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

Annual Financial Report
For the Fiscal Year Ended June 30, 2017

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SANTA CLARA VALLEY WATER DISTRICT
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Table of Contents

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Enterprise Fund and the State Water Projects Fund (Funds) of the Santa Clara Valley Water District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Funds basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Funds, as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter
As described in Note 2, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the District, as of June 30, 2017, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

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

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
June 30, 2018

WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Santa Clara Valley Water District's Water Utility Enterprise Funds (the "Funds") provide an overview of the Funds financial activities for the fiscal year ended June 30, 2017. This information is presented in conjunction with the audited financial statements that follow this section.

The Funds account for the management and supply of wholesale treated water, groundwater, recycled water, and surface water for the residents of Santa Clara County. The Funds are separate enterprise funds of the Santa Clara Valley Water District (District) that were established to account for the water utility transactions of the District. The Funds are comprised of two funds – Water Enterprise Fund and State Water Project Fund. The Water Enterprise Fund is used to record ongoing water utility operations, with revenues comprised primarily of charges to the District'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 benefit to the North County and South County zones. Likewise, the District's water charges between the two zones are set independently.

The District engaged Vavrinek, Trine, Day & Co., LLP to conduct the audit of the District's Funds for the fiscal year ended June 30, 2017. The purpose of the audit was to analyze the reasonableness of the allocations of cost and revenue between the two groundwater charge zones within the Funds, the North County zone, and the South County zone.

Overview of the Financial Statements

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

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

The following items comprise the statements of the Funds:

- *The Statement of Net Position* presents information on the Funds' assets, deferred outflow, deferred inflow 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.

The Funds record the financial transactions in a manner similar to a private business enterprise. Operations are recorded at full accrual and accounted for to show net income or loss. The Funds are intended to be entirely or predominantly self-supported by user charges.

Financial Highlights

Water Utility Enterprise Funds Net Position
(Dollars in Thousands)

	2017	2016
Current and other assets	$ 200,240	$ 178,367
Capital assets	1,061,689	962,392
Other non current assets	24,722	78,461
Total assets	1,286,651	1,219,220
Deferred outflow of resources		
Deferred amount on refunding	498	2,355
Pension activities	20,404	7,288
	20,902	9,643
Current liabilities	71,652	38,704
Litigation - claim	-	7,386
Long-term liabilities outstanding	521,676	523,370
Total liabilities	593,328	569,460
Deferred inflow of resources	3,575	5,891
Net position:		
Net investment in capital assets	623,828	598,075
Restricted	52,118	24,552
Unrestricted	34,704	30,885
Total net position	$ 710,650	$ 653,512

The total net position of the Funds amounted to $710.7 million at June 30, 2017. The largest portion of the Funds' net position (87.8% or $623.8 million) reflects investment in capital assets (e.g., land, buildings, infrastructure, machinery, equipment, and contract water rights) less any related debt outstanding used to acquire the capital assets. These capital assets are used to provide services to citizens and consumers. Consequently, these assets are not available for future spending. Although the Funds' investment in its capital assets is reported net of related debts, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets, net of related debt, increased by 4.3% or $25.8 million from the previous fiscal year.

Current fiscal year major additions to capital assets for business type activities include the following (in millions):

- $41.8 – Rinconada Water Treatment Plant Reliability Improvement
- $15.3 – Penitencia Force Main Seismic Retrofit
- $10.3 – Wolfe Road Recycled Water Facility
- $7.6 – Penitencia Del Main Seismic Retrofit
- $6.8 – Fluoridation at Water Treatment Plants
- $5.8 – Indirect Potable Reuse-Plan C
- $4.7 – Anderson Dam Seismic Retrofit
- $4.2 – Penitencia Water Treatment Plant Clearwall Recoat and Repair
- $4.1 – Infrastructure Reliability Program Water Treatment Plant Buildings Seismic Retrofit
- $3.2 – South County Recycled Water
- $2.8 – Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications
- $2.5 – Guadalupe Dam Seismic Retrofit Design and Construction
- $2.1 – Calero Dam Seismic Retrofit Design and Construction
- $1.8 – 5-year Pipeline Rehabilitation
- $1.1 – Dam Safety Seismic Stability
- $1.1 – South County Recycled Water Pipeline
- $1.0 – Almaden Dam Improvements

Net position categorized as “unrestricted” may be used to meet ongoing obligations to citizens, customers, and creditors. The Funds’ unrestricted net position of $34.7 million represents an increase of $3.8 million or 12.4% when compared to the prior fiscal year.

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

	2017	2016
Revenues:		
Ground water charges	$ 67,937	$ 61,128
Treated water charges	122,212	89,375
Surface and recycled water charges	747	732
Operating grants	2,037	2,074
Capital grants and contributions	17,527	3,177
Property taxes	44,786	30,535
Investment income	979	2,925
Miscellaneous	2,527	4,892
Total revenues	258,752	194,838
Expenses:		
Operating expenses	185,941	197,129
Nonoperating and other expenses	17,575	13,015
Total expenses	203,516	210,144
Change in net position before transfers	55,236	(15,306)
Transfers	1,902	19,873
Change in net position	57,138	4,567
Net position, beginning	653,512	648,945
Net position, ending	$ 710,650	$ 653,512

Net position of the Funds of $710.7 million increased by $57.1 million compared to the prior fiscal year. Total revenues and expenses amounted to $258.7 million and $203.5 million, respectively. Net transfers added $1.9 million to the ending net position of the current fiscal year.

Compared to the prior fiscal year, total revenues increased by $63.9 million, while expenses went down by $6.6 million. Key elements of the changes in current fiscal year revenues and expenses, when compared to the prior year are as follows:

- Revenue from treated water went up by $32.8 million or 36.7% due to higher water usage from customers and from the rate increase from the previous year.

- Ground water revenue went up by $6.8 million or 11.1%, reflecting the increase in rate from the prior year.

- Capital grants and contributions increased $14.4 million due to higher reimbursement receipts from Apple, Inc, ($4.3 million), the Association of Bay Area Governments ($2.5 million), City of Sunnyvale ($1.4 million) and the Department of Water Resources ($5.7 million).

- Property taxes were $14.3 million or 46.7% higher than last fiscal year. The increase reflects the upward trend experienced in the real estate market, as well as the State Water Fund receiving a significant amount of prior year property taxes in the current fiscal year.

- Current year operating expenses decreased by $11.2 million or 5.7% compared to the prior fiscal year. Conservation rebate expenses were much lower at $3 million compared to $12.3 million in the previous fiscal year. The savings realized offset the increase in salaries and benefits resulting from the rising cost of living expenses and increased staffing level. Water banking expense went down by $4.8 million. In addition, claims and judgment expenses dropped due to the reversal of the $7.4 million Great Oaks claim liability that was conservatively accrued since fiscal year 2009.

- Nonoperating expenses comprised of interest and fiscal agent fees went up $4.6 million when compared to the prior fiscal year.

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

	North County		South County		Total	
	2017	2016	2017	2016	2017	2016
Operating revenues:						
Ground water charges	$ 56,579	$ 51,960	$ 11,358	$ 9,168	$ 67,937	$ 61,128
Treated water charges	122,212	89,375	-	-	122,212	89,375
Surfaced and recycled water charges	275	268	472	464	747	732
Total water charges	179,066	141,603	11,830	9,632	190,896	151,235
Operating grants	1,896	1,895	141	179	2,037	2,074
Other	172	175	-	-	172	175
Total operating revenues	181,134	143,673	11,971	9,811	193,105	153,484
Operating expenses:						
Source of supply	84,411	96,229	9,198	9,044	93,609	105,273
Water treatment	33,745	33,975	62	69	33,807	34,044
Transmission and distribution:						
Raw water	10,002	8,304	3,137	2,797	13,139	11,101
Treated water	1,414	1,743	-	-	1,414	1,743
Cost of goods sold	129,572	140,251	12,397	11,910	141,969	152,161
Administration and general	12,534	15,195	3,617	3,220	16,151	18,415
Capital cost recovery	(3,807)	(3,596)	3,807	3,596	-	-
Total operating expenses	138,299	151,850	19,821	18,726	158,120	170,576
Operating income (loss)	42,835	(8,177)	(7,850)	(8,915)	34,985	(17,092)
Non-operating income (expenses):						
Property taxes	41,074	27,745	3,712	2,790	44,786	30,535
Investment income	979	2,925	-	-	979	2,925
Rental income	79	76	33	33	112	109
Other	2,048	4,207	195	401	2,243	4,608
Interest/fiscal agent fees	(17,575)	(13,015)	-	-	(17,575)	(13,015)
Open space credit transfer	(6,162)	(6,897)	6,162	6,897	-	-
Interest earned credit	(90)	(86)	90	86	-	-
Net non-operating income	20,353	14,955	10,192	10,207	30,545	25,162
Net income (loss)	$ 63,188	$ 6,778	$ 2,342	$ 1,292	$ 65,530	$ 8,070

Budgetary basis discussion:

- The Funds' total operating revenues were $193.1 million during the current fiscal year. Ninety-four percent of those revenues, or $181.1 million were related to the North County, while the remaining six percent or $12.0 million were related to the South County.

