

# Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2013



San Jose, California

Back of front cover

# **Santa Clara Valley Water District**

San Jose, California

Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

Prepared by the General Accounting Services Unit

Najon Chu, Chief Financial Officer  
Anita Ong, Financial Services Unit Manager

**Santa Clara Valley  
Water District**



**SANTA CLARA VALLEY WATER DISTRICT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Year Ended June 30, 2013**

**Table of Contents**

**Introductory Section**

Letter of Transmittal .....	1
GFOA Certificate of Achievement .....	11
Organizational Chart .....	12
Board of Directors .....	13

**Financial Section**

Independent Auditor's Report.....	15
Management's Discussion and Analysis (Required Supplementary Information)	17
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position .....	36
Statement of Activities .....	37
<b>Fund Financial Statements:</b>	
Balance Sheet – Governmental Funds .....	38
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position .....	40
Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds.....	42
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities	44
Statement of Net Position – Proprietary Funds .....	45
Statement of Revenues, Expenses and Change in Net Position - Proprietary Funds .....	46
Statement of Cash Flows - Proprietary Funds .....	47
Statement of Fiduciary Net Position - Agency Funds.....	48

Notes to Basic Financial Statements:

(1) The Financial Reporting Entity .....	49
(2) Summary of Significant Accounting Policies.....	50
(3) Cash and Investments .....	58
(4) Reimbursement of Capital Costs.....	64
(5) Investment Income.....	65
(6) Capital Assets .....	66
(7) Short-Term and Long-Term Liabilities .....	68
(8) Property Taxes and Benefit Assessments.....	75
(9) Fund Balances .....	76
(10) Net Position .....	78
(11) Employees' Retirement Plan .....	79
(12) Post-Employment Benefits .....	80
(13) Risk Management .....	86
(14) Due To and From Other Funds .....	87
(15) Transfers In and Out .....	87
(16) Commitments.....	88
(17) Contingencies .....	89
(18) Subsequent Events .....	91

**Required Supplementary Information**

Schedule of Funding Progress – Other Post Employment Benefit Plan .....	95
Schedule of Revenues, Expenditures and Change in Fund Balances Budget and Actual - Budgeted Governmental Funds .....	96
Notes to Required Supplementary Information .....	98

**Supplemental Information**

Selected Watershed Activities Contained Within the  
Watershed and Stream Stewardship Fund

Schedule of Revenues, Expenditures and Change in Fund Balances.....	102
Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual .....	104

Water Enterprise Fund:	
Schedule of Revenues, Expenses and Change in Fund Net Position – Budget and Actual .....	110
Internal Service Funds:	
Combining Statement of Net Position.....	113
Combining Statement of Revenues, Expenses and Change in Fund Net Position.....	114
Combining Statement of Cash Flows .....	115
Schedule of Revenues, Expenses and Change in Net Position - Budget and Actual .....	116
Agency Funds:	
Combining Statement of Change in Assets and Liabilities.....	119
Capital Assets Used in the Operation of Governmental Funds:	
Schedule By Source .....	121
Schedule By Function and Activity .....	122
Schedule of Changes By Function and Activity.....	123

**Statistical Section**

Financial Trends:	
Net Position by Component.....	126
Change in Net Position.....	128
Fund Balances of Governmental Funds .....	130
Change in Fund Balances of Governmental Funds .....	132
Revenue Capacity:	
Water Sales by Category.....	134
Principal Water Sales Customers .....	135
Water Enterprise Rates Summary .....	136
Assessed and Estimated Actual Value of Property .....	138
Property Tax Rates - Direct and Overlapping Governments .....	139
Principal Property Tax Payers .....	140

Debt Capacity:	
Ratio of General Bonded Debt Outstanding .....	141
Ratio of Outstanding Debt by Type.....	142
Computation of Direct and Overlapping Debt .....	144
Revenue Bond Coverage .....	145
Computation of District Act Debt Margin.....	146
Demographic and Economic Information:	
Demographic and Economic Statistics .....	147
Principal Employers.....	148
Operating Information:	
Full-time Equivalent District Employees by Function/Program.....	149
Operating Indicators by Function/Program .....	150
Capital Asset Statistics by Function/Program .....	151
Flood Control System Historical Operating Results .....	152

# Introductory Section

## Comprehensive Annual Financial Report



Back of tab

November 15, 2013

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

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Santa Clara Valley Water District (District) for the fiscal year ended June 30, 2013. The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

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

The District's financial statements have been audited by Vavrinek, Trine, Day & Co., LLP, a firm of licensed certified public accountants. The purpose of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2013, are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.



## Letter of Transmittal (continued)

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The independent audit of the financial statements of the District is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements but also on the District's internal controls and compliance over the administration of federal awards. The single audit review is typically completed after the audit of the financial statements and will be issued separately for the Board's acceptance.

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

### District Profile

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

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

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

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

## Letter of Transmittal (continued)

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The District Act governs the structure, function and operations of the District's Board of Directors (Board), which governs the District and directs the Chief Executive Officer. On October 11, 2009, Governor Arnold Schwarzenegger signed into law Assembly Bill 466 (AB466) to amend the District Act. AB466 replaced the former Board structure (five elected/two appointed at-large members) with one in which all seven members would be elected from new districts created through a formal redistricting process. A Redistricting Advisory Committee was formed to draw the District boundaries. On May 14, 2010, the Board officially adopted a new map following testimony from the public, consideration of past testimony during Redistricting Advisory Committee meetings, and consideration of all communications and letters received from the public. A formal election was held for four of the seven board members on November 2, 2010. As required by state law, the District must redraw its boundaries to reflect 2010 Census results. On October 11, 2011, the Board adopted Resolution No. 11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

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

The District sells treated water to 12 water retail companies and cities that service communities within the County via their own distribution systems. There are also private well owners in the County. This demand requires the District to operate and maintain a complex delivery and treatment system that includes 3 water treatment plants, 10 local reservoirs and dams, a state-of-the-art water quality laboratory, dozens of groundwater recharge basin, 3 pump stations and 143 miles of pipelines. Water supplies include local surface water and groundwater, imported water, and recycled water. Water conservation is also an important part of the water supply mix because it offsets water demands.

