

**Fiscal Year Ended
June 30, 2018**



Comprehensive Annual Financial Report

San José, California

**Santa Clara Valley
Water District**



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Santa Clara Valley
Water District



Santa Clara Valley Water District

San Jose, California

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Prepared by the General Accounting Services Unit

Darin Taylor, Chief Financial Officer
Gloria del Rosario, Accounting Manager

Santa Clara Valley
Water District



**SANTA CLARA VALLEY WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018**

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Comprehensive Annual Financial Report

Introductory Section

Santa Clara Valley
Water District





Comprehensive Annual Financial Report

Introductory Section

Santa Clara Valley
Water District



December 21, 2018

TO THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Santa Clara Valley Water District (District) for the fiscal year ended June 30, 2018. The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District's financial statements have been audited by Vavrinek, Trine, Day & Co., LLP, a firm of licensed certified public accountants. The purpose of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on the District's financial statements for the fiscal year ended June 30, 2018. The opinion rendered concluded that the financial statements are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the District is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not

Letter of Transmittal (continued)

only on the fair presentation of the financial statements but also on the District's internal controls and compliance over the administration of federal awards. The single audit review is applicable when Federal funded expenditures exceed \$750 thousand and is typically completed after the audit of the financial statements and will be issued separately for the Board's acceptance.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditor.

District Profile

The mission of the District is to provide Silicon Valley safe, clean water for a healthy life, environment, and economy.

The District traces its origins to the Santa Clara Valley Water Conservation District, approved by north county voters in 1929. Voters elsewhere in the County eventually formed similar agencies that later consolidated with the original District. Today's District represents a consolidation of four agencies. In 1954, the Central Santa Clara Valley Water Conservation District was annexed to the Santa Clara Valley Water Conservation District. With the 1968 merger of the Santa Clara Valley Water Conservation District and the Santa Clara County Flood Control and Water District, the agency adopted dual missions of providing water supply and flood protection. The South Santa Clara Valley Water Conservation District was renamed the Gavilan Water District in 1980, and upon south county voter approval, was annexed to the Santa Clara Valley Water District in 1987. The merger's catalyst was the belief that a coordinated operation of the County's water supply and flood control systems would result in optimum water resource management.

Throughout its history of consolidations, the District has maintained a relationship with Santa Clara County (County). In 1952, County Supervisors initiated the valley's first flood protection program; they later expanded their efforts to include water importation. In 1968, the District and County decided to merge their water functions, and the governing boards of both agencies agreed the County supervisors would have a role in reviewing and approving the water district's annual budget. On September 14, 2006 Assembly Bill 2435 was passed (effective January 1, 2007) which ended the County's oversight of the District's budget and other procedural holdovers from the 1968 merger.

The Santa Clara Valley Water District (District) operates as a State of California special district under the authority of the District Act (Stats. 1951, c.1405, p.3336, urgency, eff. July 10, 1951, as amended Stats. 1963, c.1941, p.3993, 1). The District is the primary water resources agency for Santa Clara County, California. It is the largest multi-purpose water supply, watershed stewardship, and flood management special district in California. It acts not only as the County's water wholesaler but also as its flood protection agency and is the steward for its streams and creeks, underground aquifers and district-built reservoirs.

The District Act governs the structure, function and operations of the District's Board of Directors (Board), which governs the District and directs the Chief Executive Officer. On October 11, 2009, Governor Arnold Schwarzenegger signed into law Assembly Bill 466 (AB466)

Letter of Transmittal (continued)

to amend the District Act. AB466 replaced the former Board structure (five elected/two appointed at-large members) with one in which all seven members would be elected from new districts created through a formal redistricting process. A Redistricting Advisory Committee was formed to draw the District boundaries. On May 14, 2010, the Board officially adopted a new map following testimony from the public, consideration of past testimony during Redistricting Advisory Committee meetings, and consideration of all communications and letters received from the public. A formal election was held for four of the seven board members on November 2, 2010. As required by state law, the District must redraw its boundaries to reflect 2010 Census results. On October 11, 2011, the Board adopted Resolution No. 11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

The District is the primary water resources agency for nearly two million residents of the County. It encompasses all of the county's approximately 1,300 square miles and serves the area's 15 cities: Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale. The District also serves the unincorporated areas of the County.

The District sells treated water to 8 water retail companies and cities that service communities within the County via their own distribution systems. There are also private well owners in the County. This demand requires the District to operate and maintain a complex delivery and treatment system that includes 3 water treatment plants, 1 advanced water purification center, 10 local reservoirs and dams, a state-of-the-art water quality laboratory, dozens of groundwater recharge basins, 5 pump stations and 144 miles of pipelines. Water supplies include local surface water and groundwater, imported water, and recycled water. Water conservation is also an important part of the water supply mix because it offsets water demands.

To ensure an adequate and reliable supply of high-quality water, the District has partnered with cities and water retailers in the county to develop recycled water supplies. About 5% of the County's total water use currently consists of recycled water, limited primarily to landscaping and industrial uses. Recycled water use is expected to expand in coming years. In 2010, the Board approved agreements with the City of San Jose to partner and build a facility to produce about eight million gallons per day of highly purified water. The new Silicon Valley Advanced Water Purification Center in North San Jose commenced full operation in March 2014. In November 2016, after 15 months of intensive water quality testing and systems monitoring, tests results showed that highly purified water produced from treated wastewater is just as safe to drink as regular tap water. Currently, purified water produced by the Silicon Valley Advanced Water Purification Center is not used for potable (drinking) purposes, and is instead blended with existing recycled water to enhance its quality for non-potable purposes such as irrigation, cooling towers and industrial applications.

As the primary wholesale water supplier in the County, the District is dedicated to assuring a reliable supply of healthy and clean drinking water. The District provides stream stewardship that encompasses managing flood and storm waters within the County and protecting watersheds and riparian corridors, thereby providing for public safety, and the protection of property and the natural environment along creeks and rivers, and at the edge of the San Francisco Bay. The District makes every effort to provide clean safe water in our creeks and bays; to provide, enhance, and restore creek and bay ecosystems, and to promote additional open space, trails and parks along creeks and in the watersheds.

Factors Affecting Financial Condition

Local Economy

The County is located at the southern end of San Francisco Bay that measures approximately 1,312 square miles. The northwestern portion of the County is part of an area referred to as Silicon Valley due to the domination and concentration of technology sector.

Silicon Valley's innovative engine continues to fuel economic expansion across most sectors, driving commercial development and pushing unemployment to a 17-year low. More new commercial space has been built over the past three years than during the previous 13 years combined. Venture capital investment remains at a very high level (particularly Internet and Healthcare companies), but larger shares are going to fewer companies, giving rise to a record-breaking number of 'megadeals' over \$100 million each. In addition, Silicon Valley inventors continue to generate a staggering number of patents. Innovation, a driving force behind Silicon Valley's economy, continues to form novel ideas into products, processes, and services that create and expand business opportunities.

The total number of jobs in Silicon Valley has far surpassed pre-recession levels and has continued to grow. Though the growth rate over the past two years has been slightly lower than over the previous three years, about 64% of the growth occurred in Santa Clara County.⁽¹⁾ More than half of all new jobs were in Community Infrastructure and Services, which has grown steadily in employment levels since the beginning of the economic recovery period in 2010. Other major areas of employment growth are in Innovation and Information Products and Services, and Business Infrastructure and Services. While overall regional employment levels continue to grow, recent gains have been less rapid in mid-skill/mid-wage jobs.

Silicon Valley's unemployment rate at the end of 2017 was lower than it has been since 2000. The unemployment rate was 2.5% in November 2017, compared to 2.3% in San Francisco, 4.0% in California, and 3.9% in the U.S. overall.⁽¹⁾

Incomes in Silicon Valley are higher than those in the state and nation as a whole, but costs are high and have increased significantly over the past eight years. Though companies are prospering, many Silicon Valley residents are struggling to keep up. Income inequality is also growing, and a larger share of the region's population is struggling to make ends meet. Wage gains are eroded by cost of living increases and the nation's highest housing prices. Median home prices continue to climb, making it extremely difficult for homebuyers to get into the market. Fewer than 34% of first-time homebuyers can afford a median-priced home, compared to 49% statewide. The Santa Clara County Assessor reported that in 2018, the net assessment roll for the County increased by 7.4%, from \$419 billion to \$450 billion.⁽²⁾

Multi-family units continue to represent the majority of all new permitted housing, but only a small share of recent housing permits was affordable for low-income residents. High housing costs have contributed to increasing average household sizes and the rise of multigenerational households. The housing crunch, combined with declining transit use and an increase in solo-drivers, has exacerbated traffic congestion. Commute times have increased, and delays have more than doubled over the past decade, with cross-county commuting rising significantly in recent years.

¹ 2018 Silicon Valley Index – Joint Venture Silicon Valley Network

² 2017-2018 Assessor's Annual Report, Office of County Assessor, County of Santa Clara

Letter of Transmittal (continued)

Silicon Valley's economic engine is still going strong, fueled by innovation and entrepreneurship. A region with a thriving innovation habitat supports a vibrant ecosystem to start and grow businesses. As such, businesses continue to expand, unemployment is staying low, and the region's population continues to grow both in number and in its diversity. However, Silicon Valley is straining under years of economic expansion with the challenges of high housing costs, commute times, and traffic congestion.

The Santa Clara Valley Water District Board of Directors continue its call for reduced water use or water savings, emphasizing that dry conditions could return. The Board has called for a 20% reduction and a limit of three days per week for irrigation of ornamental landscape with potable water. From the beginning of the drought response initiated in 2014, the District has worked with water retailers, cities, and the County to maintain water conservation efforts and public outreach, and to implement other actions to reduce water use. Through these efforts, the District has achieved a 22% reduction in water use through June 2018.⁽³⁾

Long-term Financial Planning

The District plans, manages and carries out work to meet policies established by its Board of Directors. Under the District's form of Policy Governance, these "Ends" policies describe the mission, outcomes or results to be achieved by District staff. Balancing the Ends policies are Executive Limitations, which set limits on staff activities in fulfilling the Ends. Alignment of plans and resources with the Ends policies helps the Board fulfill the critical responsibility of defining, balancing and prioritizing "what benefits, for what people, at what cost," and enhances District staff's accountability in using budgeted resources to accomplish those ends.

For fiscal year 2019 budget, the District funds activities that carry out its mission through the following three highest-level policies.⁴

- E2 - Reliable, clean water supply for current and future generations
- E3 - Healthy and safe environment for residents, businesses, and visitors, as well as for future generations
- E4 - Water resources stewardship to protect and enhance watersheds and natural resources and to improve the quality of life in Santa Clara County

The District's largest revenue source is water charges, acting as a wholesaler for numerous water supply retailers in Santa Clara County. Water revenues for fiscal year 2018 were \$231 million. For fiscal year 2018-19, the District Board adopted a 9.7% increase (average of \$3.92 per month per household) in the municipal and industrial groundwater production charge for the North County and a 7.7% increase (average of \$1.10 per month) for the South County, relative to fiscal year 2017-18. The revenue projection assumes water demand volume of 226,000 acre-feet.⁴

The Five-Year Capital Improvement Plan (CIP) includes a total of 61 capital projects with an estimated cost of over \$4.15 billion. The District has been and continues to be successful in leveraging funding for its capital projects through partnerships with federal, state, and local agencies. Of the \$4.15 billion total funding, \$672 million is expected from the District's various

³ Santa Clara Valley Water District – Water Tracker, August 2018

⁴ Santa Clara Valley Water District – FY2018-19 Operating and Capital Budget

Letter of Transmittal (continued)

partners, such as the U.S. Army Corps of Engineers (USACE), and \$3.479 billion from the District. Of the \$691 million that is expected from the District's partners, \$199 million is advanced by the District and reimbursed later. This \$199 million is included in the CIP, and increases the District's total funding requirement from \$3.479 billion to \$3.678 billion to ensure that the District has adequate funding to advance the reimbursement.⁵

In November 2012, the voters overwhelmingly approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax to fund projects addressing the following community priorities:

- Ensuring safe reliable water for the future;
- Reducing toxins, hazards and contaminants in our waterways;
- Protecting water supply and local dams from the impacts of earthquakes and natural disasters;
- Restoring fish, bird, and wildlife habitat; and
- Providing flood protection to homes, businesses, schools, streets, and highways.

Safe, Clean Water builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000. Safe, Clean Water replaces the Clean, Safe Creeks measure in its entirety beginning July 1, 2013. The program will be funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2018-19, the budget includes \$44 million of tax revenue for this program.

Relevant Financial Policies

End of Year Balances

The District policies for end-of-year balance re-appropriations are as follows:

- Any remaining appropriation balances at the end of the fiscal year for capital projects are annually re-appropriated for continued use in those same projects in the following fiscal year. These amounts shall be consistent with the planned expenditure schedule identified in the 5-year CIP;
- Any variances at the end of the current fiscal year in Operating and Capital Reserves and Contingent Liability Reserves from those estimated in the budget not otherwise re-appropriated above shall result in corresponding adjustments to the estimated reserve appropriations in accordance with District Reserve policy.

The District also maintains a commercial paper program for funding capital projects. Commercial papers are used during the early phases of construction. Long-term debt, matching the useful life of the asset, is issued to replace the commercial papers.

⁵ Santa Clara Valley Water District – FY2019-23 Capital Improvement Program

Letter of Transmittal (continued)

Budgetary Controls

The District maintains budgetary controls, the objectives of which are to ensure compliance with legal provisions, embodied in the annually appropriated budget approved by the Board. Activities of the governmental funds and proprietary funds are included in the annual appropriated budget. Additionally, as a management tool, project-length financial plans are included in the annual Capital Improvement Plan. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, further limited by two categories - the operating budget (consisting of total operations, operating projects, and debt service) and the capital budget (consisting of capital project expenditures). The District also maintains an encumbrance accounting system as one process to accomplishing budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund require Board approval. Budget and actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For governmental funds, this comparison is presented starting on pages 106 as part of required supplementary information and selected watershed activities starting on pages 114 as part of supplemental information. For proprietary funds, this comparison is presented starting on pages 118 and 124 as part of the combining and individual fund statements and schedules.

The guidelines used by the District in developing this formal budget process are those recommended by the National Advisory Council on State and Local Budgeting, and the Government Finance Officers Association (GFOA).

Reserve Requirements

The District's financial policies establish the levels at which reserves shall be maintained. District reserve policies address the need for both operating and capital reserves, and funding of contingency and future liabilities.

Major Initiatives

Highlights of activities and accomplishments for the fiscal year ended June 30, 2018 include the following:⁶

- ◆ On July 14, 2017, the San Francisco District of the Army Corps accepted the District's request to enter into a partnership with the District to develop a feasibility study for Coyote Creek. The agreement is a first step in establishing a federal interest in an eventual project. A federal interest, which indicates that a project's benefits exceed the costs, must be established before the federal and state governments can contribute funding for a flood protection project.

⁶ Santa Clara Valley Water District Newsletters and Santa Clara Valley Water District CEO Bulletins

Letter of Transmittal (continued)

- ◆ On August 15, 2017, the City of Cupertino presented the District with a Certificate of Recognition for the McClellan Ranch Preserve Meadow Enhancement Project. This project was a multiyear, collaborative restoration effort that successfully added over 11,000 locally-native plants installed by over 3,500 volunteers, reduced invasive plants, and increased habitat value and diversity to better support native wildlife.
- ◆ On September 8, 2017, the District received the award from the Silicon Valley Business Journal and the San Francisco Business Times as a Top Bay Area Healthy Employer. The competitive award placed the District 3rd out of 20 companies with 500 to 1,999 employees. Not only has the District's program resulted in better health for the employees, but it also led to an actual savings of more than \$600,000 in the District's annual health insurance premiums in 2017.
- ◆ On September 16, 2017, the District participated in the annual Coastal Clean Up Day. A total of 1,892 volunteers collected 50,838 pounds of trash and 6,912 pounds of recyclables over more than 67 miles of creeks.
- ◆ On September 30, 2017, the District, in partnership with the City of San Jose, Keep Coyote Creek Beautiful, South Bay Clean Creeks Coalition, and the Downtown Streets Team, coordinated a community cleanup event along Coyote Creek. A total of 130 volunteers collected and removed 10,500 pounds of trash from the waterway. These large cleanup efforts help to prepare the creek to carry water flows safely during winter storms.
- ◆ On October 18, 2017, the District, in partnership with the City of San Jose, hosted the first in a series of resource fairs for residents. These fairs provide the opportunity to learn about the District's tools to monitor stream, reservoir and rainfall levels, learn where to access this information made available through the district's gauge system, learn about free sandbag workshops and smartphone apps to prepare for an emergency, as well as, receive free emergency preparedness workbooks and emergency starter kits.
- ◆ On November 13, 2017, the District was one of 16 employers in Santa Clara County that received a Family-Friendly Workplace Award from the Commission on the Status of Women and the Office of Women's Policy of Santa Clara County. The award recognizes the District's outstanding efforts to create a workplace that supports the needs of working families and employees and specifically for its policies related to work-life balance, pregnancy and lactation accommodations, and parental leave.
- ◆ On November 3, 2017, the District and the San Jose City Council approved a Joint Emergency Action Plan (EAP), outlining strategies and actions for agency coordination during potential flooding along waterways in San Jose.
- ◆ On December 2, 2017, there was a ribbon cutting ceremony to celebrate the completion of a new 600-foot expansion to connect the Almaden Trail to the Guadalupe River Trail, a walking loop along Lake Almaden in South San Jose to improve access to the Almaden Light Rail Station. This project was a partnership between the District and the

Letter of Transmittal (continued)

City of San Jose's Parks, Recreation and Neighborhood Services and Public Works departments.

- ◆ On December 12, 2017, the District Board adopted a set of moral, ethical, environmental, social and governance guiding principles to lead investment decisions. The revised investment policy keeps the District accountable and committed to providing Silicon Valley with safe, clean water for a healthy life, environment, and economy. The new guidelines enhance the district's role as a leader in socially and environmentally responsible practices and governance allowing for resounding impacts to the larger community.
- ◆ On December 13, 2017, a celebration was held to commemorate the completion of the Wolfe Road Recycled Water Facilities Project, which will bring recycled water to a portion of Sunnyvale as well as the new Apple Park campus in Cupertino. The water that travels through the pipe will be waste water from Sunnyvale that has gone through several levels of treatment and will help to conserve drinking water and reduce wastewater that would otherwise go into the bay.
- ◆ At the end of 2017, the District's water quality lab ranked second out of 54 participating labs nationwide in a proficiency testing managed by the Wisconsin State Laboratory of Hygiene. The testing means that the District's lab and employees were among the top labs to detect organisms in unknown water samples. The District's lab performs more than 170,000 tests each year on raw and treated water from various sources to ensure that we provide safe, clean water that supports life and the economy in Silicon Valley.
- ◆ On March 22, 2018, the District received an award from the Silicon Valley Water Conservation Awards for its education efforts on purified water, which includes free tours of the Silicon Valley Advanced Water Purification Center in San Jose.
- ◆ On March 25, 2018, the District debuted the H2O to Go Water Truck for the runners at the Morgan Hill Wildflower run. Standing 11 feet tall, the water dispenser-on-wheels holds approximately 500 gallons of chilled tap water; enough to fill 8,000 services in 8-ounce cups. The truck is a way to educate the community about our tap water quality as well as provide for a means of supplying water in the event of an emergency.
- ◆ On April 11, 2018, the San Francisco Bay Restoration Authority awarded \$4.4 million of Measure AA funds to the District for the South San Francisco Bay Shoreline Project. This project would provide flood protection, restore 2,900 acres of former salt evaporation ponds and improve public access to recreation.
- ◆ On April 20, 2018, the California Water Commission staff released the highest public benefit score for the Pacheco Reservoir Expansion Project. Pacheco will be the largest reservoir in Santa Clara County, providing a wide range of benefits to the Bay Area, the Delta and throughout the state. An expanded Pacheco Reservoir will improve steelhead habitat, provide an emergency water supply, reduce flood risks to disadvantaged communities, expand ground water recharge, and provide water to wildlife refuges.

Letter of Transmittal (continued)

- ◆ On May 8, 2018, the District's Board of Directors voted to participate in the California WaterFix Project, the state's proposed plan to improve the infrastructure that carries water through the Sacramento-San Joaquin Delta.
- ◆ On May 14, 2018, the Delta Conveyance Design and Construction Joint Powers Authority (DCA) was formed. The founding members of the DCA are Santa Clara Valley Water District, Alameda County Zone 7 Water District, Metropolitan Water District of Southern California, and San Bernardino Valley Municipal Water District. The formation begins the process of ensuring that Santa Clara County will be able to get a clean and safe water supply while protecting the environment. At the first meeting on May 17, 2018, DCA approved and signed an agreement with the California Department of Water Resources (DWR) delineating their joint partnership to construct the California WaterFix Project to improve the infrastructure that carries water through the Sacramento-San Joaquin Delta.
- ◆ On May 19, 2018, the District coordinated with Creek Connections Action Group the National River Cleanup. A total of 1,354 volunteers cleaned up 64 miles of creeks and rivers throughout Santa Clara County. A total amount of trash, including recyclables, came out to 47,353 pounds, which was almost 14,000 more pounds picked up than the prior year.
- ◆ On June 29, 2018, the District hosted the first Trails and Waterways Summit. This summit brought together almost 70 policy makers and advocates from more than two dozen agencies, nonprofits, and municipalities across Santa Clara County. Attendees received information on the history of trail development along waterways and heard case studies on how to overcome challenges and leverage opportunities to advance trails along waterways.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Santa Clara Valley Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the 21st consecutive year that the District has received this prestigious award. To be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

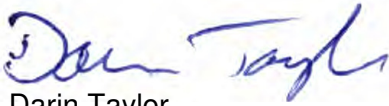
The preparation of this CAFR represents the culmination of months of concerted team effort by diverse District staff, including team members from Financial Planning and Management Services Division, Water Supply Division, Information Management Services Division, General Services Division, Human Resources Division, and Office of the District Counsel. Many team members demonstrated a high degree of personal dedication and determination in producing

Letter of Transmittal (continued)

this exemplary document. In addition, special thanks to District staff in all groups for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Vavrinek, Trine, Day & Co., LLP is also acknowledged for the significant technical contribution and assistance.

Special thanks go to Gloria del Rosario, General Accounting Unit Manager; the following Accounting staff: Jaime Salandanan, Guy Canha, Fanny Chan, Leticia Rocha, Trisha Cheung, Christine Hernandez, Ofelia Hsieh and Gloria Chou; and Chenlei Yao of the Budget and Financial Planning Unit, for their talent and dedication in preparing this financial report.

Finally, we wish to express our sincere appreciation to the District's Board of Directors and management for providing policy direction and a firm foundation of support for the pursuit of excellence in all realms of professional endeavors.



Darin Taylor
Chief Financial Officer



Norma Camacho
Chief Executive Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
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Presented to

**Santa Clara Valley Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

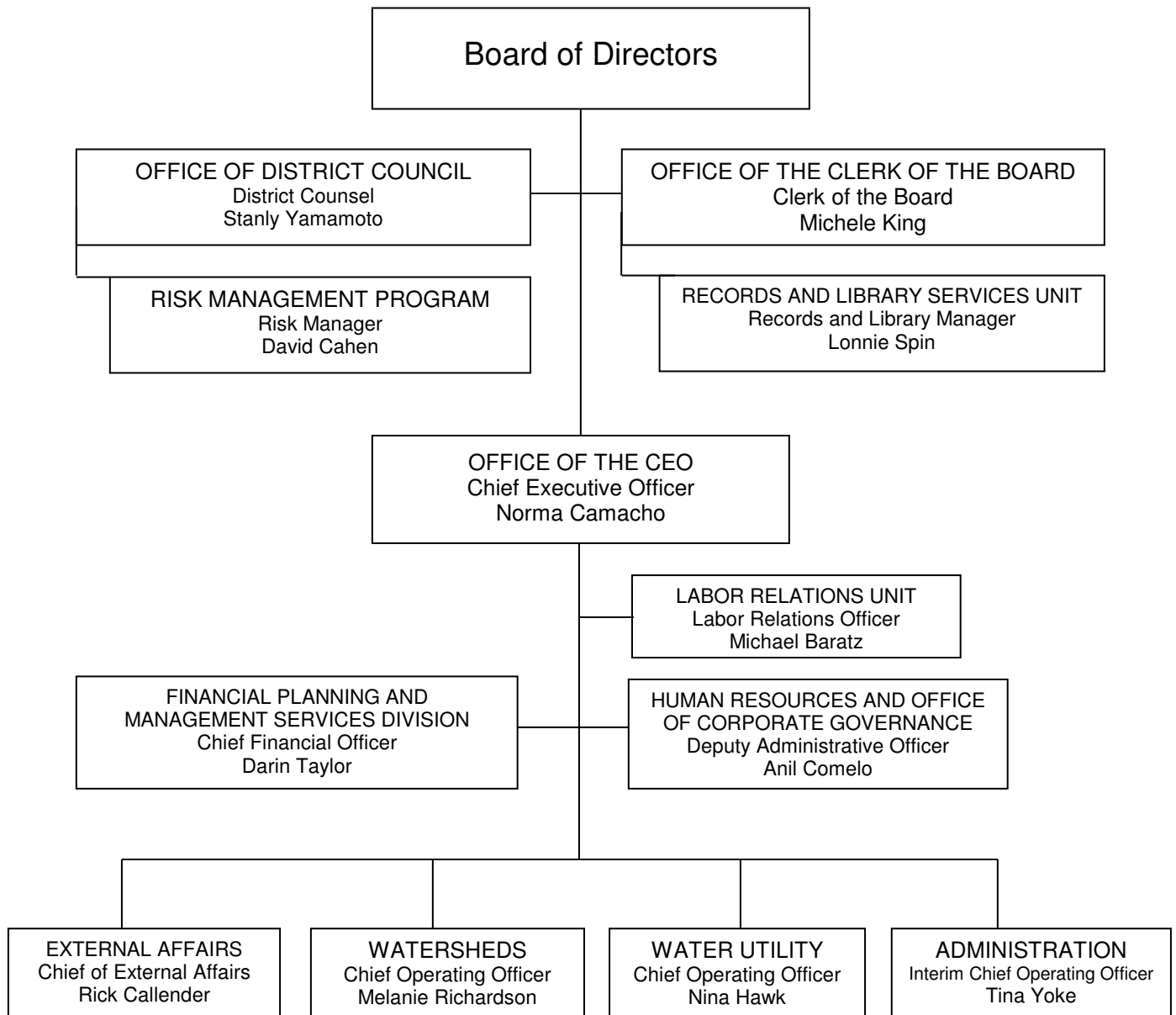
June 30, 2017

Christopher P. Morill

Executive Director/CEO

SANTA CLARA VALLEY WATER DISTRICT

Board of Directors & Executive Management



**SANTA CLARA VALLEY WATER DISTRICT
2017 – 2018
BOARD OF DIRECTORS**



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Comprehensive Annual Financial Report

Financial Section

Santa Clara Valley
Water District





Comprehensive Annual Financial Report

Financial Section

Santa Clara Valley
Water District





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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Water District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter***Change in Accounting Principles***

As discussed in Note 1 to the basic financial statements, effective July 1, 2017, the District adopted the provisions of Governmental Accounting Standards Board (GASB) statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, the schedules of changes in net OPEB liability and related ratios, and the schedule of employer OPEB contributions and budgetary comparison information 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 other supplementary information, the introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, 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.

Vavrinch, Trine, Day & Co. LLP

Palo Alto, California
December 21, 2018

Management's Discussion and Analysis

Our discussion and analysis of the Santa Clara Valley Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- The net position of the District was \$2,274 million as of June 30, 2018. Of this amount, \$86.6 million (unrestricted, but committed and assigned net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's net position increased by \$85.4 million during the current fiscal year, and is net of the \$73 million prior period adjustment related to the implementation of GASB 75 to record the other post employment liability. The net position of the governmental activities increased by \$70 million and the net position of the business-type activity by \$15.4 million.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$332.6 million, a decrease of \$18.9 million in comparison with the prior fiscal year fund balances of \$351.5 million.
- The fund balance for the general fund was \$9.7 million, a decrease of \$2.7 million from the prior fiscal year. Committed and assigned fund balances were \$9.7 million or 100% of the total fund balance.
- The fund balances of the Watershed & Stream Stewardship and Safe, Clean Water & Natural Flood Protection funds were \$311.1 million, a decrease of \$13 million from the prior fiscal year.

Overview of the Financial Statements

The financial statements presented herein include all the activities of the District and its component units using the integrated approach as prescribed by Generally Accepted Accounting Principles (GAAP).

Government-wide financial statements. The government-wide financial statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting.

The statement of net position presents information on all the District's assets, deferred outflow, liabilities, and deferred inflow, with the difference between them 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 District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but uncollected taxes and earned but unused vacation leave).

Management's Discussion and Analysis (continued)

Both the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the District include general government, watershed management, and construction and debt service funding. The business-type activity includes the water utility operation fund.

The government-wide financial statements include not only the District itself (known as the primary government), but also a legally separate Santa Clara Valley Water District Public Facilities Financing Corporation (the Corporation) for which the District is financially accountable. Financial information for this blended component unit is reported as if it were part of the primary government because its sole purpose is to provide financing to the District under the debt issuance documents of the District. Additional information on this legally separate entity can be found in Note 1(b) in the notes to basic financial statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other special districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. The District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's projects.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and change in fund balances to the government-wide statements are provided to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The District maintains two-different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activity in the government-wide financial statements but provide more detail and additional information. The District uses enterprise funds to account for its water utility operations fund. Internal service funds are used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its fleet of vehicles and computer equipment, and for

Management's Discussion and Analysis (continued)

its risk management activities. The internal service funds have been included within governmental activities and business-type in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found starting on page 47 of this report.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$2,274 million at the end of the current fiscal year.