- Operating grants applied for and received were $1.9 million and $141 thousand for the North County and South County, respectively. These grants helped to fund water conservation, landscape water efficiency, raw water field maintenance and operations, and recycled/reclaimed water programs.

- Operating expenses for the North County include $129.6 million in cost of goods sold, or 71.5 percent of its total operating revenues. For the South County, cost of goods sold is $12.4 million or 103.6 percent of its total operating revenues.

- Administration and general expenses is 6.9 percent of total operating revenues in the North County and 30.2 percent of total operating revenues in the South County.

- Total operating revenues of $193.1 million less total operating expenses of $158.1 million netted $35.0 million of income from operations. The North County registered a net operating gain of $42.9 million, while the South County suffered a loss of $7.9 million.

Operations is supplemented with property tax and investment earnings totaling $45.8 million.

- Property taxes collected in the North County amounted to $41.1 million, while $3.7 million were collected in South County for a total of $44.8 million. These are comprised of the voter approved obligations for State Water Project and the water utility's allocated share of the countywide 1 percent ad valorem taxes.

- Current fiscal year investment earnings of $979 thousand were down 66 percent compared to the $2.9 million earned in the previous fiscal year.

Overall budgetary basis net income was $65.5 million. The North County earned $63.2 million, while the South County earned $2.3 million.

The following table shows the rates for water services for fiscal year 2017

Water Utility Enterprise Funds Rate Summary
Adopted 2016-17

	Rate
Groundwater	
North County – Agricultural	$ 23.59
North County – Non-Agricultural	1,072.00
South County – Agricultural	23.59
South County – Non-Agricultural	393.00
Treated Water	
Contract (Scheduled)	1,172.00
Non-Contract	1,272.00
Untreated Water	
North County – Agricultural	23.59
North County – Non-Agricultural	1,072.00
South County – Agricultural	23.59
South County – Non-Agricultural	393.00
Water Master	27.46
Minimum Charge	
North County – Non-Agricultural	804.00
South County – Non-Agricultural	294.75
North County – Agricultural[1]	17.69
South County – Agricultural[1]	17.69
Reclaimed Water	
Gilroy Reclamation Facility – Agricultural	47.38
Gilroy Reclamation Facility – Non-Agricultural	373.00

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

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

Capital Assets

The Funds' capital asset balance, net of accumulated depreciation, at June 30, 2017 amounts to $1.06 billion. Capital asset composition includes land, intangible rights, buildings, structures and improvements, machinery and equipment, and construction in progress. Capital assets for the current fiscal year went up $99.3 million or 10.3%.

Cost incurred during the fiscal year for major capital projects in progress include the following (in millions):

- $41.8 – Rinconada Water Treatment Plant Reliability Improvement
- $15.3 – Penitencia Force Main Seismic Retrofit

- $10.3 – Wolfe Road Recycled Water Facility
- $7.6 – Penitencia Del Main Seismic Retrofit
- $6.8 – Fluoridation at Water Treatment Plants
- $5.8 – Indirect Potable Reuse-Plan C
- $4.7 – Anderson Dam Seismic Retrofit
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- $1.8 – 5-year Pipeline Rehabilitation
- $1.1 – Dam Safety Seismic Stability
- $1.1 – South County Recycled Water Pipeline
- $1.0 – Almaden Dam Improvements

A fiscal year comparative breakdown of the categories of capital assets for the Funds is shown below.

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

	2017	2016
Land	$ 19,180	$ 19,180
Easements	162	146
Contract water and storage rights	45,757	48,179
Buildings	84,533	79,316
Structures and improvements	599,122	484,655
Equipment	6,406	7,014
Construction in progress	306,529	323,902
Total	$ 1,061,689	$ 962,392

Additional information on the Funds capital assets activity for fiscal year 2017 is shown in Note 6, page 36 of this report.

Debt Administration

The Funds' total long-term debts at June 30, 2017 amount to $532.1 million. A comparative breakdown of its long-term debts is shown below:

Water Utility Enterprise Funds Outstanding Debt Obligations
(Dollars in Thousands)

	2017	2016
Revenue bonds	$ 394,655	$ 408,525
Compensated absences	4,990	4,775
Net pension liability	89,563	73,840
Semitropic water banking	4,473	4,473
Other post employment benefits	(516)	(46)
Litigation claim	-	7,386
Bond discount	(155)	(379)
Premium on bond issue	39,101	31,942
Total	$ 532,111	$ 530,516

Total long-term debts increased by $1.6 million during the current fiscal year, mainly from the $15.7 million increase in net pension liability. In May 2017, proceeds from the issuance of the 2017A Water Utility Revenue Bonds were used to pay off the outstanding balance of the 2007A Water Enterprise Revenue Bonds, the result of which reduced the outstanding balance of the revenue bond liability by $13.9 million.

The credit ratings of the Funds' senior lien obligations (Series 2006A and 2007A) are Aa1 from Moody's, and AA- from Standard & Poor's. The Funds' parity lien obligations (Series 2016ABCD and Series 2017A) are rated Aa1 from Moody's and AA+ from Fitch.

Additional information on the Funds' long-term liabilities can be found in Note 7(b), page 38 of this report.

Economic Factors and Next Year's Budgets and Rates

The District's $501.2 million budget for fiscal year 2018 will focus on the following initiatives:

- Making key decisions regarding the California WaterFix.
- Prioritizing the care of our District facilities and assets.
- Advancing the District's interest in Countywide stormwater resource planning.
- Providing for a watershed-wide regulatory planning and permitting effort.
- Fostering a coordinated approach to environmental stewardship efforts.
- Advancing the Anderson Dam Seismic Retrofit Project.
- Advancing the recycled and purified water efforts with San Jose and other agencies.
- Finalizing the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE).
- Actively pursuing efforts to increase water storage opportunities.
- Advancing diversity and inclusion efforts.
- Ensuring immediate emergency action plans and flood protection are provided for Coyote Creek.

Requests for Information

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

Basic Financial Statements

WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT
Statement of Net Position
June 30, 2017
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total
ASSETS			
Current assets:			
Cash and investments (Note 3)	$ 146,565	$ 9,689	$ 156,254
Receivables:			
Accounts	35,081	9	35,090
Taxes	77	310	387
Deposits and other assets	8,509	-	8,509
Total current assets	190,232	10,008	200,240
Non current assets:			
Restricted cash and investments (Note3)	24,035	-	24,035
Prepaid insurance on bond issuance	171	-	171
Other post employment benefits prepayment	516	-	516
Capital assets: (Note 6)			
Contract water rights, net	27,813	17,944	45,757
Depreciable, net	690,061	-	690,061
Nondepreciable	325,871	-	325,871
Total non current assets	1,068,467	17,944	1,086,411
Total assets	1,258,699	27,952	1,286,651
DEFERRED OUTFLOW OF RESOURCES			
Deferred amount on refunding	498	-	498
Deferred outflow of resources - pension activities	20,404	-	20,404
	20,902	-	20,902
LIABILITIES			
Current liabilities:			
Accounts payable	18,600	-	18,600
Accrued liabilities	7,118	-	7,118
Commercial paper, net of discount	24,230	-	24,230
Deposits payable	8,074	-	8,074
Accrued interest payable	1,472	-	1,472
Unearned revenue	1,207	-	1,207
Revenue bonds - current (Note 7)	9,826	-	9,826
Compensated absense	1,125	-	1,125
Total current liabilities	71,652	-	71,652
Non current liabilities:			
Long-term debt: (Note 7)			
Revenue bonds (net of unamortized discount)	423,776	-	423,776
Compensated absense	3,864	-	3,864
Other debt	4,473	-	4,473
Net pension liability (Note 10)	89,563	-	89,563
Total long-term debt	521,676	-	521,676
Total non current liabilities	521,676	-	521,676
Total liabilities	593,328	-	593,328
DEFERRED OUTFLOW OF RESOURCES - Pension Activities	3,575	-	3,575
NET POSITION (Note 9)			
Net investment in capital assets	605,884	17,944	623,828
Restricted			
San Felipe operations	2,953	-	2,953
Rate stabilization	19,974	-	19,974
State water projects	-	10,008	10,008
Advance water purification	1,906	-	1,906
Supplmental water supply	14,277	-	14,277
Drought reserve	3,000	-	3,000
Unrestricted	34,704	-	34,704
Total net position	$ 682,698	$ 27,952	$ 710,650

See accompanying notes to basic financial statements.

WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017
(Dollars in Thousands)

	Water Enterprise Fund	State Water Fund	Total
Operating revenues:			
Ground water production charges	$ 67,937	$ -	$ 67,937
Treated water charges	122,212	-	122,212
Surface and recycled water revenue	747	-	747
Other	172	-	172
Total operating revenues	191,068	-	191,068
Operating expenses:			
Sources of supply	63,885	29,724	93,609
Water treatment	33,807	-	33,807
Transmission and distribution:			
Raw water	13,139	-	13,139
Treated water	1,414	-	1,414
Administration and general	16,151	-	16,151
Depreciation and amortization	26,877	944	27,821
Total operating expenses	155,273	30,668	185,941
Operating income (loss)	35,795	(30,668)	5,127
Nonoperating revenues (expenses):			
Property taxes (Note 8)	6,682	38,104	44,786
Investment income (Note 5)	979	-	979
Operating grants	2,037	-	2,037
Rental income	112	-	112
Other	1,034	1,209	2,243
Interest and fiscal agent fees	(17,575)	-	(17,575)
Net nonoperating revenues	(6,731)	39,313	32,582
Income before capital contributions and transfers	29,064	8,645	37,709
Capital contributions (Note 4)	17,527	-	17,527
Transfers in (Note 13)	4,282	-	4,282
Transfers out (Note 13)	(699)	(1,681)	(2,380)
Change in net position	50,174	6,964	57,138
Net position, beginning of year	632,524	20,988	653,512
Net position, end of year	$ 682,698	$ 27,952	$ 710,650

See accompanying notes to basic financial statements.

WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2017
(Dollars in Thousands)

	Water Enterprise Fund	State Water Fund	Total
Cash flows from operating activities:			
Receipts from customers and users	$ 178,744	$ (9)	$ 178,735
Payments to suppliers	(70,884)	(30,200)	(101,084)
Payments to employees	(72,387)	-	(72,387)
Reimbursement/(payments) for interfund charges	5,193	-	5,193
Net cash provided by (used for) operating activities	40,666	(30,209)	10,457
Cash flows from noncapital financing activities:			
Property taxes received	6,644	37,921	44,565
Operating grants	2,037	-	2,037
Well permits, refunds and adjustments	1,034	1,209	2,243
Transfers in from other funds	4,282	-	4,282
Transfers out to other funds	(699)	(1,681)	(2,380)
Net cash provided by noncapital financing activities	13,298	37,449	50,747
Cash flows from capital and related financing activities:			
Refunding of revenue bonds	(6,282)	-	(6,282)
Issuance of commercial papers	24,230	-	24,230
Capital grants	17,527	-	17,527
Interest and fiscal agent fees paid	(17,686)	-	(17,686)
Payment for contract water rights	(8,765)	-	(8,765)
Acquisition and construction of capital assets	(118,286)	-	(118,286)
Net cash used by capital and related financing activities	(109,262)	-	(109,262)
Cash flows from investing activities:			
Decrease/(increase) in restricted investments	54,005	-	54,005
Rental income received	112	-	112
Interest received on cash and investments	978	-	978
Net cash provided by investing activities	55,095	-	55,095
Net increase/(decrease) in cash and cash equivalents	(203)	7,240	7,037
Cash and cash equivalents, beginning of year	146,768	2,449	149,217
Cash and cash equivalents, end of year	$ 146,565	$ 9,689	$ 156,254
Cash and cash equivalents are reported on the Statement of Net Position as follows:			
Cash and investments	$ 146,565	$ 9,689	$ 156,254
Restricted cash and investments	24,035	-	24,035
Less cash and investments not meeting the definition of cash equivalents	(24,035)	-	(24,035)
Cash and cash equivalents, end of year	$ 146,565	$ 9,689	$ 156,254
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 35,795	$ (30,668)	$ 5,127
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation, amortization and asset deletion	26,813	944	27,757
Change in operating assets and liabilities:			
(Increase)/decrease in deposits and other assets	(2,284)	-	(2,284)
(Increase)/decrease in accounts receivable	(12,324)	(9)	(12,333)
Increase/(decrease) in accounts payable	(1,859)	(476)	(2,335)
Increase/(decrease) in accrued liabilities	2,758	-	2,758
Increase/(decrease) in unearned revenues	(4,943)	-	(4,943)
Increase/(decrease) in compensated absences	214	-	214
Increase/(decrease) in deposits payable	2,204	-	2,204
Increase/(decrease) in litigation claims	(7,386)	-	(7,386)
Increase/(decrease) in other post employment benefits payable	(470)	-	(470)
Increase/(decrease) in deferred outflow/inflow of resources	(13,575)	-	(13,575)
Increase/(decrease) in pension liabilities	15,723	-	15,723
Net cash provided (used) by operating activities	$ 40,666	$ (30,209)	$ 10,457
Noncash investing, capital, and financing activity:			
Purchase of capital assets on account	$ 66	$ -	$ 66

See accompanying notes to basic financial statements.

(1) THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

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

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

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

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Fund Financial Statements

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

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

(b) Basis of Accounting

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

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

(c) Cash and Investments

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

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

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

(d) Inventory

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

(e) Capital Assets

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

The estimated useful lives are as follows:

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

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

(f) Amortization of Contract Water Rights

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

(g) Amortization of Water Banking Rights

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

(h) Amortization of Water Delivery Rights

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

(i) Receivables

Receivables include amounts due from water utility customers as well as amounts due for property taxes and interest on investments. All receivables are shown net of an allowance for doubtful accounts of $365 thousand.

(j) Accrued Vacation and Sick Leave Pay

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

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

(k) Bond Premiums, Discounts and Issuance Costs

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

On the statement of net position and the statement of revenues, expenses, and changes in net position, premiums and discounts related to outstanding debt are deferred and amortized over the life of the debt obligation. Prepaid insurance associated with the issuance of debts are reported as prepaid expenses.

(l) Accounting for Encumbrances

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

(m) Net Position

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

(n) Estimates

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

(o) Pensions

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

(p) Fair Value Measurement

The District has applied Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The District categorizes the fair value measurement of its investment based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices for active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

(q) 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 or resources (revenues) until such time.

(r) New Pronouncements

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

Current Accounting Pronouncements:

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016, or the 2016-17 fiscal year. This Statement is not applicable to the District.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77 – *Tax Abatement Disclosures.* The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The requirements of this Statement are effective for the financial statements for periods beginning after December 15, 2015, or the 2016-17 fiscal year. The District has determined that this Statement does not have a material impact on the financial statements.

GASB Statement No. 78 – In December 2015, GASB issued Statement No 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple-employer plans. The Statement is effective for the periods beginning after December 15, 2015, or the 2016-17 fiscal year. The District has determined that this Statement does not have a material impact on the financial statements.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Statement is effective for the reporting periods beginning after June 15, 2016, or the 2016-17 fiscal year. This Statement is not applicable to the District.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of the Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, the Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Statement is effective for the reporting periods beginning after June 15, 2016, or the 2016-17 fiscal year. The District has implemented this Statement as of July 1, 2016.

Future Accounting Pronouncements:

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for fiscal years beginning after June 15, 2017, or the 2017-18 fiscal year. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split–Interest Agreements.* The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016, or the 2017-18 fiscal year. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and Postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, or the 2017-18 fiscal year. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or the 2017-18 fiscal year. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or the 2020-21 fiscal year. The District has not determined the impact of this pronouncement on the financial statements.

