Required employer contribution rates		10.17% plus $3.0 million prepayment	

Valley Water allocated approximately 45.8% of the District's net pension liability, deferred outflows and inflows of resources and pension expense to the Funds based on the Funds' share of the District's total average salaries for the fiscal year ended June 30, 2025. As a result, the Funds recorded a net pension liability of $135.4 million and deferred outflows of resources of $40.5 million as of June 30, 2025. The Funds recorded pension expense of $26.3 million for the year ended June 30, 2025.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2025 for additional information about the District's pension plan and required note disclosures in accordance with GASB Statement No. 68.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

Benefits Provided

<table>
<tr><th></th><th>Hire/Retirement Date</th><th>Eligibility Rule (Years of Continuous Service)</th><th>District's Required Contribution</th></tr>
<tr><td rowspan="8"><u>Classified</u>

Employee Association (AFSCME Local 101)

Engineers Society (IFPTE Local 21)

Professional Managers Association (IFPTE - Local 21)</td><td>Retired prior to July 1, 1988</td><td>-</td><td>Fixed amount of $165 per month</td></tr>
<tr><td>Retired from July 1, 1988 through June 30, 1990</td><td>10 years</td><td>100% medical premium for retiree</td></tr>
<tr><td rowspan="2">Retired from July 1, 1990 or later and hired prior to December 31, 2006</td><td>10 years</td><td>100% medical premium for retiree</td></tr>
<tr><td>15 years</td><td>100% medical premium for retiree plus one eligible dependent</td></tr>
<tr><td rowspan="2">Retired from July 1, 1990 or later and hired between December 31, 2006 and March 1, 2017</td><td>10 years</td><td>Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.</td></tr>
<tr><td>15 years</td><td>Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.</td></tr>
<tr><td rowspan="2">Hired on or after March 1, 2007</td><td>15 years</td><td>Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.</td></tr>
<tr><td>20 years</td><td>Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.</td></tr>
</table>

(Continued)

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Provided (Continued)

	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 retirees 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 retirees 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 25 years	Medical coverage is provided for retiree. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less. Medical, dental, and vision coverages are provided for retiree and one eligible dependent. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable 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.

(Continued)

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Provided (Continued)

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
Unclassified At Will	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.

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

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

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

Valley Water allocated approximately 45.8% of the District's net OPEB liability, deferred outflows and inflows of resources and OPEB expense to the Funds based on the Funds' share of the District's total average salaries for the fiscal year ended June 30, 2025. As a result, the Funds recorded a net OPEB liability of $41.1 million, deferred outflows of resources of $23.0 million and deferred inflows of resources of $2.1 million as of June 30, 2025. The Funds recorded OPEB expense of $12.5 million for the year ended June 30, 2025.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2025 for more information about the District's OPEB plan and required note disclosures in accordance with GASB Statement No. 75.

NOTE 12 RISK MANAGEMENT

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

Valley Water is self-insured for various types of coverage. The self-insured retention (SIR) and maximum coverage are as follows (in thousands):

Coverage Descriptions	Commercial Insurance SIR	Coverage
General liability	$ 3,000	$ 50,000
Worker's compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	500,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) - Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	100,000
Cyber liability	50	10,000

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 expenses. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. This liability is Valley Water's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2025, for more information about Valley Water's claims payable.

NOTE 13 INTERFUND TRANSFERS

Transfers made during fiscal year 2025 are shown below (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount	Description
Water Enterprise Fund	Safe, Clean Water & Nat. Flood Prot'n	$ 6,330	Anderson Dam Seismic Retrofit
Water Enterprise Fund	Safe, Clean Water & Nat. Flood Prot'n	1,125	Water Conservation Program
Water Enterprise Fund	General Fund	1,987	Open Space Credit
Water Enterprise Fund	Watershed and Stream Stewardship	1,986	Open Space Credit
Transfers in from District		$ 11,428	
General Fund	Water Enterprise Fund	$ (180)	Security upgrade
General Fund	Water Enterprise Fund	(891)	HQ Building Project
General Fund	Water Enterprise Fund	(2,572)	Budget Adjustments
Safe, Clean Water & National Flood Protection	Water Enterprise Fund	(3,000)	Infrastructure Reliability Plan, Phase 2
Information Technology Fund	Water Enterprise Fund	(4,201)	IT capital project
Transfers out to District		$ (10,844)	

