



**Water Utility Enterprise Funds of the
Santa Clara Valley Water District
Annual Financial Report
*Fiscal Year Ended June 30, 2022***

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655 N. Central Avenue
Suite 1550
Glendale, CA 91203

www.vasquez.cpa

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Water Utility Enterprise Funds (the Funds) of the Santa Clara Valley Water District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Funds as of June 30, 2022, 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.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the Santa Clara Valley Water District as of June 30, 2022, the changes in its financial position, or, where applicable its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Management's Responsibilities for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 management discussion and analysis in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the management discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The supplementary schedules on pages 54 through 57 as listed in the accompanying table contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Glendale, California
July 21, 2023

Our discussion and analysis of the financial performance of Santa Clara Valley Water District's (Valley Water's) Water Utility Enterprise Funds (the "Funds") provide an overview of the Funds' financial activities for the fiscal year ended June 30, 2022. This information is presented in conjunction with the audited financial statements that follow this section.

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

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

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

Overview of the Financial Statements

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

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

The Funds' financial statements are comprised of the following:

- The Statement of Net Position presents information on the Funds' assets, deferred outflow of resources, deferred inflow of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Funds is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Position provides information about the Funds' revenues and expenses on an accrual basis.
- The Statement of Cash Flows provides relevant information on the Funds' cash receipts and cash payments during the period. This statement presents changes in the Funds' cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities.
- The Notes to Basic Financial Statements provide additional information that is essential to a better understanding of the data provided in the Funds' financial statements.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Management's Discussion and Analysis (Continued)
June 30, 2022

Financial Highlights

Water Utility Enterprise Funds Condensed Statement of Net Position
(Dollars in Millions)

	June 30		Change	
	2022	2021	Dollar	Percent
Current and other assets	\$ 588.6	\$ 567.3	\$ 21.3	3.8%
Capital assets	1,468.1	1,350.3	117.8	8.7%
Total assets	2,056.7	1,917.6	139.1	7.3%
Deferred outflow of resources				
Deferred amount on refunding	0.2	0.5	(0.3)	(60.0%)
Pension activities	37.6	40.4	(2.8)	(6.9%)
OPEB activities	5.7	4.8	0.9	18.8%
Total deferred outflows of resources	43.5	45.7	(2.2)	(4.8%)
Current liabilities	195.9	89.0	106.9	120.1%
Long- term liabilities	756.1	846.4	(90.3)	(10.7%)
Total liabilities	952.0	935.4	16.6	1.8%
Deferred inflow of resources				
Pension activities	32.8	1.3	31.5	2423.1%
OPEB activities	11.4	2.1	9.3	442.9%
Leases	0.2	-	0.2	100.0%
Total deferred inflows of resources	44.4	3.4	41.0	1205.9%
Net position:				
Net investment in capital assets	642.3	624.5	17.8	2.9%
Restricted	104.1	78.5	25.6	32.6%
Unrestricted	357.4	321.5	35.9	11.2%
Total net position	\$ 1,103.8	\$ 1,024.5	\$ 79.3	7.7%

The total net position of the Funds amounted to \$1,103.8 million at June 30, 2022. The largest portion of the Funds' net position (58.2% or \$642.3 million) reflects net investment in capital assets (e.g., land, buildings, infrastructure, machinery, equipment, and contract water rights) less any related debt outstanding used to acquire the capital assets. These capital assets are used to provide services to citizens and consumers. Consequently, these assets are not available for future spending. Although the Funds' investment in its capital assets is reported net of related debts, it should be noted that the resources needed to repay this debt must be provided from other sources since, in general, the capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets, net of related debt, increased by \$17.8 million or 2.9% from the previous fiscal year. Capital assets, net of depreciation and amortization, increased by \$117.8 million, reflecting the increase in work in progress primarily for the following five projects: Anderson Dam Seismic Retrofit (\$61.9 million), Pacheco Reservoir Expansion (\$18.4 million), Rinconada Water Treatment Plant Reliability Improvement (\$10.7 million), and 10-year Pipeline Rehabilitation (\$9.4 million). Long term liabilities, which include related debt outstanding, decreased by \$90.3 million mainly due to principal paid on existing bonds and decrease in net pension liabilities.

The Funds' new construction in progress amounted to \$136.5 million. There were 58 in progress and completed projects during the fiscal year, with the major projects listed below (in millions):

- \$61.9 – Anderson Dam Seismic Retrofit
- \$18.4 – Pacheco Reservoir Expansion
- \$14.7 – Rinconada Water Treatment Plant Residuals Remediation
- \$10.7 – Rinconada Water Treatment Plant Reliability Improvement
- \$ 9.4 – 10-year Pipeline Inspection and Rehabilitation
- \$ 7.4 – South County Recycled Water Fund Short-Term 1B
- \$ 6.3 – Indirect Potable Reuse
- \$ 1.5 – South County Recycled Water Fund
- \$ 1.2 – Santa Teresa Water Treatment Plant Filter Media Replacement
- \$ 1.1 – Coyote Pumping Plant Adjustable Speed Drive Replacement

Net position categorized as "unrestricted" may be used to meet ongoing obligations to citizens, customers, and creditors. The Funds' unrestricted net position of \$357.4 million represents an increase of \$35.9 million or 11.2% when compared to the prior fiscal year.

The \$35.9 million increase in unrestricted net position in fiscal year 2022 was mainly from increases in reserve amounts for purchase commitments by \$70.3 million, offset by decreases in designated amounts for current authorized projects, and decreases in designated amounts for operating and capital by \$7.8 million and \$21.5 million, respectively.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Management's Discussion and Analysis (Continued)
June 30, 2022

Water Utility Enterprise Funds Condensed Statement
of Revenues, Expenses, and Changes in Net Position
(Dollars in millions)

	June 30		Change	
	2022	2021	Dollar	Percent
Revenues:				
Ground water charges	\$ 125.0	\$ 132.1	\$ (7.1)	(5.4%)
Treated water charges	145.4	154.9	(9.5)	(6.1%)
Surface and recycled water charges	2.0	2.7	(0.7)	(25.9%)
Operating grants	5.3	4.0	1.3	32.5%
Capital grants and contributions	5.6	6.4	(0.8)	(12.5%)
Property taxes	39.8	30.2	9.6	31.8%
Investment income (loss)	(8.3)	1.6	(9.9)	(618.8%)
Miscellaneous	3.3	2.7	0.6	22.2%
Total operating revenues	<u>318.1</u>	<u>334.6</u>	<u>(16.5)</u>	<u>(4.9%)</u>
Expenses:				
Operating expenses	277.7	213.9	63.8	29.8%
Nonoperating and other expenses	27.0	23.0	4.0	17.4%
Total expenses	<u>304.7</u>	<u>236.9</u>	<u>67.8</u>	<u>28.6%</u>
Change in net position before transfers	13.4	97.7	(84.3)	(86.3%)
Transfers in (out) from (to) District	65.9	(74.1)	140.0	(188.9%)
Change in net position	79.3	23.6	55.7	236.0%
Net position, beginning of year	1,024.5	1,000.9	23.6	2.4%
Net position, end of year	<u>\$ 1,103.8</u>	<u>\$ 1,024.5</u>	<u>\$ 79.3</u>	<u>7.7%</u>

Net position of the Funds of \$1,103.8 million increased by \$79.3 million when compared to the prior fiscal year. Total revenues and expenses of \$318.1 million and \$304.7 million, respectively, plus net transfers in from District of \$65.9 million, added \$79.3 million to net position.