Santa Clara Valley Water District's Net Position

(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 412,374	\$ 392,906	\$ 253,505	\$ 229,637	\$ 665,879	\$ 622,543
Capital assets	1,433,864	1,310,343	1,133,623	1,061,689	2,567,487	2,372,032
Total assets	1,846,238	1,703,249	1,387,128	1,291,326	3,233,366	2,994,575
Deferred outflow of resources	40,772	26,089	32,079	20,902	72,851	46,991
Current liabilities	54,452	19,326	112,388	60,701	166,840	80,027
Long-term liabilities outstanding	284,313	232,748	571,185	532,111	855,498	764,859
Total liabilities	338,765	252,074	683,573	592,812	1,022,338	844,886
Deferred inflow of resources	5,562	4,573	4,339	5,891	9,901	10,464
Net position:						
Net investment in capital	1,344,142	1,213,840	626,514	623,828	1,970,656	1,837,668
Restricted	158,062	209,873	58,679	52,118	216,741	261,991
Unrestricted	40,479	48,978	46,102	39,895	86,581	88,873
Total net position	\$ 1,542,683	\$ 1,472,691	\$ 731,295	\$ 715,841	\$ 2,273,978	\$ 2,188,532

The largest portion of the District's net position (87%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, 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.

Management's Discussion and Analysis (continued)

For governmental activities, net investment in capital assets increased by \$130.3 million or 10.7% compared to the prior fiscal year. Capital assets, net of depreciation, increased by \$123.5 million. Long term liabilities, which include related debt outstanding, went up by \$51.6 million.

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

- \$30.5 - Permanente Creek Bay – Foothill Clean Safe Creek
- \$29.3 - Berryessa Creek, Lower, Penitencia Phase 2
- \$19.2 - Land purchase for Guadalupe River Upper Project
- \$9.8 - San Francisquito Early Implementation
- \$5.8 - Land purchases for Upper Llagas Creek Project
- \$5.6 - Main/Madrone Pipeline Restoration
- \$5.1 - Lower Silver Creek - R4-6 North Babb to Cunningham
- \$1.9 - Lower Penitencia Creek Improvements
- \$1.7 - San Francisco Bay Shoreline Study Economic Impact Area Design and Partial Construction
- \$1.6 - Coyote Creek, Montague to I-280
- \$1.6 - Cunningham Flood Detention
- \$1.5 - Guadalupe River Upper, SPRR-BH 7-12
- \$1.5 - Upper Berryessa Creek Flood Risk Management Project
- \$1.5 - Salt Ponds A5-11 Restoration

For business type activities, net investment in capital assets increased by \$2.7 million or 0.4% over the previous fiscal year. Capital asset, net of depreciation, increased by \$71.9 million. Long term liabilities, which include related debt outstanding, went up by \$39.1 million.

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

- \$31.7 - Rinconada Water Treatment Plant Reliability Improvement
- \$21.6 - 10-year Pipeline and Rehabilitation
- \$9.1 - Anderson Dam Seismic Retrofit
- \$4.4 - Calero Dam Seismic Retrofit Design and Construction
- \$3.9 - Pacheco Conduit Rehabilitation
- \$3.3 - Indirect Potable Reuse-Plan C
- \$3.2 - Penitencia Force Main Seismic Retrofit
- \$3.0 - Guadalupe Dam Seismic Retrofit Design and Construction
- \$2.0 - Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications
- \$1.3 - Dam Safety Seismic Stability
- \$1.2 - Wolfe Road Recycled Water Facility

Management's Discussion and Analysis (continued)

The balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens, customers, and creditors. The District's unrestricted net position decreased by \$19.5 million or 21.9%, during the current fiscal year.

Santa Clara Valley Water District's Changes in Net Position

(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Water charges for services	\$ -	\$ -	\$ 231,001	\$ 190,896	\$ 231,001	\$ 190,896
Operating grants and contributions	-	-	4,396	2,037	4,396	2,037
Capital grants and contributions	61,190	16,609	4,350	17,527	65,540	34,136
General revenues:						
Property taxes	129,891	123,325	37,417	44,786	167,308	168,111
Investment earnings	2,477	1,186	1,267	979	3,744	2,165
Miscellaneous	6,685	4,051	6,428	2,527	13,113	6,578
Total revenues	<u>200,243</u>	<u>145,171</u>	<u>284,859</u>	<u>258,752</u>	<u>485,102</u>	<u>403,923</u>
Expenses:						
General government	8,407	9,339	-	-	8,407	9,339
Watersheds	85,780	69,166	-	-	85,780	69,166
Interest on long-term debt	3,091	4,271	-	-	3,091	4,271
Water enterprise	-	-	229,373	199,631	229,373	199,631
Total expenses	<u>97,278</u>	<u>82,776</u>	<u>229,373</u>	<u>199,631</u>	<u>326,651</u>	<u>282,407</u>
Increase in net position before transfers	102,965	62,395	55,486	59,121	158,451	121,516
Transfers	8,225	(1,902)	(8,225)	1,902	-	-
Change in net position	111,190	60,493	47,261	61,023	158,451	121,516
Net position, beginning	1,472,691	1,412,198	715,841	654,818	2,188,532	2,067,016
Prior period adjustment	(41,198)	-	(31,807)	-	(73,005)	-
Net position, ending	<u>\$ 1,542,683</u>	<u>\$ 1,472,691</u>	<u>\$ 731,295</u>	<u>\$ 715,841</u>	<u>\$ 2,273,978</u>	<u>\$ 2,188,532</u>

Management's Discussion and Analysis (continued)

Governmental activities. Net position in governmental activities increased by \$111.2 million during the fiscal year, but this increase was reduced by \$41.2 million due to the prior period adjustment in implementing GASB 75 to record the other post-employment benefit liability. Net revenues from operations of \$103 million, and transfers in of \$8.2 million, added to net position.

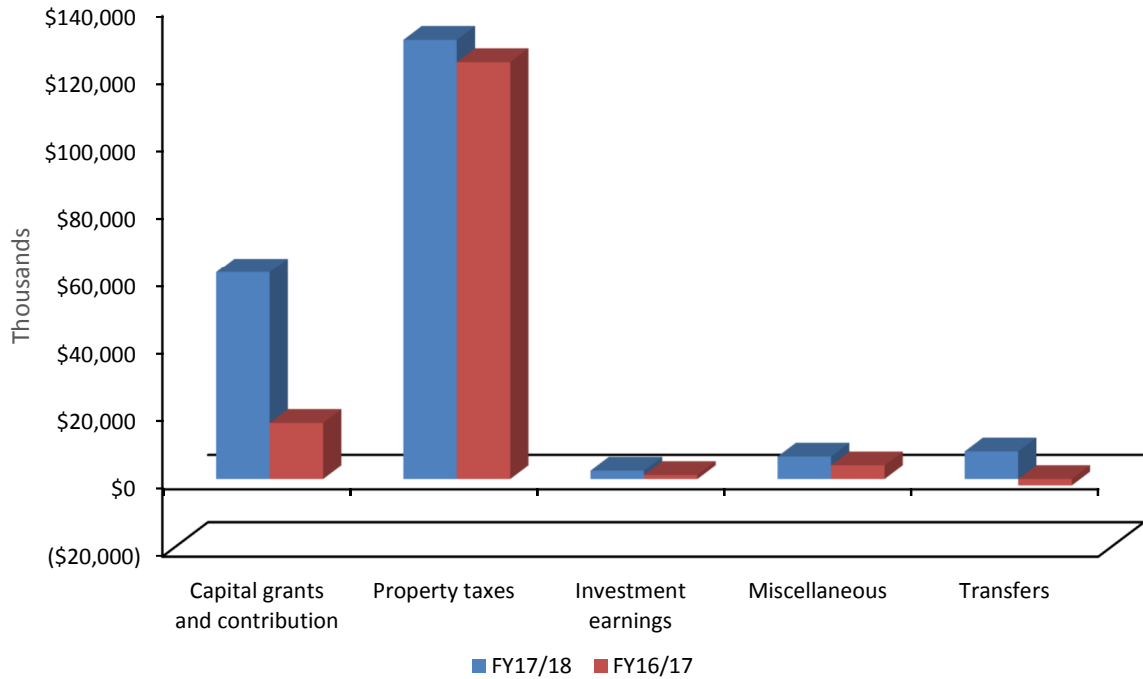
The fiscal year net revenue of \$103 million came from property tax (\$129.9 million), capital grants (\$61.2 million), other revenues (\$6.7 million), investment earnings (\$2.5 million) and operating expenses \$97.3 million.

Compared to the prior fiscal year, revenues increased \$55.0 million and expenses increased by \$15.0 million. Key elements of the changes in revenues and expenses from prior year are as follows:

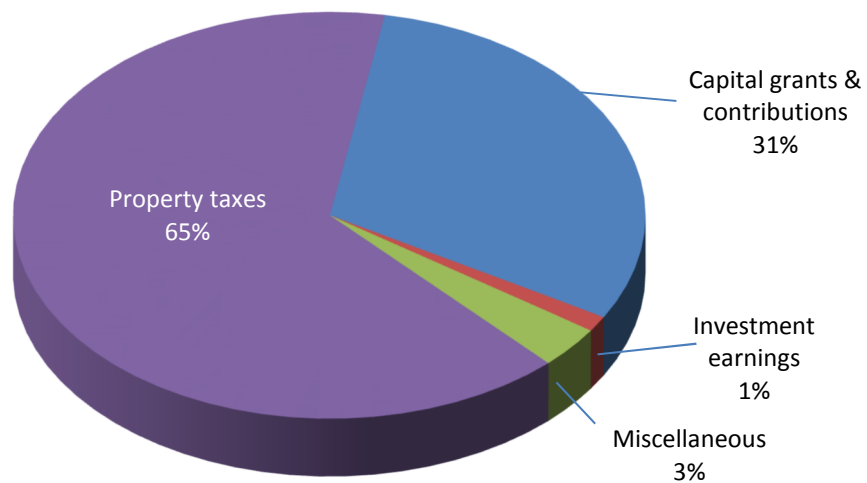
- Capital grants and contributions increased \$44.6 million or 268% due largely to the increase in capital costs reimbursements from the Department of Water Resources.
- Property taxes increased \$6.6 million or 5.3%, reflective of the upward trend in the real estate market in the valley.
- Investment earnings were \$1.3 million or 109% higher due mainly to higher yields on investments.
- Watersheds expenditures were \$16.6 million or 24% higher due to the increase in pension expense and fixed assets purchases.

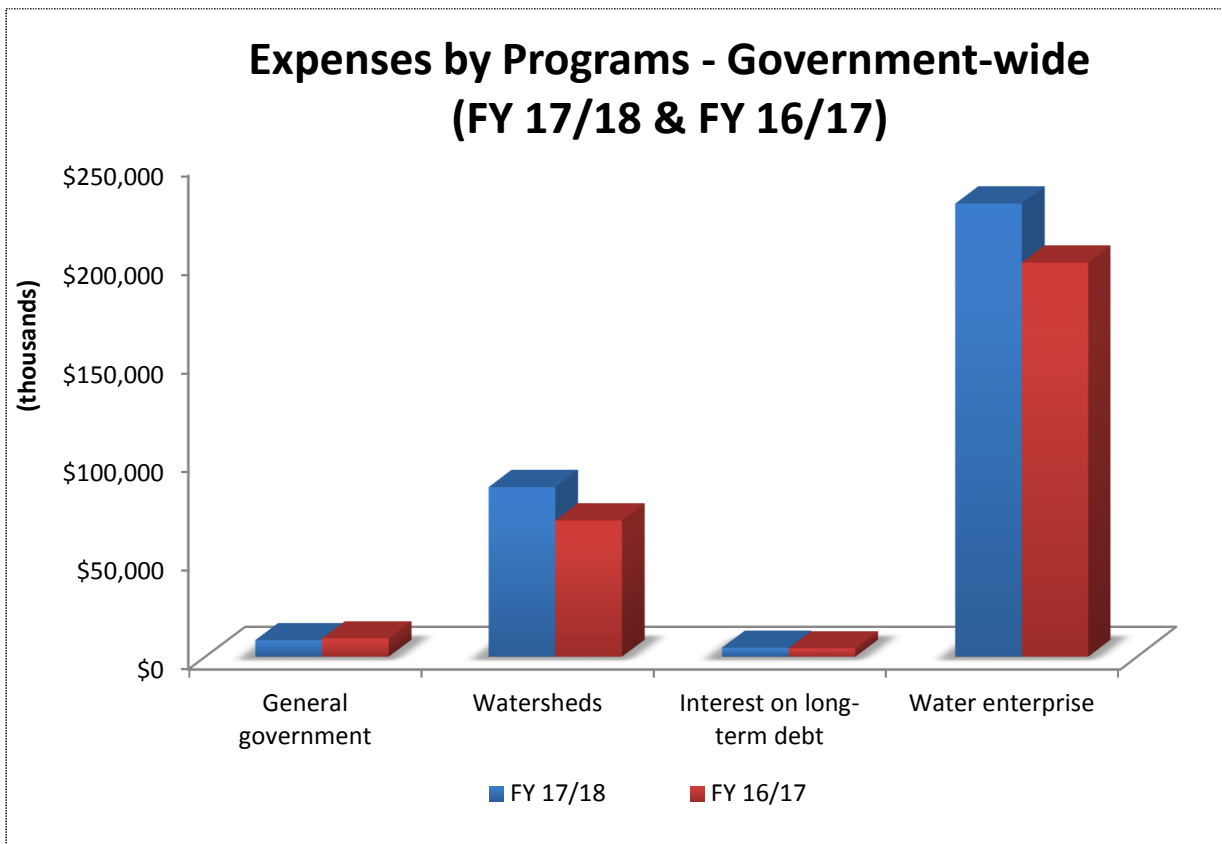
Net transfers in were \$8.2 million during fiscal year 2018, compared to net transfers out of \$1.9 million in the prior fiscal year. This large swing reflects the \$11.4 million transfer in to the Safe, Clean Water and Natural Flood Protection Program Fund from the Water Enterprise Fund for funding of the Main and Madrone pipeline restoration capital project during the current fiscal year.

**Revenue by Sources – Governmental Activities
(FY 17/18 & FY 16/17)**



**Revenues by Sources – Governmental Activities
(FY 17/18)**





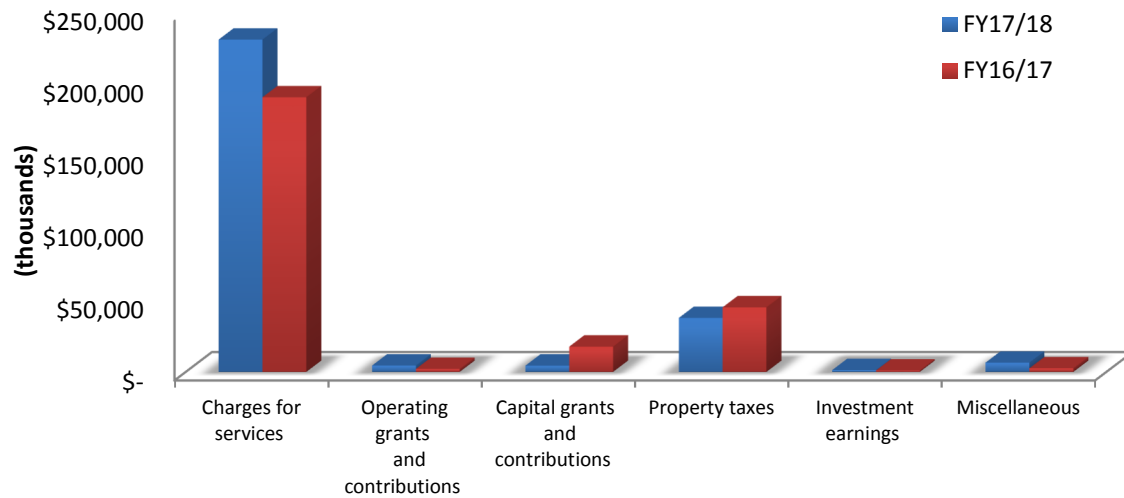
Management's Discussion and Analysis (continued)

Business-type activities. Net position in business-type activities increased by \$47.3 million during the fiscal year, but this increase was reduced by \$31.8 million due to the prior period adjustment in implementing GASB 75 to record the other post-employment benefit liability. Fiscal year revenue included water charges for services (\$231 million), property taxes (\$37.4 million), miscellaneous revenue (\$6.4 million), capital and operating grants (\$4.4 million), operating grants and contributions (\$4.4 million) and investment earnings (\$1.3 million). Operating expenses, mainly from water purchases, were \$229.3 million. Without the transfer out of \$8.2 million, net revenue was \$55.5 million.

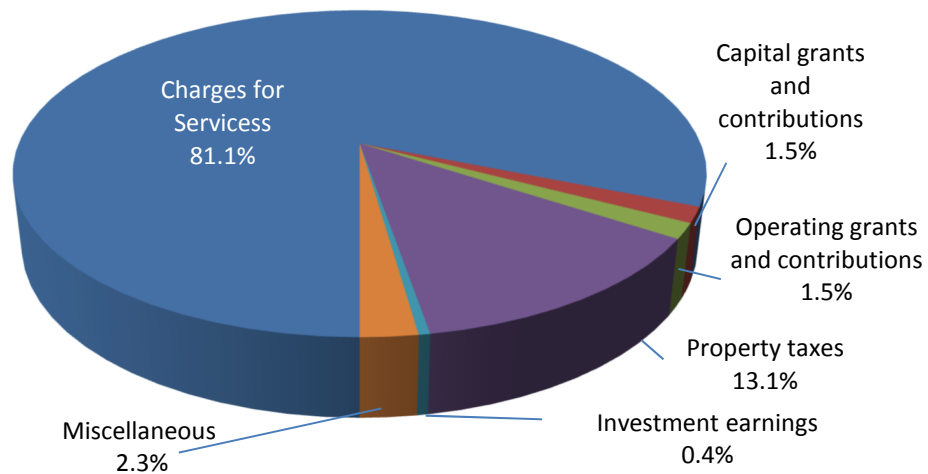
Compared to the prior fiscal year, total revenues increased \$26.1 million and expenses increased \$29.7 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Water charges for services were \$40.1 million or 21% higher than last fiscal year, reflecting the increase in rates and volume. Groundwater revenue increased \$29.5 million or 43.5% and treated water revenue increased \$10.3 million or 8.44%.
- Capital grants and contributions decreased \$13.2 million due to lower capital cost reimbursements received.
- Property taxes were \$7.4 million or 16.5% lower than last fiscal year, reflecting lower State tax requirements needed to fund State Water project contract obligations.
- Water enterprise expenses increased by \$29.7 million or 14.9% year over year. \$16.4 million of the increase was related to higher water supply and water treatment costs. The balance of the increase was due to increased expenditures for technical and consultant services and higher salary and benefits employee costs.

**Revenues by Sources - Business Activity
(FY 17/18 & FY 16/17)**



**Revenues by Source – Business Activity
(FY 17/18)**



Management's Discussion and Analysis (continued)

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of June 30, 2018, the District's governmental funds reported combined ending fund balances of \$332.6 million, a decrease of \$19.0 million for the fiscal year.

Compared to the prior year, revenues increased by \$55 million and total expenditures increased by \$64.8 million. Property taxes went up \$6.6 million due to the upward trend of property values in the area. Investment income increased by \$1.3 million, reflecting higher investment yields year over year. Reimbursements of capital cost revenue, namely from the Department of Water Resources, were \$44.6 million higher. Other income also increased by \$2.4 million due mainly to proceeds received from the sale of fixed assets.

Total expenditures were \$64.8 million higher compared to the prior fiscal year. Most of this increase was in capital improvement project expenditures for the Safe, Clean Water and Natural Flood Protection Program.

Approximately \$150.3 million or 45.2% of the total fund balance amount (\$332.6 million) constitutes committed and assigned for specific purposes. The remainder of the fund balance is restricted to indicate that it is not available for new spending because of the external enforceable limitations on its use to: 1) fund Safe, Clean Water & Natural Flood Protection projects (\$170.5 million); 2) pay debt service (\$6.3 million); and 3) provide funds for projects funded by bond proceeds (\$5.5 million).

General fund

The general fund is the chief operating fund of the District supporting all administrative and strategic support services costs for the organization. It accounts for all financial resources except those required to be accounted for in another fund and is supported primarily by overhead reimbursements from other funds. At the end of the current fiscal year, the committed and assigned fund balance of the General Fund was \$9.7 million. The total fund balance decrease of \$2.6 million is attributable to \$1.3 million net expenditures and \$1.3 million of transfers out exceeding transfers in.

Special revenue funds

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular watershed functions or activities of the District. The available fund balances at the end of the current fiscal year for the special revenue funds were \$311.1 million, which decreased during the current fiscal year by \$13 million or 4%.

Fund balance for the Watershed & Stream Stewardship fund increased \$21.5 million or 18.1% compared to last fiscal year, mainly due to \$34.1 million of capital cost

Management's Discussion and Analysis (continued)

reimbursements received during the fiscal year. Partially offsetting this increase in revenue were transfers out to the COP Debt Service Fund.

The fund balance in the Safe, Clean Water & Natural Flood Protection fund balance decreased from \$205 million to \$170.5 million during the fiscal year, as total expenditures of \$105.8 million (mainly from capital improvement projects) exceeded total revenues of \$56.5 million. Transfers in of \$14.8 million from the Capital Project Fund offset some of the decrease in fund balance between the fiscal years.

COP debt service fund

The COP debt service fund is used to account for resources used for debt service payments. It has a total fund balance of \$6.3 million, all of which is reserved for payment of debt service.

COP construction fund

The COP construction fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. It has a total fund balance of \$5.5 million, all of which is reserved for major capital projects.

Proprietary funds. The District's proprietary funds provide a detailed breakdown of the same type of information found in the government-wide financial statements.

Water Enterprise fund. The Water Enterprise fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for to show net income or loss from operations. The fund is intended to be entirely or predominantly self supported by user charges.

Net position of the Water Enterprise fund at the end of the fiscal year was \$692.8 million, an increase of \$10.1 million from the prior fiscal year. Largely offsetting net revenues of \$41.9 for the fiscal year was a \$31.8 million negative prior period adjustment to implement GASB 75 for other post-employment benefits. Operating revenues went up \$44.2 million or 23.1%, reflecting increased billing rates year over year and higher water usage. Operating expenses increased by \$31.9 million, or 20.5% to account for higher water supply and treatment costs.

Net non-operating expenses were \$2.3 million compared to net non-operating expenditures of \$6.7 million in fiscal year 2017, resulting in a \$4.4 million variance. Collectively, property tax, investment income, and operating grants revenue were \$3.1 higher than last year. Interest paid on long term debt and fiscal agent fees were also \$1.5 million lower compared to the prior fiscal year.

State Water Project fund. The State Water Project fund was established and approved by the Board of Directors on October 26, 2010. This fund accounts for the State Water Project Tax receipts pursuant to Section 1B of Article 13A of the California Constitution to pay for county-wide voter-approved State Water Project contract obligations. Fund resources are used for the Water System Revenue Bond and other related capital expenditures billed by the State of California Department of Water Resources and are

Management's Discussion and Analysis (continued)

accounted for in such a manner as to restrict the use of the resources exclusively for the State Water Project related costs.

Net position ended at \$29.8 million or \$1.8 million higher than the prior fiscal year. Operating expenses were \$29.7 million, of which \$28.8 million or 97% was cost associated with water purchases. Net non-operating revenues were \$31.5 million, with property taxes contributing \$30.3 million or 96.2% of the total.

Internal Service Funds. The District has three internal service funds - the Equipment Fund, Risk Management Fund and Information Technology Fund. Revenues to the funds are generated from fees charged for services provided to the District operating programs.

The Equipment fund charges replacement and maintenance costs to all operations, operating, and capital projects based on equipment assignment and hourly usage of equipment on projects. The fund's annual reimbursement charge for the replacement and maintenance cost of equipment is determined during the budget process and varies yearly depending upon need. Ending net position for the fund was \$9.9 million.

The Risk Management fund charges premiums based on exposure levels by project for liability, property, worker's compensation and self-insurance costs. Revenues required to properly reimburse the Risk Management Fund are determined during the budget process and varies yearly depending upon need. The fund's net position ended at \$6 million.

The Information Technology fund was established on July 1, 2014 to account for the acquisition installation, replacement and maintenance costs of district-wide capital charges related to information technology projects. The annual reimbursement charge to the Information Technology Fund is determined during the budget process and varies yearly depending upon need. The fund's net position was \$26.3 million or \$8.1 million higher than the prior fiscal year. Operating revenues were \$12.2 million and operating expenses of \$4.3 million.

General Fund Budgetary Highlights

The summary table below shows a final budget of \$67.3 million for operating and capital expenditures for fiscal year 2018. The adopted budget was \$63.6 million. No amount was carried forward from the prior year capital projects budget. Budget adjustments during the fiscal year amounted to \$3.7 million.

Adopted Budget	+ Capital Projects Budget Remaining Carry-forward	- Current Year Budget Adjustments	= Final Budget
\$63,602K	\$ -	\$3,691K	\$67,293K

Total expenditures (budgetary basis) for the current fiscal year of \$61.7 million are \$4.3 million more than the prior fiscal year and can be attributed to the capital improvement projects performed by the General Services Division.

Management's Discussion and Analysis (continued)

Capital Assets

The District's capital asset balance, net of accumulated depreciation, for governmental and business-type activities amounts to \$2.6 billion at June 30, 2018. Capital asset components include intangible rights and software, land, buildings, structures and improvements (which include the flood control improvement), machinery and equipment. During fiscal year 2018, the total increase in the District's capital assets was \$195.5 million or 8.2%. Governmental and business-type activities increased by 9.4% and 6.8%, respectively.

Detailed information on the District's capital assets activity for the current fiscal year can be found in Note 6 of this report.

Debt Administration

At the end of the current fiscal year, the District had total long-term debt outstanding of \$855.5 million. This District's long-term obligations outstanding at the end of the fiscal year consisted of the following:

Santa Clara Valley Water District's Outstanding Obligations

(Dollars in Thousands)

	Governmental activities		Business-type activity		Total	
	2018	2017	2018	2017	2018	2017
Certificates of participation	\$ 82,285	\$ 90,945	\$ -	\$ -	\$ 82,285	\$ 90,945
Revenue bonds	-	-	253,570	255,910	253,570	255,910
Revenue bonds-COP	-	-	132,765	138,745	132,765	138,745
Compensated absences	8,786	8,555	5,168	4,990	13,954	13,545
Semitropic water banking	-	-	8,150	4,473	8,150	4,473
Bond Discount	-	-	(147)	(155)	(147)	(155)
Premium on bond issue	-	-	37,587	39,101	37,587	39,101
Premium on refunded debt	13,037	14,584	-	-	13,037	14,584
Claims payable	6,465	5,666	-	-	6,465	5,666
Net pension liability	129,929	113,654	100,278	89,563	230,207	203,217
Other post employment benefits	43,811	(656)	33,814	(516)	77,625	(1,172)
Total	<u>\$ 284,313</u>	<u>\$ 232,748</u>	<u>\$ 571,185</u>	<u>\$ 532,111</u>	<u>\$ 855,498</u>	<u>\$ 764,859</u>

The credit ratings of the District's Watershed Certificates of Participation are AA+ from Fitch, Aa1 from Moody's and AA+ from Standard & Poor's. The credit ratings of the Water Utility Enterprise Fund senior lien obligations (Series 2006B and 2007B) are Aa1 from Moody's and AA- from S&P. The Water Utility Enterprise Fund parity lien obligations (Series 2016ABCD and Series 2017A) are rated Aa1 from Moody's and AA+ from Fitch.

The District's total obligations increased by \$90.6 million during fiscal year 2018. Much of the increase is related to the other post employment benefits liability which went up \$78.8 million as a result of implementing GASB 75 to record the other post employment liability.

Additional information on the District's long-term debt can be found in Note 7 of this report.