(3) CASH AND INVESTMENTS

The Funds pool their cash and investments with the District. The pool balance at June 30, 2017 is as follows (in thousands):

Statement of Net Position:	
Cash and investments	$ 532,245
Restricted cash and investments	39,202
Statement of Fiduciary Net Position:	
Cash and investments	196
	$ 571,643

Investments

At June 30, 2017, cash and investments based on fair market value consist of the following (in thousands):

U.S. Government Agencies	$	379,171
U.S. Treasury Obligations		25,982
Medium Term Notes		6,673
Local Agency Investment Fund		88,158
Mutual Funds		105
Supranational Obligations		8,986
Municipal Bonds		3,581
Negotiable Certificates of Deposit		490
Money Market Funds		38,847
Total Investments		551,993
Carrying amount of cash		19,650
Total Cash and Investments	$	571,643

As of June 30, 2017, the fair market value of the District's investment in the State investment pool (LAIF) is $88.1 million which consists of $63.9 million in non-restricted cash and $24.2 million in restricted bond proceeds. The $24.2 million bond proceeds are related to the 2012A and 2016C Certificate of Participation Acquisition and Construction fund. The total amount invested by all public agencies in LAIF at that date is $77.5 billion. Of that amount, 97.11% is invested in non-derivative financial products and 2.89% in asset-backed securities and medium-term and short-term structured notes. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The District 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 market value of the District's position in LAIF. The pool is not registered with the SEC.

Authorized Investments by the District

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	AA-	None	None
U.S. Government Agency Issues (A)	5 years	AA-	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	5 years	AA-	30%	3.6%
Nonnegotiable Certificates of Deposit	5 years	Satisfactory CRA	5%	$250,000 & 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%
California Local Agency Investment Fund (B)	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) LAIF will accept no more than $65 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of the District’s revenue bond resolutions and Installment Purchase Agreement for the 2012A, 2016C, and 2016D Certificates of Participation (COP) and Water Utility Revenue and Refunding Bonds 2006B, 2016A, 2016B, and 2017A, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee.

As of June 30, 2017, the amount invested in assets held by fiscal agent amounted to $6.2 million for certificates of participation and $1 thousand for revenue bonds and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

The District has construction and acquisition funds from the 2012A and 2017A Certificates of Participation (COP) which is used to pay for the capital projects on flood control and watershed improvements authorized by the COP indenture. At June 30, 2017, the balance of this fund is $8.9 million.

Additionally, the District has construction and acquisition funds from the 2016C Revenue Certificates of Participation (COP) which are used to finance the cost of water utility system improvements projects. At June 30, 2017, the balance of this fund is $23.9 million.

The District has also issued commercial paper to provide for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District. At June 30, 2017, the total balance of the taxable and the tax-exempt commercial paper certificate account is $87 thousand. Both account balances were cash transfers from the District to fiscal agent to fund maturing interest payments on commercial papers outstanding.

Authorized Investments by Debt Agreements

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

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

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

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

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

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

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

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

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

Interest Rate Risk

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

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

	Total	12 Months or less	13 to 24 Months	25 to 60 Months
U.S. Government Agencies	$ 335,300	$ 143,752	$ 121,925	$ 69,623
U.S. Government Agencies - Callable	43,871	4,445	9,447	29,979
U.S. Treasury Obligations	25,982	25,982	-	-
Medium Term Notes	6,673	1,993	-	4,680
Local Agency Investment Fund	88,158	88,158	-	-
Mutual Funds	105	105	-	-
Supranational Obligations	8,986	2,999	2,983	3,004
Municipal Bonds	3,581	635	-	2,946
Negotiable Certificates of Deposit	490	490	-	-
Money Market Funds	38,847	38,847	-	-
Total Investments	$ 551,993	$ 307,406	$ 134,355	$ 110,232

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.

The following table shows the minimum rating required by the California Government Code, the District's investment policy, or debt agreements and the actual rating as of June 30, 2017 for each investment type as provided by Standard and Poor's (in thousands):

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end AAA	AA+	AA	Not Rated
U.S. Government Agencies	$ 379,171	AA-	$ -	$ -	$379,171	$ -	$ -
U.S. Treasury Obligations	25,982	AA-	25,982	-	-	-	-
Medium Term Notes	6,673	AA-	-	3,109	1,993	-	1,571
Local Agency Investment Fund	88,158	N/A	-	-	-	-	88,158
Mutual Funds	105	AAA	-	105	-	-	-
Supranational Obligations	8,986	AA	-	8,986	-	-	-
Municipal Bonds	3,581	AA-	-	-	-	3,581	-
Negotiable Certificates of Deposit	490	AA-	-	-	-	-	490
Money Market Funds	38,847	N/A	-	-	-	-	38,847
Total Investments	$ 551,993		$ 25,982	$ 12,200	$381,164	$ 3,581	$ 129,066

Concentration of Credit Risk

The District's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and District investment policy, whichever is more restrictive. However, the District is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual District Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2017, those investments consisted of the following (in thousands):

Issuer	Investment Type	Reported Amount
Government-Wide		
Federal Home Loan Mortgage Corp.	U.S. Government Agency	$90,966
Federal National Mortgage Association	U.S. Government Agency	131,134
Federal Home Loan Bank	U.S. Government Agency	85,122
Federal Farm Credit Bank	U.S. Government Agency	68,879

Custodial Credit Risk

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

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.

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

Fair Market Value Measurement and Application

The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. 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 market prices; and
- Level 3: Unobservable inputs (not applicable to the District).

At June 30, 2017, the District had the following recurring fair value measurements:

Investment by Fair Value Level	Total	Level 1	Level 2	Uncategorized
U.S. Government Agencies	$ 379,171	$ 379,171	$ -	$ -
U.S. Treasury Obligations	25,982	25,982	-	-
Medium Term Notes	6,673	-	6,673	-
Mutual Funds	105	-	105	-
Supranational Obligations	8,986	-	8,986	-
Municipal Bonds	3,581	-	3,581	-
Negotiable Cetificate of Deposit	490		490	
Subtotal - Leveled Investments	424,988	405,153	19,835	-
Local Agency Investment Fund	88,158	-	-	88,158
Money Market Funds	38,847	-	-	38,847
Subtotal - Uncategorized	127,005	-	-	127,005
Total Investments	$ 551,993	$ 405,153	$ 19,835	$ 127,005

Deposits and withdrawals in the State Investment Pool are made on the basis of $1 and are not using fair value. Accordingly, the District's investments of $88.1 million in LAIF at June 30, 2017 are classified as uncategorized input (not classified as Level 1, Level 2, or Level 3).

(4) REIMBURSEMENT OF CAPITAL COSTS

The Funds derive certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following table is a summary of the reimbursements made during fiscal year 2017 (in thousands):

	Amount
Local Agencies:	
Apple	$ 4,259
Association of Bay Area Governments	2,454
City of Sunnyvale	1,381
San Benito County Water District	818
City of San Jose	806
Health Trust	790
CAL Water	684
California Dental Association	500
State Agencies:	
Department of Water Resources	5,765
California Office of Emergency	70
Total	$ 17,527

(5) INVESTMENT INCOME

The District earns income from the investment of cash not required for current expenditures. Beginning after June 15, 1997, the Governmental Accounting Standard Board issued GASB Statement No. 31 to establish accounting and financial reporting standards for all investments. One provision of this standard was to report investments at fair value in the balance sheets. Because of this requirement, investment income must be adjusted upwards or downwards to reflect the fair value change from one fiscal year to the next fiscal year. In making the adjustment, the investment income earned directly by the investments is modified.