Compared to the prior fiscal year, the Funds' total revenues decreased by \$16.5 million and total expenses increased by \$67.8 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Total water charges revenues, at 85.6% of total revenue source, were \$17.3 million or 6.0% lower than last fiscal year. Groundwater and treated water revenues were down \$7.1 million and \$9.5 million, respectively. The decreases were consistent with Valley Water's water conservation efforts aimed at mitigating the effects of the drought to the community.
- Operating grants increased by \$1.3 million from the prior fiscal year due to the \$0.8 million increase in the Advance Water Treatment Facility cost sharing reimbursement from the City of San Jose and the \$0.5 million increase in grants for local projects.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Management's Discussion and Analysis (Continued)
June 30, 2022

- Capital grants and contributions decreased \$0.8 million compared to the prior year due to the lower capital costs reimbursements received from the Department of Water Resources for the Pacheco Reservoir Expansion Project under the Water Storage Investment Program.
- Investment earnings for the current fiscal year were \$3.5 million. This was offset by a \$11.8 million unrealized loss in the portfolio's fair market value due to the rise in interest rates experienced towards the end of the current fiscal year, resulting in a net investment loss of \$8.3 million. This unrealized loss is temporary and should not materialize due to Valley Water's investment policy of holding all securities to their maturity under normal operating conditions.
- Total expenses increased by \$67.8 million or 28.6% over the prior fiscal year primarily due to emergency supplemental water purchases as a result of the drought .

Capital Assets

The Funds' capital asset balance, net of accumulated depreciation, amounts to \$1.47 billion at June 30, 2022. Capital asset composition includes land, intangible rights, buildings, structures and improvements, machinery and equipment, leased assets and construction in progress. Capital assets for the current fiscal year went up \$117.8 million or 8.7%.

The Funds' capital assets are comprised of the following as of June 30, 2022 and 2021:

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

	June 30		Change	
	2022	2021	Dollar	Percent
Land	\$ 20.0	\$ 20.0	\$ -	0.0%
Easements	3.8	3.7	0.1	2.7%
Contract Water rights	33.7	36.1	(2.4)	(6.6%)
Buildings	80.9	83.2	(2.3)	(2.8%)
Structures and improvements	623.4	630.9	(7.5)	(1.2%)
Equipment	3.1	3.9	(0.8)	(20.5%)
Leased assets	3.4	-	3.4	100.0%
Construction in progress	699.8	572.5	127.3	22.2%
Total capital assets; net	<u>1,468.1</u>	<u>1,350.3</u>	<u>\$ 117.8</u>	<u>8.7%</u>

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

Santa Clara Valley Water District
Water Utility Enterprise Funds
Management's Discussion and Analysis (Continued)
June 30, 2022

Debt Administration

The Funds' total long-term liabilities at June 30, 2022 amount to \$780.4 million. A comparative breakdown of long-term obligations is shown below:

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

	June 30		Change	
	2022	2021	Dollar	Percent
Bonds payable	\$ 624.6	\$ 659.9	\$ (35.3)	\$ (5.3%)
Premium on bond issue	51.6	54.1	(2.5)	(4.6%)
Total long-term debt	\$ 676.2	\$ 714.0	\$ (37.8)	\$ (5.3%)
Compensated absences	8.2	7.8	0.4	5.1%
Net pension liability	68.1	110.3	(42.2)	(38.3%)
Semitropic water banking liability	12.2	12.4	(0.2)	(1.6%)
Other post employment benefits liability	12.1	25.8	(13.7)	(53.1%)
Lease liability	3.6	-	3.6	100.0%
Total long-term liabilities	\$ 780.4	\$ 870.3	\$ (89.9)	\$ (10.3%)

Total long-term liabilities decreased by \$89.9 million during the current fiscal year primarily due to the following:

- Bonds payable, inclusive of premium and discounts, decreased by \$37.8 million due to principal payment of \$35.3 million and amortization of bond premiums of \$2.5 million.
- Pension and other post-employment benefits (OPEB) liabilities decreased by \$42.2 million and \$13.7 million, respectively, mainly due to increases in investment income from pension plan assets and OPEB investment experience gains.

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

Next Year's Budgets

Valley Water's \$917.2 million net operating and capital budget for the fiscal year 2023¹ demonstrates a fiscally responsible, balanced budget that reflects the community's expectations of Valley Water. This budget was developed based on Valley Water Board of Directors' FY2022-23 Work Plan Goals highlighted below:

- Efficiently manage water resources across business areas
- Provide a reliable, safe, and affordable water supply for current and future generations in all communities served
- Provide Natural Flood Protection to reduce risk and improve health and safety
- Sustain ecosystem health while managing local water resources for flood protection and water supply
- Mitigate Carbon Emissions and Adapt Valley Water Operations to Climate Change Impacts
- Promote effective management of water supply, flood protection, and environmental stewardship through responsive and socially responsible business services

Requests for Information

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

¹ Valley Water FY2022-23 Operating and Capital Budget, chapter 3, page 6

BASIC FINANCIAL STATEMENTS

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Net Position
June 30, 2022
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 408.4	\$ 11.8	\$ 420.2
Receivables:			
Accounts	39.9	-	39.9
Taxes	0.1	0.2	0.3
Leases	0.2	-	0.2
Inventory - water (Note 2e)	127.3	-	127.3
Deposits and other assets	0.7	-	0.7
Total current assets	<u>576.6</u>	<u>12.0</u>	<u>588.6</u>
Non current assets:			
Capital assets: (Note 6)			
Depreciable, net	731.3	13.2	744.5
Nondepreciable	723.6	-	723.6
Total non current assets	<u>1,454.9</u>	<u>13.2</u>	<u>1,468.1</u>
Total assets	<u>2,031.5</u>	<u>25.2</u>	<u>2,056.7</u>
Deferred outflows of resources			
Deferred amount on refunding	0.2	-	0.2
Deferred outflows of resources - pension activities (Note 10)	37.6	-	37.6
Deferred outflows of resources - OPEB (Note 11)	5.7	-	5.7
Total deferred outflows of resources	<u>43.5</u>	<u>-</u>	<u>43.5</u>
Liabilities			
Current liabilities:			
Accounts payable	14.6	-	14.6
Accrued liabilities	22.1	0.6	22.7
Short-term debt (Note 7)	134.2	-	134.2
Deposits payable	0.1	-	0.1
Bonds payable - current (Note 7)	21.9	-	21.9
Compensated absence (Note 7)	1.7	-	1.7
Lease liability (Note 7)	0.7	-	0.7
Total current liabilities	<u>195.3</u>	<u>0.6</u>	<u>195.9</u>
Non current liabilities:			
Bonds payable - net of discounts and premiums (Note 7)	654.3	-	654.3
Compensated absence (Note 7)	6.5	-	6.5
Net pension liability (Note 10)	68.1	-	68.1
Other post employment benefits liability (Note 11)	12.1	-	12.1
Lease liability (Note 7)	2.9	-	2.9
Other debt (Note 7)	12.2	-	12.2
Total non current liabilities	<u>756.1</u>	<u>-</u>	<u>756.1</u>
Total liabilities	<u>\$ 951.4</u>	<u>\$ 0.6</u>	<u>\$ 952.0</u>

(Continued)

See accompanying notes to basic financial statements

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Net Position (Continued)
June 30, 2022
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise
Deferred inflows of resources			
Deferred inflows of resources - pension activities (Note 10) \$	32.8	\$ -	\$ 32.8
Deferred inflows of resources - OPEB (Note 11)	11.4	-	11.4
Deferred inflows of resources - leases (Note 2d)	0.2	-	0.2
Total deferred inflows of resources	<u>44.4</u>	<u>-</u>	<u>44.4</u>
Net position (Note 9)			
Net investment in capital assets	629.1	13.2	642.3
Restricted			
San Felipe operations	3.4	-	3.4
GP5 reserve	16.0	-	16.0
State water project	-	11.4	11.4
Rate stabilization	54.1	-	54.1
Advanced water purification center	1.3	-	1.3
Supplemental water supply	7.9	-	7.9
Drought reserve	10.0	-	10.0
Unrestricted	<u>357.4</u>	<u>-</u>	<u>357.4</u>
Total net position	<u>\$ 1,079.2</u>	<u>\$ 24.6</u>	<u>\$ 1,103.8</u>