To ensure an adequate and reliable supply of high-quality water, the District has partnered with cities and water retailers in the county to develop recycled water supplies. About four percent of the County's total water use currently consists of recycled water, limited primarily to landscaping and industrial uses. Recycled water use is expected to expand in coming years. In 2010, the Board approved agreements with the City of San Jose to partner and build a facility to produce about ten million gallons per day of highly purified water. The new Silicon Valley Advanced Water Purification Center in North San Jose is projected to commence full operation in March 2014.

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

## Letter of Transmittal (continued)

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### Factors Affecting Financial Condition

#### Local Economy

The County is located at the southern end of San Francisco Bay that measures approximately 1,312 square miles. The northwestern portion of the County is part of an area referred to as Silicon Valley due to the domination and concentration of technology sector. The current growth in the technology and housing sectors has been driving the economic recovery of the County at a steady pace.

According to the Milken Institute's annual index of Best Performing Cities 2012, the United States' best performing metro area is San Jose area. For the first time since 2001, San Jose-Sunnyvale-Santa Clara, California vaulted 50 spots from last year to No. 1 due the region's growth in jobs, wages and wealth generated by the Silicon Valley's remarkable technology sector.<sup>1</sup>

On June 27, 2013, the County Assessor reported that the county's total net assessed value of all residential and commercial property grew 8.35 percent to a record of \$334.6 billion. According to the report, during the past two years, rents for apartments jumped as much as 30 percent, and 8,000 new apartment units are under construction or recently completed in San Jose alone, with another 5,000 units in the South Bay. Similarly, Class A office and R&D rents have increased nearly 20 percent. Sales of residential homes, both single family and condominiums are approaching pre-recession levels.

However, even with its diverse economic base and globally-oriented high technology industries, the County is not immune to the effect of economic cycles and weathered during the past decade the boom and subsequent bust in internet businesses in 2001, the effect of the 9/11 attack, and the recession that started in 2008. During the boom-bust cycle, its unemployment rates went up from 2.9 percent in February, 2001 to 9.1 percent in June, 2003. During the recession period, the rates started with 5.9 percent in June, 2008, increased to as much as 11.5 percent in June, 2009, then, slowly inched downward to 8.8 percent in June, 2012. As the economy in the County recovers from recession, the unemployment rates continue to trend downward. In June, 2013, the unemployment rate for the County went down to 6.8 percent, however, employment has still not recovered to the 2007 levels.<sup>2</sup>

Despite a booming tech sector and a broad based economic recovery, wages in the Bay Area are rising at their slowest pace in more than a decade, leaving many residents struggling to keep up with the cost of living. Over the 12 months that ended in March, 2013, average per capita wages in three metro areas spread across six Bay Area counties rose just one percent while the consumer prices in the Bay Area rose at an annual rate of 2.4 percent. Even with the recent slow wage growth, the Bay Area remains one of the nation's best paid regions. At the end of March, the average wage for all occupations in the six counties included in the survey-Alameda, Contra Costa, Santa Clara, San Mateo, Marin and San Francisco – was \$65,749. Of the three major metro areas included in the survey, the highest average wage was in the County, which posted a figure of \$70,502.<sup>3</sup>

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<sup>1</sup> Best Performing Cities 2012 issued by Milken Institute – Ross DeVol, Armen Bedroussian, and Yu (Lydia) Liu

<sup>2</sup> State of California Employment Development Department, Labor Market Information Division

<sup>3</sup> George Avalos, "Wages Don't Follow Revival", San Jose Mercury News, July 21, 2013

## Letter of Transmittal (continued)

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### Long-Term Financial Planning

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

For fiscal year 2013-14 budget, the District funds activities that carry out its mission through the following three highest-level policies:<sup>4</sup>

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

The District's largest revenue source is the sale of water, acting as a wholesaler for numerous water supply retailers in Santa Clara County. Water sales for fiscal year 2012-13 were \$156 million. For fiscal year 2013-14, the District Board adopted a 9.3 percent increase (average of \$2.00 per month per household) in the municipal and industrial groundwater production charge for the North County and a 3.4 percent increase (average of 34 cents per month) in the South County, relative to fiscal year 2012-13. The revenue projection assumes water demand volume of 240,000 acre-feet.<sup>4</sup>

The Five-Year Capital Improvement Plan (CIP) includes a total of 63 capital projects with an estimated cost of over \$2.7 billion. The District has been and continues to be successful in leveraging funding for its capital projects through partnerships with federal, state, and local agencies. Of the \$2.7 billion total funding, \$757 million is expected from the District's various partners, such as the U.S. Army Corps of Engineers (USACE), and \$1.963 billion from the District. Of the \$757 million that is expected from the District's partners, \$252 million is advanced by the District and reimbursed later. This \$252 million is included in the CIP, and increases the District's total funding requirement from \$1.963 billion to \$2.216 billion to ensure that the District has adequate funding to advance the reimbursement.<sup>5</sup>

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

- Ensuring safe reliable water for the future;
- Reducing toxins, hazards and contaminants in our waterways;
- Protecting water supply and local dams from the impacts of earthquakes and natural disasters;

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<sup>4</sup> Santa Clara Valley Water District – FY2013-14 Operating and Capital Budget

<sup>5</sup> Santa Clara Valley Water District – FY2014-18 Capital Improvement Program

## Letter of Transmittal (continued)

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- Restoring fish, bird, and wildlife habitat; and
- Providing flood protection to homes, businesses, schools, streets, and highways.