The following represents the investment income as reported in the financial statements of the Funds, the current year GASB 31 fair value adjustment, and the unadjusted investment income at June 30, 2017 (in thousands):

Investment Income as Reported	Current Year GASB 31 Fair Value Adjustment	Investment Income Before Adjustment
$ 979	$ (887)	$ 1,866

(6) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows (in thousands):

	Beginning Balance	Additions	Deletions	Transfers / Reclassed	Ending Balance
Nondepreciable capital assets:					
Land	$ 19,180	$ -	$ -	$ -	$ 19,180
Intangible - Easement	146	16	-	-	162
Construction in progress	323,902	117,539	-	(134,912)	306,529
Total nondepreciable capital assets	343,228	117,555	-	(134,912)	325,871
Depreciable capital assets:					
Contract water and storage rights	188,832	8,765	-	-	197,597
Buildings	83,979	-	-	7,022	91,001
Structures and improvements	742,210	-	-	127,890	870,100
Equipment	26,929	797	(66)	-	27,660
Total depreciable capital assets	1,041,950	9,562	(66)	134,912	1,186,358
Less accumulated depreciation and amortization					
Contract water and storage rights	(140,653)	(11,187)	-	-	(151,840)
Buildings	(4,662)	(1,806)	-	-	(6,468)
Structures and improvements	(257,555)	(13,423)	-	-	(270,978)
Equipment:	(19,916)	(1,404)	66	-	(21,254)
Total accumulated depreciation and amortization	(422,786)	(27,820)	66	-	(450,540)
Net depreciable capital assets	619,164	(18,258)	-	134,912	735,818
Total capital assets, net	$ 962,392	$ 99,297	$ -	$ -	$ 1,061,689

During fiscal year 2017, new construction in progress amounted to $117.5 million. There were 27 in progress and completed projects during the fiscal year, with major project listed below (in millions):

- $41.8 - Rinconada Water Treatment Plant Reliability Improvement
- $15.3 - Penitencia Force Main Seismic Retrofit
- $10.3 - Wolfe Road Recycled Water Facility
- $7.6 - Penitencia Del Main Seismic Retrofit
- $6.8 - Fluoridation at Water Treatment Plants
- $5.8 - Indirect Potable Reuse-Plan C
- $4.7 - Anderson Dam Seismic Retrofit
- $4.2 - Penitencia Water Treatment Plant Clearwall Recoat and Repair
- $4.1 - Infrastructure Reliability Program, Water Treatment Plant Buildings Seismic Retrofit
- $3.2 - South County Recycled Water
- $2.8 - Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications
- $2.5 - Guadalupe Dam Seismic Retrofit Design and Construction
- $2.1 - Calero Dam Seismic Retrofit Design and Construction

- $1.8 - 5-year Pipeline Rehabilitation
- $1.1 - Dam Safety Seismic Stability
- $1.1 - South County Recycled Water Pipeline
- $1.0 - Almaden Dam Improvements

Depreciation and amortization expense for the fiscal year amounted to $ 27.8 million.

(7) SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

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

On May 15, 2012, the District Board of Directors authorized the execution and delivery of certain agreements in connection with the District's commercial paper program in an aggregate principal amount not to exceed $100 million.

On January 13, 2015, the District Board of Directors authorized an increase in the commercial paper program to an aggregate principal amount not to exceed $150 million. The proceeds of the commercial paper may be used for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District.

In fiscal year 2016, a total of $33.6 million of commercial paper was issued and the proceeds were used to reimburse the District for Water Utility capital project expenses incurred during the fiscal year. The District refunded $148 million of outstanding commercial paper with long term bonds on March 30, 2016. As of June 30, 2016, all outstanding taxable and tax-exempt commercial paper were fully redeemed with proceeds from the Series 2016A and 2016B Refunding Revenue Bonds.

On December 13, 2016, the District Board of Directors authorized the execution and delivery of up to $75 million of short-term revolving certificates (Revolver) pursuant to the Certificate Purchase and Reimbursement Agreement with Wells Fargo Bank, National Association. The Revolver has an initial term of three years expiring on January 17, 2020.

On June 20, 2017, $24.2 million of taxable commercial paper (maturing on September 18, 2017) was issued to reimburse the District for Water Utility capital projects incurred from January to April 2017 and expected capital project expenditures from May to June 2017.

Short-term debt outstanding for the Funds at June 30, 2017 is broken down as follows (in millions):

Commercial Paper Program	Authorized	Outstanding Amount
Beginning balance	$ 150.0	$ -
Additions	75.0	24.2
Reductions	-	-
Ending balance	$ 225.0	$ 24.2

(b) Long-term liabilities

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

Type of indebtedness	Maturity	Interest Rates	Authorized and Issued	Outstanding Balance	Due in 1 Year
2006B Water revenue bond	2035	5.15% - 5.31%	$ 25,570	$ 19,670	$ 740
2016A Water revenue bond	2046	5.0%	106,315	106,315	-
2016B Water revenue bond	2046	4.154% - 4.354%	75,215	75,215	-
2017A Water revenue bond	2037	3.4% - 3.7%	54,710	54,710	1,600
2007B Water revenue COP bond	2037	5.55% - floating	53,730	40,700	1,330
2016C Water revenue COP bond	2029	4.0% - 5.0%	43,075	43,075	2,020
2016D Water revenue COP bond	2029	1.567% - 3.679%	54,970	54,970	2,630
Bond discount				(155)	(8)
Premium on debt issuance				39,101	1,514
Compensated absences				4,990	1,125
Net pension liability				89,563	-
Other post employment benefits				(516)	-
Semitropic water banking agreement	2035		46,900	4,473	-
Total Fund debt				$ 532,111	$ 10,951

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

The following is a summary of changes in long-term liabilities for the current fiscal year (in thousands):

	Start of Year	Additions	Reductions	End of Year	Due in 1 Yr
2006B revenue bonds	$ 20,370	$ -	$ (700)	$ 19,670	$ 740
2016A revenue bonds	106,315	-	-	106,315	-
2016B revenue bonds	75,215	-	-	75,215	-
2017A revenue bonds	-	54,710	-	54,710	1,600
2007A COP revenue bonds	66,610	-	(66,610)	-	-
2007B COP revenue bonds	41,970	-	(1,270)	40,700	1,330
2016C COP revenue bond	43,075	-	-	43,075	2,020
2016D COP revenue bond	54,970	-	-	54,970	2,630
Bond discount on refunding	(379)	-	224	(155)	(8)
Premium on debt issuance	31,942	10,418	(3,259)	39,101	1,514
Compensated absences	4,775	4,130	(3,915)	4,990	1,125
Net pension liability	73,840	15,723	-	89,563	-
Other post employment benefits	(46)	-	(470)	(516)	-
Semitropic water banking agreement	4,473	-	-	4,473	-
Litigation claim	7,386	-	(7,386)	-	-
Total Fund debt	$ 530,516	$ 84,981	$ (83,386)	$ 532,111	$ 10,951

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

Year Ending June 30:	Principal	Interest and amortization
2018	$ 8,320	$ 18,037
2019	10,790	17,735
2020	11,380	17,359
2021	11,850	16,904
2022	12,340	16,425
2023 - 2027	70,190	73,878
2028 - 2032	84,100	56,658
2033- 2037	79,570	36,090
2038 - 2042	53,580	19,890
2043 - 2047	52,535	6,238
Total requirements	394,655	$ 279,214
Add: unamortized premium on issuance	39,101	
Less: unamortized discount on refunding	(155)	
Add: compensated absences	4,990	
Add: other post employment benefits	(516)	
Add: net pension liability	89,563	
Add: semitropic water banking agreement	4,473	
Total principal outstanding at June 30, 2017	$ 532,111	

The following provides a brief description of the Funds' debt outstanding as of June 30, 2017:

2006B Water Utility System Refunding Revenue Bonds

In December 2006, the District issued $99,835,000 of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B, pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The proceeds of $57,415,000 of the 2006A and 2006B Bonds were used to refinance $55,265,000 of the remaining 2000A and 2000B and the proceeds of $42,420,000 of 2006A and 2006B were used to repay approximately $40,900,000 of commercial paper notes. In March 2016, the District issued Series 2016A Water System Refunding Revenue Bonds to refund all 2006A outstanding principal.

2016A/B Water Systems Refunding Revenue Bonds

In March 2016, the District issued $181,530,000 of Water Systems Refunding Revenue Bonds comprising of Series 2016A for $106,315,000 and Taxable Series B for $75,215,000, pursuant to the Water Utility Parity System Master Resolution (16-10). 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 $73,040,000 of outstanding tax-exempt commercial paper notes. Proceeds of the 2016B Revenue Bonds were used to repay $75,000,000 of the balance of the outstanding taxable commercial paper notes and costs of issuance. The obligation of the District to pay principal and interest of the 2016A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on the District's Water Utility System Revenues.

2017A Water System Utility Refunding Revenue Bonds

In May 2017, the District issued $54,710,000 of Water Systems Refunding Revenue Bonds to refund the $64.75 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 the District to pay principal and interest on the 2017A Bonds is secured by a pledge of and lien on the District's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility System Parity Master Resolution (16-10) approved by the Board on February 23, 2016, as amended. The difference in cash payments between the old debt and new debt is a savings of $15,282,365. The economic gain, or the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, is $11,199,366.