See accompanying notes to basic financial statements

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2022
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Operating revenues:			
Ground water production charges	\$ 125.0	\$ -	\$ 125.0
Treated water charges	145.4	-	145.4
Surface and recycled water revenue	2.0	-	2.0
Other	0.1	0.1	0.2
Total operating revenues	<u>272.5</u>	<u>0.1</u>	<u>272.6</u>
Operating expenses:			
Sources of supply	112.7	34.0	146.7
Water treatment	53.7	-	53.7
Transmission and distribution:			
Raw water	18.9	-	18.9
Treated water	2.8	-	2.8
Administration and general	22.5	-	22.5
Depreciation and amortization	32.2	0.9	33.1
Total operating expenses	<u>242.8</u>	<u>34.9</u>	<u>277.7</u>
Operating income (loss)	<u>29.7</u>	<u>(34.8)</u>	<u>(5.1)</u>
Nonoperating revenues (expenses) :			
Property taxes (Note 8)	9.7	30.1	39.8
Investment loss (Note 5)	(8.3)	-	(8.3)
Operating grants	5.3	-	5.3
Rental income	0.1	-	0.1
Other	1.5	1.5	3.0
Interest and fiscal agent fees	(27.0)	-	(27.0)
Net nonoperating revenues (expenses)	<u>(18.7)</u>	<u>31.6</u>	<u>12.9</u>
Income before capital contributions and transfers	11.0	(3.2)	7.8
Capital contributions (Note 4)	5.6	-	5.6
Transfers in from District (Note 13)	69.1	-	69.1
Transfers out to District (Note 13)	(3.2)	-	(3.2)
Change in net position	<u>82.5</u>	<u>(3.2)</u>	<u>79.3</u>
Net position, beginning of year	996.7	27.8	1,024.5
Net position, end of year	<u>\$ 1,079.2</u>	<u>\$ 24.6</u>	<u>\$ 1,103.8</u>

See accompanying notes to basic financial statements

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Cash Flows
For the Year Ended June 30, 2022
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Cash flows from operating activities:			
Receipts from customers and users	\$ 279.4	\$ 0.1	\$ 279.5
Payments to suppliers	(117.1)	(33.8)	(150.9)
Payment for interfund services provided	(16.3)	-	(16.3)
Payments to employees	(113.4)	-	(113.4)
Well permits, refunds and adjustments	-	-	-
Net cash provided by (used for) operating activities	<u>32.6</u>	<u>(33.7)</u>	<u>(1.1)</u>
Cash flows from noncapital financing activities:			
Property taxes received	9.7	30.0	39.7
Operating grant	5.3	-	5.3
Other receipts	1.5	1.5	3.0
Transfers in from other funds	69.1	-	69.1
Net cash provided by noncapital financing activities	<u>85.6</u>	<u>31.5</u>	<u>117.1</u>
Cash flows from capital and related financing activities:			
COP/ revenue bonds issuance/ (payment)	(37.4)	-	(37.4)
Commercial paper issuance/ (payment)	134.2	-	134.2
Capital grants	5.6	-	5.6
Interest and fiscal agent fees paid	(27.0)	-	(27.0)
Payments for contract water rights	(10.8)	-	(10.8)
Acquisition and construction of capital assets	(140.8)	-	(140.8)
Transfers in from other funds	-	-	-
Transfers out - capital project reimbursements	(3.2)	-	(3.2)
Net cash used by capital and related financing activities	<u>(79.4)</u>	<u>-</u>	<u>(79.4)</u>
Cash flows from investing activities:			
Rental income received	0.1	-	0.1
Interest received on cash and investments	(8.3)	-	(8.3)
Net cash provided by investing activities	<u>(8.2)</u>	<u>-</u>	<u>(8.2)</u>
Net increase/(decrease) in cash and cash equivalents	30.6	(2.2)	28.4
Cash and cash equivalents, beginning of year	377.8	14.0	391.8
Cash and cash equivalents, end of year	<u>\$ 408.4</u>	<u>\$ 11.8</u>	<u>\$ 420.2</u>
Cash and cash equivalents are reported on the Statement of Net Position:			
Cash and investments	\$ 408.4	\$ 11.8	\$ 420.2
Restricted cash and investments	-	-	-
Less cash and investments not meeting the definition of cash equivalents	-	-	-
Cash and cash equivalents, end of year	<u>\$ 408.4</u>	<u>\$ 11.8</u>	<u>\$ 420.2</u>

(Continued)

See accompanying notes to basic financial statements

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2022
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 29.7	\$ (34.8)	\$ (5.1)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation, amortization and asset deletion	32.1	2.0	34.1
Change in operating assets and liabilities:			-
(Increase)/decrease in deposits and other assets	0.6	-	0.6
(Increase)/decrease in accounts receivable	4.2	-	4.2
(Increase)/decrease in water inventory	2.7	-	2.7
Increase/(decrease) in accounts payable	4.1	(1.1)	3.0
Increase/(decrease) in accrued liabilities	(31.0)	0.2	(30.8)
Increase/(decrease) in lease payable	3.6	-	3.6
Increase/(decrease) in compensated absences	0.4	-	0.4
Increase/(decrease) in deposits payable	(0.7)	-	(0.7)
Increase/(decrease) in other post employment benefits payable	(13.6)	-	(13.6)
Increase/(decrease) in deferred inflows/ outflow of resources	42.9	-	42.9
Increase/(decrease) in pension liabilities	(42.2)	-	(42.2)
Increase/(decrease) in payable to Semitropic	(0.2)	-	(0.2)
Net cash provided (used) by operating activities	\$ <u>32.6</u>	\$ <u>(33.7)</u>	\$ <u>(1.1)</u>

See accompanying notes to basic financial statements

NOTE 1 THE REPORTING ENTITY

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

Valley Water is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. Valley Water encompasses all of Santa Clara County. Valley Water is governed by a seven-member Board of Directors (Board). Each member 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 to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. On May 14, 2010, the Board adopted a resolution that officially set the boundaries of the seven electoral districts. As required by state law, Valley Water redrew its boundaries to reflect 2010 Census results, and on October 11, 2011, the Board adopted Resolution No.11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

The Funds have two groundwater charge zones as follows:

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Funds' Financial Statements

The Funds’ financial statements are prepared in conformity with the generally accepted accounting principles (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. The financial statements of the Funds do not purport to represent the financial position and changes in financial position of Valley Water as a whole.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Accounting

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

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

(c) Cash and Investments

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

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

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

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

(d) Lease Receivable

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

Valley Water has entered into property leases with telecommunication companies and other parties for antennae and pipeline sites for a term of 5 years and 10 years, respectively. The discount rate used is equivalent to Valley Water's average annual investment earnings rate of 1.06% for fiscal year 2022.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Lease Receivable (Continued)

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

(e) Inventory

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

Water inventory is valued based on the rolling average of imported water purchase cost. The components of water inventory as of June 30, 2022 are shown below.