NOTE 14 COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2025, the Funds have open purchase commitments of approximately $227.8 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

In 2007, Valley Water entered into a contract with the United States of America Bureau of Reclamation for water deliveries from the Central Valley Project (CVP). The contract requires the District to operate Reach 1, Reach 2, and Reach 3 of the San Felipe Division facilities.

On May 11, 2020, there was an amendment to this contract. The amended contract provided for compliance with the Water Infrastructure Improvements for the Nation Act (WIIN Act) and converted it from a water service to a repayment contract. This conversion required that Valley Water repay by lump sum its remaining share of capital costs for the CVP except for those capital costs associated with the San Felipe Division facilities. In accordance with the original contract, Valley Water's share of capital costs for the San Felipe Division facilities are repaid through semi-annual payments according to a payment schedule. To become fully enforceable, the repayment contract requires that Valley Water secure a final judgment from a court of competent jurisdiction that the contract is valid. This court proceeding has been initiated and is awaiting judgment.

The conversion of Valley Water's contract, as well as the contracts for all CVP contractors that elected to convert their contract pursuant to the WIIN Act, is subject to legal challenge by several environmental groups, which alleged violations of the National Environmental Policy Act and the federal Endangered Species Act.

Under the contract, the total commitment for repayment, including applicable interest, was $432.7 million. The remaining commitment as of June 30, 2025 was $146.0 million.

(c) Participation Rights in Storage Facilities

In December 1995, Valley Water entered into a water banking and exchange program with the Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is $46.9 million based on a 35 percent participation level in the program. Valley Water pays the program capital costs when storing and recovering Tier 1 water. The participation rights of $46.9 million are recorded as a component of Capital assets and are amortized using the straight-line method over the life of the agreement. Amortization of $34.6 million has been recorded through fiscal year 2025. This agreement terminates in December 2035.

Under the terms of the program, upon withdrawal by Valley Water of all 148,749 acre-feet of remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs. The 2025 rate to retrieve Tier 1 water is $95.18 per acre-foot. During the first 10 years of the program, Valley Water had a reservation to participate in 35% of the original banking program. At the end of calendar year 2005, Valley Water made the necessary payments to secure the full 35% participation level in the program. As a result, Valley Water has a current storage allocation of 350,000 acre-feet. As of June 30, 2025, Valley Water has approximately 304,084 acre-feet of water in storage.

NOTE 14 COMMITMENTS (CONTINUED)

(c) Participation Rights in Storage Facilities (Continued)

Semitropic Water Storage District has reported elevated concentrations of 1, 2, 3 trichloropropane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections will impact banking operations. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies. Semitropic is currently in litigation against manufacturers of these chemicals. Because the semitropic water bank is located in Kern County, downstream of Valley Water, banked water must be returned by exchange with State Water Project water from the Delta. In critically dry years or in the event of a Delta disruption, there may be insufficient State Water Project supplies to facilitate withdrawal of supplies from the bank.

(d) Partnership Agreement Between Valley Water, the City of Palo Alto, and the City of Mountain View to Advance Resilient Water Reuse Programs in Santa Clara County

On December 10, 2019, the Board approved an agreement between Valley Water and its local partners, the City of Palo Alto and Mountain View, to further develop water supplies and infrastructure to meet the County's water supply needs. The three main parts of the agreement include: (1) funding a local salt removal facility, owned and operated by Palo Alto, to provide a higher quality of recycled water for irrigation and cooling towers, (2) an effluent transfer option to Valley Water for a regional purification facility (referred to as the "Regional Plant"), owned and operated by Valley Water, to provide advanced purified water for potable reuse, and (3) a water supply option for the cities of Palo Alto and Mountain View to request an additional supply if needed.