Safe, Clean Water builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000. Safe, Clean Water replaces the Clean, Safe Creeks measure in its entirety beginning July 1, 2013. The Safe, Clean Water Program will provide a total of \$548 million of special tax revenue for operations and capital projects. The program will be funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2013-14, the budget includes \$37.5 million for this program.

### Relevant Financial Policies

#### End of Year Balances

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

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

#### Debt Management

The District has restricted long-term borrowing to the funding of capital improvement projects and equipment. The term of the debt does not exceed the expected useful life of the assets. The District also maintains a commercial paper program for funding the Water Utility capital projects. Commercial papers are used during the early phases of construction; long-term debt, matching the useful life of the asset, is issued to replace the commercial papers.

#### Budgetary Controls

The District maintains budgetary controls, the objectives of which are to ensure compliance with legal provisions, embodied in the annually appropriated budget approved by the Board. Activities of the governmental funds and proprietary funds are included in the annual appropriated budget. Additionally, as a management tool, project-length financial plans are included in the annual Capital Improvement Plan. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, further limited by two categories, the operating budget (consisting of total operations, operating projects, and debt service) and the capital budget (consisting of capital project expenditures). The District also maintains an encumbrance accounting system as one process to accomplishing budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund require Board approval. Budget and

## Letter of Transmittal (continued)

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actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For governmental funds, this comparison is presented on pages 96-97 as part of required supplementary information and selected watershed activities on pages 104-107 as part of supplemental information. For proprietary funds, this comparison is presented on pages 110-111 and 116-117 as part of the combining and individual fund statements and schedules.

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

### Reserve Requirements

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

### **Major Initiatives**

Highlights of activities and accomplishments for the fiscal year ended June 30, 2013 include the following:<sup>6</sup>

- The District's annual flood awareness campaign featuring Charles "Chicken Little" won top honors in the 2012 National Association of Flood and Stormwater Management Agencies "Excellence in Communications Awards". The goals of the District's multi-media campaign were to convey that flooding can be a serious threat, provide the public with easy and useful tips, and direct them to the website [valleywater.org](http://valleywater.org) for more flood protection information.
- On September 8, 2012, the District held a completion ceremony of the Reach 6 segment of the Upper Guadalupe River Flood Protection Project. The project was an approximately \$10.7 million investment of the Clean, Safe Creeks and Natural Flood Protection Program, approved by county voters in 2000 to provide protection to residents and businesses from a 100-year flood event. The project features a widened floodplain channel, a 100 foot extension of the West Virginia Street Bridge, and an improved habitat ecosystem with the replacement of non-native vegetation with riparian vegetation.
- On October 17, 2012, the Santa Clara Valley Urban Runoff Pollution Prevention Program (SCVURPPP) presented its 2010 Site Design Award to the Santa Clara Valley Water District and the City of Cupertino for a restoration project on Stevens Creek where it passes through Blackberry Farm Park. The project was designed to maintain the natural flood plan of the creek, providing protection from flooding to the surrounding neighborhoods while reducing run-off. SCVURPP is an association of thirteen cities and towns in Santa Clara County, the County of Santa Clara, and the Santa Clara Valley

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<sup>6</sup> Santa Clara Valley Water District Newsletters, Santa Clara Valley Water District CEO Bulletins, Fiscal Year 2012-2013 Quarter Performance Reports

## Letter of Transmittal (continued)

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Water District that share a common National Pollutant Discharge Elimination System permit to discharge storm water to South San Francisco Bay.

- On October 23, 2012, the Board authorized execution and delivery the Series 2012A Certificates of Participation (COPs) to refund the existing 2003A COPs, fund a debt service reserve fund, pay for flood protection projects, and pay for costs of issuance.

On November 13, 2012, the District conducted a very successful competitive sale of the Series 2012A COPs. The District received the highest credit rating of “AAA” from Fitch and one of the two highest rating of “AA+” from Standard and Poor’s credit rating agencies for this bond series.

- On Election Day, November 6, 2012, the County voters supported the District’s Safe, Clean Water and Natural Flood Program (Program), by 74 percent. The District created the Program to address important water supply, water quality, flood protection, and watershed stewardship needs of the county. The 15-year Program is a \$548 million parcel tax that will continue an existing, expiring parcel tax (Clean, Safe, Creeks and Natural Flood Protection Plan), approved in November 2000.
- The Board swore in two elected board members on December 11, 2012 – Directors Nai Hsueh, Barbara Keegan, as well as reelected Director Richard P. Santos. Including Director Linda J. LeZotte, who was elected in 2010, the seven-member now has three women representatives, a first for the District.

Nai Hsueh represents District 5, which includes the cities of Cupertino and Saratoga, as well as parts of Sunnyvale, Santa Clara, and west San Jose. Barbara Keegan represents District 2, which includes central and downtown San Jose, portions of east San Jose, and Willow Glen. Richard P. Santos was reelected to represent District 3, which includes Milpitas, north San Jose, Berryessa, north Sunnyvale, and north Santa Clara.

- On December 18, 2012, the Board voted to enter into agreements with three private funders, The Health Trust, First 5 Santa Clara County, and the California Dental Association Foundation, which have committed to reimbursing the District for \$2.4 million of the costs associated with fluoridating much of the County’s water supply. On April 9, 2013, the Board approved the Foundation Fluoridation Funding Agreement between the District and the California Dental Association Foundation for \$500,000 and the Health Trust Fluoridation Funding Agreement between the District and the Health Trust for \$1,900,000. This amount includes \$1,000,000 from the Health Trust and \$900,000 from the First 5 Santa Clara County.