2007A/B Water Utility Revenue Certificates of Participation

In October 2007, the District issued $131,000,000 of Water Utility Revenue Certificates of Participation Bonds, Series 2007A and Taxable Series 2007B, pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The proceeds of the 2007A and 2007B bonds were used to finance capital construction projects in the Water Utility Enterprise. The District funded the 2007A Debt Reserve Fund by purchasing a surety. The 2007A issuance was $77,270,000 fixed rate bonds with a 30 year maturity. The 2007B issuance of $53,730,000 are floating rate notes based on the three month LIBOR rate plus 32 basis points with a 30 year maturity. The District has pledged its net water utility revenues to secure the semi-annual debt service payments for the 2007A issuance and quarterly debt service payments for the 2007B issuance. In May 2017, proceeds from the 2017A Water Utility Refunding were used to refinance all outstanding 2007A Water Enterprise Revenue Certificates of Participation.

2016C/D Water Utility Revenue Certificates of Participation

In March 2016, the District issued $98,045,000 of Water Utility Systems Improvement Projects Revenue Certification of Participation Bonds Series 2016 for $43,075,000 and Taxable Series 2016D for $54,970,000, pursuant to the Water Utility Parity System Master Resolution (16-10). Proceeds of the 2016C/D bonds, along with the original issue premium will be used to finance capital construction projects in the Water Utility Enterprise and costs of issuance.

Semitropic Water Banking Agreement

In December 1995, the Santa Clara Valley Water District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The Santa Clara Valley Water District's share of the total program capital costs is $46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering water. At June 30, 2017, the District has paid $43 million towards the base fee obligation of this agreement.

Litigation Claim

In fiscal year 2009, the District recorded a liability of $5.9 million, which was the potential judgment amount from the tentative ruling on the case Great Oaks Water Company vs. Santa Clara Valley Water District. On February 3, 2010, the judge issued Judgment After Trial and ordered the District to pay Great Oaks Water Company $5.9 million plus post judgment interest of $886.62 per day. The District recorded post judgment interest of $160 thousand in fiscal year 2010, $324 thousand in fiscal year 2011, $325 thousand in fiscal year 2012, $324 thousand in fiscal years 2013 and 2014. On March 26, 2015, the Sixth District Court of Appeal issued a favorable judgment for the District and no further interest was booked. On April 10, 2015, the District and Great Oaks each filed their separate petitions for rehearing with the Sixth District Court of Appeal, which was granted on April 24, 2015. On August 12, 2015, the Sixth District Court of Appeal again reversed in full judgement of the trial court in the Great Oaks case, leaving intact the substantive findings from its prior opinion. On August 27, 2015, Great Oaks again filed its petition for rehearing and on September 10, 2015 the Sixth District Court of Appeal granted Great Oaks petition for rehearing. On December 8, 2015, the Sixth District Court of Appeal again reversed the full judgement of the trial court in the Great Oaks case. Great Oaks has filed refund actions for subsequent years of annual groundwater charges, all of which are currently stayed. Based on the recent court decisions, the liability of $7.4 million previously recognized was reversed in FY17. Additional information regarding this litigation is disclosed in Note 16 (a), Contingencies.

Compensated Absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized and are charged to the different funds as part of the direct benefit rate. The compensated absences liability for the year is recognized in the District's various enterprise funds and on the governmental activities column in the statement of net position.

Other Post Employment Benefits (OPEB)

The District provides post-employment healthcare benefits to retired employees and/or their surviving spouses in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors. The District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* starting fiscal year

2007-08. OPEB expense and obligation are recognized in the proprietary funds and governmental activities using full accrual basis. Additional information on OPEB is disclosed in Note 12, Post Employment Benefits.

Compliance with Bond Covenants

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

(8) PROPERTY TAXES AND BENEFIT ASSESSMENTS

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

Property tax revenues recorded for the year ended June 30, 2017 are as follow (in thousands):

	Amount
Property taxes:	
1% tax allocation	$ 6,682
Voter approved indebtedness:	
State water	38,104
Total property taxes	$ 44,786

The County is responsible for the assessment, collection, and apportionment of property taxes for the District. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). The District is responsible for determining the amount of benefit assessment, special parcel tax, and State Water Project Debt Service. Secured property taxes and benefit assessments are each payable in equal installments on November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. The Funds record property taxes as they are levied. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

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

(9) NET POSITION

The Funds financial statements utilize a net position presentation. Net position is categorized as follows: (1) net invested capital assets (net of related debt), (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 the District, not restricted for any project or other purpose.

The following table shows the breakdown of the Funds' net position at June 30, 2017 (in thousands):

	Water Enterprise Fund	State Projects Fund	Total
Net investment in capital assets	$ 605,884	$ 17,944	$ 623,828
Restricted Net Position			
San Felipe Emergency Reserve	2,953	-	2,953
Rate Stabilization	19,974	-	19,974
Advanced Water Purification Center	1,906	-	1,906
Supplemental Water Supply Reserve	14,277	-	14,277
Drought Reserve	3,000	-	3,000
State Water Projects	-	10,008	10,008
Total restricted net position	42,110	10,008	52,118
Unrestricted Net Position			
Operating & Capital Contingencies	17,140	-	17,140
Currently Authorized Projects	44,276	-	44,276
Encumbrances	73,745	-	73,745
Cash with fiscal agent reserved for Capital Projects	(23,945)	-	(23,945)
Net pension liability	(76,513)	-	(76,513)
Total unrestricted net position	34,703	-	34,703
Net Position	$ 682,697	$ 27,952	$ 710,649

(10) EMPLOYEES' RETIREMENT PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the agent multiple-employer defined benefit pension plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and District's resolution. CalPERS issues publicly 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 the District's governing board.

The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Prior to	3/19/2012 to	On or after
Hire date	3/19/2012	12/31/2012	1/1/2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Minimum Retirement	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	8.0% + 1.09%*	7.0% +	6.75%
Required employer	21.147%	21.147%	21.147%

* Member additional contribution towards District's CalPERS cost per negotiated agreement with the bargaining units

Employees Covered – At June 30, 2017, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	474
Active employees	744

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended June 30, 2017, contributions to the plan were $18.6 million. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Actuarial cost method	Entry-age normal cost method
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return[(1)]	7.5%
Mortality rate table[(2)]	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.75% unit purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.
[(1)]Net of pension plan investment expenses, including inflation	
[(2)]The mortality rate table was developed based on CaLPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuarial Scale BB.	

The actuarial methods and assumptions used for the measurement date as of June 30, 2016 were derived from the 2014 experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under "Forms and Publications".

Discount Rate

The discount rate used for the total pension liability was 7.65% for each Plan. There was an increase in the discount rate due to the fact that CalPERS was including certain administrative related expenses in the prior year discount rate of 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary.

The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contribution on time and as scheduled on all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

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

[1]An expected inflation of 2.5% used for this period.

[2]An expected inflation of 3.0% used for this period.

Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period:

	Increase / (decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Beginning Balance [1]	$ 680,270,713	$ 512,752,890	$ 167,517,823
Changes Recognized for the Measurement Period:			
Service Cost	13,764,288	-	13,764,288
Interest on Total Pension Liability	51,160,517	-	51,160,517
Difference between Expected and Actual Experience	(3,173,782)	-	(3,173,782)
Plan to Plan Resource Movement	-	370	(370)
Contribution from Employer	-	17,044,538	(17,044,538)
Contribution from Employees	-	6,567,551	(6,567,551)
Net Investment Income	-	2,752,954	(2,752,954)
Benefit Payments, including Refunds of Employee Contribution	(30,428,304)	(30,428,304)	-
Administrative expense	-	(312,496)	312,496
Net Changes	31,322,719	(4,375,387)	35,698,106
Ending Balance [1]	$ 711,593,432	$ 508,377,503	$ 203,215,929

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

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

The following presents the net pension liability of the District, calculated using the current discount rate, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate (-1%)	Current Discount	Discount Rate (+1%)
	6.65%	7.65%	8.65%
Plan Net Pension Liability/(Assets)	$ 298,113,729	$ 203,215,929	$ 124,528,965

Pension Plan Fiduciary Net Position

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

Pension Expenses and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2017, the District recognized pension expense of $19.7 million. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Pension contribution subsequent to measurement date	$ 18,568,910	$ -
Changes in assumptions	-	(5,722,053)
Differences between actual and expected experience	-	(2,425,961)
Net difference between projected and actual earnings on plan investments	27,757,463	-
Total	$ 46,326,373	$ (8,148,014)

$18.6 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending June 30		Deferred Outflows/(Inflows) of Resources
2017	$	18,467,110
2018		543,695
2019		11,950,032
2020		7,217,522
Total	$	38,178,359

(11) POST-EMPLOYMENT BENEFITS

The District provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses, and to certain employees who retire due to disability who meet the eligibility requirements and elect the option. The District must be the employee's last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay. As of June 30, 2017, there were 474 retirees and surviving spouses receiving these health care benefits.