Under this partnership agreement, the financial impact to Valley Water includes funding the local salt removal facility in the amount of $16.0 million, which may be sourced as a component of the Expedited Purified Water Program. Valley Water will also pay $0.2 million per year, starting in year one to culminate in year thirteen, or at startup of the regional purification facility, whichever occurs first. Finally, Valley Water will pay $1.0 million per year for the effluent once startup of the regional purification facility has been initiated. Such annual payments will escalate annually based on the factors outlined in the partnership agreement and would be paid for with water charge related revenues. Timing of such payments are still to be determined. In February 2024, the Valley Water Board of Directors placed the project to build a regional purification facility on hold due to affordability issues.

NOTE 15 CONTINGENCIES

(a) Litigation

It is normal for a public entity like Valley Water, with its size and activities, to be a defendant, codefendant, or cross-defendant in court cases in which money damages are sought. A number of claims and suits are pending against Valley Water for alleged damages arising out of matters usually incident to its operations. Although the aggregate amount asserted for such lawsuits and claims is significant, in the opinion of Valley Water management, Valley Water has reasonable defenses against such claims, thus the ultimate loss, if any, relating to these claims and suits not covered by insurance or reflected on the Funds' financial statements, will not materially affect the financial position of the Funds.

NOTE 15 CONTINGENCIES (CONTINUED)

(a) Litigation (Continued)
For a discussion of all pending litigations that Valley Water is aware of which are significant and may have a potential impact on Valley Water's financial statements, refer to Note 16 of the Santa Clara Valley Water District's Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2025.

(b) Grants and Subventions
Valley Water has received federal and state grants for specific purposes that are subject to review and audit. Although such audits could result in expenditure disallowances under grant terms, any such disallowances are not expected to be material.

NOTE 16 CERTAIN RISK DISCLOSURES (GASB 102)

Valley Water is subject to risks arising from concentrations and constraints that could affect its ability to provide services or meet obligations. Significant concentrations include reliance on property tax revenues and imported water supplies from the State Water Project. Management has determined these risks are reasonably possible of having a substantial impact and continues to monitor and mitigate them through diversified funding, long-term planning, and debt management policies.

NOTE 17 CHANGE IN ACCOUNTING PRINCIPLE

Valley Water's beginning net position as of July 1, 2024, has been restated to reflect the implementation of GASB Statement No. 101, *Compensated Absences*, which is reported as a change in accounting principle in accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections.*

The impact of this change on the beginning net position as of July 1, 2024 (in thousands), is summarized below:

Description		Amount
Net position – beginning of year, as previously reported	$	1,220,050
Decrease in compensated absences liability due to implementation of GASB 101		728
Net position – beginning of year, as restated	$	1,220,778

NOTE 18 SUBSEQUENT EVENTS

Events have been evaluated subsequent to the balance sheet date through July 8, 2026, the date the financial statements were available to be issued. Based upon this evaluation, no events have occurred that require adjustment to or disclosure in the financial statements except as noted below:

- On August 26, 2025, the Valley Water Board of Directors voted to suspend development of the proposed Pacheco Reservoir Expansion Project. The Board also directed Interim CEO Melanie Richardson to prepare a plan to close out the project, withdraw the agency's application for state funding through the Water Storage Investment Program (WSIP), and terminate the associated $1.4 billion Water Infrastructure Finance and Innovation Act (WIFIA) loan. The decision followed a staff update that identified several challenges, including rising costs, longer timelines for environmental reviews, uncertainty in regulations, and complex permitting processes.

  On November 14, 2025, Valley Water, the PFFC and the United States EPA executed an agreement to terminate the WIFIA loan and related documents for the Pacheco Reservoir Expansion Project.