In November 2011, the Board adopted policy language to support fluoridation at its three treatment plans and at three water supply wells located in Campbell. Subsequently, the three water supply wells were dropped from fluoridation plan because the wells are only used as a backup water supply.

- On January 9, 2013, the Board elected District 5 representative, Nai Hsueh, to serve as Board Chair and Director Tony Estremera, representing District 6, as Vice Chair in 2013.

## Letter of Transmittal (continued)

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- On January 31, 2013, the Board appointed Morgan Hill resident and former mayor, Dennis Kennedy, to fill the District 1 seat vacated in December by Don Cage, who was elected as mayor of Gilroy. Director Kennedy's term ends December 5, 2014. District 1 includes the cities of Morgan Hill and Gilroy, the town of San Martin, the Evergreen and Silver Creek neighborhoods of San Jose, parts of south San Jose, and hills east of San Jose and Milpitas.
- The District successfully completed its recertification audit for continued registration to International Organization for Standardization's (ISO) Quality Standards (9001:2008) and Environmental Standards (14001:2004) for a three-year period. The District's Quality and Environmental Management Systems (QEMS) drives continual improvement of its processes and promotes development of a knowledge base to ensure continuity of daily operations and facilitation of succession planning. The District's registration expires April 5, 2016.
- The Board adopted a new mission statement during its May 14, 2013 meeting, resulting in a revision to Board Ends Policy-1, Mission and General Principles:

*"Provide Silicon Valley safe, clean water for a healthy life, environment, and economy."*

The new mission statement succinctly reaffirms the District's commitment to providing water supply, flood protection, and environmental stewardship, while recognizing the organization's broader influence within and beyond Silicon Valley. Moving forward, the new mission statement will help develop functional strategies for meeting the Board's Ends Policies.

- On January 22, 2013, the Board authorized the funding of the final grant cycle of Clean, Safe, Creeks and Natural Flood Protection Pan of 2000, utilizing the remaining unspent funds from past grant cycles in the amount of \$794,000. The 2013 Comprehensive Stewardship Grant Program (2013 Grant Program) focuses on three key areas: pollution prevention, trails and open space, and environmental enhancements.
- On June 25, 2013, the Board authorized grant awards to six organizations and municipalities with a total amount of \$730,000. Recipients of the grant in their respective categories are:
  - (a) Environmental Enhancement - Acterra, Town of Los Altos Hills, Save The Bay, City of Los Altos
  - (b) Pollution Prevention - Downtown Streets Team
  - (c) Trail and Open Space - City of Gilroy

### Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Santa Clara Valley Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the 16th consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This

## Letter of Transmittal (continued)

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report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

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

Special thanks goes to Anita Ong, Financial Services Unit Manager; the following Accounting staff: Lilian Ramirez, Guy Canha, Fanny Chan, Leticia Rocha, Trisha Cheung, Christine Hernandez and Ofelia Hsieh; and Chenlei Yao of the Financial Controls Unit for their talent and dedication in preparing this financial report.

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



Najon Chu  
Chief Financial Officer



Jesús Nava  
Chief Administrative Officer



Beau Goldie  
Chief Executive Officer



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

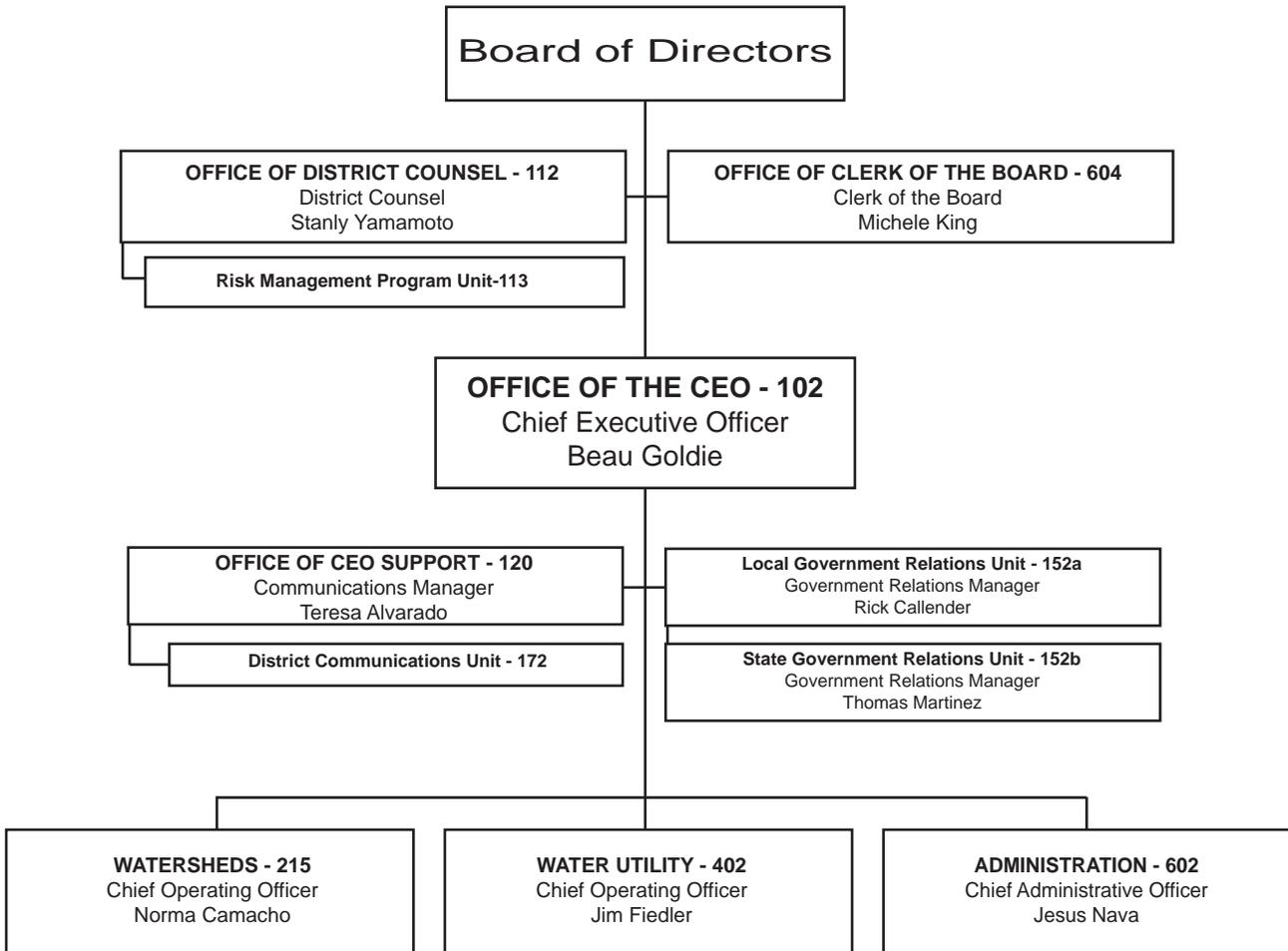
**Santa Clara  
Valley Water District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