<u>Type</u>	<u>Acre Feet</u>		<u>Total (in millions)</u>
	<u>Volume</u>	<u>Average Unit Cost</u>	
Semitropic	280,354	402	\$ 112.7
Local Reservoir Storage	36,281	402	14.6
Total			\$ <u>127.3</u>

(f) Right to Use Assets

The Funds have recorded right to use leased assets as a result of implementing GASB 87, Leases, as of and for the year ended June 30, 2022. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use leased assets are amortized on straight-line basis over the term of the related leases or the useful life of the underlying assets, whichever is shorter.

(g) Capital Assets

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Capital Assets (Continued)

The estimated useful lives are as follows:

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

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

(h) Amortization of Contract Water Rights

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

(i) Amortization of Water Banking Rights

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

(j) Amortization of Water Delivery Rights

Valley Water has contracted with the United States Department of the Interior Bureau of Reclamation for water deliveries from the California Central Valley through calendar year 2027. A portion of this contract represents reimbursement of capital costs for general construction in the San Felipe Division facilities. The San Felipe Division transports water from San Luis Reservoir to the Santa Clara – San Benito service area through the Pacheco Tunnel and other project features, which include 48.5 miles of closed conduits, two pumping plants and one small reservoir. The Funds capitalize the capital cost component and amortize such component, using the straight-line method, over the remaining entitlement period.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Receivables

Receivables include amounts due from water utility customers, as well as from other miscellaneous revenue sources. All receivables are shown net of an allowance for doubtful accounts. At the end of the fiscal year, a review of outstanding receivables results in an updated estimate of the bad debt allowance at year-end, whereby delinquent balances greater than 3 years are assigned a weight of 75%, up to 3 years a weight of 50%, up to 2 years a weight of 20%, and up to 1 year a weight of 5%. The totals of each of these amounts are then combined to determine the fiscal year's ending bad debt allowance. At June 30, 2022, the bad debt allowance was \$0.9 million.

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

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

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

(m) Bond Premiums, Discounts and Issuance Costs

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

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

(n) Net Position

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

(o) Use of Estimates

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Pensions

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

(q) Other Post-Employment Benefits (OPEB)

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

(r) Deferred Outflows and Inflows of Resources

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

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

(s) New Pronouncements

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

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the Funds' financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New Pronouncements (Continued)

GASB Statement No. 100 – In June 2022, GASB issued Statement No. 100, *Accounting changes and Errors Corrections – an amendment of GASB Statement No. 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections, the required disclosure in the notes to the financial statements, and how information that is affected by a change in accounting principle or error correction should be presented in the required supplementary information (RSI) and supplementary information (SI). The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the Funds' financial statements.

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines an SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and (4) requires note disclosures regarding an SBITA. The requirements of this statement are effective for fiscal years beginning after June 15, 2022. Valley Water has not yet determined the impact of this pronouncement on the Funds' financial statements.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the Funds' financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The statement is effective for the reporting periods beginning after June 15, 2021. The Funds implemented GASB 87 as of and for the year ended June 30, 2022. See also Notes 2, 6 and 7.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 3 CASH AND INVESTMENTS

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

Valley Waters total cash and investments pool balance at June 30, 2022 is as follows (in millions):

Cash and investments	\$ 828.2
Restricted cash and investments	5.5
Total cash and investments pool	<u>\$ 833.7</u>

The Funds' cash and investments at June 30, 2023 are as follows:

Cash and investments pooled with Valley Water	<u>\$ 420.2</u>
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At June 30, 2022, Valley Water's cash and investments pool consists of the following (in millions):

U.S. Government Agencies	\$ 295.4
U.S. Treasury Obligations	136.7
Medium Term Notes	11.8
Local Agency Investment Fund	73.1
Mutual Funds	0.1
Supranational Obligations	14.2
Municipal Bonds	61.4
Negotiable Certificates of Deposit	0.5
Time Certificates of Deposit	188.9
Money Market Funds	49.2
Total Investments	<u>831.3</u>
Carrying amount of cash	2.4
Total Cash and Investments Pool	<u>\$ 833.7</u>

As of June 30, 2022, the fair value of Valley Water's investment in the State of California investment pool (LAIF) was \$73.1 million. The Local Investment Advisory Board (LIA Board) has oversight responsibility for LAIF. The LIA Board consists of five members as designated by State Statute. Valley Water is a voluntary participant in the pool. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of Valley Water's position in LAIF. The pool is not registered with the Securities Exchange Commission.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Valley Water

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

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

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

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

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of Valley Water's revenue bond resolutions and Installment Purchase Agreement for the 2012A, 2016C, 2016D, 2017A, 2019C, 2020C and 2020D Certificates of Participations (COPs) and Water Utility Revenue and Refunding Bonds 2006B, 2016A, 2016B, 2017A, 2019A, 2019B, 2020A and 2020B, 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, 2022, the Funds' cash and investments held by fiscal agents within Valley Water's cash and investment pool was \$5.5 million and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

Valley Water, through the PFFC, has also issued commercial paper to provide for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water. At June 30, 2022, there were no taxable and tax-exempt commercial paper certificate accounts held by the fiscal agent.

Authorized Investments by Debt Agreements

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

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

(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.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Debt Agreements (Continued)

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

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

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

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Debt Agreements (Continued)

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

Interest Rate Risk

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

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

	Total	12 Months or less	13 to 24 Months	25 to 60 Months
U.S. Government Agencies	\$ 200.6	\$ 65.2	\$ 56.2	\$ 79.2
U.S. Government Agencies - Callable	94.8	-	4.9	89.9
U.S. Treasury Obligations	136.7	45.9	24.3	66.5
Medium Term Notes	3.0	3.0	-	-
Medium Term Notes - Callable	8.8	7.0	-	1.8
LAIF	73.1	73.1	-	-
Mutual Funds	0.1	0.1	-	-
Supranational Obligations	9.6	-	3.0	6.6
Supranational Obligations - Callable	4.6	-	-	4.6
Municipal Bonds	61.4	27.8	9.4	24.2
Negotiable Certificates of Deposit	0.5	0.3	-	0.2
Time Certificates of Deposit	188.9	188.9	-	-
Money Market Funds	49.2	49.2	-	-
Total Investments	<u>\$ 831.3</u>	<u>\$ 460.5</u>	<u>\$ 97.8</u>	<u>\$ 273.0</u>

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NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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, Valley Water's investment policy, or debt agreements and the actual rating as of June 30, 2022 for each investment type as provided by Standard and Poor's (in millions):

		Minimum		Rating as of Year-end					
	Total	Legal Rating	Exempt from Disclosure	AAA	AA+	AA	AA-	Not Rated	
U. S. Government Agencies	\$ 295.4	AA-	\$ -	\$ -	\$ 244.6	\$ -	\$ -	\$ 50.8	
U. S. Treasury Obligations	136.7	AA-	136.7	-	-	-	-	-	
Medium Term Notes	11.8	AA-	-	4.0	4.8	-	-	3.0	
LAIF	73.1	N/ A	-	-	-	-	-	73.1	
Mutual Funds	0.1	AAA	-	0.1	-	-	-	-	
Supranational Obligations	14.2	AA	-	14.2	-	-	-	-	
Municipal Bonds	61.4	AA-	-	11.3	18.5	27.1	3.0	1.5	
Negotiable Certificates of Deposit	0.5	AA-	-	-	-	-	-	0.5	
Time Certificates of Deposit	188.9	N/ A	-	-	-	-	-	188.9	
Money Market Funds	49.2	N/ A	-	-	-	-	-	49.2	
Total Investments	\$ 831.3		\$ 136.7	\$ 29.6	\$ 267.9	\$ 27.1	\$ 3.0	\$ 367.0	

Concentration of Credit Risk

Valley Water's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and Valley Water's investment policy, whichever is more restrictive. However, Valley Water is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual Valley Water Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2022, such investments are as follows (in millions):