- On September 10, 2025, Valley Water closed on $200.1 million of bond issuances, comprised of $109.4 million of tax-exempt bonds and $90.7 million of taxable bonds for the Water Utility capital program. The bond proceeds were primarily used to refund outstanding short-term debt issued for Water Utility capital projects and refund the Series 2016A and 2016C bonds for debt service savings. The obligation of Valley Water to pay principal and interest of the bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and is payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

- On October 1, 2025, the Federal Government shut down as funding expired and no new appropriations had been passed. As such, Valley Water expects reimbursement claims associated with Federal grants to be delayed. The most significant Federal grant is an $80 million grant from the Natural Resources Conservation Service (NRCS) to pay for the phase 2b portion of the Upper Llagas Creek Flood Protection Project. Outstanding reimbursement claims to date total $5.9 million.

SUPPLEMENTARY INFORMATION

Year ended June 30, 2025 (Dollars in Thousands)

	North County	South County	Total
Operating Revenues:			
Ground Water Charges	$ 155,422	$ 20,751	$ 176,173
Treated Water Charges	202,844	-	202,844
Surface and recycled water charges	2,142	813	2,955
Other	7,947	-	7,947
Total Operating revenues	368,355	21,564	389,919
Operating Expenses			
Sources of Supply	130,114	12,446	142,560
Water Treatment	56,106	639	56,745
Transmission and distribution:			
Raw Water	15,843	4,610	20,453
Treated Water	1,916	-	1,916
Administration and general	26,941	8,961	35,902
Capital Cost Recovery	(7,291)	7,291	-
Total Operating Expenses	223,629	33,947	257,576
Operating income	144,726	(12,383)	132,343
Nonoperating revenues (expenses):			
Property Taxes	36,943	4,293	41,236
Investment Income	17,842	-	17,842
Operating Grants	4,807	78	4,885
Rental Income	111	42	153
Other	8,906	338	9,244
Interest and fiscal agent fees	(43,210)	-	(43,210)
Open Space Credit Transfer	(10,485)	10,485	-
Interest earned credit	(136)	136	-
Net Operating revenues	14,778	15,372	30,150
Change in Net Position	$ 159,504	$ 2,989	$ 162,493

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

Change in net position	$ 162,493
Depreciation and amortization expenses not budgeted	(23,898)
Capital contributions	3,030
Interfund transfers	584
Reconcile GAAP to budgetary basis for operating expenses	36,281
Change in net position per Statement of Revenues, Expenses and Change in Net Position	$ 178,490

Year ended June 30, 2025 and 2024 (Dollars in Thousands)

	North County		South County		Total	
	2025	2024	**2025**	2024	**2025**	2024
Operating revenues:						
Ground water charges	**$ 155,422**	$ 130,765	**$ 20,751**	$ 17,982	**$ 176,173**	$ 148,747
Treated water charges	**202,844**	169,633	**-**	-	**202,844**	169,633
Surfaced and recycled					**-**	-
water charges	**2,142**	1,500	**813**	761	**2,955**	2,261
Total water charges	**360,408**	301,898	**21,564**	18,743	**381,972**	320,641
Other	**7,947**	3,694	**-**	-	**7,947**	3,694
Total operating revenues	**368,355**	305,592	**21,564**	18,743	**389,919**	324,335
Operating expenses:						
Source of supply	**130,114**	92,438	**12,446**	11,241	**142,560**	103,679
Water treatment	**56,106**	51,415	**639**	623	**56,745**	52,038
Transmission and distribution:					**-**	-
Raw water	**15,843**	16,238	**4,610**	4,598	**20,453**	20,836
Treated water	**1,916**	2,920	**-**	-	**1,916**	2,920
Cost of goods sold	**203,979**	163,011	**17,695**	16,462	**221,674**	179,473
Administration and general	**26,941**	25,511	**8,961**	8,489	**35,902**	34,000
Capital cost recovery	**(7,291)**	(6,116)	**7,291**	6,116	**-**	-
Total operating expenses	**223,629**	182,406	**33,947**	31,067	**257,576**	213,473
Operating income (loss)	**144,726**	123,186	**(12,383)**	(12,324)	**132,343**	110,862
Non- operating income (expenses) :						
Property taxes	**36,943**	35,010	**4,293**	4,048	**41,236**	39,058
Investment income	**17,842**	20,230	**-**	-	**17,842**	20,230
Operating grants	**4,807**	5,139	**78**	45	**4,885**	5,184
Rental income	**111**	119	**42**	54	**153**	173
Other	**8,906**	3,602	**338**	223	**9,244**	3,825
Interest/ fiscal agent fees	**(43,210)**	(38,288)	**-**	-	**(43,210)**	(38,288)
Open space credit transfer	**(10,485)**	(7,595)	**10,485**	7,595	**-**	-
Interest earned credit	**(136)**	(125)	**136**	125	**-**	-
Net non- operating income	**14,778**	18,092	**15,372**	12,090	**30,150**	30,182
Net income (loss)	**$ 159,504**	$ 141,278	**$ 2,989**	$ (234)	**$ 162,493**	$ 141,044