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

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

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
Unclassified At Will	Hired on or after December 30, 2006 and prior to March 1, 2007	15 years (con't)	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.
		25 years	Medical, dental, and vision coverages are provided for retiree plus two or more eligible dependents. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years	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 the District's health plan must also enroll in Medicare upon their eligibility date. The District reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly.

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

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

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

Funding Policy

The District's policy is to prefund these benefits as part of its multi-year financial planning strategy. On June 24, 2008, the Board of Directors approved the reallocation of $17.7 million from its existing reserve for the initial prefunding of the unfunded liability for the first year of reporting. Subsequent years' funding, pursuant to the annual budget approved by the Board of Directors, would be made at the beginning of each fiscal year.

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the District's annual OPEB cost for fiscal year 2017, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution		$ 10,594,906
Interest on net OPEB obligation		(138,959)
Adjustment to annual required contribution		134,423
Annual OPEB cost (expense)		10,590,370
Contributions made – current year cost	$(10,590,370)	
Contributions made – Prior years' unfunded ARC	(1,053,880)	
Total Contributions made during current year		(11,644,250)
Increase (decrease) in Net OPEB obligation		(1,053,880)
Net OPEB prepayment, beginning		118,357
Net OPEB prepayment, June 30, 2017		$ 1,172,237

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	$ 11,122,509	111.50%	$ 277,872
6/30/2016	10,312,542	103.84%	(118,357)
6/30/2017	10,590,370	109.95%	(1,172,237)

Funded Status and Funding Progress

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

Actuarial accrued liability (AAL)	$ 186,660,555
Actuarial value of plan assets	$ 80,783,751
Unfunded actuarial accrued liability (UAAL)	$ 105,876,804
Funded ratio (actuarial value of plan assets/AAL)	43.3%
Covered payroll	$ 86,172,345
UAAL as a percentage of covered payroll	122.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made in the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

The July 1, 2015 actuarial valuation used the Entry Age Normal (EAN) cost method. The actuarial assumptions included a discount rate of 7.28% and a 3.25% inflation rate. Healthcare cost trend rates ranged from an initial rate range of 7% to 4.5%. The unfunded liability is being amortized as a percent of payroll over 30 years on a closed basis. The remaining years in amortization period at July 1, 2017 was 20 years.

(12) RISK MANAGEMENT

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

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

Coverage Descriptions	Deductibles	Commercial Insurance Coverage
General liability	$2,000	$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	300,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	100,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2017, the liability for self-insurance claims was $5,666,000. This liability is the District's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Changes in the reported liability since June 30, 2017 are as follows (in thousands):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2015	$ 2,943	$ 3,149	$ 6,092
Current year premiums, incurred claims and changes in estimates	607	642	1,249
Claim payments	(234)	(373)	(607)
Claims payable at June 30, 2016	3,316	3,418	6,734
Current year premiums, incurred claims and changes in estimates	(278)	(406)	(684)
Claim payments	(51)	(333)	(384)
Claims payable at June 30, 2017	$ 2,987	$ 2,679	$ 5,666

The total claims payable in the amount of $5.67 million is recorded in the District's Risk Management Internal Service Fund. No portion of this amount is recorded in the Funds.

(13) TRANSFERS IN AND OUT

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

During the fiscal year, the Funds received $1.3 million each from the General Fund and Watershed & Stream Stewardship Fund for the Open Space credit on property tax receipts. In addition, reserves transfer amounting to $1.7 million was made from the Water Utility Fund to the State Water Fund.

The Funds transferred out $0.7 million to the General Fund to support the drought emergency response project.

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

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Water Utility Enterprise Fund	General Fund	$ 1,301
Water Utility Enterprise Fund	Watershed & Stream Stewardship	1,300
Water Utility Enterprise Fund	State Water Fund	1,681
Total Transfer In		$ 4,282
General Fund	Water Utility Enterprise Fund	699
Water Utility Enterprise Fund	State Water Fund	1,681
Total Transfer Out		$ 2,380

(14) COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2017, the Funds have open purchase commitments of approximately $77.4 million related to new or existing contracts and agreements. These encumbrances represent commitments of the Funds and do not represent actual expenses or liabilities.

(b) San Felipe Project Water Deliveries

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

During fiscal year 2017, the District amended this contract. The amended contract provided for compliance with the Central Valley Project Improvement Act and converted the repayment of the San Felipe Division facilities from a water service contract to a repayment contract with fixed semi-annual payments. The semi-annual payments for January 2007 through July 2016 are $7,466,867. The semi-annual payments starting January 2017 is $7,742,285. The amended contract preserved the attributes of a water service contract for other Central Valley Project costs.

The total commitment, including applicable interest, of the repayment contract was $440,492,081. The remaining commitment as of June 30, 2017 was $283,412,461.

(c) Participation Rights in Storage Facilities

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

The District pays the program capital costs when storing and recovering Tier 1 water. As of June 30, 2017, the District has paid $43.2 million towards the base fee obligation of this agreement. During the first 10 years, the District has a reservation for the full 35 percent allocation; by January 1, 2006, if the District's contributions towards the program capital costs did not equal $46.9 million the District's permanent storage allocation would have been reduced. The District decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

The District currently has a storage allocation of 350,000 acre-feet. As of June 30, 2017, the District has 181,669 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of $25,208,750 has been recorded through fiscal year 2017.

(15) CONTINGENCIES

(a) Litigation

It is normal for a public entity like the District, with its size and activities, to be a defendant, co-defendant, or cross-defendant in court cases in which money damages are sought. Discussed below are all pending litigations that the District is aware of which are significant and may have a potentially impact on the financial statements.

Great Oaks Water Company v. Santa Clara Valley Water District

In 2005, Great Oaks Water Company (hereinafter "Great Oaks") filed an administrative claim alleging that the groundwater charges for 2005-06 violated the Law and sought a partial refund. After the claim was deemed denied, Great Oaks filed its lawsuit that subsequently included an allegation that the groundwater production charges violated Proposition 218, or Article XIII D of the state constitution because proceeds are used to fund projects and services that benefit the general public, not just ratepayers. Great Oaks demanded a partial refund as well as declaratory, injunctive and mandamus relief.

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

During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, the District has recorded a liability in the amount of $5,930,000, which includes the Judgment After Trial decision amount plus interest in fiscal year 2008-09. The District recorded $160,000 in Fiscal Year 2009-10, $324,000 in Fiscal Year 2010-11, $325,000 in Fiscal Year 2011-12, and $324,000 in Fiscal Years 2012-13 and 2013-14 as liability for the post-judgment interest from January 1, 2010 through June 30, 2014 at the rate of $886.62 per day. No further interest was booked after the favorable judgement on March 26, 2015 by the Sixth District Court of Appeals, which is discussed further below.

On March 26, 2015, the California Court of Appeal for the Sixth Appellate District ("Court of Appeal") reversed in full the judgment of the trial court in the Great Oaks case. The Court of Appeal found that under Proposition 218 the District's groundwater charge is a "property-related fee," but also a fee for water service excepted from the voter ratification requirement. The Court of Appeal also found that the trial court erred when it found that the 2005-06 groundwater charges failed to satisfy the applicable procedural requirements. The Court of Appeal also reversed the trial court's finding that the District had failed to comply with the Law in setting the groundwater fee. The effect of the Court of Appeals decision is to reverse the refund the trial court had ordered the District to pay to Great Oaks, as well as reverse the awards of damages, pre-judgment interest, and certain other amounts. The Court of Appeal remanded the case to the trial court for proceedings consistent with its decision.