Issuer	Investment Type	Reported Amount
Government- wide		
Federal Farm Credit Bank	U. S. Government Agency	\$ 95.1
Federal Home Loan Bank	U. S. Government Agency	89.5
Federal Home Loan Mortgage Corp.	U. S. Government Agency	50.8
Federal National Mortgage Association	U. S. Government Agency	55.5

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

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

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

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

Fair Value Measurement and Application

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

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

Santa Clara Valley Water District
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NOTE 3 CASH AND INVESTMENTS (CONTINUED)

The following table summarizes by level, within the fair value hierarchy, Valley Water's investments at fair value at June 30, 2022 (in millions):

	6/30/2022	Level 1	Level 2	Uncategorized
Investments by Fair Value Level				
U. S. Government Agencies	\$ 295.4	\$ 295.4	\$ -	\$ -
U. S. Treasury Obligations	136.7	136.7	-	-
Medium Term Notes	11.8	-	11.8	-
Mutual Funds	0.1	-	0.1	-
Supranational Obligations	14.2	-	14.2	-
Municipal Bonds	61.4	-	61.4	-
Negotiable Certificates of Deposit	0.5	-	0.5	-
Time Certificates of Deposit	188.9	-	188.9	-
Subtotal - Leveled Investments	<u>709.0</u>	<u>432.1</u>	<u>276.9</u>	<u>-</u>
LAIF	73.1	-	-	73.1
Money Market Funds	49.2	-	-	49.2
Subtotal - Uncategorized	<u>122.3</u>	<u>-</u>	<u>-</u>	<u>122.3</u>
Total Investments	<u>\$ 831.3</u>	<u>\$ 432.1</u>	<u>\$ 276.9</u>	<u>\$ 122.3</u>

Deposits and withdrawals in LAIF are made on the basis of \$1 and are recorded on an amortized cost basis. Accordingly, LAIF is uncategorized.

NOTE 4 CAPITAL CONTRIBUTIONS

The Funds derive certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following table shows a summary of such capital contributions during fiscal year 2022 (in millions):

	Amount
Local Agencies:	
San Benito County Water District	\$ 0.2
State Agencies:	
Department of Water Resources	4.9
Federal Agencies:	
U.S. Bureau of Reclamation	0.5
Total capital contributions	<u>\$ 5.6</u>

Santa Clara Valley Water District
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NOTE 5 INVESTMENT INCOME (LOSS)

The following table represents the components of the Funds' investment income (loss) for the year ended June 30, 2022 (in million):

Unrealized loss	\$ (11.8)
Interest Income	<u>3.5</u>
Investment income (loss), net	<u><u>\$ (8.3)</u></u>

NOTE 6 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022 is as follows (in millions):

	Balance as of June 30, 2021	Additions	Transfers	Deletions	Balance as of June 30, 2022
Nondepreciable capital assets:					
Land	\$ 20.0	\$ -	\$ -	\$ -	\$ 20.0
Intangible - Easement	3.7	0.1	-	-	3.8
Construction in progress	572.5	136.5	(9.2)	-	699.8
Total nondepreciable capital assets	<u>596.2</u>	<u>136.6</u>	<u>(9.2)</u>	<u>-</u>	<u>723.6</u>
Depreciable capital assets:					
Contracted water rights	237.0	10.7	-	-	247.7
Buildings	97.8	-	-	-	97.8
Structures and improvements	962.6	-	9.2	-	971.8
Equipment	29.9	0.2	-	-	30.1
Leased assets	-	4.0	-	-	4.0
Total depreciable capital assets	<u>1,327.3</u>	<u>14.9</u>	<u>9.2</u>	<u>-</u>	<u>1,351.4</u>
Less accumulated depreciation and amortization:					
Contracted water rights	(200.9)	(13.1)	-	-	(214.0)
Buildings	(14.6)	(2.3)	-	-	(16.9)
Structures and improvements	(331.7)	(16.3)	-	(0.4)	(348.4)
Equipment	(26.0)	(1.0)	-	-	(27.0)
Leased assets	-	(0.6)	-	-	(0.6)
Total accumulated depreciation and amortization	<u>(573.2)</u>	<u>(33.3)</u>	<u>-</u>	<u>(0.4)</u>	<u>(606.9)</u>
Net depreciable capital assets	<u>754.1</u>	<u>(18.4)</u>	<u>9.2</u>	<u>(0.4)</u>	<u>744.5</u>
Total capital assets, net	<u><u>\$ 1,350.3</u></u>	<u><u>\$ 118.2</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (0.4)</u></u>	<u><u>\$ 1,468.1</u></u>

NOTE 6 CAPITAL ASSETS (CONTINUED)

New construction in progress amounted to \$136.5 million. There were 58 in progress and completed projects during the fiscal year, with the major projects listed below (in millions):

- \$61.9 – Anderson Dam Seismic Retrofit
- \$18.4 – Pacheco Reservoir Expansion
- \$14.7 – Rinconada Water Treatment Plant Residuals Remediation
- \$10.7 – Rinconada Water Treatment Plant Reliability Improvement
- \$9.4 – 10-year Pipeline Inspection and Rehabilitation
- \$7.4 – South County Recycled Water Fund Short-Term 1B
- \$6.3 – Indirect Potable Reuse
- \$1.5 – South County Recycled Water Fund
- * \$1.2 – Santa Teresa Water Treatment Plant Filter Media Replacement
- * \$1.1 – Coyote Pumping Plant Adjustable Speed Drive Replacement

Right to Use Leased Assets

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

Right to use leased asset activity included in capital assets for the year ended June 30, 2022 are as follows (in millions):

	Balance as of June 30, 2021	Additions	Deletions	Balance as of June 30, 2022
Right to use assets				
Leased land	\$ 3.2	\$ -	\$ -	\$ 3.2
Leased equipment	0.8	-	-	0.8
Total right to use assets	4.0	-	-	4.0
Less: accumulated amortization				
Leased land	-	(0.3)	-	(0.3)
Leased equipment	-	(0.3)	-	(0.3)
Total accumulated amortization	-	(0.6)	-	(0.6)
Total right to use assets, net	\$ 4.0	\$ (0.6)	\$ -	\$ 3.4

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

On December 17, 2002, the Board authorized a commercial paper program, through the PFFC. The commercial paper program allows Valley Water to finance capital acquisitions while taking advantage of short-term rates, and Valley Water issues tax and revenue anticipation notes on an annual basis to secure the commercial paper program. This program is used in conjunction with issuing long-term liabilities to obtain the least expensive financing for Valley Water.

On January 13, 2015, the Board authorized an increase in commercial paper program to \$150.0 million. The proceeds of the commercial paper may be used for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water.

On April 28, 2020, the Board authorized a \$170.0 million Revolving Line of Credit program ("Revolver"), through the PFFC, to provide additional short-term financing for Valley Water. The proceeds of the Revolver may be used for any Valley Water purpose, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water.

The Funds' short-term debt as of June 30, 2022 consisted of the following (in millions):

	Maturity Date	Interest Rate	June 30, 2022
Commercial paper:			
80169B Taxable-Barc	8/30/2022	1.50%	\$ 19.4
80169B Taxable-Barc	8/30/2022	2.00%	48.3
80169A Tax exempt-JPM	9/8/2022	1.43%	27.1
Total commercial paper			<u>94.8</u>
Revolving line of credit*:			
Series C (Tax exempt) Syndicated	1/19/2023	2.40%	39.4
Total revolving line of credit			<u>39.4</u>
Total short-term debt			<u>\$ 134.2</u>

* The Commitment Expiration Date for the syndicated and non-syndicated revolving line of credit is April 29, 2025.