Budgetary basis discussion:

- The Funds' total operating revenues were $389.9 million for the current fiscal year. 94.5 percent of those revenues, or $368.3 million were related to the North County, while the remaining 5.5 percent or $21.6 million were related to the South County.

- Operating expenses for North County include $204.0 million in cost of goods sold, or 55.4 percent of its total operating revenues. For the South County, the cost of goods sold is $17.7 million.

- Administration and general expenses were $26.9 million or 7.3 percent of total operating revenues for the North County and $9.0 million or 41.6 percent of total operating revenues for the South County.

- Total operating revenues of $389.9 million, less total operating expenses of $257.6 million, netted $132.3 million of income from operations for the current year. The North County recorded a net operating income of $144.7 million, while the South County incurred a net operating loss of $12.4 million.

Total income from operations was supplemented with property tax, operating grants, investment income (loss) and other income totaling $73.4 million.

- Property taxes collected in North County amounted to $36.9 million, while $4.3 million were collected in South County for a total of $41.2 million. These are comprised of the voter-approved obligations for the State Water Project and the water utility's allocated share of the countywide 1 percent ad valorem taxes.

- Investment earnings for the current fiscal year were $14.7 million. $3.1 million unrealized gain in the portfolio's fair market value were recognized due to the increase in the portfolio's market value at the end of the current fiscal year, resulting in a total investment income of $17.8 million.

Water Utility Enterprise Funds Rate Summary

	Rate
Groundwater	
Zone W- 2 North County - Agricultural	$ 39.80
Zone W- 2 North County - Non- Agricultural	2,229.00
Zone W- 5 South County - Agricultural	39.80
Zone W- 5 South County - Non- Agricultural	579.00
Zone W- 7 South County - Agricultural	39.80
Zone W- 7 South County - Non- Agricultural	750.50
Zone W- 8 South County - Agricultural	39.80
Zone W- 8 South County - Non- Agricultural	430.00
Treated Water	
Contract (Scheduled) (2)	2,344.00
Non- Contract (3)	2,429.00
Surface Water (Basic User Charge)	
Zone W- 2 North County - Agricultural	100.80
Zone W- 2 North County - Non- Agricultural	2,290.00
Zone W- 5 South County - Agricultural	100.80
Zone W- 5 South County - Non- Agricultural	640.00
Zone W- 7 South County - Agricultural	100.80
Zone W- 7 South County - Non- Agricultural	811.50
Zone W- 8 South County - Agricultural	100.80
Zone W- 8 South County - Non- Agricultural	491.00
Water Master (1)	61.00
Reclaimed Water	
Gilroy Reclamation Facility – Agricultural	70.15
Gilroy Reclamation Facility – Non- Agricultural	559.00

(1) The surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge.

(2) The total treated water contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the contract surcharge.

(3) The total treated water non-contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the non-contract surcharge.

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655 N Central Avenue, Suite 1550 • Glendale, California 91203-1437 • +1.213.873.1700