Management's Discussion and Analysis (continued)

Economic Factors and Next Year's Budgets

The District's \$509.9 million budget for fiscal year 2019 will focus on the following initiatives:

- Infrastructure maintenance and construction needs (ensuring dam safety, managing infrastructure for reliability, care of District facilities and assets)
- Funding for capital projects (shortage of federal funding, coordinated planning of permitting efforts, environmental stewardship efforts)
- Advancing the District's interests in countywide stormwater resource planning
- Coyote Creek flood response
- Making key decisions regarding the California Water Fix
- Advancing recycled and purified water efforts
- Finalizing the Fisheries and the Aquatic Habitat Collaborative Effort (FAHCE)
- Pursuing efforts to increase water storage opportunities
- Advancing diversity and inclusion efforts

Requests for Information

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

Santa Clara Valley
Water District



BASIC FINANCIAL STATEMENTS

SANTA CLARA VALLEY WATER DISTRICT

Statement of Net Position

June 30, 2018

(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments (Note 3)	\$ 402,144	\$ 197,539	\$ 599,683
Restricted cash and investments (Note 3)	11,914	212	12,126
Receivables (net):			
Accounts	1,533	36,844	38,377
Interest	2,229	-	2,229
Taxes	481	196	677
Prepaid insurance	-	161	161
Deposits and other assets	2,817	9,809	12,626
Internal balances	(8,744)	8,744	-
Capital assets (Note 6):			
Contract water and storage rights, net	-	43,333	43,333
Depreciable, net	689,375	673,106	1,362,481
Nondepreciable	744,489	417,184	1,161,673
Total assets	<u>1,846,238</u>	<u>1,387,128</u>	<u>3,233,366</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	104	454	558
Deferred outflows of resources - pension activities	33,588	26,160	59,748
Deferred outflows of resources - OPEB	7,080	5,465	12,545
Total deferred outflows of resources	<u>40,772</u>	<u>32,079</u>	<u>72,851</u>
LIABILITIES			
Accounts payable	16,228	20,283	36,511
Accrued liabilities	3,356	5,705	9,061
Commercial paper, net of discount (Note 7)	30,000	75,800	105,800
Deposits payable	3,254	9,393	12,647
Accrued interest payable	1,614	-	1,614
Unearned revenue	-	1,207	1,207
Noncurrent liabilities (Note 7):			
Due within one year	13,986	13,493	27,479
Due in more than one year	270,327	557,692	828,019
Total liabilities	<u>338,765</u>	<u>683,573</u>	<u>1,022,338</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension activities	4,241	3,320	7,561
Deferred inflows of resources - OPEB	1,321	1,019	2,340
Total deferred inflows of resources	<u>5,562</u>	<u>4,339</u>	<u>9,901</u>
NET POSITION (Note 10)			
Net investment in capital assets	1,344,142	626,514	1,970,656
Restricted:			
Debt service	4,744	212	4,956
Safe, Clean Water - other activities	153,318	-	153,318
WU San Felipe emergency	-	3,040	3,040
WU rate stabilization	-	21,066	21,066
WU state water projects	-	12,778	12,778
Advance water purification	-	1,906	1,906
Supplemental water supply	-	14,677	14,677
Drought reserve	-	5,000	5,000
Unrestricted	40,479	46,102	86,581
Total net position	<u>\$ 1,542,683</u>	<u>\$ 731,295</u>	<u>\$ 2,273,978</u>

See accompanying notes to basic financial statements

SANTA CLARA VALLEY WATER DISTRICT

Statement of Activities
For the Year Ended June 30, 2018
(Dollars in Thousands)

Description	Governmental Activities				Business-Type Activities	Total
	General Government	Watersheds	Interest on Long-term Debt	Total		
Expenses:						
Operations and operating projects	\$ 8,407	\$ 85,780	\$ 3,091	\$ 97,278	\$ -	\$ 97,278
Water cost of production	-	-	-	-	229,373	229,373
Program revenues:						
Water charges for services	-	-	-	-	231,001	231,001
Operating grants and contributions	-	-	-	-	4,396	4,396
Capital grants and contributions	-	61,190	-	61,190	4,350	65,540
Net program revenue (expense)	<u>\$ (8,407)</u>	<u>\$ (24,590)</u>	<u>\$ (3,091)</u>	<u>(36,088)</u>	<u>10,374</u>	<u>(25,714)</u>
General revenues:						
Property taxes (Note 8)				129,891	37,417	167,308
Unrestricted investment earnings				2,477	1,267	3,744
Miscellaneous				6,685	6,428	13,113
Transfers (Note 14)				<u>8,225</u>	<u>(8,225)</u>	<u>-</u>
Total general revenues and transfers				<u>147,278</u>	<u>36,887</u>	<u>184,165</u>
Change in net position				<u>111,190</u>	<u>47,261</u>	<u>158,451</u>
Net position, beginning of year				<u>1,472,691</u>	<u>715,841</u>	<u>2,188,532</u>
Prior period adjustment (Note 15)				<u>(41,198)</u>	<u>(31,807)</u>	<u>(73,005)</u>
Net position, beginning of year, restated				<u>1,431,493</u>	<u>684,034</u>	<u>2,115,527</u>
Net position, end of year				<u>\$ 1,542,683</u>	<u>\$ 731,295</u>	<u>\$ 2,273,978</u>

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Balance Sheet
Governmental Funds
June 30, 2018
(Dollars in Thousands)

		<u>Special Revenue Fund</u>
	<u>General</u>	<u>Watershed & Stream Stewardship</u>
ASSETS		
Cash and investments (Note 3)	\$ 9,213	\$ 146,203
Restricted cash and investments (Note 3)	-	77
Receivables:		
Accounts	10	224
Interest	2,212	-
Taxes	45	436
Deposits and other assets	34	1,736
Total assets	<u>\$ 11,514</u>	<u>\$ 148,676</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 1,215	\$ 5,350
Accrued liabilities	607	450
Commercial papers	-	-
Deposits payable	12	2,294
Total liabilities	<u>1,834</u>	<u>8,094</u>
Fund balances (Note 9):		
Restricted fund balance	-	-
Committed fund balance	3,933	113,673
Assigned fund balance	5,747	26,909
Total fund balances	<u>9,680</u>	<u>140,582</u>
Total liabilities and fund balances	<u>\$ 11,514</u>	<u>\$ 148,676</u>

See accompanying notes to basic financial statements.

<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	
Safe, Clean Water & Natural Flood Protection Program	COP Construction Fund	COP Debt Service	Total Governmental Funds
\$ 210,619	\$ -	\$ -	\$ 366,035
-	5,496	6,341	11,914
1,299	-	-	1,533
-	-	-	2,212
-	-	-	481
947	-	-	2,717
<u>\$ 212,865</u>	<u>\$ 5,496</u>	<u>\$ 6,341</u>	<u>\$ 384,892</u>
\$ 9,152	\$ -	\$ -	\$ 15,717
2,283	-	-	3,340
30,000	-	-	30,000
948	-	-	3,254
<u>42,383</u>	<u>-</u>	<u>-</u>	<u>52,311</u>
170,482	5,496	6,341	182,319
-	-	-	117,606
-	-	-	32,656
<u>170,482</u>	<u>5,496</u>	<u>6,341</u>	<u>332,581</u>
<u>\$ 212,865</u>	<u>\$ 5,496</u>	<u>\$ 6,341</u>	<u>\$ 384,892</u>

SANTA CLARA VALLEY WATER DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2018 (Dollars in Thousands)

Amount reported for governmental activities in the statement of net position are different because:

Fund balances of governmental funds	\$ 332,581
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of governmental funds.	1,413,321
Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	33,480
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.	(1,614)
Accrued income for monies held in the restricted bond trust accounts are not available to pay for current period debt payments, and therefore, are not included in the balance sheet of governmental funds.	
Accrued interest income	17
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds:	
Certificates of participation	(82,285)
Deferred amount on refunding	104
Net original issue premium	(13,037)
Compensated absences	(8,420)
Net pension liability and related deferrals	(95,371)
Net OPEB liability and related deferrals	(36,093)
	<hr/>
Net position of governmental activities	<u><u>\$ 1,542,683</u></u>

See accompanying notes to basic financial statements

Santa Clara Valley
Water District



SANTA CLARA VALLEY WATER DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2018 (Dollars in Thousands)

		<u>Special Revenue Fund</u>
	General	Watershed & Stream Stewardship
Revenues:		
Property taxes (Note 8)	\$ 7,865	\$ 79,538
Benefit assessments (Note 8)	-	14,774
Use of money and property:		
Investment income (Note 5)	20	729
Rental	-	1,609
Reimbursement of capital costs (Note 4)	-	34,159
Other	267	3,999
Total revenues	<u>8,152</u>	<u>134,808</u>
Expenditures:		
Current:		
Operations and operating projects	6,527	51,333
Capital improvement projects	2,973	47,390
Debt service:		
Principal repayment	-	-
Interest and fiscal agent fees	-	8
Total expenditures	<u>9,500</u>	<u>98,731</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,348)</u>	<u>36,077</u>
Other financing sources (uses):		
Transfers in (Note 14)	935	2,660
Transfers out (Note 14)	(2,254)	(17,228)
Total other financing sources (uses)	<u>(1,319)</u>	<u>(14,568)</u>
Net change in fund balances	(2,667)	21,509
Fund balances, beginning of year	12,347	119,073
Fund balances, end of year	<u>\$ 9,680</u>	<u>\$ 140,582</u>

See accompanying notes to basic financial statements.

<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	
Safe, Clean Water & Natural Flood Protection Program	COP Construction Fund	COP Debt Service	Total Governmental Funds
\$ 42,488	\$ -	\$ -	\$ 129,891
-	-	-	14,774
1,296	94	166	2,305
322	-	-	1,931
12,257	-	-	46,416
95	-	-	4,361
<u>56,458</u>	<u>94</u>	<u>166</u>	<u>199,678</u>
13,052	-	-	70,912
92,347	-	-	142,710
-	-	8,660	8,660
437	-	3,973	4,418
<u>105,836</u>	<u>-</u>	<u>12,633</u>	<u>226,700</u>
<u>(49,378)</u>	<u>94</u>	<u>(12,467)</u>	<u>(27,022)</u>
14,835	-	12,577	31,007
-	(3,457)	-	(22,939)
<u>14,835</u>	<u>(3,457)</u>	<u>12,577</u>	<u>8,068</u>
<u>(34,543)</u>	<u>(3,363)</u>	<u>110</u>	<u>(18,954)</u>
205,025	8,859	6,231	351,535
<u>\$ 170,482</u>	<u>\$ 5,496</u>	<u>\$ 6,341</u>	<u>\$ 332,581</u>

SANTA CLARA VALLEY WATER DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2018 (Dollars in Thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (18,954)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays, net of depreciation.

Capital Outlay	131,575
Depreciation	(10,929)

Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but they do not require the use of current financial resources. This amount represents the net change in accrued interest expense not reported in governmental funds. (157)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.

Certificates of participation repayment	8,660
Deferred amount on refunding	(63)
Net original issue premium	1,547

Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The net revenue of internal service funds is reported with governmental activities. 5,396

Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds:

Compensated absences	(220)
Change in net OPEB liability, deferred inflows and outflows	2,362
Change in net pension liability, deferred inflows and outflows	(7,970)
Interest from monies held in restricted bank accounts	(57)

Change in net position of governmental activities	<u>\$ 111,190</u>
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See accompanying notes to basic financial statements

SANTA CLARA VALLEY WATER DISTRICT

Statement of Net Position

Proprietary Funds

June 30, 2018

(Dollars in Thousands)

	Business-type Activities			Governmental Activities
	Water	State Water	Total	Internal
	Enterprise Fund	Project Fund	Enterprise Funds	Service Funds
ASSETS				
Current assets:				
Cash and investments (Note 3)	\$ 184,601	\$ 12,938	\$ 197,539	\$ 36,109
Receivables:				
Accounts	36,833	11	36,844	-
Taxes	46	150	196	-
Deposits and other assets	9,809	-	9,809	100
Total current assets	231,289	13,099	244,388	36,209
Non current assets:				
Restricted cash and investments (Note 3)	212	-	212	-
Prepaid insurance on bond issuance	161	-	161	-
Capital assets (Note 6):				
Contract water rights, net	26,334	16,999	43,333	-
Depreciable, net	673,106	-	673,106	13,060
Nondepreciable	417,184	-	417,184	7,483
Total non current assets	1,116,997	16,999	1,133,996	20,543
Total assets	1,348,286	30,098	1,378,384	56,752
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	454	-	454	-
Deferred outflows of resources - pension activities	26,160	-	26,160	1,730
Deferred outflows of resources - OPEB	5,465	-	5,465	364
Total deferred outflows of resources	32,079	-	32,079	2,094
LIABILITIES				
Current liabilities:				
Accounts payable	19,962	321	20,283	511
Accrued liabilities	5,705	-	5,705	16
Commercial paper (Note 7)	75,800	-	75,800	-
Deposits payable	9,393	-	9,393	-
Unearned revenue	1,207	-	1,207	-
Claims payable (Note 13)	-	-	-	1,689
Bonds payable - current (Note 7)	12,296	-	12,296	-
Compensated absence	1,197	-	1,197	85
Total current liabilities	125,560	321	125,881	2,301
Non current liabilities:				
Bonds payable - net of discounts and premiums (note 7)	411,479	-	411,479	-
Claims payable (Note 13)	-	-	-	4,776
Compensated absence	3,971	-	3,971	281
Net pension liability (Note 11)	100,278	-	100,278	6,689
Other post employment benefits liability (Note 12)	33,814	-	33,814	2,255
Other debt	8,150	-	8,150	-
Total non current liabilities	557,692	-	557,692	14,001
Total liabilities	683,252	321	683,573	16,302
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension activities	3,320	-	3,320	252
Deferred inflows of resources - OPEB	1,019	-	1,019	68
Total deferred inflows of resources	4,339	-	4,339	320
NET POSITION (Note 10)				
Net investment in capital assets	609,515	16,999	626,514	20,543
Restricted:				
Debt service	212	-	212	-
San Felipe operations	3,040	-	3,040	-
State water projects	-	12,778	12,778	-
Rate stabilization	21,066	-	21,066	-
Advance water purification	1,906	-	1,906	-
Supplemental water supply	14,677	-	14,677	-
Drought reserve	5,000	-	5,000	-
Unrestricted	37,358	-	37,358	21,681
Total net position	\$ 692,774	\$ 29,777	\$ 722,551	\$ 42,224
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			8,744	
Net position of business-type activities			<u>\$ 731,295</u>	

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018
(Dollars in Thousands)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
Operating revenues:				
Ground water production charges	\$ 97,483	\$ -	\$ 97,483	\$ -
Treated water charges	132,477	-	132,477	-
Surface and recycled water revenue	1,041	-	1,041	-
Charges for services	-	-	-	24,165
Other	4,217	-	4,217	-
Total operating revenues	235,218	-	235,218	24,165
Operating expenses:				
Sources of supply	76,272	28,772	105,044	-
Water treatment	37,772	-	37,772	-
Transmission and distribution:				
Raw water	15,197	-	15,197	-
Treated water	1,631	-	1,631	-
Administration and general	27,789	-	27,789	6,187
Equipment maintenance	-	-	-	7,415
Depreciation and amortization	28,499	944	29,443	2,393
Total operating expenses	187,160	29,716	216,876	15,995
Operating income (loss)	48,058	(29,716)	18,342	8,170
Nonoperating revenues (expenses):				
Property taxes (Note 8)	7,088	30,329	37,417	-
Investment income (Note 5)	1,267	-	1,267	229
Operating grants	4,396	-	4,396	-
Rental income	115	-	115	-
Other	884	1,212	2,096	393
Interest and fiscal agent fees	(16,050)	-	(16,050)	-
Net nonoperating revenues (expenses)	(2,300)	31,541	29,241	622
Income before capital contributions and transfers	45,758	1,825	47,583	8,792
Capital contributions (Note 4)	4,350	-	4,350	-
Transfers in (Note 14)	3,252	-	3,252	157
Transfers out (Note 14)	(11,477)	-	(11,477)	-
Change in net position	41,883	1,825	43,708	8,949
Net position, beginning of year	682,698	27,952	710,650	35,396
Prior period adjustments				
Beginning OPEB liability and deferrals (Note 15)	(31,807)	-	(31,807)	(2,121)
Net position, beginning of year, restated	650,891	27,952	678,843	33,275
Net position, end of year	\$ 692,774	\$ 29,777	\$ 722,551	\$ 42,224

Reconciliation of the Statement of Revenues, Expenses and Change in Net Position to the Statement of Activities:

Amounts reported as business-type activities in the statement of activities are different because:

Net change in net position - enterprise funds	\$ 43,708
Adjustment to the net effect of the current year activity between the internal service funds and the enterprise funds	3,553
Change in net position of business-type activities	<u>\$ 47,261</u>

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2018 (Dollars in Thousands)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities:				
Receipts from customers and users	\$ 233,467	\$ (2)	\$ 233,465	\$ 24,275
Payments to suppliers	(114,454)	(28,451)	(142,905)	(12,266)
Payments to employees	(42,480)	-	(42,480)	(2,415)
Receipt /(payment) for interfund services provided/(used)	4,859	-	4,859	-
Net cash provided by (used for) operating activities	81,392	(28,453)	52,939	9,594
Cash flows from noncapital financing activities:				
Property taxes received	7,119	30,489	37,608	-
Operating grant	4,396	-	4,396	-
Well permits, refunds and adjustments	884	1,212	2,096	338
Transfers in from other funds	3,252	-	3,252	157
Transfers out to other funds	(11,477)	-	(11,477)	-
Net cash provided by noncapital financing activities	4,174	31,701	35,875	495
Cash flows from capital and related financing activities:				
Payment on COP/revenue bonds	(9,773)	-	(9,773)	-
Issuance of commercial papers	51,570	-	51,570	-
Capital grants	4,350	-	4,350	-
Interest and fiscal agent fees paid	(17,522)	-	(17,522)	-
Payments for contract water rights	(9,354)	-	(9,354)	-
Acquisition and construction of capital assets	(92,005)	-	(92,005)	(3,447)
Net cash provided by/(used for) capital and related financing activities	(72,734)	-	(72,734)	(3,447)
Cash flows from investing activities:				
Proceeds from sale of investments	23,824	-	23,824	-
Rental income received	115	-	115	-
Interest received on cash and investments	1,267	-	1,267	229
Net cash provided by/(used for) investing activities	25,206	-	25,206	229
Net increase (decrease) in cash and cash equivalents	38,038	3,248	41,286	6,871
Cash and cash equivalents, beginning of year	146,563	9,690	156,253	29,238
Cash and cash equivalents, end of year	\$ 184,601	\$ 12,938	\$ 197,539	\$ 36,109
Cash and cash equivalents are reported on the Statement of Net Position as follows:				
Cash and investments	\$ 184,601	\$ 12,938	\$ 197,539	\$ 36,109
Restricted cash and investments	212	-	212	-
Less cash and investments not meeting the definition of cash equivalents	(212)	-	(212)	-
Cash and cash equivalents, end of year	\$ 184,601	\$ 12,938	\$ 197,539	\$ 36,109
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 48,058	\$ (29,716)	\$ 18,342	\$ 8,170
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation, amortization and asset deletion	28,478	944	29,422	627
Change in operating assets and liabilities:				
(Increase)/decrease in deposits and other assets	(1,300)	-	(1,300)	4
(Increase)/decrease in accounts receivable	(1,751)	(2)	(1,753)	110
Increase/(decrease) in accounts payable	1,362	321	1,683	(296)
Increase/(decrease) in accrued liabilities	(1,412)	-	(1,412)	(14)
Increase/(decrease) in compensated absences	179	-	179	12
Increase/(decrease) in deposits payable	1,319	-	1,319	-
Increase/(decrease) in litigation claims	-	-	-	799
Increase/(decrease) in other post employment benefits payable	2,523	-	2,523	168
Increase/(decrease) in deferred inflows/outflow of resources	(10,458)	-	(10,458)	(706)
Increase/(decrease) in pension liabilities	10,716	-	10,716	720
Increase/(decrease) in payable to Semitropic	3,678	-	3,678	-
Net cash provided (used) by operating activities	\$ 81,392	\$ (28,453)	\$ 52,939	\$ 9,594
Noncash investing, capital, and financing activity:				
Non cash acquisition/disposition of capital assets	\$ -	\$ -	\$ -	\$ 56

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Statement of Assets and Liabilities

Agency Fund

June 30, 2018

(Dollars in Thousands)

ASSETS

Cash and investments (Note 3)	\$ 185
Total assets	<u>185</u>

LIABILITIES

Deposits payable	<u>185</u>
Total liabilities	<u>\$ 185</u>

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

(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.

As required by generally accepted accounting principles (GAAP) in the United States of America, the accompanying basic financial statements present the District and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational and financial relationship with the District.

(b) Blended Component Unit

The Santa Clara Valley Water District Public Facilities Financing Corporation (the Corporation) was established on December 16, 1987 for the purpose of providing assistance to the District in financing the acquisition, construction and improvement of public buildings, works and equipment for the District. Although legally separate from the District, the Corporation is reported as if it were part of the primary government because its sole purpose is to provide financing to the District under the debt issuance documents of the District, and its governing board is the District's governing board. The operations of the Corporation are accounted for in the debt service and capital project funds.

Separate financial statements are not issued for the Corporation.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the primary government (District) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the District. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from the business-type activity, which rely to a significant extent on fees charged to external parties.

Certain eliminations have been made in regards to interfund activities. All internal balances in the statement of net position have been eliminated except those representing balances between the government activities and business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated. However, transactions between the governmental and business-type activities have not been eliminated.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activity of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

When both restricted and unrestricted net position is available, restricted resources are used for qualified expenses before any unrestricted resources are spent.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including agency funds and the blended component unit. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented.

The District reports the following Governmental Funds:

The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental functions of the District that are not accounted for through other funds.

The *Special Revenue Type Funds* are used to account for specific revenue sources for which expenditures are restricted by law or regulation or committed by board resolutions to finance particular watershed or safe, clean and natural flood protection functions or activities of the District. The District has the following special revenue type funds:

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

- The *Watershed and Stream Stewardship Fund* is funded by the District's one percent property tax allocation and benefit assessments and used to protect, restore, or enhance the watersheds, streams and natural resources therein. Starting from fiscal year 2008-09, this fund was redefined to consolidate all watershed stewardship activities from a portion of the District's ad valorem property tax allocation.

The Watershed and Stream Stewardship Fund includes the following watershed activities that were based on their geographic boundaries:

- ◆ The *Lower Peninsula Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek. The geographic area includes the Cities of Palo Alto, Los Altos, Los Altos Hills, Mountain View, and portions of Cupertino.
 - ◆ The *West Valley Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe Slough, Sunnyvale West Outfall, Sunnyvale East Outfall, Calabazas Creek, San Tomas Aquino Creek, and Saratoga Creek. The geographic area includes portions of the Cities of Sunnyvale, Cupertino, Monte Sereno, San Jose, Santa Clara, Campbell, Saratoga and the Town of Los Gatos.
 - ◆ The *Guadalupe Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe River. The major tributaries are Los Gatos Creek, Canoas Creek, Ross Creek, Guadalupe Creek, and Alamos Creek. The geographic area includes portions of the Cities of Santa Clara, San Jose, Campbell, Monte Sereno, and the Town of Los Gatos.
 - ◆ The *Coyote Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of Coyote Creek. The major tributaries are Lower Penitencia Creek, Scott Creek, Berryessa Creek, Upper Penitencia Creek, Silver Creek, Thompson Creek, Fisher Creek, and Packwood Creek. The geographic area includes the City of Milpitas and portions of the Cities of San Jose and Morgan Hill.
- The *Safe, Clean Water & Natural Flood Protection Program* is used to account for the countywide special parcel tax approved by voters on 11/6/2012, with a sunset date of 6/30/2028. This program replaces the Clean, Safe Creeks and Natural Flood Protection Plan that was approved by voters in November 2000.
 - The *Capital Project Type Funds* are used to account for COP proceeds used for the construction of major capital projects with their respective watersheds. The COP Construction Fund is the District's sole capital project type fund.
 - The *Debt Service Type Funds* are used to account for monies being held for reserve requirements and arbitrage rebate for the District's debt payments. The COP Debt Service Fund is the District's sole debt service type fund.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

The District reports the following Proprietary Funds:

- The *Water Enterprise Fund* accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.
- The *State Water Project Fund* accounts for all revenues and costs associated with the State Water Project.
- The *Internal Service Funds* account for the financing of goods or services provided by one department or agency of the District to other departments or agencies on a cost-reimbursement basis.
 - The *Equipment Fund* accounts for the maintenance and operation of the District's vehicle fleet, heavy construction, and information system equipment.
 - The *Risk Management Fund* accounts for the monies set aside to pay for all claims, judgments, and premium cost.
 - The *Information Technology Fund* accounts for the replacement and maintenance of district-wide capital related information technology projects.

The District reports *Agency Funds* (Fiduciary Fund type) to account for assets held by the District as an agent for private organizations and/or other governments.

- The *Deposit Fund* is used to account for the collection and payment of funds held in trust for specific purposes.

(b) Basis of Accounting

The government-wide 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.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property taxes, benefit assessments, interest, grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences are recorded when payment is due. Capital assets acquisitions are reported as expenditures in

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

governmental funds. Proceeds of long-term debt and capital leases are reported as other financing sources.

Proprietary funds are reported using the economic resource measurement focus and the accrual basis of accounting and distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water enterprise fund is the sale of water to outside customers and of the District's internal service funds are charges for services provided to internal departments. Operating expenses for the enterprise funds and internal service 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.

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

Agency funds are used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds. Agency funds do not have a measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

(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 proprietary 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

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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

(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 acquisition cost on the date contributed. Capital assets of governmental activities include pipelines, channel linings, floodwalls, levees, bridge flood proofing, box culverts and re-vegetation. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

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

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

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

(g) Amortization of Water Banking Rights

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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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

(i) Receivables

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

Water Enterprise and Watershed debt premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Refunding differences associated with debt refinancing are reported as deferred outflows or inflows of resources and amortized over the life of the bonds. Issuance costs are recorded as an expense of the current period.

On the statement of net position and the statement of activities, the premiums and discounts related to outstanding debt are deferred and amortized over the life of the debt. Debt payable are reported net of the applicable bond premiums or discounts. 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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

funds are recorded as assignment of fund balance since they are not treated as current expenditures or outstanding liabilities at year end for GAAP financial reporting.

(m) Net position

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

(n) Estimates

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

(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.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017

(p) Other Post Employment Benefits (OPEB)

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

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

(q) 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 measurements of its investments 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 in active markets for identical assets; Level 2 inputs are observable inputs (other than quoted marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and Level 3 inputs are significant unobservable inputs.

(r) Deferred Outflows and Inflows of Resources

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

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

(s) New Pronouncements

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

Current 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 has been implemented for Fiscal Year 2017-18.

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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

for the reporting periods beginning after December 15, 2016, or Fiscal Year 2017-18. This Statement is not applicable to the District.

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 Fiscal Year 2017-18. The District has determined that this Statement does not have a material impact 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 Fiscal Year 2017-18. This Statement is not applicable to the District.

Future Accounting Pronouncements:

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 Fiscal Year 2018-19. 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 Fiscal Year 2019-20. 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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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 Fiscal Year 2020-21. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve note disclosures related to debt. This Statement requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. This Statement is effective for reporting periods beginning after June 15, 2018, or Fiscal Year 2018-19. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or Fiscal Year 2020-21. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61*. The objective of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government's holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or Fiscal Year 2019-20. The District has not determined the impact of this pronouncement on the financial statements.

(3) CASH AND INVESTMENTS

Total District cash and investments reported on the financial statements at June 30, 2018 are as follows (in thousands):

Statement of Net Position:	
Cash and investments	\$ 599,683
Restricted cash and investments	12,126
Statement of Fiduciary Net Position:	
Cash and investments	185
	<u>\$ 611,994</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

Investments

At June 30, 2018, cash and investments based on fair value consist of the following (in thousands):

U.S. Government Agencies	\$ 414,135
U.S. Treasury Obligations	34,045
Medium Term Notes	13,384
Local Agency Investment Fund	64,033
Mutual Funds	61
Supranational Obligations	14,796
Municipal Bonds	18,076
Negotiable Certificates of Deposit	1,420
Money Market Funds	40,524
Total Investments	<u>600,474</u>
Carrying amount of cash	11,520
Total Cash and Investments	<u><u>\$ 611,994</u></u>

As of June 30, 2018, the fair value of the District's investment in the State investment pool (LAIF) is \$64 million in non-restricted cash. 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 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 District's investment policy, when more restrictive.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	(Exempt from disclosure)	None	None
U.S. Government Agency Issues (A)	5 years	(Exempt from disclosure)	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	5 years	AA-	30%	3.6%
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 2007B, 2012A, 2016C, 2016D, and 2017A Certificates of Participations (COPs) 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, 2018, the amount invested in assets held by fiscal agent amounted to \$6.3 million for certificates of participation and \$56.4 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 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, 2018, the balance of this fund is \$5.5 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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

indebtedness of the District. At June 30, 2018, the total balance of the taxable and the tax-exempt commercial paper certificate accounts is \$149 thousand. Both account balances were cash transfers from the District to fiscal agent to fund maturing interest payments on commercial papers outstanding.

Restricted Cash and Investments for Watershed Management Projects

The District has entered into certain cost sharing agreements with the U.S. Army Corps of Engineers (the Corps). Under these agreements, the District is required to deposit monies into escrow accounts to be used by the Corps for watershed management projects. At June 30, 2018, the District's restricted deposits held in escrow for construction of the Guadalupe Watershed project amounted to \$77 thousand.

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, and 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 CA	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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMA's"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMA's"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; 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, GNMA's, FNMA's 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 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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

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 value 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	\$ 304,665	\$ 124,642	\$ 111,352	\$ 68,671
U.S. Government Agencies - Callable	109,470	2,970	34,432	72,068
U.S. Treasury Obligations	34,045	20,992	2,942	10,111
Medium Term Notes	8,524	1,981	1,557	4,986
Medium Term Notes - Callable	4,860	-	-	4,860
Local Agency Investment Fund	64,033	64,033	-	-
Mutual Funds	61	61	-	-
Supranational Obligations	12,820	2,991	2,955	6,874
Supranational Obligations - Callable	1,976			1,976
Municipal Bonds	18,076		3,251	14,825
Negotiable Certificates of Deposit	1,420	718	465	237
Money Market Funds	40,524	40,524	-	-
Total Investments	<u>\$ 600,474</u>	<u>\$ 258,912</u>	<u>\$ 156,954</u>	<u>\$ 184,608</u>

Credit Risk

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

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, 2018 for each investment type as provided by Standard and Poor's (in thousands):

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end				Not Rated
				AAA	AA+	AA	AA-	
U.S. Government Agencies	\$ 414,135	AA-	\$ -	\$ -	\$ 414,135	\$ -	\$ -	\$ -
U.S. Treasury Obligations	34,045	AA-	34,045	-	-	-	-	-
Medium Term Notes	13,384	AA-	-	6,968	4,859	-	-	1,557
Local Agency Investment Fund	64,033	N/A	-	-	-	-	-	64,033
Mutual Funds	61	AAA	-	61	-	-	-	-
Supranational Obligations	14,796	AA	-	14,796	-	-	-	-
Municipal Bonds	18,076	AA-	-	5,355	3,523	7,725	1,473	-
Negotiable Certificates of Deposit	1,420	AA-	-	-	-	-	-	1,420
Money Market Funds	40,524	N/A	-	-	-	-	-	40,524
Total Investments	<u>\$ 600,474</u>		<u>\$ 34,045</u>	<u>\$ 27,180</u>	<u>\$ 422,517</u>	<u>\$ 7,725</u>	<u>\$ 1,473</u>	<u>\$ 107,534</u>

Concentration of Credit Risk

The District's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code 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, 2018, those investments consisted of the following (in thousands):

Issuer	Investment Type	Reported Amount
Government-Wide		
Federal Home Loan Mortgage Corp.	U.S. Government Agency	\$ 84,428
Federal National Mortgage Association	U.S. Government Agency	86,929
Federal Home Loan Bank	U.S. Government Agency	148,228
Federal Farm Credit Bank	U.S. Government Agency	94,550

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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of public agencies' cash on deposit. All of 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 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 marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and
- Level 3: Unobservable inputs (not applicable to the District).