On April 10, 2015, the District and Great Oaks each filed their separate petitions for rehearing with the Court of Appeal, which were granted on April 24, 2015. On August 12, 2015, the Court of Appeal again reversed in full the judgment of the trial court in the Great Oaks case, leaving intact the substantive findings from its prior opinion. On August 27, 2015, Great Oaks again filed its petition for rehearing. On September 10, 2015, the Court of Appeal, without requiring any reply by the District granted Great Oaks petition for rehearing. On December 8, 2015, the Court of Appeal again reversed in full the judgment of the trial court in the Great Oaks case. Based on the recent court decisions, the total liability of $7.4 million previously recognized was reversed in fiscal year 2017.

Great Oaks has filed refund actions for subsequent years of annual groundwater charges, all of which are currently stayed (Santa Clara Superior Court Case Nos. 107-CV-087884; 108-CV-119465; 108-CV-123064; 109-CV-146018; 110-CV-178947; 111-CV-205462; 112-CV-228340; 113-CV-249349; 115-CV-281385; 16-CV-292097; and 17-CV-308140).

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

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

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

The District filed its petition for review in the California Supreme Court on January 19, 2016, and on March 23, 2016 review was granted. The District cannot predict the nature or extent of proceedings on remand, if any, at this time.

The District is currently reviewing its estimates of potential liability with respect to this case as well as other cases filed by Great Oaks and other plaintiffs or potential claimants which have either been stayed or are subject to tolling agreements.

(b) Grants and Subventions

The District has received federal and state grants for specific purposes that are subject to review and audit. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

(c) Central Valley Project

On June 7, 1977, the District entered into a contract with the U.S. Bureau of Reclamation for water service from the San Felipe Division of the Federal Central Valley Project (CVP). The CVP water service provides for both agricultural operation and maintenance (O&M) and municipal and industrial (M&I) water deliveries to the District up to a total maximum annual entitlement of 152,500 acre-feet per year. The contract specified initial water rates for O&M and M&I water service and provided for periodic adjustments for the respective water rates in accordance with prevailing CVP water rate policies commencing in the year 1993 for the in-basin M&I rate component; 1996 for the agricultural O&M rate component; 2001 for the full agricultural water rate; and 2008 for the out-of-basin M&I rate component. The methodology of CVP water rate setting has historically recovered current year operating costs and the applicable construction costs over 50 years.

The District's initial CVP water rates were determined based on a November 1974 CVP water rate policy and estimated construction costs of the San Felipe Division. The actual construction costs of the San Felipe Division were significantly higher than the estimates used in the initial rate calculation, and changes in the Federal Reclamation Law during the 1980's have led to the development of new CVP water rate policies. These policies, coupled with the terms of the original contract, resulted in the District facing significant increases for repayment of the San Felipe Division.

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

(d) Perchlorate

In 2003, perchlorate released from the Olin Corporation facility at Tennant Avenue in Morgan Hill was discovered in groundwater in much of the Llagas Subbasin in South County, impacting many water supply wells. The investigation and clean-up of the contamination are under the jurisdiction of the Central Coast Regional Water Quality Control Board. Due to ongoing remediation by Olin and managed recharge by the District, both the plume size and number of wells impacted have been reduced. As of June 2017, perchlorate is present above the Maximum Contaminant Level (MCL) in fewer than 10 domestic water supply wells. The perchlorate plume exceeding the MCL extends south from the Tennant Avenue site for about 3 miles. Olin's remedial efforts have included on-site soil removal and groundwater treatment as well as off-site plume remediation.

(e) President's Day Flood Event

The District has received approximately 404 claims for damages arising out of the President's Day 2017 flood event at Coyote Creek in San Jose. The claimants generally allege that the District is legally responsible for flood control and for managing dams, reservoirs and water channels throughout the area. They allege that the District should have maintained Coyote Creek by clearing large debris so the flow rate would be sufficient. They further allege that the District should have maintained its monitoring devices and capacity so it could have communicated more clearly with the City of San Jose and County of Santa Clara about the impact of flows along Coyote Creek. Collectively the claims seek well in excess of $300,000. As of November 8, 2017, no lawsuits have been filed. The District is evaluating such claims and cannot predict the outcomes or financial impacts of any potential future litigation or claims with respect to the flood events, if any, at this time.

(16) SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 30, 2018, which is the issuance date of the financial statements. There are no reportable subsequent events through this date.

Required
Supplementary
Information

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Changes In Net Pension Liability and Related Ratios
as of June 30, 2017
Last 10 Years*

	2015	2016	2017
Total pension liability			
Service cost	$ 14,351,245	$ 13,735,953	$ 13,764,288
Interest on total pension liability	46,261,670	48,842,236	51,160,517
Differences between expected and actual experience	-	(184,479)	(3,173,782)
Changes in assumptions	-	(12,079,891)	-
Benefit payments, including refunds of employee contributions	(25,004,849)	(27,800,233)	(30,428,304)
Net change in pension liability	35,608,066	22,513,586	31,322,719
Total pension liability, beginning	622,149,061	657,757,127	680,270,713
Total pension liability, ending (a)	$ 657,757,127	$ 680,270,713	$ 711,593,432
Plan fiduciary net position			
Contributions - employer	$ 13,804,460	$ 15,157,939	$ 17,044,538
Contributions - employee	9,036,853	6,242,234	6,567,551
Net investment income	75,675,314	11,478,076	2,752,954
Benefits payment	(25,004,849)	(27,800,233)	(30,428,304)
Net plan to plan resource movement	-	-	370
Administrative expense	-	(566,550)	(312,496)
Net change in fiduciary net position	73,511,778	4,511,466	(4,375,387)
Plan fiduciary net position, beginning	434,729,646	508,241,424	512,752,890
Plan fiduciary net position, ending (b)	$ 508,241,424	$ 512,752,890	$ 508,377,503
Net pension liability, ending (a - b)	$ 149,515,703	$ 167,517,823	$ 203,215,929

Plan fiduciary net position as a percentage of total pension liability	77.27%	75.37%	71.44%
Covered payroll	$ 77,885,844	$ 78,009,731	$ 79,663,661
Net pension liability as a percentage of covered payroll	191.97%	214.74%	255.09%
Discount rate	7.50%	7.65%	7.65%

** Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 3 years are shown.*

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Employer Pension Contributions
June 30, 2017*

	2015	2016	2017
Actuarially determined contribution	$ 13,948,105	$ 16,532,182	$ 18,568,910
Contributions in relation to the actuarially determined contribution	(13,948,105)	(16,532,182)	(18,568,910)
Contribution Deficiency	$ -	$ -	$ -
Covered payroll [1]	$ 78,009,731	$ 79,663,661	$ 89,816,920
Contribution as a percentage of covered payroll	17.88%	20.75%	20.67%

[1] The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net pension liability roll forward.

** Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 3 years are shown.*

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Funding Progress - Other Post Employment Benefit Plan
June 30, 2017

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

Other Information

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

VALUE THE DIFFERENCE

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate fund information of Santa Clara Valley Water District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
June 30, 2018

WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICTS
Schedule of Revenues and Expenses
(Budgetary Basis)
For the Year Ended June 30, 2017

	North County	South County	Total
Operating Revenues:			
Ground Water Charges	$ 56,579	$ 11,358	$ 67,937
Treated Water Charges	122,212	-	122,212
Surface and recycled water charges	275	472	747
Operating Grants	1,896	141	2,037
Other	172	-	172
Total Operating revenues	181,134	11,971	193,105
Operating Expenses			
Sources of Supply	84,411	9,198	93,609
Water Treatment	33,745	62	33,807
Transmission and distribution:			
Raw Water	10,002	3,137	13,139
Treated Water	1,414	-	1,414
Administration and general	12,534	3,617	16,151
Capital Cost Recovery	(3,807)	3,807	-
Total Operating Expenses	138,299	19,821	158,120
Operating income (loss)	42,835	(7,850)	34,985
Nonoperating revenues (expenses):			
Property Taxes	41,074	3,712	44,786
Investment Income	979	-	979
Rental Income	79	33	112
Other	2,048	195	2,243
Interest and fiscal agent fees	(17,575)	-	(17,575)
Open Space Credit Transfer	(6,162)	6,162	-
Interest earned credit	(90)	90	-
Net Operating revenues	20,353	10,192	30,545
Change in Net Position	$ 63,188	$ 2,342	$ 65,530

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

Income (Loss)	$ 65,530
Depreciation and amortization expenses not budgeted	(27,821)
Capital contributions	17,527
Interfund transfers	1,902
Change in net position per Statement of Revenues, Expenses, and Change in Net Position	$ 57,138

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