**Santa Clara Valley Water District  
Board of Directors  
& Executive Management**



**SANTA CLARA VALLEY WATER DISTRICT  
DIRECTORY OF OFFICIALS  
2012 – 2013**

**BOARD OF DIRECTORS**

Dennis Kennedy	District 1
Barbara Keegan	District 2
Richard P. Santos	District 3
Linda J. LeZotte	District 4
Nai Hsueh, Chair	District 5
Tony Estremera, Vice Chair	District 6
Brian A. Schmidt	District 7



# Financial Section

Financial Section

## Comprehensive Annual Financial Report

Santa Clara Valley  
Water District



Back of tab



## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Water District (District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2013, 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.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, other postemployment schedule of funding progress and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic,

or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information, the introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
November 15, 2013

## Management's Discussion and Analysis

Our discussion and analysis of the Santa Clara Valley Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. This information is presented in conjunction with the audited financial statements that follow this section.

### Financial Highlights

- The net position of the District was \$2,041 million as of June 30, 2013. Of this amount, \$241.6 million (unrestricted but committed and assigned net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's net position increased by \$98.6 million during the current fiscal year. The net position of the governmental activities increased by \$64.3 million and the net position of the business-type activity by \$34.3 million.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$337.0 million, an increase of \$30.6 million in comparison with the prior year fund balances of \$306.4 million.
- The fund balance for the general fund was \$11.4 million, an increase of \$259 thousand from the prior fiscal year. Committed and assigned fund balances were \$11.4 million or 100.0 percent of the total fund balance.
- The fund balances of the watershed funds were \$309.0 million, increasing by \$21.1 million.

### Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by GASB Statement No. 34.

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

*The statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

Both of the government-wide financial statements distinguished functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental*

## Management's Discussion and Analysis (continued)

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

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

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

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

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

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

## Management's Discussion and Analysis (continued)

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

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

**Notes to basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 49-91 of this report.

### Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,041.3 million at the end of the current fiscal year.

#### Santa Clara Valley Water District's Net Position

(Dollars in Thousands)

	Governmental Activities		Business-type Activity		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 367,474	\$ 346,581	\$ 170,379	\$ 154,246	\$ 537,853	\$ 500,827
Capital assets	1,131,929	1,096,885	811,932	785,448	1,943,861	1,882,333
Total assets	<u>1,499,403</u>	<u>1,443,466</u>	<u>982,311</u>	<u>939,694</u>	<u>2,481,714</u>	<u>2,383,160</u>
Current liabilities	11,295	16,196	56,581	40,232	67,876	56,428
Litigation claim	-	-	7,062	6,739	7,062	6,739
Long-term liabilities outstanding	150,295	153,742	215,202	223,609	365,497	377,351
Total liabilities	<u>161,590</u>	<u>169,938</u>	<u>278,845</u>	<u>270,580</u>	<u>440,435</u>	<u>440,518</u>
Net position:						
Net investment in capital assets	1,011,082	964,394	575,683	554,316	1,586,765	1,518,710
Restricted	182,760	166,845	30,131	28,082	212,891	194,927
Unrestricted	143,971	142,289	97,652	86,716	241,623	229,005
Total net position	<u>\$ 1,337,813</u>	<u>\$ 1,273,528</u>	<u>\$ 703,466</u>	<u>\$ 669,114</u>	<u>\$ 2,041,279</u>	<u>\$ 1,942,642</u>

The largest portion of the District's net position (77.7 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For governmental activities net investment in capital assets increased by \$46.7 million. Major capital projects attributing to the increase include the Lower Silver Creek,-R5-6 N. Babb to Cunningham of \$19.2 million, Lower Berryessa Creek Lower Penitencia Calaveras of \$1.6 million, Almaden and Winfield – Small Capital Improvement of \$1.1 million, \$18.9 million from the Clean, Safe Creeks and Natural Flood Protection Program

## Management's Discussion and Analysis (continued)

that was approved with passage of Measure B in November 2000 and equipment purchases of \$1.5 million.