Shown below is a summary of the fair value hierarchy of the District's investment at fair value on June 30, 2018 (in thousands):

	6/30/2018	Level 1	Level 2	Uncategorized
Investments by Fair Value Level				
U.S. Government Agencies	\$ 414,135	\$ 414,135	\$ -	\$ -
U.S. Treasury Obligations	34,045	34,045	-	-
Medium Term Notes	13,384	-	13,384	-
Mutual Funds	61	-	61	-
Supranational Obligations	14,796	-	14,796	-
Municipal Bonds	18,076	-	18,076	-
Negotiable Certificates of Deposit	1,420	-	1,420	-
Subtotal - Leveled Investments	<u>495,917</u>	<u>448,180</u>	<u>47,737</u>	<u>-</u>
Local Agency Investment Fund	64,033	-	-	64,033
Money Market Funds	40,524	-	-	40,524
Subtotal - Uncategorized	<u>104,557</u>	<u>-</u>	<u>-</u>	<u>104,557</u>
Total Investments	<u>\$ 600,474</u>	<u>\$ 448,180</u>	<u>\$ 47,737</u>	<u>\$ 104,557</u>

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 \$64 million in LAIF at June 30, 2018 are classified as uncategorized input (not classified as Level 1, Level 2, or Level 3).

(4) REIMBURSEMENT OF CAPITAL COSTS

The District derives certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following page is a summary of such reimbursements in fiscal year 2018 (in thousands):

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

	Governmental Activities	Business-type Activity
Local Agencies:		
Association of Bay Area Governments	\$ -	\$ 966
City of East Palo Alto	840	-
City of Menlo Park	550	-
City of Mountain View	641	-
City of Palo Alto	267	
San Benito County Water District	-	1,518
San Francisco Public Utility	-	12
San Mateo County	1,430	-
State Agency:		
Department of Water Resources	42,688	1,849
Federal Agency		
US Bureau of Interior, Dept. of Reclamation	-	5
Total	<u>\$ 46,416</u>	<u>\$ 4,350</u>

(5) INVESTMENT INCOME

The District earns interest income from the investment of cash. Generally accepted accounting principles, as discussed in GASB 31, require reporting investment at fair value in the financial statements. Because of this requirement, interest income earned from investing activity during the current fiscal year is adjusted upwards or downwards to reflect the change in fair value of investment.

The following table represents the investment income as reported in the financial statements, the current year GASB 31 fair value adjustment, and the unadjusted interest income at June 30, 2018 (in thousands)

	Interest as Reported	GASB 31 Fair Value Adjustment	Unadjusted Interest Income
Fund:			
General	\$ 20	\$ (53)	\$ 73
Watershed & Stream Steward	729	(822)	1,551
Safe, Clean Water	1,296	(1,116)	2,412
COP Debt Service	94	-	95
COP Construction	166	-	165
Water Enterprise	1,268	(1,138)	2,406
Internal Service:			
Equipment	42	(14)	56
Risk Insurance	108	(86)	194
Information Technology	79	(106)	185
Total Interest	<u>\$ 3,802</u>	<u>\$ (3,335)</u>	<u>\$ 7,137</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

6) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows (in thousands):

	Balance July 1, 2017	Additions	Deletions	Transfers / Reclassified	Balance June 30, 2018
Governmental Activities					
Nondepreciable capital assets:					
Land	\$ 164,847	\$ 24,966	\$ -	\$ -	\$ 189,813
Intangibles - easement	17,616	6,400	-	-	24,016
Construction in progress					
Governmental funds	429,209	100,121	-	(6,152)	523,178
Internal service funds	6,022	1,461	-	-	7,483
Total nondepreciable capital assets	<u>617,694</u>	<u>132,948</u>	<u>-</u>	<u>(6,152)</u>	<u>744,490</u>
Depreciable capital assets:					
Buildings	42,007	-	-	-	42,007
Structures and improvements	767,729	-	-	6,152	773,881
Equipment:					
Governmental funds	21,344	88	-	-	21,432
Internal service funds	26,119	3,856	(1,814)	-	28,161
Intangible Software	2,338	-	-	-	2,338
Total depreciable capital assets	<u>859,537</u>	<u>3,944</u>	<u>(1,814)</u>	<u>6,152</u>	<u>867,819</u>
Less accumulated depreciation and amortization					
Buildings	(13,530)	(861)	-	-	(14,391)
Structures and improvements	(119,227)	(8,991)	-	-	(128,218)
Equipment:					
Governmental funds	(18,510)	(609)	-	-	(19,119)
Internal service funds	(14,473)	(2,393)	1,765	-	(15,101)
Intangible - software	(1,148)	(468)	-	-	(1,616)
Total accumulated depreciation and amortization	<u>(166,888)</u>	<u>(13,322)</u>	<u>1,765</u>	<u>-</u>	<u>(178,445)</u>
Net depreciable capital assets	<u>692,649</u>	<u>(9,378)</u>	<u>(49)</u>	<u>6,152</u>	<u>689,374</u>
Total capital assets, net	<u>\$ 1,310,343</u>	<u>\$ 123,570</u>	<u>\$ (49)</u>	<u>\$ -</u>	<u>\$ 1,433,864</u>
Business-type activity					
Nondepreciable capital assets:					
Land	\$ 19,180	\$ -	\$ -	\$ -	\$ 19,180
Intangible - easement	162	-	-	-	162
Construction in progress	306,529	91,668	-	(355)	397,842
Total nondepreciable capital assets	<u>325,871</u>	<u>91,668</u>	<u>-</u>	<u>(355)</u>	<u>417,184</u>
Depreciable capital assets:					
Contract water and storage rights	197,597	8,764	-	-	206,361
Buildings	91,001	-	-	-	91,001
Structures and improvements	870,100	-	-	355	870,455
Equipment	27,660	357	-	(20)	27,997
Total depreciable capital assets	<u>1,186,358</u>	<u>9,121</u>	<u>-</u>	<u>335</u>	<u>1,195,814</u>
Less accumulated depreciation and amortization					
Contract water and storage rights	(151,840)	(11,188)	-	-	(163,028)
Buildings	(6,468)	(1,876)	-	-	(8,344)
Structures and improvements	(270,978)	(14,428)	-	-	(285,406)
Equipment	(21,254)	(1,363)	-	20	(22,597)
Total accumulated depreciation and amortization	<u>(450,540)</u>	<u>(28,855)</u>	<u>-</u>	<u>20</u>	<u>(479,375)</u>
Net depreciable capital assets	<u>735,818</u>	<u>(19,734)</u>	<u>-</u>	<u>355</u>	<u>716,439</u>
Total capital assets, net	<u>\$ 1,061,689</u>	<u>\$ 71,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,133,623</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

During fiscal year 2018, new construction in progress increased by \$100.1 million in the governmental activities. The breakdown of additions to the construction in progress was as follows: \$41.2 million to the watersheds, and \$58.9 million to the Safe, Clean Water & Natural Flood Protection Fund. There were 60 in progress and completed projects during the fiscal year with the major projects listed below (in millions):

- \$30.5 - Permanente Creek Bay – Foothill Clean Safe Creek
- \$29.3 - Berryessa Creek, Lower, Penitencia Phase 2
- \$9.8 - San Francisquito Early Implementation
- \$5.6 - Main/Madrone Pipeline Restoration
- \$5.1 - Lower Silver Creek - R4-6 North Babb to Cunningham
- \$1.9 - Lower Penitencia Creek Improvements
- \$1.7 - San Francisco Bay Shoreline Study Economic Impact Area Design and Partial Construction
- \$1.6 - Coyote Creek, Montague to I-280
- \$1.6 - Cunningham Flood Detention
- \$1.5 - Guadalupe River Upper, SPRR-BH 7-12
- \$1.5 - Upper Berryessa Creek Flood Risk Management Project
- \$1.5 - Salt Ponds A5-11 Restoration

New construction in progress amounted to \$91.7 million in the business-type activities. There were 49 in progress and completed projects during the fiscal year, with major projects listed below (in millions):

- \$31.7 - Rinconada Water Treatment Plant Reliability Improvement
- \$21.6 - 10-year Pipeline and Rehabilitation
- \$9.1 - Anderson Dam Seismic Retrofit
- \$4.4 - Calero Dam Seismic Retrofit Design and Construction
- \$3.9 - Pacheco Conduit Rehabilitation
- \$3.3 - Indirect Potable Reuse-Plan C
- \$3.2 - Penitencia Force Main Seismic Retrofit
- \$3.0 - Guadalupe Dam Seismic Retrofit Design and Construction
- \$2.0 - Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications
- \$1.3 - Dam Safety Seismic Stability
- \$1.2 - Wolfe Road Recycled Water Facility

Capital asset depreciation and amortization incurred by the primary government for the current fiscal year are as follows (in thousands):

General government	\$ 1,960
Watershed and Stream Stewardship	8,478
Safe, clean water and natural flood protection	491
Capital assets held by the District's internal service funds are charged to the various functions based on their usage of assets.	<u>2,393</u>
Total depreciation expense – governmental activities	<u>\$13,322</u>

Total depreciation and amortization expense – business-type activity	
Water cost of production	<u>\$ 28,855</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

(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. Effective June 30, 2018, the District terminated its \$75 million revolving line of credit with Wells Fargo Bank without paying an early termination fee. The early termination reflects recent updates to the projected financing needs for the Safe, Clean Water (SCW) program and Water Utility Enterprise (WUE) projects, which show that the existing \$150 million commercial paper program capacity is sufficient to meet the financing needs without the Wells Fargo Bank's \$75 million line of credit. This termination will save the district a minimum of \$190,000 in annual banking fees effective FY 2018-19.

Commercial Paper Program	Authorized	Outstanding Amount
Beginning balance	\$ 225.0	\$ 24.2
Additions	-	81.6
Reductions	(75.0)	-
Ending balance	<u>\$ 150.0</u>	<u>\$ 105.8</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

(b) Long-term liabilities

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

<u>Type of indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>June 30, 2018</u>	<u>Due Within One Year</u>
Governmental activities					
Certificates of participation					
2012A Certificates of participation	2024	3% - 5%	52,955	\$ 27,645	\$ 4,105
2017A Certificates of participation	2030	4% - 5%	59,390	54,640	4,610
Compensated absences				8,786	2,035
Claims payable				6,465	1,689
Net pension liability				129,929	-
Other post employment liability				43,811	-
Bond premium				13,037	1,547
Total general long-term obligations				<u>\$ 284,313</u>	<u>\$ 13,986</u>
Business-type activity					
2006B Water revenue bond	2035	5.15%-5.31%	25,570	\$ 18,930	\$ 775
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	53,110	1,700
2007B Water revenue COP bond	2037	5.55%-floating	53,730	39,370	1,390
2016C Water revenue COP bond	2029	4.0% - 5.0%	43,075	41,055	3,010
2016D Water revenue COP bond	2029	1.567%-3.679%	54,970	52,340	3,915
Bond discount				(147)	(8)
Bond premium				37,587	1,514
Compensated absences				5,168	1,197
Net pension liability				100,278	-
Other post employment liability				33,814	-
Semitropic water banking agreement	2035		46,900	8,150	-
Total enterprise funds debt				<u>\$ 571,185</u>	<u>\$ 13,493</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

The following is a summary of changes in long-term liabilities as of June 30, 2018 (in thousands):

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Due Within One Year
Governmental activities:					
2012A COP	\$ 31,555	\$ -	\$ (3,910)	\$ 27,645	\$ 4,105
2017A COP	59,390	-	(4,750)	54,640	4,610
Compensated absences	8,555	5,541	(5,310)	8,786	2,035
Claims payable	5,666	799	-	6,465	1,689
Net pension liability	113,654	16,726	(451)	129,929	451
Other post employment benefits	43,941	2,288	(2,418)	43,811	2,418
Premium on refunded debt	14,584	-	(1,547)	13,037	1,547
Total governmental activities long-term liabilities	<u>\$ 277,345</u>	<u>\$ 25,354</u>	<u>\$ (18,386)</u>	<u>\$ 284,313</u>	<u>\$ 16,855</u>
Business-type activity:					
2006B revenue bonds	\$ 19,670	\$ -	\$ (740)	\$ 18,930	\$ 775
2016A revenue bonds	106,315	-	-	106,315	-
2016B revenue bonds	75,215	-	-	75,215	-
2017A revenue bonds	54,710	-	(1,600)	53,110	1,700
2007B COP revenue bonds	40,700	-	(1,330)	39,370	1,390
2016C COP revenue bonds	43,075	-	(2,020)	41,055	3,010
2016D COP revenue bonds	54,970	-	(2,630)	52,340	3,915
Bond discount on refunding	(155)	-	8	(147)	(8)
Premium on debt issuance	39,101	-	(1,514)	37,587	1,514
Compensated absences	4,990	4,277	(4,099)	5,168	1,197
Net pension liability	89,563	28,274	(17,559)	100,278	17,559
Other post employment benefits	(516)	39,795	(5,465)	33,814	5,465
Semitropic water banking agreement	4,473	3,677	-	8,150	-
Total business-type activity long-term liabilities	<u>\$ 532,111</u>	<u>\$ 76,023</u>	<u>\$ (36,949)</u>	<u>\$ 571,185</u>	<u>\$ 36,517</u>

SANTA CLARA VALLEY WATER DISTRICTNotes to Basic Financial Statements
For the Year Ended June 30, 2018

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

	June 30	Governmental activities		Business-type activity	
		Principal	Interest	Principal	Interest and amortization
Bonds payable	2019	\$ 8,715	\$ 3,922	\$ 10,790	\$ 17,581
	2020	8,075	3,486	11,380	17,344
	2021	8,485	3,082	11,850	16,888
	2022	8,860	2,704	12,340	16,409
	2023	9,250	2,308	12,870	15,899
	2024 - 2028	28,190	6,408	73,290	70,751
	2029 - 2033	10,710	810	84,470	52,510
	2034 - 2038	-	-	73,005	32,177
	2039 - 2043	-	-	56,060	17,410
	2044 - 2048	-	-	40,280	3,798
Total bonds payable requirements		<u>\$ 82,285</u>	<u>\$ 22,720</u>	<u>\$ 386,335</u>	<u>\$ 260,767</u>
Add: unamortized premium on issuance		13,037		37,587	
Less: unamortized discount on refunding		-		(147)	
Add: compensated absences		8,786		5,168	
Add: claims payable		6,465		-	
Add: other post employment benefits		43,811		33,814	
Add: net pension liability		129,929		100,278	
Add: semitropic water banking agreement		-		8,150	
Total principal outstanding at June 30, 2018		<u>\$ 284,313</u>		<u>\$ 571,185</u>	

Governmental Activities

The following provides a brief description of the District's debt for governmental activities outstanding as of June 30, 2018:

2012A Certificates of Participation

In November 2012, the District issued \$52,955,000 of Refunding and Improvement Certificates of Participation, Series 2012A. The proceeds of 2012A Certificates of Participation were used to: (1) refinance \$52,360,000 of the 2003A Certificates of Participation; (2) finance the cost of certain flood control improvements; (3) fund a reserve fund; and (4) pay the costs of issuing the 2012A Certificates. The 2012A Certificates are payable from the 1994 Installment Payments, which are payable from, and are secured by a pledge of and lien on, the District Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the District Board on June 23, 1994.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

2017A Certificates of Participation

In March 2017, the District issued \$59,390,000 of Refunding and Improvement Certificates of Participation, Series 2017A. The proceeds of the 2017A Certificates of Participation were used to: (1) refinance the \$5,270,000 outstanding balance of the 2004A Certificates of Participation; (2) refinance the \$54,215,000 outstanding balance of the 2007A Certificates of Participation; (3) finance the cost of certain flood control improvements; and (4) pay the costs of issuing the 2017A Certificates. The 2017A Certificates are payable from the 1994 and 1995 Installment Payments, which are payable from, and are secured by a pledge of and lien on, the district Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the District Board on June 23, 1994.

Claims Payable

The District is self-insured and reports all its risk management activities in its Risk Management Internal Service Fund. Detailed information and calculation of the claims payable account balance are explained in Note 13, Risk Management.

Business-type Activity

The following provides a brief description of the District's debt for business-type activity outstanding as of June 30, 2018:

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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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.

2007B 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 quarterly debt service payments for the 2007B issuance.

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, 2018, the District has \$8.2 million outstanding liability related to water storage and banking rights.

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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

Compliance with Bond Covenants

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

Revenues Pledged

The District has pledged future flood control system revenues to repay \$82.3 million in long-term debt outstanding as of June 30, 2018, that was issued to finance the cost of flood control improvements. The certificates of participation (COPs) are payable from installment payments that are secured by flood control system revenues and are payable through fiscal years 2024 (2012A) and 2030 (2017A). The total principal and interest remaining to be paid on the combined debt is \$105 million. A ten-year comparison of flood control system revenues to related debt service titled "Flood Control System Historical Operating Results – Combined Statements of Revenues and Debt Service Coverage – Last Ten Fiscal Years" can be found in the Statistical Section.

The District has also pledged water utility system revenues, net of specified maintenance and operating expenses, to repay \$386.3 million in long-term debt outstanding as of June 30, 2018, that was issued to finance the cost of capital construction projects for the water utility enterprise. The secured debt includes revenue bonds and COPs. The revenue bonds are payable from net water utility system revenues and the revenue COPs are payable from installments that are secured by net water utility system revenues. The long-term debt is payable through fiscal year 2046. Total principal outstanding and interest costs remaining to be paid on the combined debt is \$647.1 million.

Additionally, \$105.8 million in commercial paper certificates was outstanding as of June 30, 2018 through the District's \$150 million commercial paper program. The commercial paper certificates are secured by a \$150 million letter of credit issued by MUFG Bank, Ltd. and, to the extent that proceeds from draws on the bank letter of credit are not sufficient, tax and revenue anticipation notes issued by the District to the District's Public Facilities Financing Corporation. The obligation of the District to make payments on the notes is a general obligation of the District. The District has additionally pledged net water utility system revenues, on a subordinate basis to long-term debt, to payments on the notes. A ten-year comparison net water utility system revenues to related debt service titled "Revenue Bond Coverage – Last Ten Fiscal Years" can be found in the Statistical Section.

(8) PROPERTY TAXES AND BENEFIT ASSESSMENTS

The District derives certain revenues from the assessment of property tax parcel levies and the levy of benefit assessments and a special parcel tax. The property tax levy is composed of two categories: (1) a 1 percent tax allocation; and (2) voter approved levy to repay capital and operating costs related to imported water from the State Water Project. Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments. In November 2000, voters approved a 15-year special parcel tax to fund the countywide Clean, Safe Creeks & Natural Flood Protection Program. The levy became effective July 1, 2001 and is based on the proportionate storm water runoff for each property.

In November 2012, the voters overwhelmingly approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax. The Safe, Clean Water program builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

by the voters in 2000. The Safe, Clean Water program replaced the Clean, Safe Creeks measure in its entirety beginning July 1, 2013. The Safe, Clean Water special parcel tax will provide an estimated total of \$723 million of revenue for operations and capital projects. The program will be funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2018, the budget includes \$42.5 million of special parcel tax for this program.

Property tax and benefit assessment revenues recorded for the year ended June 30, 2018 are as follows (in thousands):

	General Fund	Special Revenue Funds	Water Enterprise Fund
Property taxes:			
1% tax allocation	\$ 7,865	\$ 79,538	\$ 7,088
Special parcel tax	-	42,488	-
Voter approved indebtedness:			
State water	-	-	30,329
Total taxes	7,865	122,026	37,417
Benefit assessments	-	14,774	-
Total property taxes and benefit assessments	<u>\$ 7,865</u>	<u>\$ 136,800</u>	<u>\$ 37,417</u>

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

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

(9) FUND BALANCES

In the fund financial statements, governmental funds report fund balance as non-spendable, restricted, committed, assigned or unassigned based primarily to the extent to which the District is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

- Non-spendable fund balance includes net resources that cannot be spent because they are either a) not spendable because of their form, or b) must be maintained intact pursuant to legal or contractual requirements.
- Restricted fund balance includes amounts that are subject to limitations imposed by either: a) creditors, grantors, contributors or laws and regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

- Committed fund balance includes spendable resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority, the District Board, through adopted resolutions. Those constraints remain binding unless the District Board removes or changes in the same manner to previously commit those resources. These District Board's actions must occur prior to June 30th of the applicable fiscal year.
- Assigned fund balance includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The intent can be established or changed at the discretion of the District Board, or an official designated for that purpose, the Chief Executive Officer, in accordance with the provisions of the Governance Policies of the Board, Policy No. EL-5, *Purchasing and Contracts*.
- Unassigned fund balance represents residual net resources that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

Spending Prioritization in Using Available Resources

When an expense is incurred for purposes for which both restricted resources and unrestricted resources fund balance are available, the District considers restricted resources to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the District's flow assumption is to spend in the sequence of committed resources first, assigned second, and unassigned last.

The various fund balances are established by actions of the Board of Directors and can be increased, reduced or eliminated by similar actions with the exception of encumbrances on the assigned fund balance, which can be reduced or eliminated without the action of the Board of Directors. The District's reserves amounts are reviewed annually to ensure compliance with the District's reserve policy. Changes to the restricted, committed and assigned reserves are presented to the Board of the Directors for review and approval.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

Detailed schedule of fund balances as of June 30, 2018 is as follows (in thousands):

	General	Watershed & Stream Steward	Safe, Clean Water & Natural Flood Protection Program	COP Construction	COP Debt Service	Total Govern- mental Funds
Restricted Fund Balance:						
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 6,341	\$ 6,341
Debt Service Proceeds	-	-	-	5,496	-	5,496
SCW-Current Authorized Capital Projects	-	-	170,482	-	-	170,482
Total restricted fund balance	-	-	170,482	5,496	6,341	182,319
Committed Fund Balance:						
Operating & Capital	3,434	74,689	-	-	-	78,123
Current Authorized Capital Projects	500	38,984	-	-	-	39,484
Total committed fund balance	3,934	113,673	-	-	-	117,607
Assigned Fund Balance:						
Encumbrances	5,746	26,909	-	-	-	32,655
Total assigned fund balance	5,746	26,909	-	-	-	32,655
 Total fund balances	 \$ 9,680	 \$ 140,582	 \$ 170,482	 \$ 5,496	 \$ 6,341	 \$ 332,581

(10) NET POSITION

The proprietary funds financial statements utilize a net position presentation. Net position is categorized as follows: (1) 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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Below is the detailed schedule of the proprietary funds' net position as of June 30, 2018
(in thousands):

	Water Enterprise Fund	State Projects Fund	Equipment Fund	Risk Management Fund	Information Technology Fund
Restricted Net Position					
San Felipe Emergency Reserve	\$ 3,040	\$ -	\$ -	\$ -	\$ -
Debt Service Reserve	212	-	-	-	-
Rate Stabilization	21,066	-	-	-	-
Advanced Water Purification Center	1,906	-	-	-	-
Supplemental Water Supply Reserve	14,677	-	-	-	-
Drought Reserve	5,000	-	-	-	-
State Water Project	-	12,778	-	-	-
Total restricted net position	<u>45,901</u>	<u>12,778</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unrestricted Net Position					
Operating & Capital	20,307	-	3,702	-	-
Currently Authorized Projects	42,010	-	-	-	11,464
Property Self-Insurance/Catastrophic	-	-	-	8,732	-
Encumbrances	83,708	-	433	100	1,778
Reserve for Restricted Assets	-	-	-	-	2,716
Net pension liability	(76,513)	-	(3,056)	(1,987)	(97)
Net other post employment benefit liability	(32,154)	-	(1,027)	(838)	(239)
Total unrestricted net position	<u>37,358</u>	<u>-</u>	<u>52</u>	<u>6,007</u>	<u>15,622</u>
Net investment in capital assets	<u>609,515</u>	<u>16,999</u>	<u>9,878</u>	<u>2</u>	<u>10,663</u>
Net Position	<u>\$ 692,774</u>	<u>\$ 29,777</u>	<u>\$ 9,930</u>	<u>\$ 6,009</u>	<u>\$ 26,285</u>

(11) 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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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, 2018, 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 schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + .92%*	7.0% + 1.92%*	6.75%
Required employer contribution rates	9.985% plus \$11,525,000 prepayment for prior unfunded service cost		
* Member additional contribution towards District's CalPERS cost per negotiated agreement with the bargaining units			

Employees Covered – As of the most recent CalPERS annual valuation report, dated June 30, 2017, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	732
Active employees	743

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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

For the year ended June 30, 2018, contributions to the plan were \$19.7 million. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. All funds with payroll charges contribute to the actuarially determined contribution.

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, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry-age normal cost method
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return ⁽¹⁾	7.15%
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 and administrative expenses; includes 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 June 30, 2016 valuation 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

In 2017, the discount rate was reduced from 7.65% to 7.15%. The updated discount rate 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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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	Current Strategic Allocation	Real Return Years 1 – 10 ⁽¹⁾	Real Return Years 11+ ⁽²⁾
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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	\$ 711,593,432	\$ 508,377,503	\$ 203,215,929
Changes Recognized for the Measurement Period:			
Service Cost	15,752,291	-	15,752,291
Interest on Total Pension Liability	53,109,673	-	53,109,673
Changes of Assumptions	44,289,025	-	44,289,025
Difference between Expected and Actual Experience	(4,716,605)	-	(4,716,605)
Net Plan to Plan Resource Movement	-	370	(370)
Contribution from Employer	-	19,055,019	(19,055,019)
Contribution from Employees	-	6,624,798	(6,624,798)
Net Investment Income	-	56,514,065	56,514,065
Benefit Payments, including Refunds of Employee Contribution	(32,498,706)	(32,498,706)	-
Administrative expense	-	(750,585)	750,585
Net Changes	75,935,678	48,944,961	26,990,717
Ending Balance	\$ 787,529,110	\$ 557,322,464	\$ 230,206,646

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% 6.15%	Current Discount 7.15%	Discount Rate +1% 8.15%
Plan Net Pension Liability/(Assets)	\$ 337,530,299	\$ 230,206,646	\$ 141,463,542

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

Pension Plan Fiduciary Net Position

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

Pension Expenses and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2018, the District recognized pension expense of \$33.2 million. At June 30, 2018, 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	\$ 19,746,343	\$ -
Changes in assumptions	32,634,018	(2,543,134)
Differences between actual and expected experience	-	(5,017,601)
Net difference between projected and actual earnings on plan investments	7,367,346	-
Total	<u>\$ 59,747,707</u>	<u>\$ (7,560,735)</u>

\$19.7 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction from the net pension liability in the following fiscal year. 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
2019	\$ 6,850,179
2020	18,256,516
2021	11,441,246
2022	(4,107,312)
Total	<u>\$ 32,440,629</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

12) OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Benefits Provided

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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
<p>Unclassified</p> <p>At Will</p>	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	100% medical premium for retiree.
		15 years	100% medical premium for retiree plus one eligible dependent.
	Retired from June 19, 1995 through October 21, 1996	10 years	100% medical premium for retiree.
		15 years	100% medical premium for retiree plus one eligible dependent.
		25 years	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	100% medical premium for retiree.
		15 years	100% medical, dental, and vision coverages for the retiree plus one eligible dependent.
		25 years	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	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.
		15 years	Medical, dental, and vision coverages are provided for retiree and one eligible dependent. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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

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

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.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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.

Employees Covered – As of the most recent OPEB annual valuation report, dated June 30, 2017, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	711
Active employees	741

Contributions

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. 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, was made at the beginning of each fiscal year through fiscal year 2016-17. 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.

OPEB and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between the District and the bargaining groups. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District's total contribution to the plan amounted to \$12.5 million. All funds with payroll charges contribute to the actuarially determined contribution.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

Net OPEB Liability

The District's net OPEB liability was measured on June 30, 2017 for reporting date June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

Discount Rate	7.28%
Inflation	3%
Salary Increases	3.25%
Investment Rate of Return	7.28%
Mortality Rate	Derived from the CalPERS study of Miscellaneous Public Agency experience
Pre-retirement Turnover ⁽¹⁾	Derived from the CalPERS study of Miscellaneous Public Agency experience
Healthcare Trend Rate ⁽²⁾	6% grading to ultimate 4% for medical and flat 3% for dental and vision
⁽¹⁾ Net of OPEB plan investment expenses, including inflation	
⁽²⁾ The mortality rate table was developed based on CalPERS' non industrial miscellaneous public agency experience study for 14 years ending June 2011.	