Santa Clara Valley Water District
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NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

The following is the summary of changes in short-term debt for the year ended June 30, 2022 (in millions):

	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	\$ -	\$ 94.8	\$ -	\$ 94.8
Revolving line of credit	-	39.4	-	39.4
Total short-term liabilities	\$ -	\$ 134.2	\$ -	\$ 134.2

(b) Long-term liabilities

The Funds' long-term liabilities as of June 30, 2022 consisted of the following (in millions):

Type of indebtedness	Maturity	Interest Rate*	Authorized and Issued	June 30, 2022	Due Within One Year
2006B Water revenue bond	2035	5.39%	\$ 25.6	\$ -	\$ -
2016A Water revenue bond	2046	3.25%	106.3	106.3	-
2016B Water revenue bond	2046	4.32%	75.2	75.2	-
2017A Water revenue bond	2037	3.13%	54.7	28.2	3.5
2019A Water revenue bond	2049	3.75%	15.2	35.6	4.6
2019B Water revenue bond	2049	3.81%	80.0	45.7	2.1
2019C Water revenue bond	2036	2.76%	38.3	14.6	0.3
2016C Water revenue COP	2029	2.13%	43.4	75.0	1.8
2016D Water revenue COP	2029	3.14%	55.0	33.0	2.2
2020A Water revenue bond	2050	3.33%	24.1	24.1	-
2020B Water revenue bond	2050	2.98%	68.5	68.5	-
2020C Water revenue COP	2041	2.07%	41.8	40.1	1.7
2020D Water revenue COP	2041	2.20%	81.6	78.3	3.3
Subtotal - bonds payable				624.6	19.5
Bond premium				51.6	2.4
Total long-term debt				676.2	21.9
Compensated absences				8.2	1.7
Net pension liability (See Note 10)				68.1	-
Other post employment benefits liability (See Note 11)				12.1	-
Semitropic water banking liability	2035		46.9	12.2	-
Lease liability				3.6	0.7
Total				\$ 780.4	\$ 24.3

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

Santa Clara Valley Water District
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NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

The following is the summary of changes in long-term liabilities for the year ended June 30, 2022 (in millions):

	Balance 7/1/2021	Additions	Reductions	Balance 6/30/2022	Due Within One Year	Long-term Portion
2006B revenue bonds	\$ 16.5	\$ -	\$ (16.5)	\$ -	\$ -	\$ -
2016A revenue bonds	106.3	-	-	106.3	-	106.3
2016B revenue bonds	75.2	-	-	75.2	-	75.2
2016C COPS	31.6	-	(3.4)	28.2	3.5	24.7
2016D COPS	40.0	-	(4.4)	35.6	4.6	31.0
2017A revenue bonds	47.7	-	(2.0)	45.7	2.1	43.6
2019A revenue bonds	14.8	-	(0.2)	14.6	0.3	14.3
2019B revenue bonds	76.7	-	(1.7)	75.0	1.8	73.2
2019C COPS	35.1	-	(2.1)	33.0	2.2	30.8
2020A revenue bonds	24.1	-	-	24.1	-	24.1
2020B revenue bonds	68.5	-	-	68.5	-	68.5
2020C COPS	41.8	-	(1.7)	40.1	1.7	38.4
2020D COPS	81.6	-	(3.3)	78.3	3.3	75.0
Subtotal - bonds payable	659.9	-	(35.3)	624.6	19.5	605.1
Bond premiums	54.1	-	(2.5)	51.6	2.4	49.2
Total long-term debt	714.0	-	(37.8)	676.2	21.9	654.3
Compensated absences	7.8	5.8	(5.4)	8.2	1.7	6.5
Net pension liability (See Note 10)	110.3	-	(42.2)	68.1	-	68.1
Other post employment benefits liability (See Note 11)	25.8	-	(13.7)	12.1	-	12.1
Semitropic water banking liability	12.4	-	(0.2)	12.2	-	12.2
Lease liability	-	3.6	-	3.6	0.7	2.9
Total	\$ 870.3	\$ 9.4	\$ (99.3)	\$ 780.4	\$ 24.3	\$ 756.1

Santa Clara Valley Water District
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NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

The aggregate maturities of bonds payable are as follows (in millions):

Year Ending June 30	Principal	Interest and amortization
2023	\$ 19.4	\$ 25.3
2024	20.0	24.6
2025	20.6	23.9
2026	21.3	23.2
2027	22.0	22.4
2028-2032	119.6	102.7
2033-2037	123.3	77.0
2038-2042	112.2	52.1
2043-2047	122.9	27.6
Thereafter	43.3	5.1
Total	\$ <u>624.6</u>	\$ <u>383.9</u>

Leases

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

The lease liabilities are measured at the discount rate of 1.6%, Valley Water's average interest rate. As a result of the leases, Valley Water recorded right to use assets with net book value of \$3.4 million at June 30, 2022. The right to use assets are included in Note 6.

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2022 are as follows:

Year Ending June 30	Principal	Interest and amortization
2023	\$ 0.7	\$ -
2024	0.3	-
2025	0.3	-
2026	0.3	-
2027	0.3	-
2028-2032	1.5	0.1
2033-2037	0.2	-
Total	\$ <u>3.6</u>	\$ <u>0.1</u>

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

Leases (Continued)

The following provides a brief description of the Funds' long-term debt as of June 30, 2022:

2006B Water Utility System Refunding Revenue Bonds

In December 2006, Valley Water issued \$99.8 million 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). In March 2016, Valley Water issued Series 2016A Water System Refunding Revenue Bonds to refund all of the 2006A outstanding principal. In June 2022, Valley Water paid off \$0.9 million of principal due and redeemed the \$15.6 million remaining balance of the 2006B revenue bonds.

2016A/B Water Systems Refunding Revenue Bonds

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

2017A Water System Refunding Revenue Bonds

In May 2017, Valley Water issued \$54.7 million of Water Systems Refunding Revenue Bonds to refund the \$64.8 million outstanding balance of the Water Utility System Revenue Certificates of Participation Series 2007A and pay costs of issuance of the 2017A Bonds. The obligation of Valley Water to pay principal and interest on the 2017A Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility System Parity Master Resolution (16-10).

2019A/B Water Systems Refunding Revenue Bonds

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

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

Leases (Continued)

2019C Water Utility Refunding Revenue Bonds

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

2016C/D Water Utility Revenue Certificates of Participation

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

2020A/B Water Systems Refunding Revenue Bonds

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

2020C/D Water Utility Revenue Certificates of Participation

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

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

Leases (Continued)

Semitropic Water Banking Liability

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering water. As of June 30, 2022, the Funds have an outstanding liability of \$12.2 million related to water storage and banking rights.

(c) Other Debt Related Information

Valley Water has adopted master resolutions with respect to its water utility and watershed utility which contain certain events of default and remedies as described therein. Valley Water has also issued various bonds, notes or other obligations secured by such master resolutions or other revenues of Valley Water and which contain certain events of default and remedies as described therein. Valley Water has also entered into various reimbursement agreements or other financial contracts which contain certain events of default and remedies as described therein.

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

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

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

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

(c) Other Debt Related Information (Continued)

Valley Water has also pledged water utility system revenues, net of specified maintenance and operating expenses, to repay \$624.6 million in long-term debt outstanding as of June 30, 2022, 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 2049. The total principal outstanding and interest costs remaining to be paid on the combined debt is \$1,008.5 million.

NOTE 8 PROPERTY TAXES AND BENEFIT ASSESSMENTS

The Funds derive certain revenues from the assessment of property tax parcel levies. The property tax levy is composed of two categories: (1) an allocation of the County of Santa Clara's 1 percent tax; and (2) voter-approved levy to repay capital and operating costs related to imported water from the State Water Project.