The net increase in the investment in capital assets for business type activity was \$21.4 million. Major projects contributing to this increase, less any related debt, included Silicon Valley Advanced Water Purification Center of \$13.8 million, Water Protection Project of \$4.5 million, Pipeline Rehabilitation of \$4.1 million, Anderson Dam Seismic Retrofit of \$4.0 million, Pacheco Pumping Plant Adjustable Speed Drives Replacement of \$2.5 million, South County Recycled Water Plant of \$1.3 million, Rinconada Water Treatment Plant Reliability Improvement of \$2.2 million, Rinconada Water Treatment Plant Facility Renewal Program Residual Management of \$1.9 million, Pacheco Water Plant Maintenance Building of \$1.5 million and the ongoing major improvements to the water treatment plants.

The balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens, customers, and creditors. The District's unrestricted net position increased by \$12.6 million or 5.5 percent, during the current fiscal year.

### Santa Clara Valley Water District's Changes in Net Position

(Dollars in Thousands)

	Governmental Activities		Business-type Activity		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 155,718	\$ 141,783	\$ 155,718	\$ 141,783
Operating grants and contributions	-	-	980	1,111	980	1,111
Capital grants and contributions	34,935	32,611	4,610	11,803	39,545	44,414
General revenues:						
Property taxes	92,746	88,247	24,200	22,327	116,946	110,574
Investment earnings	3,509	2,253	1,163	1,082	4,672	3,335
Miscellaneous	2,934	2,453	5,561	2,573	8,495	5,026
Total revenues	<u>134,124</u>	<u>125,564</u>	<u>192,232</u>	<u>180,679</u>	<u>326,356</u>	<u>306,243</u>
Expenses:						
General government	6,404	5,408	-	-	6,404	5,408
Watersheds	51,735	50,292	-	-	51,735	50,292
Interest on long-term debt	7,971	7,034	-	-	7,971	7,034
Water enterprise	-	-	161,609	158,888	161,609	158,888
Total expenses	<u>66,110</u>	<u>62,734</u>	<u>161,609</u>	<u>158,888</u>	<u>227,719</u>	<u>221,622</u>
Increase in net position before transfers	68,014	62,830	30,623	21,791	98,637	84,621
Transfers	(3,729)	(3,281)	3,729	3,281	-	-
Increase in net position	<u>64,285</u>	<u>59,549</u>	<u>34,352</u>	<u>25,072</u>	<u>98,637</u>	<u>84,621</u>
Net position, beginning	1,273,528	1,213,979	669,114	644,042	1,942,642	1,858,021
Net position, ending	<u>\$ 1,337,813</u>	<u>\$ 1,273,528</u>	<u>\$ 703,466</u>	<u>\$ 669,114</u>	<u>\$ 2,041,279</u>	<u>\$ 1,942,642</u>

## Management's Discussion and Analysis (continued)

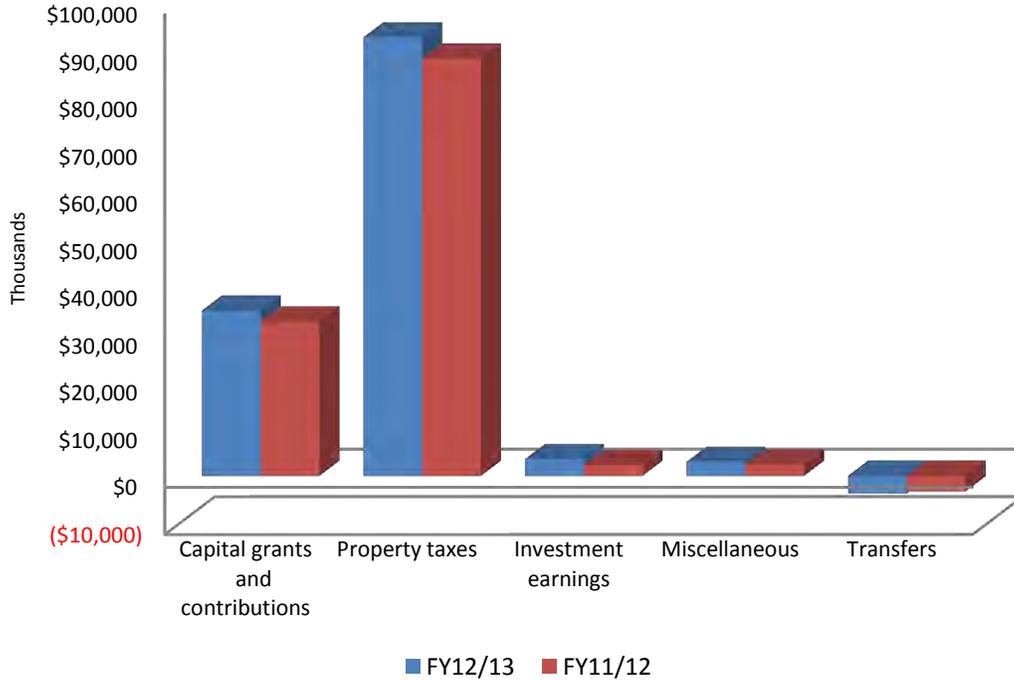
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**Governmental activities.** Net position in governmental activities increased by \$64.2 million over fiscal year 2011-12. Key elements of the change are as follows:

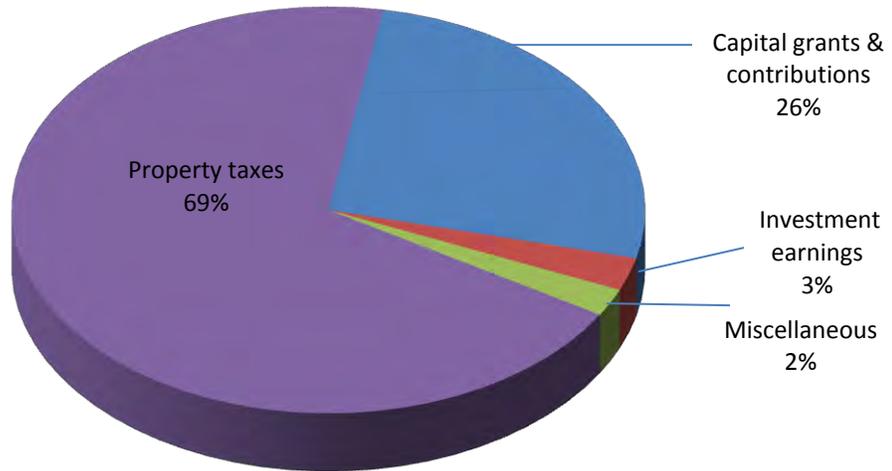
- Capital grants and contributions increased by \$2.3 million or 7.1 percent due to higher reimbursement of capital costs from the Department of Water Resources on Clean, Safe Creek and Natural Flood Protection programs.
- Property taxes increased by \$4.5 million or 5.1 percent due to the increase in the assessed value of real properties and the receipt of the Proposition 1A borrowing of the State.
- Investment earnings increased by \$1.3 million or 55.7 percent due to recognition of the outstanding balance of the Net Original Issue Premium on the 2003A Certificate of Participation as income offset by the lower interest rate and the net negative impact from the GASB 31 fair market value adjustment of \$1.7 million.
- Miscellaneous revenues increased by \$481 thousand or 19.6 percent due to a new cost sharing agreement with various local agencies related to the Bank Erosion Repair Along San Thomas Aquino Creek project.
- General government expenditures increased by \$996 thousand or 1.8 percent due to the increase in the spending for general government operation costs as a result the higher direct benefit charges which included cost of funding current fiscal year's annual required contribution (ARC) in full and a portion of prior years' unfunded ARC of the Other Post-employment Benefits (OPEB).
- Watersheds expenditures were higher by \$1.4 million or 2.9 percent due to the increase in the spending for operations and operating projects as a result the higher direct benefit charges which included cost of funding current fiscal year's annual required contribution (ARC) in full and a portion of prior years' unfunded ARC of the Other Post-employment Benefits (OPEB).
- Interest on long-term debt increased by \$937 thousand or 13.3 percent due to the refunding of the 2003A Certificate of Participation which resulted in the write-off of the outstanding Deferred Amount of Refunding offset by the reduction of total accrued interest payable.

Management's Discussion and Analysis (continued)

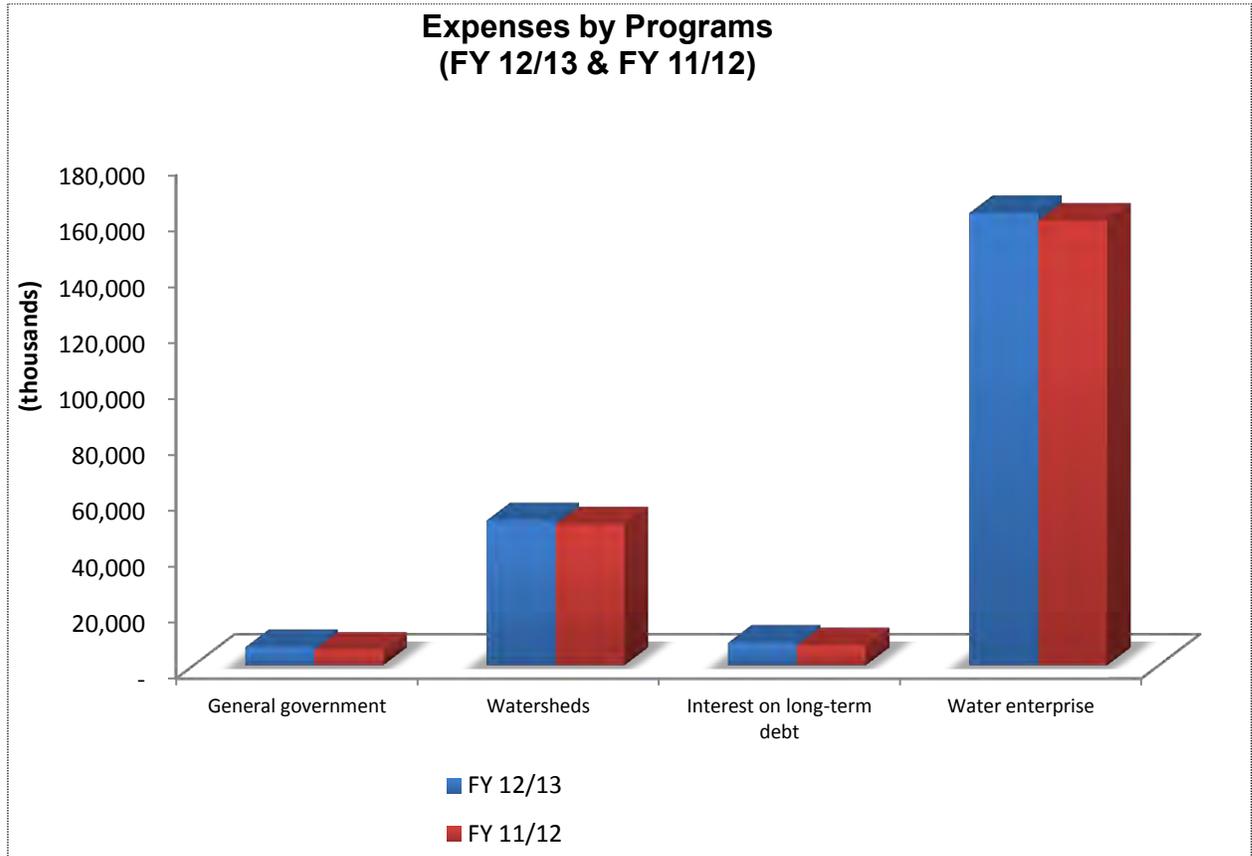
**Revenue by Sources – Governmental Activities  
(FY 12/13 & FY 11/12)**