The long-term, expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Strategy 1 Allocation	Real Return ⁽¹⁾
Global Equity	59.0%	5.98%
Fixed Income	25.0%	2.62%
Global Real Estate (REITs)	8.0%	5.00%
Treasury Inflation Protected Securities (TIPS)	5.0%	1.46%
Commodities	3.0%	2.87%

- (1) These expected long term real rates of return come from a geometric representation of returns that assume a general inflation rate of 2.92%.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Discount Rate

The discount rate of 7.28% is the expected long-term rate of return on District assets using investment strategy #1 within the CERBT. The projected cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in OPEB Liability

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

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Beginning balance	\$ 167,805,300	\$ 84,500,500	\$ 83,304,800
Changes Recognized for the Measurement Period:			
Service Cost	2,913,500	-	2,913,500
Interest Cost	12,017,600	-	12,017,600
Contributions	-	11,471,200	(11,471,200)
Benefit Payments	(8,471,200)	(8,471,200)	-
Non-Benefit Related Admin Expenses from Plan Trusts	-	(44,900)	44,900
Expected Investment Return	-	6,259,202	(6,259,202)
Investment Experience (Loss)/Gain	-	2,924,898	(2,924,898)
Net Changes within FY2017/18	6,459,900	12,139,200	(6,679,300)
Ending balance	\$ 174,265,200	\$ 96,639,700	\$ 77,625,500

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

The following presents the net OPEB liability of the District, calculated using the current discount rate, as well as what the District's net OPEB 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%
Net OPEB Liability	\$ 98,887,100	\$ 77,625,500	\$ 59,870,500

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District, if it were calculated using health care cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease	Current Rates	1% Increase
Net OPEB Liability	<u>\$ 58,681,800</u>	<u>\$ 77,625,500</u>	<u>\$ 100,460,700</u>

OPEB Plan Fiduciary Net Position

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

OPEB Expense and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2018, the District recognized OPEB credit of \$4.4 million. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
OPEB contribution subsequent to measurement date	\$ 12,546,137	\$ -
Net difference between projected and actual earnings on plan investments	-	(2,339,918)
Total	<u>\$ 12,546,137</u>	<u>\$ (2,339,918)</u>

\$12.5 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction from the net OPEB liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year ending June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (584,980)
2020	(584,980)
2021	(584,980)
2022	(584,978)
Total	<u>\$ (2,339,918)</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

(13) RISK MANAGEMENT

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

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

<u>Coverage Descriptions</u>	<u>Deductibles</u>	<u>Commercial Insurance Coverage</u>
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, 2018, the liability for self-insurance claims was \$6,465,000. 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, 2018 are as follows (in thousands):

	<u>General Liability</u>	<u>Workers' Compensation</u>	<u>Total</u>
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	<u>2,987</u>	<u>2,679</u>	<u>5,666</u>
Current year premiums, incurred claims and changes in estimates	584	677	1,261
Claim payments	(84)	(378)	(462)
Claims payable at June 30, 2018	<u>\$ 3,487</u>	<u>\$ 2,978</u>	<u>\$ 6,465</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

(14) TRANSFERS IN AND OUT

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

In the year ended June 30, 2018, the following transfers occurred between funds:

- \$99 thousand was transferred from the Water Enterprise Fund to the General Fund to support the drought emergency response project
- \$836 thousand was transferred from the Watershed and Stream Stewardship funds for small capital improvements and drought induced tree removal projects
- \$2.7 million was transferred from the individual Zone funds to the Watershed Fund for the benefit assessment collections
- \$3.5 million was transferred from the COP Construction Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to fund certain projects
- \$11.4 million was transferred from the Water Enterprise Fund to the Safe, Clean Water and Natural Flood Protection Program Fund for the Main and Madrone capital project
- \$12.6 million was transferred from the General and Watershed funds to the COP Debt Service Fund to pay debt service payments
- \$1.6 million was transferred each from the General Fund and Watershed Fund to the Water Enterprise Fund for the Open Space credit
- \$157 thousand was transferred from the General Fund to the Information Technology Fund to fund the Vena software

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

Interfund transfers for the year ended June 30, 2018, is as follows (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Water Enterprise	\$ 99
	Watershed and Stream Stewardship	836
Watershed & Stream Stewardship	Lower Peninsula Watershed	679
	West Valley Watershed	472
	Guadalupe Watershed	847
	Coyote Watershed	662
Safe, Clean Water Fund	COP Construction Fund	3,457
Safe, Clean Water Fund	Water Enterprise	11,378
COP Debt Service Fund	General Fund	471
	Lower Peninsula Watershed	3,351
	West Valley Watershed	1,814
	Guadalupe Watershed	3,692
	Coyote Watershed	3,249
Water Enterprise	General Fund	1,626
	Watershed & Stream Stewardship	1,626
Information Technology Fund	General Fund	157
Total interfund transfers		<u>\$ 34,416</u>

15) PRIOR PERIOD ADJUSTMENT

In fiscal year 2018, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Other Post Employment Benefits*, as of July 1, 2017. The impact of the implementation on the beginning net position is as follows:

<u>Net Position</u>	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Beginning balance	\$ 1,472,691	\$ 715,841	\$ 2,188,532
Pre GASB75 OPEB asset close out	(656)	(516)	(1,172)
Deferred outflows of resources	6,475	4,997	11,472
GASB75 OPEB liability	(47,017)	(36,288)	(83,305)
Beginning balance, restated	<u>\$ 1,431,493</u>	<u>\$ 684,034</u>	<u>\$ 2,115,527</u>

SANTA CLARA VALLEY WATER DISTRICTNotes to Basic Financial Statements
For the Year Ended June 30, 2018

<u>Net Position</u>	Water Utility Fund	Internal Service Funds	Total
Beginning balance	\$ 715,841	\$ 35,396	\$ 751,237
Pre GASB75 OPEB asset close out	(516)	(34)	(550)
Deferred outflows of resources	4,997	333	5,330
GASB75 OPEB liability	(36,288)	(2,420)	(38,708)
Beginning balance, restated	<u>\$ 684,034</u>	<u>\$ 33,275</u>	<u>\$ 717,309</u>

16) COMMITMENTS**(a) Contract and Purchase Commitments**

As of June 30, 2018, governmental funds had encumbrances of approximately \$96.5 million, while proprietary funds had open purchase commitments of approximately \$85.8 million related to new or existing contracts and agreements. These encumbrances are only commitments for the expenditure of funds and do not represent actual expenditures or liabilities.

At June 30, 2018, detailed encumbrances of the governmental and proprietary funds are as follows:

Fund	Fund Balances		Total
	Governmental Assigned	Proprietary Unrestricted	
General Fund	\$ 5,747	\$ -	\$ 5,747
Watershed and Stream Stewardship Funds	26,909		26,909
Safe, Clean Water & Natural Flood Protection	63,869		63,869
Water Enterprise Fund	-	83,529	83,529
Equipment Fund	-	433	433
Risk Management Fund	-	100	100
Information Technology Fund	-	1,778	1,778
Total	<u>\$ 96,525</u>	<u>\$ 85,840</u>	<u>\$ 182,365</u>

(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-

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

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, 2018 was \$267,927,891.

(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, 2018, the District has paid \$38.7 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, 2018, the District has 256,725 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of \$26.4 million has been recorded through fiscal year 2018.

(17) 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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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 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; 17-CV-308140; and 18-CV-327641).

On November 8, 2018, the Sixth District Court of Appeal issued its latest opinion in the Great Oaks versus District case, reaffirming that Great Oaks failed to prove that the District's 2005-06 groundwater charges were legally flawed. Regardless of this recent Court decision, Great Oaks may attempt to retry its 2005 case based on new principles.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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, however it was placed on hold pending resolution of the City of Buenaventura v. United Water Conservation District (UWCD) case which argued in September of 2017. On December 5, 2017, the Supreme Court released a decision in the UWCD case, and unanimously decided that Proposition 210 does not apply to UWCD's groundwater charges. However, the Supreme Court did determine that Proposition 26 applied to ground water charges; thus the District's groundwater charges are also likely subject to Proposition 26's requirements. Meanwhile, the District awaits further direction from the Supreme Court in light of its decision in the UWCD case. The District cannot predict the nature or extent of proceedings of how the Great Oaks case will be handled by the Supreme Court.

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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements For the Year Ended June 30, 2018

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 2018, 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

Following a series of storms, a flood event occurred on the Coyote Creek in San Jose, California on or about February 21, 2017. The Coyote Creek is approximately 42 miles long and is the longest creek in the County. In the southern portion of the County, the District owns and maintains the Leroy Anderson Dam and Reservoir along the Coyote Creek near Morgan Hill, California. The Anderson Dam is upstream from the City of San Jose. After the reservoir reached capacity, water began going over the Anderson Dam spillway on February 18, 2017. The spillover volume peaked on the morning of February 21, 2017, increasing flows on Coyote Creek. Beginning on or about February 21, 2017, certain residential and non-residential areas of San Jose along Coyote Creek experienced flooding due to rising water levels in the creek. Thousands of residents were temporarily evacuated, and numerous properties experienced flood damage. Such flood water has now receded.

The District has received 420 claims with respect to the flooding along Coyote Creek. The aggregate stated value of these claims is approximately \$3,000,000. Eighteen lawsuits alleging damage from the Coyote Creek flood event have been filed against the District in Santa Clara County Superior Court. The District is evaluating all claims and lawsuits and cannot predict the outcomes or financial impacts of these or any future claims and lawsuits with respect to the Coyote flood event. The District intends to vigorously defend any actions brought against it with respect to flood-related property damage caused by the flooding along Coyote Creek.

(18) SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 21, 2018.

On July 24, 2018, the California Water Commission announced that the Pacheco Reservoir Expansion Project will be awarded \$484.55 million under Proposition I, the full amount requested. This award will fund half of the cost of the total cost estimate of \$969 million. The District, along with

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

its project partners San Benito County Water District and Pacheco Pass Water District, will also pursue Federal funds. The remainder will be paid through local water rates over the several decades. This project would expand Pacheco Reservoir's capacity to provide for increased emergency water supplies, improved water quality, and ecosystems benefits throughout the region and the Sacramento-San Joaquin Delta.

**Required
Supplementary
Information**

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Changes In Net Pension Liability and Related Ratios

	June 30, 2018			
	Last 10 Years*			
	2015	2016	2017	2018
Total pension liability				
Service cost	\$ 14,351,245	\$ 13,735,953	\$ 13,764,288	\$ 15,752,291
Interest on total pension liability	46,261,670	48,842,236	51,160,517	53,109,673
Differences between expected and actual experience	-	(184,479)	(3,173,782)	(4,716,605)
Changes in assumptions	-	(12,079,891)	-	44,289,025
Benefit payments, including refunds of employee contributions	(25,004,849)	(27,800,233)	(30,428,304)	(32,498,706)
Net change in pension liability	35,608,066	22,513,586	31,322,719	75,935,678
Total pension liability, beginning	622,149,061	657,757,127	680,270,713	711,593,432
Total pension liability, ending (a)	<u>\$ 657,757,127</u>	<u>\$ 680,270,713</u>	<u>\$ 711,593,432</u>	<u>\$ 787,529,110</u>
Plan fiduciary net position				
Contributions - employer	\$ 13,804,460	\$ 15,157,939	\$ 17,044,538	\$ 19,055,019
Contributions - employee	9,036,853	6,242,234	6,567,551	6,624,798
Net investment income	75,675,314	11,478,076	2,752,954	56,514,065
Benefits payment	(25,004,849)	(27,800,233)	(30,428,304)	(32,498,706)
Net plan to plan resource movement	-	-	370	370
Administrative expense	-	(566,550)	(312,496)	(750,585)
Net change in fiduciary net position	73,511,778	4,511,466	(4,375,387)	48,944,961
Plan fiduciary net position, beginning	434,729,646	508,241,424	512,752,890	508,377,503
Plan fiduciary net position, ending (b)	<u>\$ 508,241,424</u>	<u>\$ 512,752,890</u>	<u>\$ 508,377,503</u>	<u>\$ 557,322,464</u>
 Net pension liability, ending (a - b)	 <u>\$ 149,515,703</u>	 <u>\$ 167,517,823</u>	 <u>\$ 203,215,929</u>	 <u>\$ 230,206,646</u>
 Plan fiduciary net position as a percentage of total pension liability	 77.27%	 75.37%	 71.44%	 70.77%
Covered payroll	\$ 77,885,844	\$ 78,009,731	\$ 79,663,661	\$ 84,110,908
Net pension liability as a percentage of covered payroll	191.97%	214.74%	255.09%	273.69%
Discount rate	7.50%	7.65%	7.65%	7.15%

* Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 4 years are shown.

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Employer Pension Contributions

June 30, 2018

Last 10 Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially determined contribution	\$ 13,948,105	\$ 16,532,182	\$ 18,568,910	\$ 19,746,343
Contributions in relation to the actuarially determined contribution	<u>(13,948,105)</u>	<u>(16,532,182)</u>	<u>(18,568,910)</u>	<u>(19,746,343)</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll ⁽¹⁾	\$ 78,009,731	\$ 79,663,661	\$ 84,110,908	\$ 86,634,235
Contribution as a percentage of covered payroll	17.88%	20.75%	22.08%	22.79%

⁽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 in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

* Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 4 years are shown.

	2018
Total OPEB liability	
Service cost	\$ 2,913,500
Interest on total OPEB liability	12,017,600
Benefits payment	(8,471,200)
Net change in OPEB liability	6,459,900
Total OPEB liability, beginning	167,805,300
Total OPEB liability, ending (a)	\$174,265,200
Plan fiduciary net position	
Contributions	\$ 11,471,200
Benefits payment	(8,471,200)
Net investment income	6,259,202
Investment return - differences between expected and actual experience	2,924,898
Administrative expense	(44,900)
Net change in fiduciary net position	12,139,200
Plan fiduciary net position, beginning	84,500,500
Plan fiduciary net position, ending (b)	\$ 96,639,700
Net OPEB liability, ending (a - b)	\$ 77,625,500
Plan fiduciary net position as a percentage of total OPEB liability	55.46%
Covered payroll	\$ 79,663,700
Net OPEB liability as a percentage of covered payroll	97.44%
Discount rate	7.28%

Attachement 2
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SANTA CLARA VALLEY WATER DISTRICT
Schedule of Employer Other Post Employment Benefit Contributions
June 30, 2018
Last 10 Years*

	<u>2018</u>
Actuarially determined contribution	\$ 9,546,137
Contributions in relation to the actuarially determined contribution	<u>(12,546,137)</u>
Contribution Deficiency / (Excess)	<u><u>\$ (3,000,000)</u></u>
Covered payroll ⁽¹⁾	\$ 82,053,611
Contribution as a percentage of covered payroll	15.29%

⁽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 OPEB liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

* Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 1 year is shown.

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Budgeted Governmental Funds For the Year Ended June 30, 2018 (Dollars in Thousands)

	General Fund			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 7,102	\$ 7,102	\$ 7,865	\$ 763
Use of money and property:				
Investment income	80	80	20	(60)
Rental	-	-	-	-
Reimbursement of capital costs	-	-	-	-
Other	-	-	267	267
Total revenues	<u>7,182</u>	<u>7,182</u>	<u>8,152</u>	<u>970</u>
Expenditures:				
Operating budget:				
Operations and operating projects	61,426	62,011	58,749	3,262
Debt service:				
Principal repayment	118	118	118	-
Interest and fiscal charges	354	354	353	1
Total operating budget	<u>61,898</u>	<u>62,483</u>	<u>59,220</u>	<u>3,263</u>
Capital budget:				
Capital improvement projects	1,704	4,810	2,495	2,315
Total expenditures	<u>63,602</u>	<u>67,293</u>	<u>61,715</u>	<u>5,578</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(56,420)</u>	<u>(60,111)</u>	<u>(53,563)</u>	<u>6,548</u>
Other financing sources (uses):				
Intra-district overhead reimbursement	56,444	56,444	51,061	(5,383)
Transfers in	453	453	935	482
Transfers out	(1,626)	(1,783)	(1,783)	-
Total other financing sources	<u>55,271</u>	<u>55,114</u>	<u>50,213</u>	<u>(4,901)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	<u>\$ (1,149)</u>	<u>\$ (4,997)</u>	<u>(3,350)</u>	<u>\$ 1,647</u>
Reconciliation of GAAP and budgetary basis:				
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			\$ (2,660)	
Capital improvement projects			(1,085)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			3,821	
Capital improvement projects			607	
Fund Balances, beginning of year			<u>12,347</u>	
Fund Balances, end of year			<u>\$ 9,680</u>	

See accompanying notes to required supplementary information

Watershed & Stream Stewardship				Safe, Clean Water & Natural Flood Protection			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 73,638	\$ 73,638	\$ 79,538	\$ 5,900	\$ 42,510	\$ 42,510	\$ 42,488	\$ (22)
783	783	729	(54)	1,670	1,670	1,296	(374)
1,336	1,336	1,609	273	-	-	322	322
28,000	28,000	34,159	6,159	19,158	19,158	12,257	(6,901)
233	2,403	3,999	1,596	-	-	95	95
103,990	106,160	120,034	13,874	63,338	63,338	56,458	(6,880)
53,374	53,374	51,890	1,484	15,122	15,679	12,005	3,674
-	-	-	-	-	-	-	-
-	-	-	-	2,417	2,417	437	1,980
53,374	53,374	51,890	1,484	17,539	18,096	12,442	5,654
27,386	44,000	25,207	18,793	56,088	123,405	83,095	40,310
80,760	97,374	77,097	20,277	73,627	141,501	95,537	45,964
23,230	8,786	42,937	34,151	(10,289)	(78,163)	(39,079)	39,084
-	-	-	-	-	-	-	-
2,572	2,572	2,660	88	14,849	14,849	14,835	(14)
(1,900)	(1,900)	(2,462)	(562)	-	-	-	-
672	672	198	(474)	14,849	14,849	14,835	(14)
<u>\$ 23,902</u>	<u>\$ 9,458</u>	43,135	<u>\$ 33,677</u>	<u>\$ 4,560</u>	<u>\$ (63,314)</u>	(24,244)	<u>\$ 39,070</u>
		\$ (2,044)				\$ (2,642)	
		(31,815)				(36,132)	
		2,601				1,595	
		9,632				26,880	
		<u>119,073</u>				<u>205,025</u>	
		<u>\$ 140,582</u>				<u>\$ 170,482</u>	

SANTA CLARA VALLEY WATER DISTRICT

Notes to Required Supplementary Information

For the Year Ended June 30, 2018

The District annually adopts a budget in June to be effective July 1 for the ensuing fiscal year. Annual appropriated budgets are adopted for the general fund, special revenue funds, and for all proprietary funds. The COP construction and COP debt service funds are not budgeted.

Legal budgetary (expenditure) control is established at the fund level, further controlled within the fund at the category level. The categories are defined as the operating budget (operations and maintenance, debt service, and operating projects) and the capital budget (capital improvement projects) in the budget and actual budgetary basis schedules. The amounts stated therein as proposed expenditures become appropriations to the various District organization units. The Board may amend the budget by motion during the fiscal year. The District Chief Executive Officer is authorized to transfer appropriations within budget categories by fund. All unencumbered appropriations for operations and maintenance, operating projects and debt service lapse at fiscal year-end. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated. Unexpended appropriations for capital projects are carried forward until project completion or termination.

The budget process is based upon accounting for certain transactions on a basis other than the Generally Accepted Accounting Principles (GAAP) basis. The results of operations are presented in the budget and actual schedules in accordance with the budgetary basis to provide a meaningful comparison with the budget. The major differences between the budgetary basis and GAAP basis are as follows:

- Certain accruals (primarily accrued vacation and sick leave pay) are excluded from the budgetary basis because such amounts are budgeted on a cash basis.
- Year-end encumbrances are recognized as expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the GAAP basis until incurred.
- Certain budgeted debt service expenditures in special revenue funds are recorded as operating transfers out on a GAAP basis.
- Intra-district overhead reimbursement on a budgetary basis is reflected as a reimbursement of expenditures on a GAAP basis.

Reported budget amounts reflect the annual budget as originally adopted and as subsequently amended by the District Board of Directors. The budget amounts are based on estimates of the District's expenditures/expenses and the proposed means of financing them. The final budget of capital improvement projects includes budget adjustments related to capital projects' period year balance forward. Actual expenditures for capital items, as in the case of special revenue funds, may vary significantly from budget due to the timing of such expenditures.

Santa Clara Valley
Water District



**Supplemental
Information**

Schedule of Revenues, Expenditures and Change in Fund Balances – Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Funds

Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Fund

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balances

Selected Watershed Activities

Within the Watershed and Stream Stewardship Fund

For the Year Ended June 30, 2018

(Dollars in Thousands)

	Lower Peninsula Watershed	West Valley Watershed
Revenues:		
Benefit assessments (Note 8)	\$ 4,033	\$ 2,287
Total revenues	<u>4,033</u>	<u>2,287</u>
Expenditures:		
Debt service:		
Principal repayments	2,335	1,260
Interest and fiscal charges	<u>1,019</u>	<u>555</u>
Total expenditures	<u>3,354</u>	<u>1,815</u>
Excess (deficiency) of revenues over (under) expenditures	<u>679</u>	<u>472</u>
Other financing sources (uses):		
Transfers out (Note 14)	<u>(679)</u>	<u>(472)</u>
Total other financing sources (uses)	<u>(679)</u>	<u>(472)</u>
Net change in fund balances	-	-
Fund balances, beginning of year	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>

Guadalupe Watershed	Coyote Watershed	Total
\$ 4,540	\$ 3,914	\$ 14,774
4,540	3,914	14,774
2,621	2,091	8,307
1,072	1,161	3,807
3,693	3,252	12,114
847	662	2,660
(847)	(662)	(2,660)
(847)	(662)	(2,660)
-	-	-
-	-	-
\$ -	\$ -	\$ -

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Selected Watershed Activities Within the Watershed and Stream Stewardship Fund For the Year Ended June 30, 2018 (Dollars in Thousands)

	Lower Peninsula Watershed			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Benefit assessments	\$ 4,038	\$ 4,038	\$ 4,033	\$ (5)
Total revenues	<u>4,038</u>	<u>4,038</u>	<u>4,033</u>	<u>(5)</u>
Expenditures:				
Debt service:				
Principal repayment	2,335	2,335	2,335	-
Interest and fiscal charges	<u>1,026</u>	<u>1,026</u>	<u>1,019</u>	<u>7</u>
Total expenditures	<u>3,361</u>	<u>3,361</u>	<u>3,354</u>	<u>7</u>
Excess (deficiency) of revenues over (under) expenditures	<u>677</u>	<u>677</u>	<u>679</u>	<u>2</u>
Other financing sources (uses):				
Transfers out	<u>(677)</u>	<u>(677)</u>	<u>(679)</u>	<u>(2)</u>
Total other financing sources (uses)	<u>(677)</u>	<u>(677)</u>	<u>(679)</u>	<u>(2)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

West Valley Watershed				Guadalupe Watershed			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 2,266	\$ 2,266	\$ 2,287	21	\$ 4,579	\$ 4,579	\$ 4,540	\$ (39)
2,266	2,266	2,287	21	4,579	4,579	4,540	(39)
1,260	1,260	1,260	-	2,621	2,621	2,621	-
595	595	555	40	1,101	1,101	1,072	29
1,855	1,855	1,815	40	3,722	3,722	3,693	29
411	411	472	61	857	857	847	(10)
(411)	(411)	(472)	(61)	(857)	(857)	(847)	10
(411)	(411)	(472)	(61)	(857)	(857)	(847)	10
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Continued)
Selected Watershed Activities Contained
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2018
(Dollars in Thousands)

	Coyote Watershed			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Benefit Assessments	\$ 3,895	\$ 3,895	\$ 3,914	\$ 19
Total revenues	<u>3,895</u>	<u>3,895</u>	<u>3,914</u>	<u>19</u>
Expenditures:				
Debt service:				
Principal repayment	2,091	2,091	2,091	-
Interest and fiscal charges	<u>1,176</u>	<u>1,176</u>	<u>1,161</u>	<u>15</u>
Total expenditures	<u>3,267</u>	<u>3,267</u>	<u>3,252</u>	<u>15</u>
Excess (deficiency) of revenues over (under) expenditures	<u>628</u>	<u>628</u>	<u>662</u>	<u>34</u>
Other financing sources (uses):				
Transfers out	<u>(628)</u>	<u>(628)</u>	<u>(662)</u>	<u>(34)</u>
Total other financing sources (uses)	<u>(628)</u>	<u>(628)</u>	<u>(662)</u>	<u>(34)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Water Enterprise and State Water Project Funds

Schedules of Revenues, Expenses and Change in Fund Net Position Budget and Actual

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenses and
Changes in Net Position - Budget and Actual
Water Enterprise and State Water Project Funds
For the Year Ended June 30, 2018
(Dollars in Thousands)

	Water Enterprise Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 6,510	\$ 6,510	\$ 7,088	\$ 578
Intergovernmental services	1,189	1,189	4,396	3,207
Ground water production charges	78,943	78,943	97,483	18,540
Treated water charges	133,875	133,875	132,477	(1,398)
Surface and recycled water revenue	2,424	2,424	1,041	(1,383)
Investment income	820	820	1,267	447
Capital reimbursements	2,688	4,188	4,350	162
Other	1,114	1,114	5,216	4,102
Total revenues	<u>227,563</u>	<u>229,063</u>	<u>253,318</u>	<u>24,255</u>
Expenses:				
Current:				
Operations and operating projects	142,718	144,683	146,529	(1,846)
Debt Service:				
Principal repayment	8,420	8,420	8,320	100
Interest and fiscal charges	26,236	26,236	17,397	8,839
Capital outlay:				
Capital improvement projects	118,907	146,648	124,899	21,749
Total expenses	<u>296,281</u>	<u>325,987</u>	<u>297,145</u>	<u>28,842</u>
Excess (deficiency) of revenues over (under) expenses	<u>(68,718)</u>	<u>(96,924)</u>	<u>(43,827)</u>	<u>53,097</u>
Other financing (uses):				
Transfers in	3,252	3,252	3,252	-
Transfers out	<u>(10,817)</u>	<u>(10,817)</u>	<u>(11,477)</u>	<u>(660)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenses	<u>\$ (76,283)</u>	<u>\$ (104,489)</u>	<u>\$ (52,052)</u>	<u>\$ 52,437</u>
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(28,498)	
Capitalized expenditures			92,025	
Debt principal and GAAP basis accruals for interest payable			9,667	
GAAP basis expenses and other liabilities			5,676	
Expenses of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(8,355)	
Capital improvement projects			(38,156)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			10,533	
Capital improvement projects			51,043	
Net position, beginning of year			682,698	
Prior Period Adj - GASB 75 and capital asset reclass			<u>(31,807)</u>	
Net position, end of year			<u>\$ 692,774</u>	

State Water Project Fund				Total			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 26,000	\$ 26,000	\$ 30,329	\$ 4,329	\$ 32,510	\$ 32,510	\$ 37,417	\$ 4,907
-	-	-	-	1,189	1,189	4,396	3,207
-	-	-	-	78,943	78,943	97,483	18,540
-	-	-	-	133,875	133,875	132,477	(1,398)
-	-	-	-	2,424	2,424	1,041	(1,383)
-	-	-	-	820	820	1,267	447
-	-	-	-	2,688	4,188	4,350	162
1,000	1,000	1,212	212	2,114	2,114	6,428	4,314
27,000	27,000	31,541	4,541	254,563	256,063	284,859	28,796
28,288	28,288	27,539	\$ 749	171,006	172,971	174,068	(1,097)
-	-	-	-	8,420	8,420	8,320	100
-	-	-	-	26,236	26,236	17,397	8,839
-	-	-	-	118,907	146,648	124,899	21,749
28,288	28,288	27,539	749	324,569	354,275	324,684	29,591
(1,288)	(1,288)	4,002	5,290	(70,006)	(98,212)	(39,825)	58,387
1,288	1,288	-	(1,288)	4,540	4,540	3,252	(1,288)
-	-	-	-	(10,817)	(10,817)	(11,477)	(660)
\$ -	\$ -	\$ 4,002	\$ 4,002	\$ (76,283)	\$ (104,489)	\$ (48,050)	\$ 56,439
		(944)				(29,442)	
		-				92,025	
		-				9,667	
		-				5,676	
		(1,233)				(9,588)	
		-				(38,156)	
		-				10,533	
		-				51,043	
		27,952				710,650	
		-				(31,807)	
		\$ 29,777				\$ 722,551	

Internal Service Funds

The Internal Service Funds are similar to Enterprise Funds, except that services are rendered to other District units rather than to District customers. This fund type consists of the Equipment Fund, Risk Management Fund, and Information Technology Fund.

Equipment Fund - the fund is used to account for the maintenance and operation of the District's fleet vehicles and heavy construction equipment. Financing is provided through rental charges to operations based upon usage.

Risk Management Fund – the fund is used to account for the monies set aside to pay for all claims, judgment and premium costs. Financing is provided through premiums charged to District operations.

Information Technology Fund – the fund is used to account for the maintenance and replacement of district-wide capital related information technology projects. Financing is provided through rental charges to operations based upon usage.