Property tax revenues for the year ended June 30, 2022, are as follows (in millions):

	<u>Amount</u>
Property taxes:	
1% tax allocation	\$ 9.7
Voter approved indebtedness:	
State Water Project Fund	<u>30.1</u>
Total property taxes	<u>\$ 39.8</u>

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

NOTE 9 NET POSITION

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

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

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

NOTE 9 NET POSITION (CONTINUED)

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

The following table shows the detailed schedule of the Funds' net position at June 30, 2022 (in millions):

	Total Water Utility Enterprise Funds
Net investment in capital assets	\$ 642.3
Restricted Net Position	
San Felipe Emergency Reserve	3.4
GP5 reserve	16.0
Rate stabilization	54.1
Advance water purification center	1.3
Supplemental water supply reserve	7.9
Drought reserve	10.0
State water projects	11.4
Total restricted net position	104.1
Unrestricted Net Position - designated for:	
Operating and capital	65.5
Water inventory	127.3
Current authorized projects	77.5
Purchase commitments	195.8
Net pension liability	(76.5)
Net Other Post Employment Benefit Liability	(32.2)
Total unrestricted net position	357.4
Net Position	\$ 1,103.8

NOTE 10 EMPLOYEES' RETIREMENT PLAN

Plan Description

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

NOTE 10 EMPLOYEES RETIRMENT PLAN (CONTINUED)

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 is applied as specified by the California Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statutes and may be amended by Valley Water's governing board.

The Plan's provisions and benefits in effect at June 30, 2022, are summarized as follows:

Hire date	Prior to 3/19/2012	3/19/2012 to 12/31/2012	On or after 1/1/2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefiting vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%*	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + 3.0%*	7.0 + 4.0%*	6.75% + 2.0%
Required employer contribution rates	10.52% plus \$3.0 million prepayment for prior unfunded service cost		

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

NOTE 10 EMPLOYEES RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)

Valley Water allocated approximately 43.5% of the District's net pension liability, deferred outflows and inflows of resources and pension expense to the Funds based on the Funds' share of the District's total average salaries for the fiscal year ended June 30, 2022. As a result, the Funds recorded a net pension liability of \$68.1 million, deferred outflows of resources of \$37.6 million and deferred inflows of resources of \$32.8 million as of June 30, 2022. The Funds recorded pension expense of \$7.9 million for the year ended June 30, 2022.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2022 for additional information about the District's pension plan and required note disclosures in accordance with GASB Statement No. 68.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

**Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022**

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

Benefits Provided

Employee Type	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water'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.

(Continued)

**Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022**

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

Benefits Provided (Continued)

Employee Type	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water's Required Contribution
<div>Unclassified</div> <div>At Will</div>	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 retirees
		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
	Retired from October 22, 1996 or later and hired prior to December 30, 2006	10 years	100 % medical premium for retirees
		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 to active employees or retirees, whichever is less.	

(Continued)

**Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022**

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

Benefits Provided (Continued)

Employee Type	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water's Required Contribution
<u>Unclassified</u>	(continued) Hired on or after December 30, 2006 and prior to March 1, 2007	25 years	Medical, dental, and vision coverages are provided for retiree plus two or more eligible dependents. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.
	Hire 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.
At Will		20 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

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

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

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

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

Benefits Provided (Continued)

Valley Water allocated approximately 43.5% of the District's net OPEB liability, deferred outflows and inflows of resources and OPEB expense to the Funds based on the Funds' share of the District's total average salaries for the fiscal year ended June 30, 2022. As a result, the Funds recorded a net OPEB liability of \$12.1 million, deferred outflows of resources of \$5.7 million and deferred inflows of resources of \$11.4 million as of June 30, 2022. The Funds recorded OPEB expense of \$5.3 million for the year ended June 30, 2022.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2022 for more information about the District's OPEB plan and required note disclosures in accordance with GASB Statement No. 75.

NOTE 12 RISK MANAGEMENT

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

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

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

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

NOTE 12 RISK MANAGEMENT (CONTINUED)

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2022, for more information about Valley Water's claims payable.

NOTE 13 TRANSFERS IN FROM (OUT TO) DISTRICT

Transfers made during fiscal year 2022 are shown below (in millions):

<u>Description</u>	<u>Amount</u>
Capital projects	\$ 68.1
Water conservation rebates & program	1.0
Transfers in from District	\$ 69.1
HQ operations building project	(1.2)
IT capital projects	(2.0)
Transfers out to District	\$ (3.2)

NOTE 14 COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2022, the Funds have open purchase commitments of approximately \$206.7 million related to new or existing contracts and agreements. These encumbrances represent commitments of the Funds and do not represent actual expenses or liabilities.

(b) San Felipe Project Water Deliveries

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

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

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

NOTE 14 COMMITMENTS (CONTINUED)

(b) San Felipe Project Water Deliveries (Continued)

Under the contract, the total commitment for repayment, including applicable interest, was \$432.7 million. The remaining commitment as of June 30, 2022 was \$167.1 million.

(c) Participation Rights in Storage Facilities

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

Upon withdrawal by Valley Water of all 135,965 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs. The 2021 rate to retrieve Tier 1 water is \$73.70 per acre-feet. During the first 10 years, Valley Water had a reservation to participate in 35% of the original Semitropic banking program. At the end of calendar year 2005, Valley Water made the necessary payments to secure the full 35% participation level in the program.

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is \$46.9 million based on a 35 percent participation level in the program. Valley Water pays the program capital costs when storing and recovering Tier 1 water. The participation rights of \$46.9 million are recorded as a component of Capital assets and are amortized using the straight-line method over the life of the agreement. Amortization of \$31.1 million has been recorded through fiscal year 2022. This agreement terminates in December 2035. Under the terms of the program, upon withdrawal by Valley Water of all 135,965 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs.

The 2022 rate to retrieve Tier 1 water is \$78.85 per acre-feet. During the first 10 years of the program, Valley Water had a reservation to participate in 35% of the original banking program. At the end of calendar year 2005, Valley Water made the necessary payments to secure the full 35% participation level in the program. As a result, Valley Water has a current storage allocation of 350,000 acre-feet. As of June 30, 2022, Valley Water has 280,354 acre-feet of water in storage.

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

NOTE 14 COMMITMENTS (CONTINUED)

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

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

Under this partnership agreement, the financial impact to Valley Water includes funding the local salt removal facility in the amount of \$16.0 million, which may be sourced as a component of the Expedited Purified Water Program. Valley Water will also pay \$0.2 million per year, starting in year one to culminate in year thirteen, or at startup of the regional purification facility, whichever occurs first. Finally, Valley Water will pay \$1.0 million per year for the effluent once startup of the regional purification facility has been initiated. All three payments will escalate annually based on the factors outlined in the partnership agreement and would be paid for water charge related revenues. The timing of such payments is still to be determined.

NOTE 15 CONTINGENCIES

(a) Litigation

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

For a discussion of all pending litigations that Valley Water is aware of which are significant and may have a potential impact on Valley Water's financial statements, refer to Note 16 of the Santa Clara Valley Water Districts Annual Comprehensive Financial Reports (ACFR) as of and for the year ended June 30, 2022.