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Net Position

Internal Service Funds

June 30, 2018

(Dollars in Thousands)

	Equipment	Risk Management	Information Technology	Total
ASSETS				
Current assets:				
Cash and investments (Note 3)	\$ 3,498	\$ 15,577	\$ 17,034	\$ 36,109
Receivables - other	40	-	-	40
Inventory	60	-	-	60
Total current assets	<u>3,598</u>	<u>15,577</u>	<u>17,034</u>	<u>36,209</u>
Noncurrent assets:				
Capital assets (Note 6)				
Nondepreciable assets (Construction in progress)	-	-	7,483	7,483
Depreciable assets	20,328	18	7,814	28,160
Accumulated depreciation	(10,450)	(16)	(4,634)	(15,100)
Total noncurrent assets	<u>9,878</u>	<u>2</u>	<u>10,663</u>	<u>20,543</u>
Total assets	<u>13,476</u>	<u>15,579</u>	<u>27,697</u>	<u>56,752</u>
Deferred outflows of resources - pension activities	801	695	234	1,730
Deferred outflows of resources - OPEB	161	147	56	364
Deferred outflows of resources	<u>962</u>	<u>842</u>	<u>290</u>	<u>2,094</u>
LIABILITIES				
Current liabilities:				
Accounts payable	88	73	350	511
Accrued liabilities	1	13	2	16
Claims payable (Note 13)	-	1,689	-	1,689
Compensated absence (Note 7)	53	31	1	85
Total current liabilities	<u>142</u>	<u>1,806</u>	<u>353</u>	<u>2,301</u>
Non current liabilities:				
Claims payable (Note 13)	-	4,776	-	4,776
Net Pension liability (Note 11)	2,953	2,706	1,030	6,689
Other post employment benefits liability (Note 12)	996	912	347	2,255
Compensated absence (Note 7)	177	101	3	281
Total non current liabilities	<u>4,126</u>	<u>8,495</u>	<u>1,380</u>	<u>14,001</u>
Total liabilities	<u>4,268</u>	<u>10,301</u>	<u>1,733</u>	<u>16,302</u>
Deferred inflows of resources - pension activities	210	83	(41)	252
Deferred inflows of resources - OPEB	30	28	10	68
Deferred inflows of resources	<u>240</u>	<u>111</u>	<u>(31)</u>	<u>320</u>
NET POSITION (Note 10)				
Net investment in capital assets	9,878	2	10,663	20,543
Unrestricted	52	6,007	15,622	21,681
Total net position	<u>\$ 9,930</u>	<u>\$ 6,009</u>	<u>\$ 26,285</u>	<u>\$ 42,224</u>

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Revenues, Expenses and Changes in Fund Net Position Internal Service Funds For the Year Ended June 30, 2018 (Dollars in Thousands)

	Equipment	Risk Management	Information Technology	Total
Operating revenues:				
Vehicle service charges	\$ 4,927	\$ -	\$ -	\$ 4,927
Computer equipment use charges	-	-	12,199	12,199
Self-insurance service charges	-	7,039	-	7,039
Total operating revenues	4,927	7,039	12,199	24,165
Operating expenses:				
Administration and general	-	6,187	-	6,187
Equipment maintenance	3,925	-	3,490	7,415
Depreciation and amortization	1,559	1	833	2,393
Total operating expenses	5,484	6,188	4,323	15,995
Operating Income (loss)	(557)	851	7,876	8,170
Nonoperating revenues:				
Investment income (Note 5)	42	108	79	229
Gain on sale of capital assets	234	59	-	293
Other	-	100	-	100
Total nonoperating revenues	276	267	79	622
Other financing sources (uses)				
Transfer in	-	-	157	157
Total other financing sources (uses)	-	-	157	157
Change in net position	(281)	1,118	8,112	8,949
Net position, beginning of year	11,149	5,749	18,498	35,396
GASB75 adjustment	(938)	(858)	(325)	(2,121)
Net position, end of year	\$ 9,930	\$ 6,009	\$ 26,285	\$ 42,224

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2018

(Dollars in Thousands)

	Equipment	Risk Management	Information Technology	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 5,007	\$ 7,069	\$ 12,199	\$ 24,275
Payments to suppliers	(5,635)	(4,289)	(2,342)	(12,266)
Payments to employees	(931)	(1,011)	(473)	(2,415)
Net cash provided (used) by operating activities	(1,559)	1,769	9,384	9,594
Cash flows from noncapital financing activities:				
Other receipts	238	100	-	338
Transfers in - capital project reimbursement	-	-	157	157
Net cash provided by noncapital financing activities	238	100	157	495
Cash flows from capital and related financing activities:				
Acquisition and disposal of capital assets	(728)	59	(2,778)	(3,447)
Net cash (used) by capital and related financing activities	(728)	59	(2,778)	(3,447)
Cash flows from investing activities:				
Interest received on cash and investments	42	108	79	229
Net increase/(decrease) in cash and cash equivalents	(2,007)	2,036	6,842	6,871
Cash and cash equivalents, beginning of year	5,505	13,541	10,192	29,238
Cash and cash equivalents, end of year	\$ 3,498	\$ 15,577	\$ 17,034	\$ 36,109
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (557)	\$ 851	\$ 7,876	\$ 8,170
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	(206)	-	833	627
Change in operating assets and liabilities:				
Decrease/(increase) in accounts receivable	80	30	-	110
Decrease/(increase) in deposits and other assets	4	-	-	4
Increase/(decrease) in accounts payable	(222)	(83)	9	(296)
Increase/(decrease) in accrued liabilities	1	13	(28)	(14)
Increase/(decrease) in compensated absences	5	5	2	12
Increase/(decrease) in claims payable	-	799	-	799
Increase/(decrease) in GASB68 Retirement payable	(451)	375	796	720
Increase/(decrease) in OPEB/GASB75 payable	74	68	26	168
Increase/(decrease) in def inflows/outflows of resources	(287)	(289)	(130)	(706)
Net cash used for operating activities	(1,559)	1,769	9,384	9,594

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenses and Changes in Fund Net Position - Budget and Actual Internal Service Funds For the Year Ended June 30, 2018 (Dollars in Thousands)

	Equipment			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 36	\$ 36	\$ 42	\$ 6
Vehicle service charges	4,930	4,930	4,927	(3)
Computer equipment use charges	-	-	-	-
Gain on sale of fixed assets	102	102	234	132
Self-insurance service charges	-	-	-	-
Other	-	-	-	-
Total revenues	<u>5,068</u>	<u>5,068</u>	<u>5,203</u>	<u>135</u>
Expenditures:				
Current:				
Operations and operating projects	4,934	4,934	3,848	1,086
Capital equipment acquisition	1,545	1,545	982	563
Total expenditures	<u>6,479</u>	<u>6,479</u>	<u>4,830</u>	<u>1,649</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,411)</u>	<u>(1,411)</u>	<u>373</u>	<u>(1,514)</u>
Other financing sources (uses):				
Transfer in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	<u>\$ (1,411)</u>	<u>\$ (1,411)</u>	<u>373</u>	<u>\$ (1,514)</u>
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(1,559)	
Capitalized expenditures			2,538	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(6)	
Capital improvement projects			(1,702)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			8	
Capital improvement projects			67	
Net position, beginning of year			11,149	
Prior period adjustment - GASB75			(938)	
Net position, end of year			<u>\$ 9,930</u>	

Risk Management				Information Technology			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 81	\$ 81	\$ 108	\$ 27	\$ 30	\$ 30	\$ 79	\$ 49
-	-	-	-	-	-	-	-
-	-	-	-	12,226	12,226	12,199	(27)
-	-	59	59	-	-	-	-
7,843	7,843	7,039	(804)	-	-	-	-
-	-	100	100	-	-	-	-
<u>7,924</u>	<u>7,924</u>	<u>7,306</u>	<u>(618)</u>	<u>12,256</u>	<u>12,256</u>	<u>12,278</u>	<u>22</u>
8,625	8,625	6,260	2,365	122	122	802	(680)
-	-	-	-	12,672	16,833	5,543	11,290
<u>8,625</u>	<u>8,625</u>	<u>6,260</u>	<u>2,365</u>	<u>12,794</u>	<u>16,955</u>	<u>6,345</u>	<u>10,610</u>
<u>(701)</u>	<u>(701)</u>	<u>1,046</u>	<u>(2,983)</u>	<u>(538)</u>	<u>(4,699)</u>	<u>5,933</u>	<u>(10,588)</u>
-	-	-	-	-	157	157	-
-	-	-	-	-	157	157	-
<u>\$ (701)</u>	<u>\$ (701)</u>	1,046	<u>\$ (2,983)</u>	<u>\$ (538)</u>	<u>\$ (4,542)</u>	6,090	<u>\$ (10,588)</u>
		(1)				(833)	
		-				2,779	
		-				(1)	
		-				(1,521)	
		73				43	
		-				1,555	
		5,749				18,498	
		(858)				(325)	
		<u>\$ 6,009</u>				<u>\$ 26,285</u>	

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues, Expenses and
Changes in Fund Net Position - Budget and Actual (Continued)
Internal Service Funds
For the Year Ended June 30, 2018
(Dollars in Thousands)

	Total			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 147	\$ 147	\$ 229	\$ 82
Vehicle service charges	4,930	4,930	4,927	(3)
Computer equipment use charges	12,226	12,226	12,199	(27)
Gain on sale of fixed assets	102	102	293	191
Self-insurance service charges	7,843	7,843	7,039	(804)
Other	-	-	100	100
Total revenues	<u>25,248</u>	<u>25,248</u>	<u>24,787</u>	<u>(461)</u>
Expenditures:				
Current:				
Operations and operating projects	13,681	13,681	10,910	2,771
Capital equipment acquisition	14,217	18,378	6,525	11,853
Total expenditures	<u>27,898</u>	<u>32,059</u>	<u>17,435</u>	<u>14,624</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,650)</u>	<u>(6,811)</u>	<u>7,352</u>	<u>(15,085)</u>
Other financing sources (uses):				
Transfer in	-	157	157	-
Total other financing sources (uses)	<u>-</u>	<u>157</u>	<u>157</u>	<u>-</u>
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	<u>\$ (2,650)</u>	<u>\$ (6,654)</u>	<u>7,509</u>	<u>\$ (15,085)</u>
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(2,393)	
Capitalized expenditures			5,317	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(7)	
Capital improvement projects			(3,223)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			124	
Capital improvement projects			1,622	
Net position, beginning of year			35,396	
Prior period adjustment - GASB75			(2,121)	
Net position, end of year			<u>\$ 42,224</u>	

Agency Fund

Agency fund type is used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds.

Deposit Fund - The fund is used to account for the collection and payment of expenditures for funds held in trust for specific restricted purposes.

SANTA CLARA VALLEY WATER DISTRICT
Combining Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended June 30, 2018
(Dollars in Thousands)

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
<u>Deposit Fund</u>				
Assets:				
Cash and investments (Note 3)	\$ 196	\$ 43	\$ (54)	\$ 185
Total assets	<u>\$ 196</u>	<u>\$ 43</u>	<u>\$ (54)</u>	<u>\$ 185</u>
Liabilities:				
Accounts payable	\$ 15	\$ 24	\$ (39)	\$ -
Deposits payable	181	37	(33)	185
Total liabilities	<u>\$ 196</u>	<u>\$ 61</u>	<u>\$ (72)</u>	<u>\$ 185</u>

Capital Assets Used in the Operation of Governmental Activities

Capital assets consist of land, improvements to land, buildings, equipment and intangibles that are used in operations and that have initial useful lives extending beyond a single reporting period.

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Activities
Schedule By Source
June 30, 2018
(Dollars in Thousands)

Governmental activities capital assets:

Land	\$ 189,813
Buildings	42,007
Structures and improvements	773,882
Equipment	49,591
Construction in process	530,661
Intangibles:	
Easements	24,016
Computer Software	2,338
Total governmental funds capital assets	<u><u>\$ 1,612,308</u></u>

Investments in governmental activities capital assets by source:

General fund	\$ 89,623
Special revenue funds:	
Watershed & Stream Stewardship	1,121,336
Safe, Clean Water & Natural Flood Protection	365,706
Internal service funds	35,643
Total governmental funds capital assets	<u><u>\$ 1,612,308</u></u>

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Activities
Schedule By Function and Activity
June 30, 2018
(Dollars in Thousands)

	Function and Activity	Land	Buildings	Structures and Improvements	Equipment	Construction in Progress	Easements	Intangibles Software	Total
100	CEO Support Operations								
102	Chief Executive Office	\$ -	\$ -	\$ -	\$ 379	\$ -	\$ -	\$ -	\$ 379
130	Public Affairs	-	-	-	17	-	-	-	17
200	Watershed Operations								
210	Chief Operating Office	-	-	-	5,199	-	-	-	5,199
210	Watershed Management Division								
215	Watershed Business Management	-	-	-	107	-	-	-	107
230	Watershed Planning	-	-	-	38	-	-	-	38
250	Lower Peninsula/West Valley Mgmt.	-	-	-	162	-	-	-	162
270	Guadalupe Watershed Mgmt.	-	-	-	415	-	-	-	415
290	Coyote & Uvas/Llagas Mgmt.	-	-	-	47	-	-	-	47
310	Capital Program Services Division								
340	Capital Program Services Departments	-	-	-	440	-	-	-	440
410	Water Utility Enterprise Operations								
410	Chief Operating Office	-	-	-	139	-	-	-	139
420	Water Utility Enterprise	-	-	-	202	-	-	-	202
600	Administration								
602	Chief Administrative Office	-	-	-	230	-	-	-	230
670	Financial Services Division								
610	Office of Administrative Services	-	-	-	52	-	-	-	52
670	Business And Finance Program	-	-	-	1,670	-	-	-	1,670
710	Information Management Division								
715	Information Management Division	-	-	-	194	-	-	-	194
720	Information Mgmt. Support Departments	-	-	-	9,052	-	-	-	9,052
810	General Services Division								
815	Technical Services Division	-	-	-	12	-	-	-	12
820	Technical Services Support Division	-	-	-	1,231	-	-	-	1,231
765	Records and Library	-	-	-	168	-	-	-	168
820	Warehouse Services	-	-	-	3,933	-	-	-	3,933
885	Equipment Management	-	-	-	16,865	-	-	-	16,865
910	Human Resources Program								
660	Human Resources Program	-	-	-	61	-	-	-	61
	Other:								
	District-wide property	189,813	42,007	773,882	8,978	530,661	24,016	2,338	1,571,695
	Total capital assets	\$ 189,813	\$ 42,007	\$ 773,882	\$ 49,591	\$530,661	\$ 24,016	\$ 2,338	\$ 1,612,308

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Activities
Schedule of Changes By Function and Activity
For the Year Ended June 30, 2018
(Dollars in Thousands)

		Governmental Capital Assets			Governmental Capital Assets
	Function and Activity	June 30, 2017	Additions	Deductions	June 30, 2018
100	CEO Support Operations				
102	Chief Executive Office	\$ 379	\$ -	\$ -	\$ 379
130	Public Affairs	17	-	-	17
200	Watershed Operations				
202	Chief Operating Office	5,199	-	-	5,199
210	Watershed Management Division				
215	Watershed Business Management	107	-	-	107
230	Watershed Planning	38	-	-	38
250	Lower Peninsula/West Valley Mgmt.	162	-	-	162
270	Guadalupe Watershed Mgmt.	415	-	-	415
290	Coyote & Uvas/Llagas Mgmt.	47	-	-	47
310	Capital Program Services Division				
340	Capital Program Services Departments	329	111	-	440
410	Water Utility Enterprise Operations				
410	Chief Operating Office	139	-	-	139
420	Water Utility Enterprise	202	-	-	202
600	Administration				
602	Chief Administrative Office	230	-	-	230
670	Financial Services Division				
610	Office of Administrative Services	52	-	-	52
670	Business And Finance Program	1,670	-	-	1,670
710	Information Management Division				
715	Information Management Division	194	-	-	194
720	Information Mgmt. Support Departments	7,734	1,318	-	9,052
810	General Services Division				
815	Technical Services Division	12	-	-	12
820	Technical Services Support Division	1,213	18	-	1,231
765	Records and Library	168	-	-	168
820	Warehouse Services	4,855	-	(922)	3,933
885	Equipment Management	15,219	2,538	(892)	16,865
910	Human Resources Program				
660	Human Resources Program	61	-	-	61
	Other:				
	District-wide property	1,438,788	132,907	-	1,571,695
		<u>\$ 1,477,230</u>	<u>\$ 136,892</u>	<u>\$ (1,814)</u>	<u>\$ 1,612,308</u>



Comprehensive Annual Financial Report

Statistical Section

Santa Clara Valley
Water District



Statistical Section



Comprehensive Annual Financial Report

Statistical Section

Santa Clara Valley
Water District



Statistical Section

SANTA CLARA VALLEY WATER DISTRICT

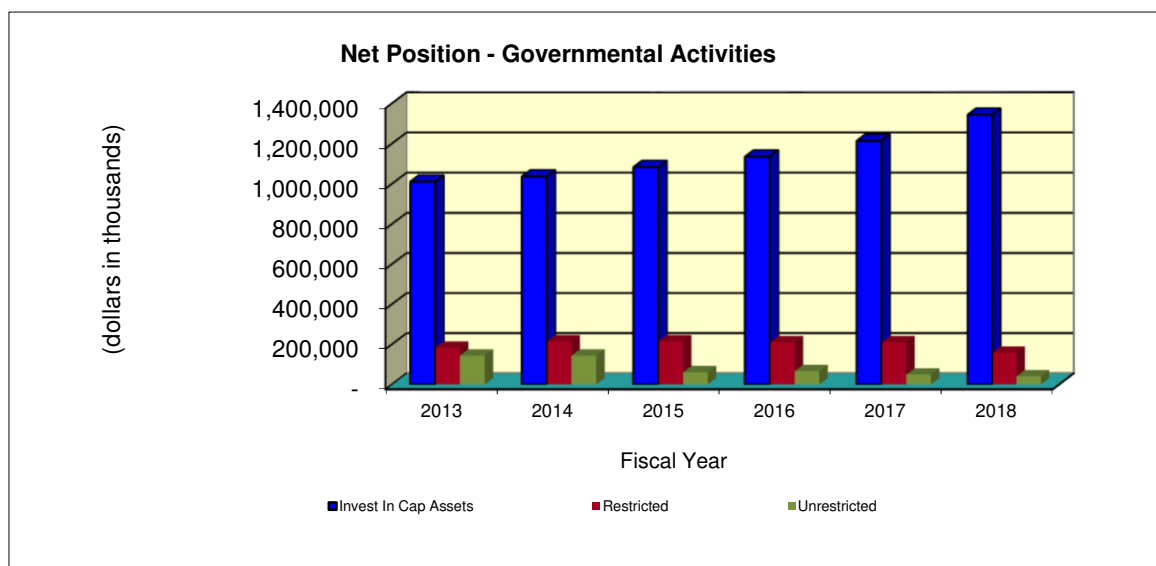
Statistical Section

This part of the District's comprehensive annual financial statement report presents detailed information as a context for understanding what the information in the financial statement, note disclosures, and required supplementary information says about the District's overall financial health.

<u>Contents</u>	Page
Financial Trends These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	134
Revenue Capacity These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.	142
Debt Capacity These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.	149
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	154
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	156

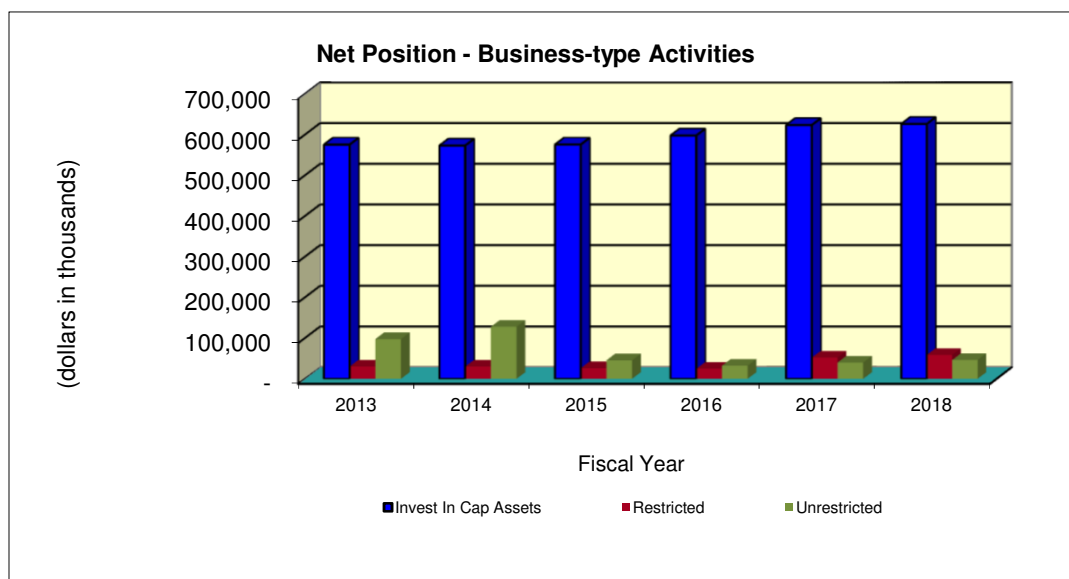
Santa Clara Valley Water District
Net Position by Component
Government-wide
Last Ten Fiscal Years
(dollars in thousands)

	2009	2010	2011	2012
Governmental activities				
Net Investment in capital assets	\$ 834,814	\$ 866,291	\$ 915,118	\$ 964,394
Restricted	5,502	145,370	157,221	166,845
Unrestricted	264,074	146,800	141,640	142,289
Total governmental activities net position	<u>\$1,104,390</u>	<u>\$1,158,461</u>	<u>\$1,213,979</u>	<u>\$1,273,528</u>
Business-type activities				
Net Investment in capital assets	\$ 514,102	\$ 518,237	\$ 524,557	\$ 554,316
Restricted	22,824	22,944	26,824	28,082
Unrestricted	98,288	95,656	92,661	86,716
Total business-type activities net position	<u>\$ 635,214</u>	<u>\$ 636,837</u>	<u>\$ 644,042</u>	<u>\$ 669,114</u>
Primary government				
Net Investment in capital assets	\$1,348,916	\$1,384,528	\$1,439,675	\$1,518,710
Restricted	28,326	168,314	184,045	194,927
Unrestricted	362,362	242,456	234,301	229,005
Total primary government net position	<u>\$1,739,604</u>	<u>\$1,795,298</u>	<u>\$1,858,021</u>	<u>\$1,942,642</u>



Source: Santa Clara Valley Water District, General Accounting Unit

2013	2014	2015	2016	2017	2018
\$1,011,082	\$1,036,853	\$1,083,571	\$1,135,593	\$1,213,840	\$1,344,142
182,760	214,652	214,991	210,198	209,873	158,062
143,971	144,210	60,731	66,407	48,978	40,479
<u>\$1,337,813</u>	<u>\$1,395,715</u>	<u>\$1,359,293</u>	<u>\$1,412,198</u>	<u>\$1,472,691</u>	<u>\$1,542,683</u>
\$ 575,683	\$ 573,410	\$ 575,873	\$ 598,075	\$ 623,828	\$ 626,514
30,131	30,019	26,087	24,552	52,118	58,679
97,652	127,889	45,429	32,191	39,895	46,102
<u>\$ 703,466</u>	<u>\$ 731,318</u>	<u>\$ 647,389</u>	<u>\$ 654,818</u>	<u>\$ 715,841</u>	<u>\$ 731,295</u>
\$1,586,765	\$1,610,263	\$1,659,444	\$1,733,668	\$1,837,668	\$1,970,656
212,891	244,671	241,078	234,750	261,991	216,741
241,623	272,099	106,160	98,598	88,873	86,581
<u>\$2,041,279</u>	<u>\$2,127,033</u>	<u>\$2,006,682</u>	<u>\$2,067,016</u>	<u>\$2,188,532</u>	<u>\$2,273,978</u>



Santa Clara Valley Water District
Changes in Net Position
Government-wide
Last Ten Fiscal Years
(dollars in thousands)

	2009	2010	2011
Expenses			
Governmental activities:			
General government:	\$ 12,602	\$ 9,317	\$ 9,954
Watersheds	45,440	51,841	54,562
Interest on long-term debt	8,269	7,841	7,476
Total governmental activities expenses	<u>66,311</u>	<u>68,999</u>	<u>71,992</u>
Business-type activities:			
Water enterprise	168,753	155,145	155,389
Total primary government expenses	<u>\$ 235,064</u>	<u>\$ 224,144</u>	<u>\$ 227,381</u>
Program Revenues			
Governmental activities:			
Capital grants and contributions	\$ 20,072	\$ 23,690	\$ 38,578
Business-type activities:			
Charges for services	136,356	120,264	121,347
Operating grants and contributions	3,923	1,696	1,458
Capital grants and contributions	-	1,602	10,443
Total business-type activities program revenues	<u>140,279</u>	<u>123,562</u>	<u>133,248</u>
Total primary government program revenues	<u>\$ 160,351</u>	<u>\$ 147,252</u>	<u>\$ 171,826</u>
 Net (expense)/revenue			
Governmental activities	\$ (46,239)	\$ (45,309)	\$ (33,414)
Business-type activities	(28,474)	(31,583)	(22,141)
Total primary government net expense	<u>\$ (74,713)</u>	<u>\$ (76,892)</u>	<u>\$ (55,555)</u>
 General Revenues and Other Changes in Net Position			
Governmental activities:			
Property taxes	\$ 87,425	\$ 86,852	\$ 86,217
Unrestricted investment earnings	12,897	7,098	3,337
Miscellaneous	3,457	5,161	2,189
Transfers	(6,539)	269	(2,811)
Total governmental activities	<u>97,240</u>	<u>99,380</u>	<u>88,932</u>
Business-type activities:			
Property taxes	21,372	24,241	23,181
Unrestricted investment earnings	8,245	3,787	1,779
Miscellaneous	4,602	5,447	1,575
Transfers	6,539	(269)	2,811
Total business-type activities	<u>\$ 40,758</u>	<u>\$ 33,206</u>	<u>\$ 29,346</u>
 Changes in Net Position			
Governmental activities	\$ 51,001	\$ 54,071	\$ 55,518
Business-type activities	12,284	1,623	7,205
Total primary government	<u>\$ 63,285</u>	<u>\$ 55,694</u>	<u>\$ 62,723</u>

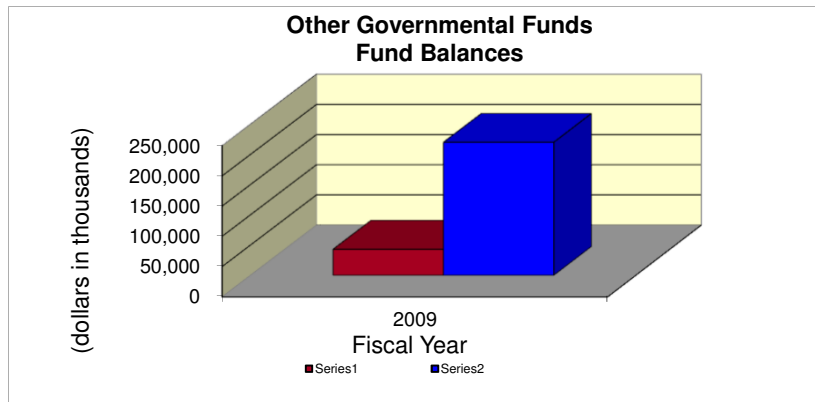
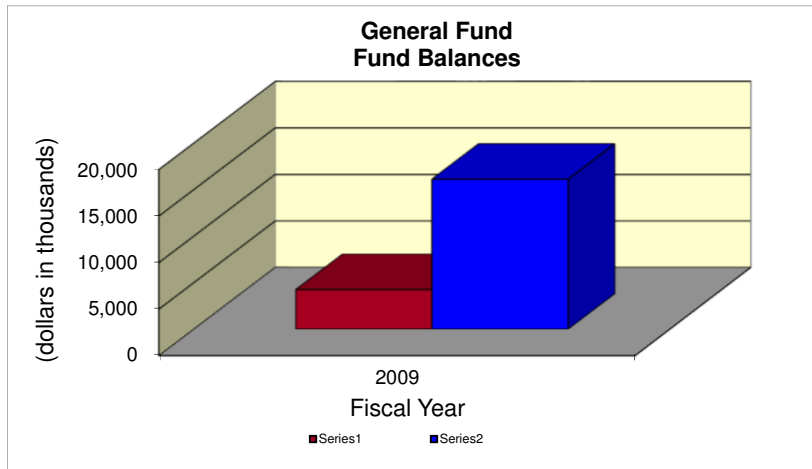
Source: Santa Clara Valley Water District, General Accounting Unit

2012	2013	2014	2015	2016	2017	2018
\$ 5,408	\$ 6,404	\$ 6,916	\$ 20,399	\$ 5,940	\$ 9,339	\$ 8,407
50,292	51,735	61,302	56,758	57,745	69,166	85,780
7,034	7,971	6,116	5,753	5,977	4,271	3,091
62,734	66,110	74,334	82,910	69,662	82,776	97,278
158,888	161,609	173,767	186,281	207,282	199,631	229,373
\$ 221,622	\$ 227,719	\$ 248,101	\$ 269,191	\$ 276,944	\$ 282,407	\$ 326,651
\$ 32,611	\$ 34,935	\$ 25,761	\$ 17,822	\$ 19,426	\$ 16,608	\$ 61,190
141,783	155,718	172,374	154,819	151,235	190,896	231,001
1,111	980	1,232	2,149	2,074	2,037	4,396
11,803	4,610	3,532	847	3,177	17,527	4,350
154,697	161,308	177,138	157,815	156,486	210,460	239,747
\$ 187,308	\$ 196,243	\$ 202,899	\$ 175,637	\$ 175,912	\$ 227,068	\$ 300,937
\$ (30,123)	\$ (31,175)	\$ (48,573)	\$ (65,088)	\$ (50,236)	\$ (66,168)	\$ (36,088)
(4,191)	(301)	3,371	(28,466)	(50,796)	10,829	10,374
\$ (34,314)	\$ (31,476)	\$ (45,202)	\$ (93,554)	\$ (101,032)	\$ (55,339)	\$ (25,714)
\$ 88,247	\$ 92,746	\$ 100,568	\$ 107,643	\$ 114,418	\$ 123,325	\$ 129,891
2,253	3,509	3,777	3,728	5,004	1,186	2,477
2,453	2,934	2,568	3,013	3,592	4,052	6,685
(3,281)	(3,729)	272	11,406	(19,873)	(1,902)	8,225
89,672	95,460	107,185	125,790	103,141	126,661	147,278
22,327	24,200	26,989	27,701	30,535	44,786	37,417
1,082	1,163	1,624	1,621	2,925	979	1,267
2,573	5,561	3,283	3,113	4,892	2,527	6,428
3,281	3,729	(272)	(11,406)	19,873	1,902	(8,225)
\$ 29,263	\$ 34,653	\$ 31,624	\$ 21,029	\$ 58,225	\$ 50,194	\$ 36,887
\$ 59,549	\$ 64,285	\$ 58,612	\$ 60,702	\$ 52,905	\$ 60,493	\$ 111,190
25,072	34,352	34,995	(7,437)	7,429	61,023	47,261
\$ 84,621	\$ 98,637	\$ 93,607	\$ 53,265	\$ 60,334	\$ 121,516	\$ 158,451