NOTE 16 SUBSEQUENT EVENTS

Events have been evaluated subsequent to the balance sheet date through July 21, 2023, the date the financial statements were available to be issued. Based upon this evaluation, no events have occurred that require adjustment to or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Santa Clara Water District
Water Utility Enterprises Funds
Schedule of Revenues, Expenses and Changes in Net Position by Zone -
Budgetary Basis Reconciliation to GAAP Basis
Year ended June 30, 2022 (in millions)

	Zones		
	North County	South County	Total
Operating revenues:			
Ground water charges	\$ 111.8	\$ 13.2	\$ 125.0
Treated water charges	145.4	-	145.4
Surface and recycled water charges	1.3	0.6	1.9
Operating grants	5.3	0.1	5.4
Other	0.2	-	0.2
Total operating revenues	<u>264.0</u>	<u>13.9</u>	<u>277.9</u>
Operating expenses			
Sources of supply	129.0	11.4	140.4
Water treatment	45.6	0.5	46.1
Transmission and distribution:			
Raw water	13.6	3.9	17.5
Treated water	2.5	-	2.5
Administration and general	21.9	6.9	28.8
Capital cost recovery	(5.7)	5.7	-
Total operating expenses	<u>206.9</u>	<u>28.4</u>	<u>235.3</u>
Operating income (loss)	<u>57.1</u>	<u>(14.5)</u>	<u>42.6</u>
Nonoperating revenues (expenses):			
Property taxes	35.9	3.9	39.8
Investment loss	(8.3)	-	(8.3)
Rental income	0.1	-	0.1
Other	2.1	0.9	3.0
Interest and fiscal agent fees	(27.0)	-	(27.0)
Open space credit transfer	(6.7)	6.7	-
Interest earned credit	(0.2)	0.2	-
Net operating revenues	<u>(4.1)</u>	<u>11.7</u>	<u>7.6</u>
Change in net position - budgetary basis	\$ <u>53.0</u>	\$ <u>(2.8)</u>	\$ <u>50.2</u>

Busgetary basis reconciliation to GAAP basis:

Change in net position - budgetary basis	\$ 50.2
Depreciation and amortization expenses not budgeted	(33.1)
Capital contributions	5.6
Transfers in from District, net	65.9
Reconcile GAAP to budgetary basis for operating expenses	(9.3)
Change in net position per Statement of Revenues, Expenses, and Changes in Net Position - GAAP basis	<u>\$ 79.3</u>

Santa Clara Water District
Water Utility Enterprises Funds
Schedule of Revenues, Expenses and Changes in Net Position by Zone -
Budgetary Basis Discussion
Year ended June 30, 2022 and 2021 (in millions)

	Zones				Total	
	North County		South County			
	2022	2021	2022	2021	2022	2021
Operating revenues:						
Ground water charges	\$ 111.8	\$ 118.0	\$ 13.2	\$ 14.1	\$ 125.0	\$ 132.1
Treated water charges	145.4	154.9	-	-	145.4	154.9
Surfaced and recycled water charges	1.3	2.0	0.7	0.7	2.0	2.7
Total water charges	258.5	274.9	13.9	14.8	272.4	289.7
Other	5.5	0.1	-	-	5.5	0.1
Total operating revenues	264.0	275.0	13.9	14.8	277.9	289.8
Operating expenses:						
Source of supply	129.0	98.4	11.4	10.1	140.4	108.5
Water treatment	45.6	43.6	0.5	0.5	46.1	44.1
Transmission and distribution:					-	
Raw water	13.6	11.9	3.9	3.6	17.5	15.5
Treated water	2.5	2.4	-	-	2.5	2.4
Cost of goods sold	190.7	156.3	15.8	14.2	206.5	170.5
Administration and general	21.9	21.2	6.9	5.9	28.8	27.1
Capital cost recovery	(5.7)	(6.9)	5.7	6.9	-	-
Total operating expenses	206.9	170.6	28.4	27.0	235.3	197.6
Operating income (loss)	57.1	104.4	(14.5)	(12.2)	42.6	92.2
Non- operating revenues (expenses):						
Property taxes	35.9	27.5	3.9	2.7	39.8	30.2
Investment income	(8.3)	1.6	-	-	(8.3)	1.6
Operating grants	-	4.0	-	-	-	4.0
Rental income	0.1	0.1	-	-	0.1	0.1
Other	2.1	1.7	0.9	0.8	3.0	2.5
Interest/ fiscal agent fees	(27.0)	(23.0)	-	-	(27.0)	(23.0)
Open space credit transfer	(6.7)	(6.9)	6.7	6.9	-	-
Interest earned credit	(0.2)	(0.2)	0.2	0.2	-	-
Net non- operating income	(4.1)	4.8	11.7	10.6	7.6	15.4
Net income (loss)	\$ 53.0	\$ 109.2	\$ (2.8)	\$ (1.6)	\$ 50.2	\$ 107.6

Santa Clara Water District
Water Utility Enterprises Funds
Schedule of Revenues, Expenses and Changes in Net Position by Zone -
Budgetary Basis Discussion (Continued)
Year ended June 30, 2022 and 2021 (in millions)

Budgetary basis discussion:

- The Funds' total operating revenues were \$277.9 million for the current fiscal year. 95.0 percent of those revenues, or \$264.0 million were related to the North County, while the remaining 5.0 percent or \$13.9 million were related to the South County.
- Operating expenses for the North County include \$190.7 million in cost of goods sold, or 72.2 percent of its total operating revenues. For the South County, the cost of goods sold is \$15.8 million.
- Administration and general expenses were \$21.9 million or 8.3 percent of total operating revenues for the North County and \$6.9 million or 49.6 percent of total operating revenues for the South County.
- Total operating revenues of \$277.9 million, less total operating expenses of \$235.3 million, netted \$42.6 million of income from operations for the current year. The North County recorded a net operating income of \$57.1 million, while the South County incurred a net operating loss of \$14.5 million.

Total income from operations was supplemented with property tax, operating grants, investment income (loss) and other income totaling \$34.6 million.

- Property taxes collected in the North County amounted to \$35.9 million, while \$3.9 million were collected in South County for a total of \$39.8 million. These are comprised of the voter-approved obligations for State Water Project and the water utility's allocated share of the countywide 1 percent ad valorem taxes.
- Investment earnings for the current fiscal year were \$3.5 million. This was offset by a \$11.8 million unrealized loss in the portfolio's fair market value due to the rise in interest rates experienced towards the end of the current fiscal year, resulting in a net investment loss of \$8.3 million. This unrealized loss is temporary and should not materialize due to Valley Water's investment policy of holding all securities to their maturity under normal operating conditions.

**Santa Clara Water District
Water Utility Enterprises Funds
2022 Water Service Rate Schedule by Zone**

	<u>Rate per acre foot</u>
<u>Groundwater</u>	
Zone W- 2 North County - Agricultural	\$ 34.15
Zone W- 2 North County - Non- Agricultural	1,499.00
Zone W- 5 South County - Agricultural	34.15
Zone W- 5 South County - Non- Agricultural	488.00
Zone W- 7 South County - Agricultural	34.15
Zone W- 7 South County - Non- Agricultural	528.50
Zone W- 8 South County - Agricultural	34.15
Zone W- 8 South County - Non- Agricultural	341.50
<u>Treated Water</u>	
Contract (Scheduled) ⁽²⁾	1,614.00
Non-Contract ⁽³⁾	1,699.00
<u>Surface Water (Basic User Charge)</u>	
Zone W-2 North County -Agricultural	75.05
Zone W-2 North County -Non-Agricultural	1,539.90
Zone W-5 South County -Agricultural	75.05
Zone W-5 South County -Non-Agricultural	528.90
Zone W-7 South County -Agricultural	75.05
Zone W-7 South County -Non-Agricultural	569.40
Zone W-8 South County -Agricultural	75.05
Zone W-8 South County -Non-Agricultural	382.40
Water Master ⁽¹⁾	40.90
<u>Reclaimed Water</u>	
Gilroy Reclamation Facility – Agricultural	61.55
Gilroy Reclamation Facility – Non- Agricultural	468.00

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

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

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



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