Santa Clara Valley Water District
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

Data prior to GASB 54 implementation

	2009
General Fund	
Reserved	\$ 4,257
Unreserved	16,117
Total general fund	<u>\$ 20,374</u>
All other governmental funds	
Reserved, reported in	
Special revenue funds	\$ 21,897
Capital project fund	12,618
Debt service fund	8,623
Unreserved, reported in:	
Special revenue funds	220,252
Capital project fund	-
Total all other governmental funds	<u>\$ 263,390</u>

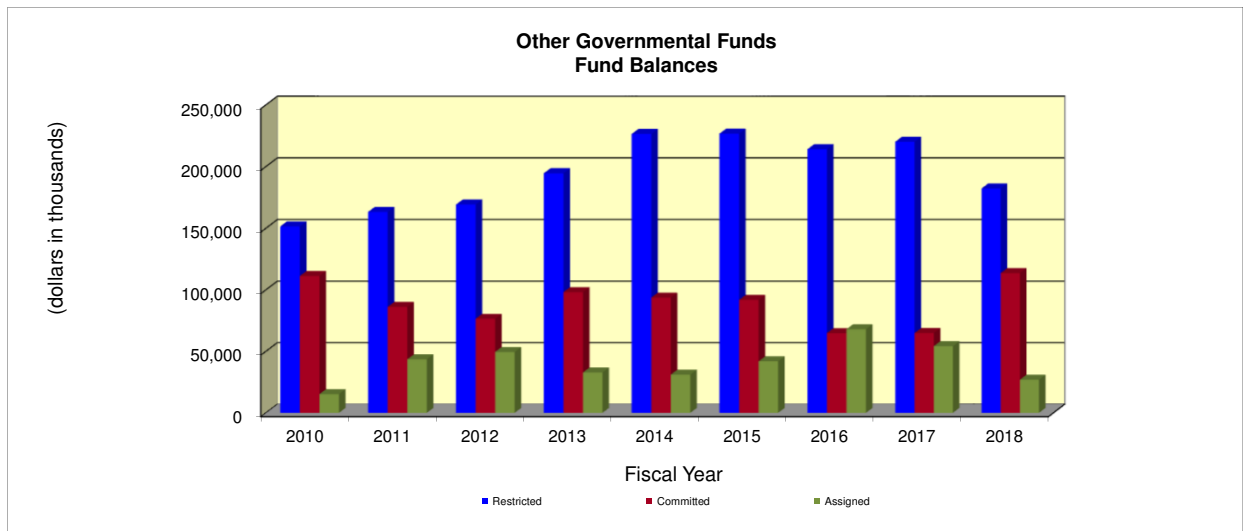
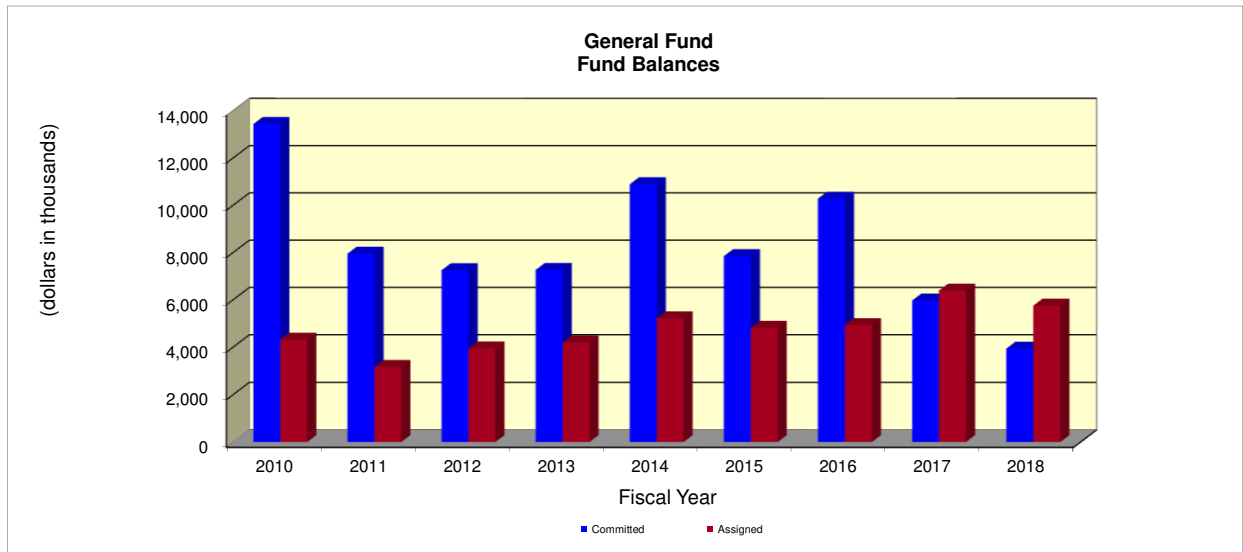


Source: Santa Clara Valley Water District, General Accounting Unit

Santa Clara Valley Water District
Fund Balances of Governmental Funds (continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

Data incorporating GASB 54 implementation

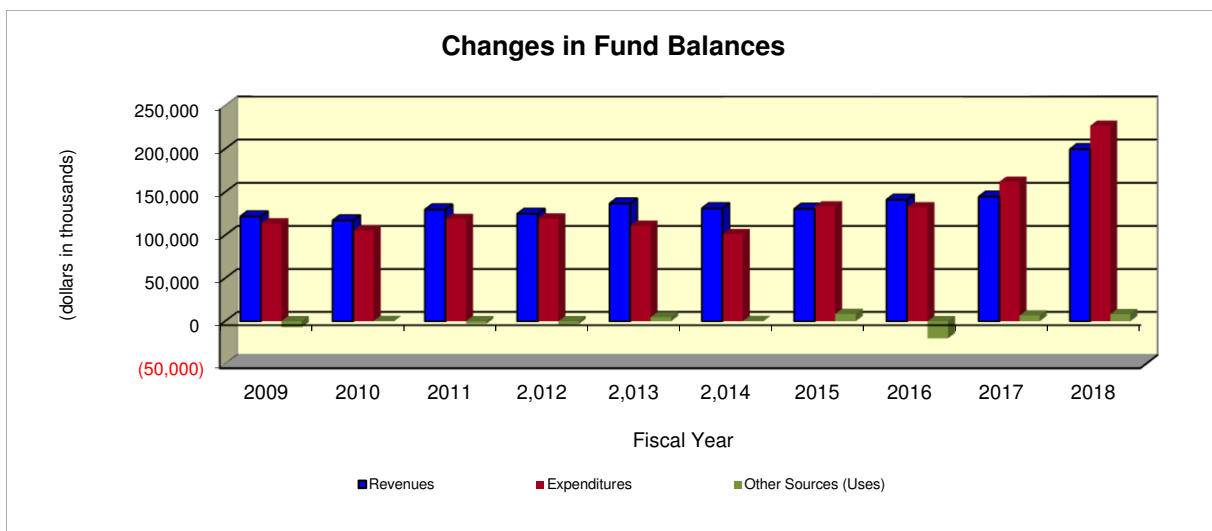
	Restated 2010	Restated 2011	2012	2013	2014	2015	2016	2017	2018
General Fund									
Committed	\$ 13,429	\$ 7,945	\$ 7,244	\$ 7,257	\$ 10,882	\$ 7,842	\$ 10,274	\$ 5,962	\$ 3,933
Assigned	4,308	3,157	3,941	4,187	5,210	4,809	4,924	6,385	5,747
Total general fund	<u>\$ 17,737</u>	<u>\$ 11,102</u>	<u>\$ 11,185</u>	<u>\$ 11,444</u>	<u>\$ 16,092</u>	<u>\$ 12,651</u>	<u>\$ 15,198</u>	<u>\$ 12,347</u>	<u>\$ 9,680</u>
All other governmental funds									
Restricted	\$ 151,614	\$ 163,372	\$ 169,294	\$ 194,662	\$ 226,493	\$ 226,770	\$ 214,078	\$ 220,115	\$ 182,319
Committed	111,338	86,183	76,465	98,134	93,683	91,817	64,851	64,898	113,673
Assigned	15,215	43,486	49,510	32,815	31,076	41,916	67,969	54,175	26,909
Total all other governmental funds	<u>\$ 278,167</u>	<u>\$ 293,041</u>	<u>\$ 295,269</u>	<u>\$ 325,611</u>	<u>\$ 351,252</u>	<u>\$ 360,503</u>	<u>\$ 346,898</u>	<u>\$ 339,188</u>	<u>\$ 322,901</u>



Source: Santa Clara Valley Water District, General Accounting Unit

Santa Clara Valley Water District
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

	2009	2010	2011	2012
Revenues				
Property taxes	\$ 87,425	\$ 82,372	\$ 86,217	\$ 88,247
Benefit assessments	19,255	19,226	19,091	19,131
Use of money and property:				
Investment income	11,475	6,565	2,860	1,621
Rental	1,300	1,312	1,388	1,416
Reimbursement of capital costs	1,311	4,480	19,487	13,480
Other	1,012	3,167	701	922
Total Revenues	121,778	117,122	129,744	124,817
Expenditures				
Operations and operating project	57,710	46,998	53,778	51,353
Capital improvement projects	39,188	41,727	48,478	51,394
Debt Service:				
Principal repayment	8,715	9,045	9,280	9,720
Interest and fiscal charges	7,931	7,509	7,158	6,758
Total expenditures	113,544	105,279	118,694	119,225
Excess of revenues over (under) expenditures	8,234	11,843	11,050	5,592
Other financing sources (uses)				
Transfers in	32,604	30,589	20,950	24,375
Transfers out	(39,613)	(30,292)	(23,761)	(27,656)
Proceeds from issuance of debt	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources (uses)	(7,009)	297	(2,811)	(3,281)
Net change in fund balances	\$ 1,225	\$ 12,140	\$ 8,239	\$ 2,311
Debt service as a percentage of non-capital expenditures	22.2%	25.6%	23.2%	23.0%

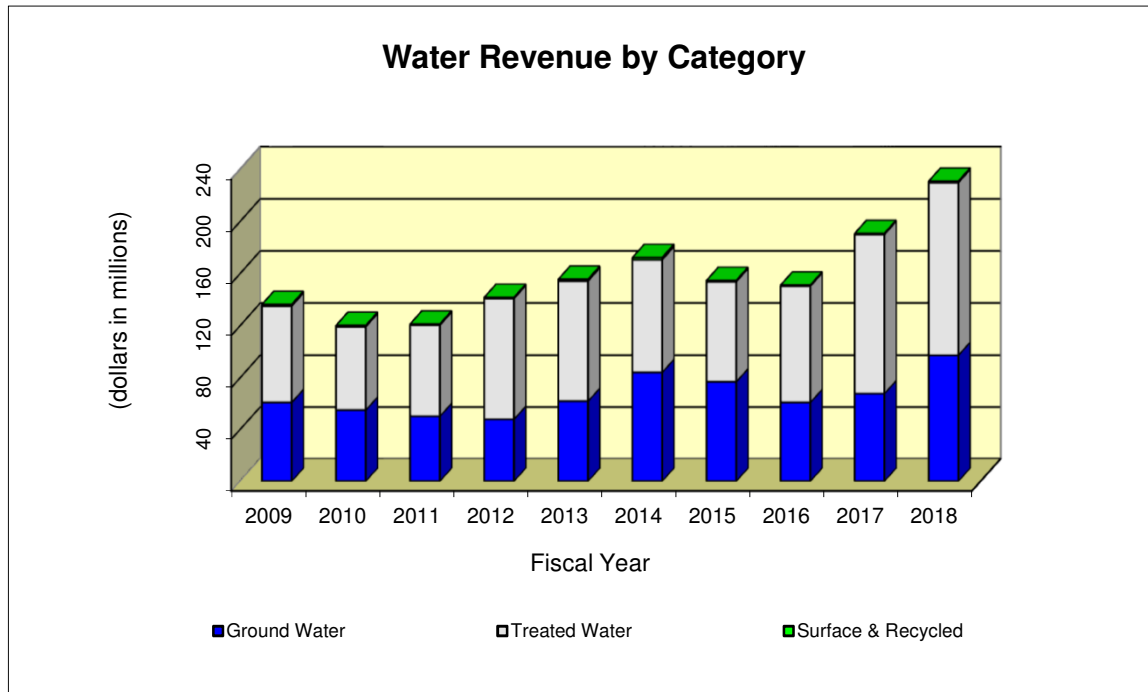


Source: Santa Clara Valley Water District, General Accounting Unit

2013	2014	2015	2016	2017	2018
\$ 97,226	\$ 100,568	\$ 107,643	\$ 114,418	\$ 123,325	\$ 129,891
19,178	16,143	16,074	14,683	14,790	14,774
1,785	2,556	2,505	3,747	956	2,305
1,423	1,609	1,684	1,759	1,817	1,931
15,757	9,618	1,748	4,743	1,818	46,416
1,415	728	911	1,782	1,971	4,361
136,784	131,222	130,565	141,132	144,677	199,678
49,198	50,426	65,425	57,725	67,511	70,912
44,809	36,866	53,984	61,876	81,597	142,710
10,935	8,055	8,355	7,630	8,020	8,660
5,919	5,858	5,497	5,084	4,743	4,418
110,861	101,205	133,261	132,315	161,871	226,700
25,923	30,017	(2,696)	8,817	(17,194)	(27,022)
21,190	34,362	30,054	26,528	17,436	31,007
(24,919)	(34,090)	(21,548)	(46,403)	(19,338)	(22,939)
52,955	-	-	-	68,932	-
(53,495)	-	-	-	(60,397)	-
4,678	272	8,506	(19,875)	6,633	8,068
\$ 30,601	\$ 30,289	\$ 5,810	\$ (11,058)	\$ (10,561)	\$ (18,954)
25.7%	18.8%	13.0%	13.4%	15.0%	13.7%

Santa Clara Valley Water District
Water Revenue by Category
Last Ten Fiscal Years
(dollars in thousands)

Fiscal Year	Ground Water Revenue	Treated Water Revenue	Surface & Recycled Water Revenue	Total Water Revenue
2009	\$ 61,103	\$ 74,012	\$ 1,241	\$ 136,356
2010	55,189	64,157	918	120,264
2011	50,384	70,135	828	121,347
2012	48,030	92,904	849	141,783
2013	62,084	92,359	1,275	155,718
2014	84,308	86,386	1,680	172,374
2015	77,095	76,799	925	154,819
2016	61,128	89,375	732	151,235
2017	67,937	122,212	747	190,896
2018	97,483	132,477	1,041	231,001



Source: Santa Clara Valley Water District, Wells & Water Production Unit

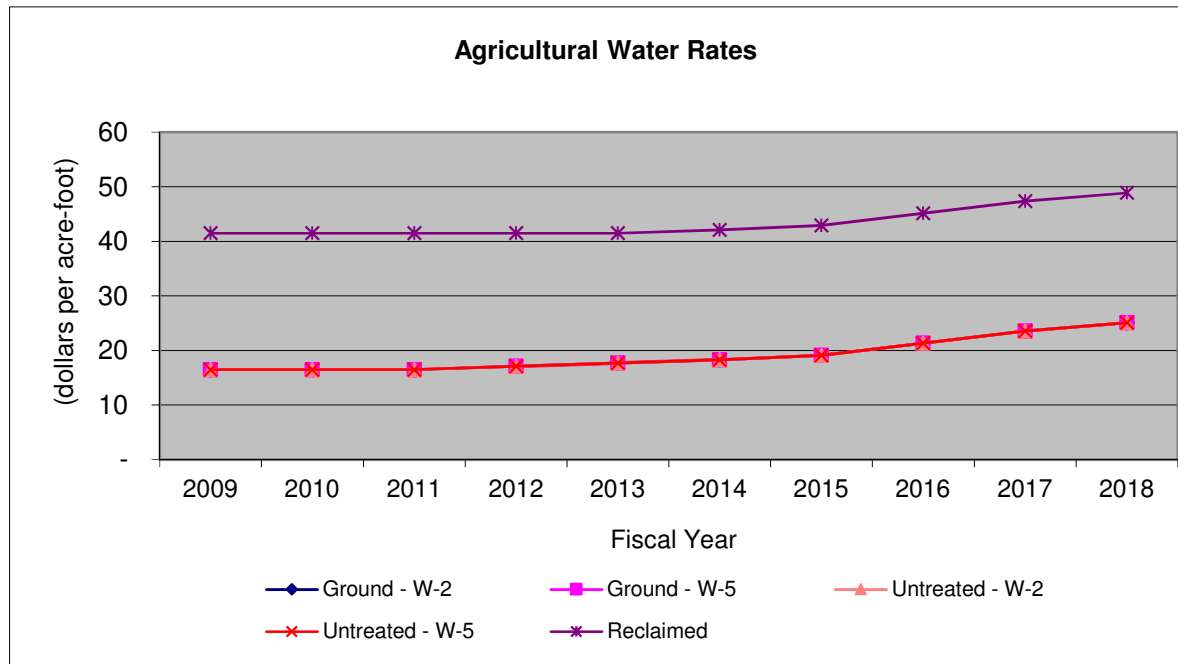
Santa Clara Valley Water District
Principal Water Revenue Customers
Current year and Nine years ago
(dollars in thousands)

Water Customer	Fiscal Year 2018			Fiscal Year 2009		
	Water Revenue	Rank	Percent of Total Water Revenue	Water Revenue	Rank	Percent of Total Water Revenue
San Jose Water Company	\$ 131,849	1	57.08%	\$ 78,095	1	57.27%
City of Santa Clara	20,027	2	8.67%	10,558	2	7.74%
California Water Service Co.	15,239	3	6.60%	8,561	4	6.28%
San Jose City Water	15,292	4	6.62%	9,864	3	7.23%
City of Sunnyvale	11,016	5	4.77%	6,262	5	4.59%
Great Oaks Water Company	7,446	6	3.22%	4,705	6	3.45%
City of Milpitas	4,035	7	1.75%	2,396	8	1.76%
City of Gilroy	3,344	8	1.45%	2,452	7	1.80%
City of Cupertino	3,292	9	1.43%	2,088	10	1.53%
City of Morgan Hill	2,956	10	1.28%	2,233	9	1.64%
Total	<u>\$ 214,496</u>		<u>92.87%</u>	<u>\$ 127,214</u>		<u>93.29%</u>
Total Water Sales	<u>\$ 231,001</u>			<u>\$ 136,356</u>		

Source: Santa Clara Valley Water District, Revenue Management Unit

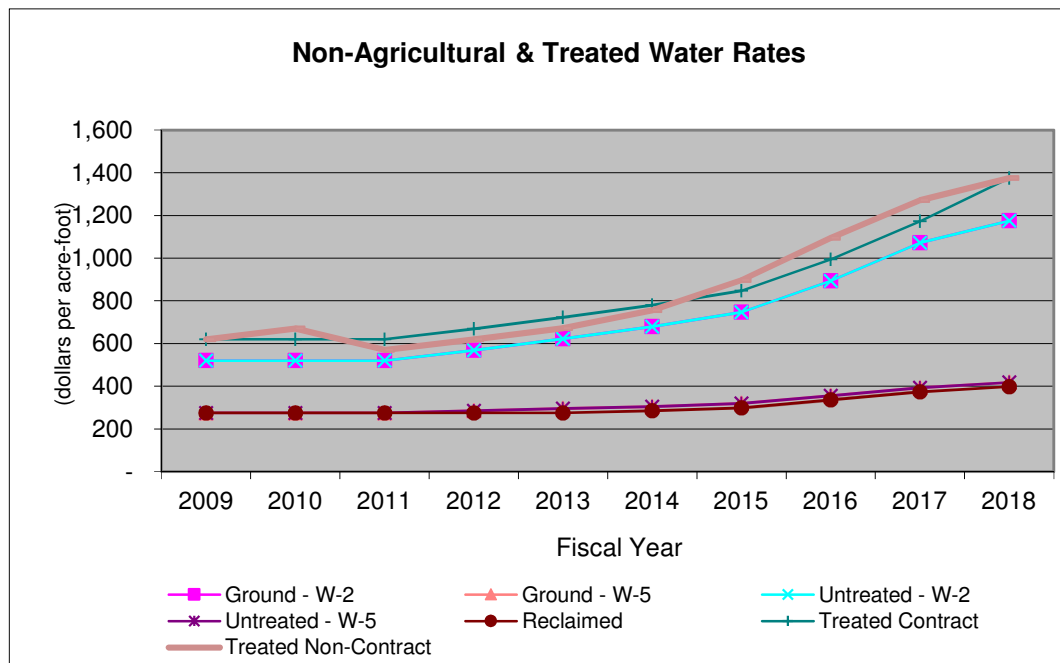
Santa Clara Valley Water District
Water Enterprise Rates Summary
Last Ten Fiscal Years
(rates in dollars per acre-foot)

Fiscal Year	Groundwater Rates				Treated Water Rates	
	Zone W-2		Zone W-5		Contract	Non Contract
	AG	Non-AG	AG	Non-AG		
2009	16.50	520.00	16.50	275.00	620.00	620.00
2010	16.50	520.00	16.50	275.00	620.00	670.00
2011	16.50	520.00	16.50	275.00	620.00	570.00
2012	17.10	569.00	17.10	285.00	669.00	619.00
2013	17.70	622.00	17.70	295.00	722.00	672.00
2014	18.30	680.00	18.30	305.00	780.00	755.00
2015	19.14	747.00	19.14	319.00	847.00	897.00
2016	21.36	894.00	21.36	356.00	994.00	1,094.00
2017	23.59	1,072.00	23.59	393.00	1,172.00	1,272.00
2018	25.09	1,175.00	25.09	418.00	1,375.00	1,375.00



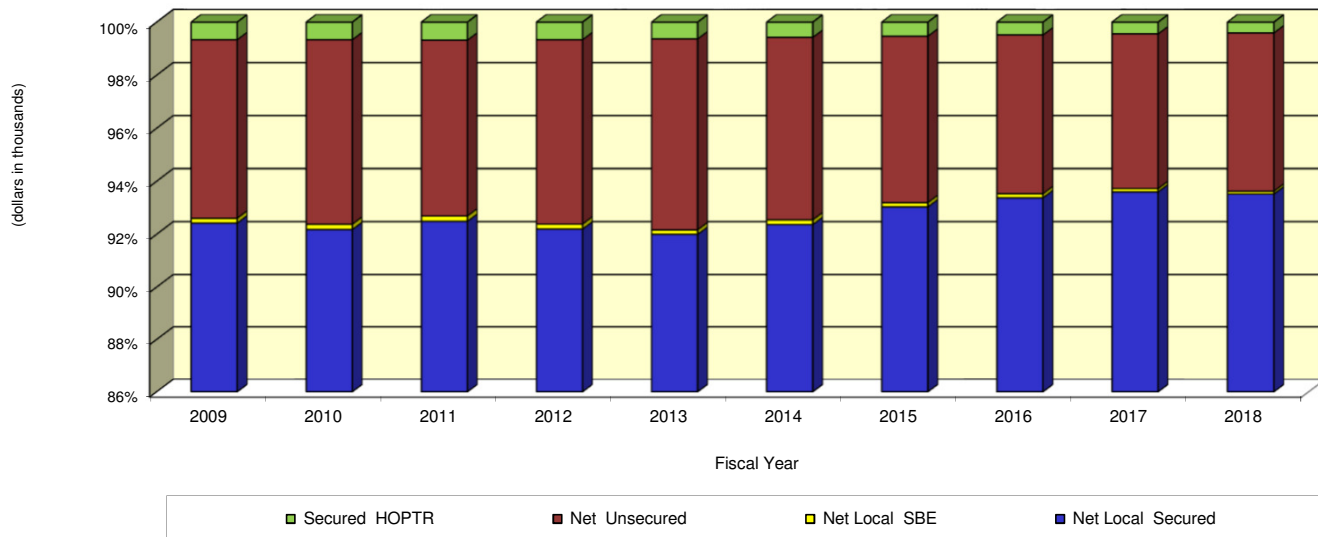
Source: Santa Clara Valley Water District, Wells & Water Production Unit

Untreated Water Rates				Reclaimed Water Rates	
Zone W-2		Zone W-5		AG	Non-AG
AG	Non-AG	AG	Non-AG	AG	Non-AG
16.50	520.00	16.50	275.00	41.50	275.00
16.50	520.00	16.50	275.00	41.50	275.00
16.50	520.00	16.50	275.00	41.50	275.00
17.10	569.00	17.10	285.00	41.50	275.00
17.70	622.00	17.70	295.00	41.50	275.00
18.30	680.00	18.30	305.00	42.10	285.00
19.14	747.00	19.14	319.00	42.94	299.00
21.36	894.00	21.36	356.00	45.16	336.00
23.59	1,072.00	23.59	393.00	47.38	373.00
25.09	1,175.00	25.09	418.00	48.88	398.00



Santa Clara Valley Water District
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(dollars in thousands)

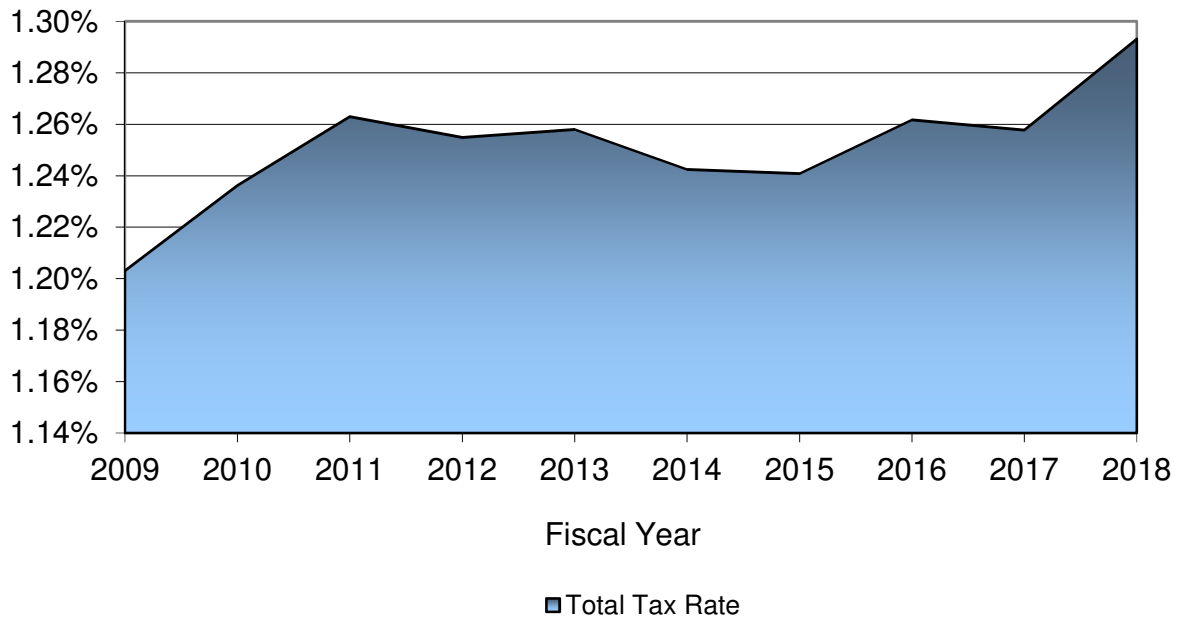
Fiscal Year					Exempt Valuation			District Direct Rate (d)	Total District Direct Tax (c x d)
	Net Local Secured	SBE	Total Secured	Net Unsecured	Total (a)	Secured HOPTR (b)	Total (c) = (a+b)		
2009	\$ 279,767,066	\$ 554,935	\$ 280,322,001	\$ 20,381,412	\$ 300,703,413	\$ 2,005,174	\$ 302,708,587	0.0061%	\$ 18,465.22
2010	279,623,760	602,948	280,226,708	21,112,122	301,338,830	2,007,990	303,346,820	0.0074%	22,447.66
2011	274,020,130	595,208	274,615,338	19,652,921	294,268,259	2,007,881	296,276,140	0.0072%	21,331.88
2012	275,581,705	557,469	276,139,174	20,791,740	296,930,914	1,978,658	298,909,572	0.0064%	19,130.21
2013	283,903,536	525,302	284,428,838	22,225,683	306,654,521	1,951,818	308,606,339	0.0069%	21,293.84
2014	308,939,519	596,002	309,535,521	23,021,092	332,556,613	1,920,733	334,477,346	0.0070%	23,413.41
2015	332,220,200	577,096	332,797,296	22,417,252	355,214,548	1,891,373	357,105,921	0.0065%	23,211.88
2016	362,318,558	594,415	362,912,973	23,239,529	386,152,502	1,874,832	388,027,334	0.0057%	22,117.56
2017	392,058,176	524,128	392,582,304	24,439,939	417,022,243	1,850,004	418,872,247	0.0086%	36,023.01
2018	420,616,061	476,901	421,092,962	26,855,499	447,948,461	1,824,379	449,772,840	0.0062%	27,885.92



Source: County of Santa Clara Property Tax Apportionment Division

Santa Clara Valley Water District
Property Tax Rates-Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	Basic County Wide Levy	County	Cities	Santa Clara Valley Water District	Schools and Other Districts	Total Tax Rate
2009	1.0000%	0.0388%	0.0323%	0.0061%	0.1259%	1.2031%
2010	1.0000%	0.0388%	0.0326%	0.0074%	0.1574%	1.2362%
2011	1.0000%	0.0388%	0.0350%	0.0072%	0.1820%	1.2630%
2012	1.0000%	0.0388%	0.0334%	0.0064%	0.1763%	1.2549%
2013	1.0000%	0.0388%	0.0316%	0.0069%	0.1807%	1.2580%
2014	1.0000%	0.0388%	0.0279%	0.0070%	0.1687%	1.2424%
2015	1.0000%	0.0388%	0.0253%	0.0065%	0.1702%	1.2408%
2016	1.0000%	0.0388%	0.0223%	0.0057%	0.1949%	1.2617%
2017	1.0000%	0.0388%	0.0207%	0.0086%	0.1896%	1.2577%
2018	1.0000%	0.0597%	0.0186%	0.0062%	0.2087%	1.2932%



Source: County of Santa Clara, Department of Finance (tax rate area 17-028)

Santa Clara Valley Water District
Principal Property Tax Payers
Current year and Nine years ago
(Dollars in thousands)

Taxpayer	Fiscal Year 2018 ⁽²⁾			Fiscal Year 2009 ⁽³⁾		
	Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Taxable Assessed Value	Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Taxable Assessed Value
Leland Stanford Jr, University	\$ 6,021,731	1	1.34%			
Campus Holdings Inc.	3,076,342	2	0.68%			
Google Inc.	2,882,945	3	0.64%			
Sobrato Interests	1,644,207	4	0.37%	\$ 1,474,453	4	0.49%
Cisco Technology Inc.	1,639,015	5	0.36%	1,542,814	2	0.51%
Essex Portfolio LP	1,587,614	6	0.35%			
Apple Computer Inc.	1,560,726	7	0.35%	698,082	10	0.23%
Forty Niners SC Stadium Company LLC	1,108,535	8	0.25%			
The Irvine Company	1,096,130	9	0.24%			
Lockheed Missiles and Space Co. Inc.	967,780	10	0.22%			
M West Propco	926,150	11	0.21%			
Intel Corporation	895,112	12	0.20%	926,415	7	0.31%
Applied Materials Inc.	709,214	13	0.16%	754,969	8	0.25%
San Jose Water Works	700,191	14	0.16%			
River View Apartments LLC	662,486	15	0.15%			
Blackhawk Development				1,892,577	1	0.63%
Pacific Gas & Electric Co.				1,486,202	3	0.49%
Silicon Valley Developers, LLC				1,163,573	5	0.38%
Berg, Mission West, et al				1,088,024	6	0.36%
AT & T Corporation				739,194	9	0.24%
Total	<u>\$ 25,478,178</u>		<u>5.68%</u>	<u>\$ 11,766,303</u>		<u>3.89%</u>
Net Assessed Value of Taxable Property	<u>\$ 449,772,840</u>			<u>\$ 302,708,587</u>		

⁽¹⁾ Includes taxable properties only.

⁽²⁾ Source: California Municipal Statistics, Inc.

⁽³⁾ Source: Santa Clara County Tax Collector's Office

Santa Clara Valley Water District
Computation of District Act Debt Margin
June 30, 2018
(Dollars in Thousands)

Authorized short-term debt under authority of District Act Section 25.6	\$ 8,000
Outstanding short-term debt under Section 25.6, June 30, 2018	<u>-</u>
District Act Section 25.6 debt margin on short-term debt	<u><u>\$ 8,000</u></u>

Note:

The Santa Clara Valley Water District's debt issuance practices are governed by the provisions of California law and Section 25.6 of the special legislation which formed the Santa Clara Valley Water District (the District Act). The District Act sets the limit on short term debt obligations (maturity of less than five years) at \$8,000,000.

The District may also issue short term notes under the tax and revenue anticipation note statute included in the California Government Code (sections 53850-53858). Under the tax and revenue anticipation note statute, the District may issue notes, provided the principal and interest are not to exceed 85% of the uncollected revenues of the District on the date such notes are issued (and subject to certain other limitations including a 15 month maturity provision). Section 53851 provides that the tax and revenue anticipation note statute is separate authority for the District to issue notes and any amount borrowed under the tax and revenue anticipation note statute is not limited by any other provision of law.

The District has elected to issue notes under the tax and revenue anticipation note statute to support the commercial paper program because it allows a larger amount of notes to be issued even though there is a shorter limitation on maturities.

The District is in compliance with its District Act and the debt issuance provisions of California law.

Santa Clara Valley Water District
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	Governmental Activities		Business-type Activities	
	General Obligation Bonds	Certificate of Participation	General Obligation Bonds	Revenue Bonds/ Certificate of Participation
2009	\$ -	\$ 161,238	\$ 1,390	\$ 222,470
2010	-	151,294	910	217,992
2011	-	142,112	405	213,307
2012	-	132,494	-	208,418
2013	-	131,199	-	201,780
2014	-	122,392	-	201,547
2015	-	117,117	-	191,490
2016	-	108,393	-	440,089
2017	-	105,529	-	443,602
2018	-	95,322	-	423,775

Source: Santa Clara Valley Water District, General Accounting Unit

Total Primary Government	Percentage of Personal Income	Per Capita
\$ 385,098	0.3718%	\$ 207
370,196	0.3609%	197
355,824	0.3180%	188
340,912	0.2788%	179
332,979	0.2549%	181
323,939	0.2283%	173
308,607	0.2154%	163
548,482	0.3163%	284
549,131	0.3135%	283
519,097	0.2934%	265

Santa Clara Valley Water District
Computation of Direct and Overlapping Debt
June 30, 2018

2017-18 Assessed Valuation	449,772,840,000		District's Share of
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt-06/30/2018	% Applicable ⁽¹⁾	Debt-06/30/2018
Santa Clara County	\$ 1,012,400,000	100%	\$ 1,012,400,000
Foothill-DeAnza Community College District	633,997,978	100%	633,997,978
San Jose-Evergreen Community College District	509,525,599	100%	509,525,599
West Valley-Mission Community College District	495,110,000	99.009%	490,203,460
Other Community College Districts	367,526,074	0.053-75.679%	68,942,604
Gilroy Unified School District	213,611,154	100%	213,611,154
Palo Alto Unified School District	298,433,689	100%	298,433,689
San Jose Unified School District	523,594,025	100%	523,594,025
Santa Clara Unified School District	706,105,000	100%	706,105,000
Other Unified School Districts	278,709,746	1.227-100%	252,653,679
Campbell Union High School District	210,265,000	100%	210,265,000
East Side Union High School District	846,517,422	100%	846,517,422
Fremont Union High School District	433,280,088	100%	433,280,088
Other High School Districts	215,723,375	0.606-100%	152,886,073
Campbell School District	176,094,922	100%	176,094,922
Cupertino Union School District	270,528,688	100%	270,528,688
Evergreen School District	146,541,562	100%	146,541,562
Franklin McKinley School District	98,613,698	100%	98,613,698
Los Altos School District	57,145,000	100%	57,145,000
Los Gatos Union School District	85,175,000	100%	85,175,000
Moreland School District	107,897,251	100%	107,897,251
Oak Grove School District	181,283,201	100%	181,283,201
Sunnyvale School District	193,580,820	100%	193,580,820
Other School Districts	664,219,319	4.667-100%	658,658,352
City of Gilroy	28,745,000	100%	28,745,000
City of Palo Alto	62,140,000	100%	62,140,000
City of San Jose	342,770,000	100%	342,770,000
City of Saratoga	9,100,000	100%	9,100,000
Saratoga Fire Protection District	2,951,159	100%	2,951,159
El Camino Hospital District	127,800,000	100%	127,800,000
City Community Facilities Districts	45,595,000	100%	45,595,000
City of San Jose Special Assessment Bonds	10,670,000	100%	10,670,000
Other City 1915 Act Bonds (Estimated)	33,271,978	100%	33,271,978
Mid-peninsula Regional Open Space District	93,350,000	69.301%	64,692,484
Santa Clara Valley Water District Benefit Assessment District	82,285,000	100%	82,285,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 9,137,954,885
<u>Ratios to the 2017-18 Assessed Valuation</u>			
Direct Debt			0.02%
Total Direct and Overlapping Tax and Assessment Debt			2.03%
OVERLAPPING GENERAL FUND DEBT:	Total Debt-06/30/2018	% Applicable ⁽¹⁾	District's Share of Debt-06/30/2018
Santa Clara County General Fund Obligations	\$ 590,242,965	100%	\$ 590,242,965
Santa Clara County Pension Obligations	357,547,175	100%	357,547,175
Santa Clara County Office of Education Certificates of Participation	4,985,000	100%	4,985,000
Foothill-De Anza Community College District General Fund Obligations	28,803,859	100%	28,803,859
San Jose-Evergreen Community College District OPEB	47,450,000	100%	47,450,000
Gavilan Joint Community College District General Fund Obligations	13,915,000	75.679%	10,530,733
West Valley - Mission Community College District General Fund Obligations	63,060,000	99.009%	62,435,075
Gilroy Unified School District Certificates of Participation	25,955,000	100%	25,955,000
Other Unified School District General Fund Obligations	39,420,000	100%	39,420,000
East Side Union High School District Benefit Obligations	28,860,000	100%	28,860,000
Other Union High School District General Fund Obligations	1,916,143	0.606-100%	16,054,489
Alum Rock Union School District Certificates of Participation	20,460,000	100%	20,460,000
Other School District General Fund Obligations	51,143,941	21.777-100%	50,845,911
City of Cupertino Certificates of Participation	31,520,000	100%	31,520,000
City of Gilroy Certificates of Participation	39,250,000	100%	39,250,000
City of San Jose General Fund Obligations	504,505,000	100%	504,505,000
City of Santa Clara General Fund Obligations	18,645,000	100%	18,645,000
City of Sunnyvale General Fund Obligations	16,465,000	100%	16,465,000
Other City General Fund Obligations	27,146,695	100%	27,146,695
Santa Clara County Vector Control District Certificates of Participation	2,470,000	100%	2,470,000
Mid-peninsula Regional Park District General Fund Obligations	123,040,600	69.301%	85,268,366
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$ 2,008,860,268
Less: Santa Clara County supported general fund obligations			406,885,666
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$ 1,601,974,602
OVERLAPPING TAX INCREMENT DEBT:	\$ 1,933,497,000	100%	\$ 1,933,497,000
TOTAL DIRECT DEBT			\$ 82,285,000
TOTAL GROSS COMBINED OVERLAPPING DEBT			\$ 12,998,027,153
TOTAL NET COMBINED OVERLAPPING DEBT			\$ 12,591,141,487
GROSS COMBINED TOTAL DEBT			\$ 13,080,312,153 ⁽²⁾
NET COMBINED TOTAL DEBT			\$ 12,673,426,487

(1) The percent of overlapping debt applicable to the Water District is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the Water District divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

<u>Ratios to the 2017-18 Assessed Valuation</u>	<u>Ratio</u>
Total Direct Debt	0.02%
Gross Combined Total Debt	2.91%
Net Combined Total Debt	2.82%

Ratio to Redevelopment Incremental Valuation (\$46,381,945,020)
Total Overlapping Tax Increment Debt

4.17%

Source: California Municipal Statistics, Inc.

Santa Clara Valley Water District
Revenue Bond Coverage
Last Ten Fiscal Years
(Dollars in Thousands)

			Senior Obligations ⁽¹⁾					Parity Obligation ⁽²⁾			Senior/Parity/Subordinate Obligation ⁽³⁾			
Fiscal Year	Adjusted Revenue	Adjusted Operating Expense	Net Revenue		Principal	Interest	Senior		Net Revenue		Net Revenue		Subordinate Obligation for All Debt Service Requirement	Coverage Factor
			Available for	Senior			Debt Service	Coverage	Available for	Parity	Available			
			Senior	Debt Service			Requirement	Factor	Debt Service	Requirement	Requirement			
			Debt Service	Requirement			Factor	Requirement	Factor	Requirement	Factor			
			(A)			(B)	(C=A/B)	(D=A-B)	(E)	(F=D/E)	(G=A)	(H)	(I=G/[B+E+H])	
2009	156,579	105,535	51,044	2,345	9,480	11,825	4.32	-	-	-	-	-	-	
2010	135,810	102,564	33,246	4,814	8,446	13,260	2.51	-	-	-	-	-	-	
2011	133,676	108,093	25,583	5,020	8,019	13,039	1.96	-	-	-	-	-	-	
2012	154,750	111,505	43,245	5,230	7,945	13,175	3.28	-	-	-	-	-	-	
2013	171,066	111,120	59,946	6,973	7,596	14,569	4.11	-	-	-	-	-	-	
2014	182,295	118,158	64,137	7,002	7,523	14,525	4.42	-	-	-	-	-	-	
2015	154,696	130,915	23,781	7,456	7,501	14,957	1.59	-	-	-	-	-	-	
2016	182,404	141,367	41,037	3,948	6,066	10,014	4.10	31,023	2,072	14.97	41,037	185	3.34	
2017 ⁽⁴⁾	207,899	130,278	77,621	3,830	4,827	8,657	8.97	68,964	12,447	5.54	77,621	-	3.68	
2018	254,177	172,427	81,750	2,070	1,793	3,863	21.16	77,887	21,213	3.67	81,750	358	3.21	

Source: Santa Clara Valley Water District General Accounting Unit

In July 1994, the District refunded its outstanding water revenue bonds and restructured its debt covenants under a Senior Master Resolution (94-58, as amended by 06-80) governing the issuance of all Water Utility System Senior debt obligations, including the method of calculating Senior Debt Service coverage ratio.

In February 2016, the District Board adopted the Water Utility Parity System Master Resolution (16-10) governing issuance of all Water Utility System Parity debt obligations, calculating the method of calculating Parity Debt Service coverage ratio.

Prescribed by the aforementioned Master Resolutions, operating revenues and expenses include adjustments which relate primarily to intergovernmental revenues, depreciation and amortization, other post employment benefits, and compensated absences and claims.

(1) The senior obligation minimum debt service coverage requirement is 1.25, per the Water Utility Senior Master Resolution (94-58, as amended by 06-80).

(2) The parity obligation minimum debt service coverage requirement is 1.25, per the Parity Master Resolution (16-10).

(3) The senior/parity/subordinate obligation minimum debt service coverage requirement is 1.10, per the Water Utility Senior Master Resolution (94-58, as amended by 06-80).

(4) Fiscal year 2016-17 debt service coverage calculations were adjusted to correct overstated interest payments previously reported under the Senior Obligations, and adjustments for financing fees.

Santa Clara Valley Water District
Demographic and Economic Statistics
For Santa Clara County
Last Ten Fiscal Years

Fiscal Year	Population ⁽¹⁾	Personal Income (in \$000) ⁽²⁾	Per Capita Personal Income (in \$000)	Change In Consumer Price Index ⁽³⁾	School Enrollment ⁽⁴⁾	Total Employment ⁽⁵⁾	Unemployment Rate ⁽⁵⁾
2009	1,857,621	\$ 103,568,953	\$ 55.754	0.2%	261,945	787,700	11.8%
2010	1,880,876	102,589,854	54.544	1.1%	265,544	879,100	11.3%
2011	1,890,909	111,880,131	59.167	1.1%	266,267	798,200	9.9%
2012	1,899,567	122,259,021	64.362	0.9%	270,109	794,236	8.5%
2013	1,842,254	130,624,491	70.905	1.4%	273,701	865,900	6.8%
2014	1,868,558	141,873,705	75.927	3.0%	276,175	879,500	5.4%
2015	1,889,638	143,292,442	75.831	2.3%	276,689	993,400	3.7%
2016	1,927,888	173,428,896	75.069	2.7%	274,948	996,800	4.0%
2017	1,938,180	175,163,185	75.417	3.5%	273,264	992,900	3.8%
2018	1,956,598	176,914,817	90.420	3.9%	272,132	1,035,600	2.7%

Source: ⁽¹⁾ State of California - Department of Finance, Demographics & Research Unit.

⁽²⁾ U.S. Department of Commerce - Bureau of Economic Analysis;
actual data available up to 2016; personal income data for 2017 & 2018 are preliminary
and assumes a 1% increase from prior year.

⁽³⁾ U.S. Department of Labor - Bureau of Labor Statistics - San Francisco Bay Region

⁽⁴⁾ State of California - Department of Education and Santa Clara County Office of Education

⁽⁵⁾ State of California - Employment Development Department

Santa Clara Valley Water District
Principal Employers
Current Year and Nine Years ago
(unaudited)

Company or Organization	Fiscal Year 2018			Fiscal Year 2009		
	Employees ⁽²⁾	Rank	Percentage of Total County Employment	Employees ⁽³⁾	Rank	Percentage of Total County Employment
Apple Computer	25,000	1	2.41%	10,000	2	1.27%
Google, Inc. / Alphabet	20,000	2	1.93%			
County of Santa Clara	17,800	3	1.72%			
Stanford University	16,919	4	1.63%			
Cisco Systems, Inc.	14,120	5	1.36%	13,000	1	1.65%
Facebook Inc.	14,000	6	1.35%			
Kaiser Permanente	12,500	7	1.21%			
Stanford Health Care	10,034	8	0.97%	5,500	4	0.70%
Tesla Motors Inc.	10,000	9	0.97%			
Santa Clara Valley Medical Center	9,130	10	0.88%	3,500	10	0.44%
University of California Santa Cruz	8,800	11	0.85%			
Intel Corp	8,450	12	0.82%	5,000	5	0.63%
Safeway	7,887	13	0.76%			
Oracle Corp.	6,581	14	0.64%			
City of San Jose	6,159	15	0.59%			
Lockheed Martin Space Systems				8,000	3	1.02%
Maxim Integrated Products, Inc.				4,706	6	0.60%
Fujitsu				4,500	7	0.57%
Applied Materials				4,100	8	0.52%
Hewlett-Packard Co,				4,000	9	0.51%
Total	<u>187,380</u>		<u>18.09%</u>	<u>62,306</u>		<u>7.91%</u>
Total County Employment ⁽¹⁾	<u>1,035,600</u>			<u>787,700</u>		

Source: ⁽¹⁾ State of California - Employment Development Department

⁽²⁾ Silicon Valley Business Journal, July 27, 2018

⁽³⁾ Rich's Everyday Sales Prospecting Directory - Santa Clara County

Santa Clara Valley Water District
Full-time Equivalent District Employees by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Office of the CEO	13	12	11	10	10	10	10	10	11	11
Office of the District Counsel	11	11	9	9	9	9	9	9	10	10
Community & Government Relations	20	20	7	8	8	8	8	18	23	27
County-Wide Watershed Management	122	119	117	105	98	98	98	112	109	109
Capital Programs	152	145	143	126	117	112	115	118	112	112
Water Utility Operations	43	43	43	43	43	43	43	43	43	43
Water Supply	11	11	11	11	11	11	11	11	11	11
Water Conservation	10	10	10	10	10	10	10	10	11	11
Surface & Groundwater Management	34	34	34	34	34	34	34	36	33	33
Water Quality	22	22	22	22	22	22	22	22	28	28
Control Systems	11	11	11	11	11	11	11	11	14	14
Water Utility Maintenance	23	23	23	23	23	23	23	23	28	28
Treated Water Operations	36	36	36	36	36	36	36	38	44	44
Raw Water Operations	25	25	25	25	25	25	25	28	37	37
Administrative & Business Management	11	11	11	8	8	8	8	8	11	11
Clerk of the Board	10	12	12	12	12	12	12	12	14	14
Organizational Training & Development	10	6	6	6	6	6	6	6	4	4
Business Support Services	18	16	16	16	16	16	16	16	16	16
Library & Records	5	5	6	6	6	6	6	6	5	5
Budget Office	4	8	8	8	8	8	8	8	7	7
Accounting	18	18	18	18	18	16	18	18	17	17
Information & Systems Management	42	43	43	39	39	39	39	39	36	36
Technical Services	3	3	3	3	3	3	3	3	3	3
Wells & Water Production	20	20	18	18	18	18	18	18	18	18
Real Estate & Right-of-Way	8	8	8	8	8	8	8	9	10	10
Equipment Management	12	12	12	12	12	12	12	12	12	12
Warehouse & Inventory Control	7	7	6	6	6	6	6	6	5	5
Facilities Maintenance	15	15	15	15	15	15	15	15	15	15
Purchasing	9	9	9	9	9	9	9	10	10	10
Permits	16	16	16	16	16	13	16	16	14	14
Contracts Administration	6	6	5	4	4	4	4	5	5	5
Human Resources & Benefits	21	21	21	21	21	19	21	21	18	18
Health & Safety	6	6	6	6	6	10	6	6	10	10
Total	774	764	741	704	688	680	686	723	744	748

Source: Santa Clara Valley Water District, Human Resources & Benefits Unit

Santa Clara Valley Water District
Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
District Well Ordinance Program										
New Wells	846	583	775	541	443	513	407	424	321	410
Destroyed Wells	620	663	653	531	502	744	1,504	1,167	945	463
Well Permits	2,047	1,564	1,626	1,740	1,265	1,697	2,285	1,799	1,546	1,272
Well Inspections	1,685	1,286	1,517	1,350	1,080	1,398	2,092	1,848	1,687	1,093
Watershed Management										
Miles of Vegetation Removed/Managed	187	185	175	241	221	206	177	164	116	168
Cubic Yards of Sediment Removed	7,383	17,409	15,623	32,456	21,456	34,596	4,129	3,929	83,792	34,881
Miles of Bank Erosion Protection	1.4	-	1.8	0.5	1.1	2.1	0.2	1.2	0.5	0.5
Laboratory Services Unit										
Water Samples Tested (approx.)	119,190	99,385	132,638	111,265	158,082	170,055	169,182	178,934	179,252	156,347
Water Quality Violations	-	-	-	-	-	-	-	-	-	-
Water Measurement Program										
Meter Reads/Site Visits	7,418	5,934	5,981	5,939	6,019	5,964	5,908	5,934	5,489	6,264
Meter Repairs/Preventative Maintenance	342	302	328	316	313	272	201	323	301	307
Backflow Device Tests	200	190	170	151	177	159	203	153	149	227
Community Projects Review										
Permits Issued	213	217	229	220	257	201	220	289	228	177
Land Development Review Requests	1,336	1,080	1,030	964	865	940	843	45	124	749
Underground Service Alerts	39,079	27,782	28,651	37,348	46,599	53,782	58,871	12,118	8,042	8,529
Requests for Flood Zone Information	109	91	90	70	72	51	24	92	26	18
Environmental Impact Reports Reviewed	130	115	107	55	33	65	68	32	56	53
Water Resource Protec. Ordinance Violations	136	121	125	234	193	184	130	220	163	186
Human Resources										
Permanent Positions Hired	19	20	13	17	21	31	54	150	112	133
Temporary Workers Employed	54	49	121	112	140	247	134	276	259	122
Employment Applications Processed	952	1,163	1,000	2,685	1,524	4,236	5,746	5,621	5,847	5,668
Health & Safety										
Ergonomic Assessments	62	46	44	36	39	38	42	46	44	47
Confined Space Assessments	193	210	247	117	139	261	147	204	120	223
Employee Safety Committee Meetings	11	12	10	11	9	11	12	12	12	11
Projects Managed by Type:										
Capital Projects	179	178	138	129	126	131	160	165	121	130
Operating Projects	67	56	46	48	43	36	35	39	23	29
Operations Projects	400	373	354	365	396	394	415	409	358	351

Source: Santa Clara Valley Water District, various government departments

Santa Clara Valley Water District
Flood Control System
Historical Operating Results
Combined Statement of Revenues and Debt Service Coverage
Last Ten Fiscal Years
(Dollars in Thousands)

	2009	2010	2011	2012
Flood Control System Revenues:				
Benefit assessment, gross ¹	\$ 19,450	\$ 19,420	\$ 19,284	\$ 19,324
Property tax	50,660	45,010	47,567	48,457
Investment income	5,137	2,671	1,099	560
Rental income	1,159	1,137	1,139	1,210
Other	903	1,045	564	798
Total Flood Control System Revenue	<u>\$ 77,309</u>	<u>\$ 69,283</u>	<u>\$ 69,653</u>	<u>\$ 70,349</u>
Debt Service:				
2003A Certificates of participation ²	\$ 7,533	\$ 7,433	\$ 6,958	\$ 6,018
2004A Certificates of participation ^{3/4}	2,304	2,488	2,395	2,285
2007A Certificates of participation ³	5,759	5,757	5,761	5,759
2012A Certificates of participation	-	-	-	-
2017A Certificates of participation ⁴	-	-	-	-
Total Debt Service	<u>\$ 15,596</u>	<u>\$ 15,678</u>	<u>\$ 15,114</u>	<u>\$ 14,062</u>
Coverage	4.96	4.42	4.61	5.00

¹ The benefit assessment presented on the Statement of Revenues, Expenditures and Changes in Fund Balances are net of collection fees. For the purpose of the Flood Control System Debt Service Coverage, collection fees are excluded. Therefore, the benefit assessments presented above have been increased by:

FY2018 - \$ 148
FY2017 - \$ 149
FY2016 - \$ 149
FY2015 - \$ 162
FY2014 - \$ 163
FY2013 - \$ 194
FY2012 - \$ 193
FY2011 - \$ 193
FY2010 - \$ 194
FY2009 - \$ 195

In accordance with voter authorizations, benefit assessments are set at 1.25 of gross debt service allocable to flood control projects starting during Fiscal Year 2001.

Source: Santa Clara Valley Water District, General Accounting Unit

2013	2014	2015	2016	2017 ⁵	2018
\$ 19,372	\$ 16,306	\$ 16,236	\$ 14,832	\$ 14,939	\$ 14,922
55,647	57,631	62,887	68,005	74,806	79,538
249	985	889	1,303	317	729
1,208	1,338	1,403	1,474	1,527	1,609
1,327	687	596	1,210	1,870	3,999
<u>\$ 77,803</u>	<u>\$ 76,947</u>	<u>\$ 82,011</u>	<u>\$ 86,824</u>	<u>\$ 93,459</u>	<u>\$ 100,797</u>
\$ 1,141	\$ -	\$ -	\$ -	\$ -	\$ -
2,380	1,398	1,349	1,109	1,111	-
5,757	5,761	5,762	5,757	5,760	-
6,443	6,111	6,101	5,294	5,297	5,295
-	-	-	-	-	6,866
<u>\$ 15,721</u>	<u>\$ 13,270</u>	<u>\$ 13,212</u>	<u>\$ 12,160</u>	<u>\$ 12,168</u>	<u>\$ 12,161</u>
4.95	5.80	6.21	7.14	7.68	8.29

² The 2003A debt service payments are shown net of interest credit applied to the payment fund.

³ The 2004A and 2007A Certificates were refunded by the 2017A Certificates.

⁴ The 2004A and 2017A debt service payments excludes the portion paid by the District General Fund as this portion of debt service was not payable from benefit assessments (see Flood Control Master Resolution 94-60).

⁵ The Fiscal Year 2017 debt service coverage calculation was adjusted above to correct overstated debt service previously reported.

Santa Clara Valley Water District
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Water Utility Enterprise										
Acres of groundwater recharge ponds	393	393	393	393	393	393	393	393	393	393
Miles of canals	17	17	17	17	17	17	17	17	17	17
Miles of pipeline	143	143	143	144	144	144	144	144	144	144
Miles of tunnels	8	8	8	8	8	8	8	8	8	8
Number of treatment plants	3	3	3	4	4	4	4	4	4	4
Number of pumping stations	5	5	5	5	5	5	5	5	5	5
Number of treated water reservoirs	1	1	1	1	1	1	1	1	1	1
Water Utility Operations										
Process Control Instrumentation	987	1071	1128	1,161	1,406	1,680	1,443	1,493	1,548	1,534
Mechanical Drives	50	54	54	54	72	61	56	73	58	61
Chemical Mixers	86	87	87	87	89	111	95	95	92	88
Electrical Motors	375	381	407	432	452	512	439	455	468	464
Power Distribution Equipment	618	640	736	913	1,248	1,673	1,140	1,155	1,089	859
Pumps	469	475	496	515	547	601	515	518	517	518
Utility Vaults & Structures	958	1019	1050	1,051	1,062	1,095	1,114	1,340	1,156	1,122
Chemical & Water Storage Tanks	169	170	179	192	199	176	174	203	168	173
Valves	950	994	1059	1,070	1,613	1,702	1,600	1,676	1,695	1,710
Valve Operators	492	524	577	579	799	869	783	782	781	782
Generators	21	23	23	26	25	27	25	29	29	27
Flow Meters	256	258	271	296	381	387	347	377	399	360
Electric Drives	152	152	160	170	173	208	165	162	172	183
Blowers & Compressors	167	168	164	174	146	208	188	185	184	181
Miscellaneous Equipment	315	429	459	467	477	3,306	1,441	1,350	1,356	1,322
Watersheds										
Miles of creeks and rivers managed for flood control	700	700	700	700	700	700	700	700	700	800 +*
Number of reservoirs	10	10	10	10	10	10	10	10	10	10
Total District reservoir capacity (acre-feet)	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415
Acres of Wildlife Habitat Restored	N/A	N/A	N/A	N/A	569	569	326	326	310	364
Fleet Equipment										
Class I Passenger Vehicles	204	202	190	190	185	186	182	184	179	178
Class II Heavy Duty Trucks	72	78	79	78	82	84	87	82	90	94
Class III Tractors, Const. Equip., Generators, Forklifts	26	25	25	26	24	27	26	26	21	26
Class IV Misc. Small Tools & Engines	520	597	648	643	655	474	506	506	534	478

Source: Santa Clara Valley Water District, various government departments

* There are more than 800 miles of creeks in Santa Clara County (SC Co.). SCVWD owns 278 miles of streams in SC Co. Only a portion of these have been modified with flood protection projects. Those are the streams that are maintained by SCVWD.

Santa Clara Valley
Water District