**Revenues by Sources – Governmental Activities  
(FY 12/13)**



## Management's Discussion and Analysis (continued)



## Management's Discussion and Analysis (continued)

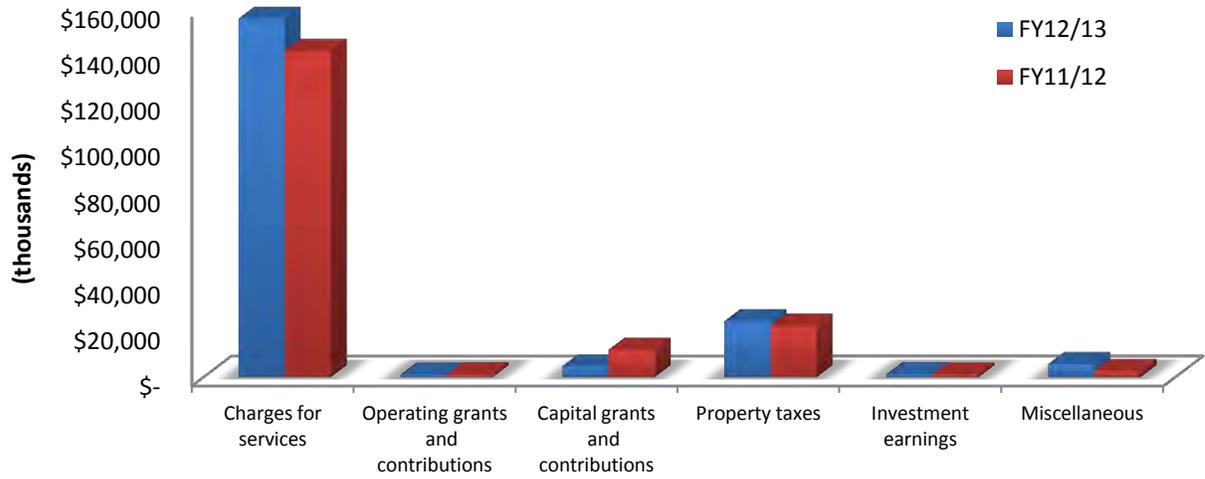
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**Business-type activity.** Net position in business-type activity increased by \$34.4 million or 5.1 percent, compared to the previous fiscal year. Key elements are as follows.

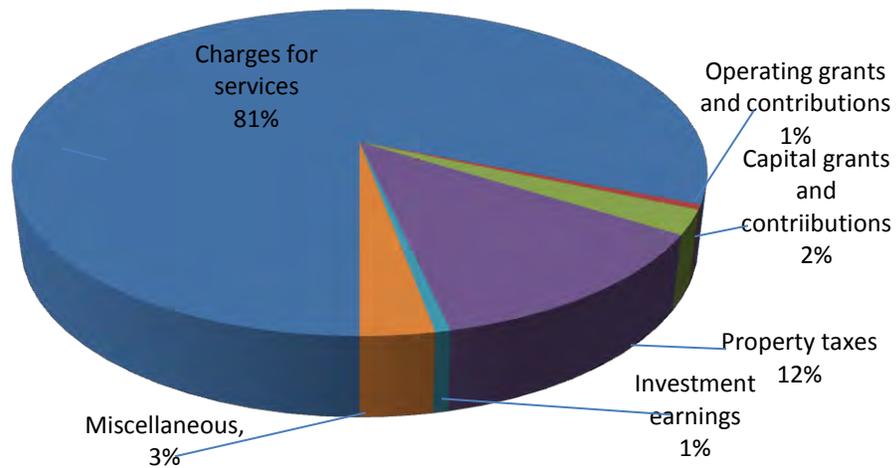
- Charges for services increased by \$13.9 million or 9.8 percent. The increase was due to the combination of increase in volume of ground water deliveries by 17.5 percent as well as the 8% increase in the ground water and treated water rates. This increase was offset by the 9.4 percent reduction in the volume of treated water deliveries. The increase in the volume of total water sales was due to dry weather.
- Operating grants and contributions decreased by \$131 thousand or 11.8 percent. The decrease was caused by lower operating grants from various agencies for the Residential Water Conservation Program.
- Capital grants and contributions decreased by \$7.2 million or 60.9 percent due to the one-time \$4.0 million Federal American Recovery and Reinvestment funding and \$6.1 million reimbursement from the City of San Jose for the Recycled Water Facilities and Program Integration Program received in FY2012 and a \$802 thousand decrease from San Benito County Water District on San Felipe Division capital projects. These decreases were offset by increases on reimbursements from the following agencies: Bay Area Clean Water Agency for the South Bay Advanced Recycled Water Treatment Project by \$2.9 million and Department of Water Resources for the San Luis By Pass Feasibility Study Program of \$955 thousand.
- Property taxes increased by \$1.9 million or 8.4 percent due to higher assessed value of property and the distribution of funds previously allocated to the redevelopment agencies.
- Investment earnings increased by \$81 thousand or 7.5 percent due to higher cash balance offset by lower interest rates and the net negative impact from the GASB 31 market value adjustment of \$676 thousand.
- Miscellaneous revenues increased by \$3.0 million or 116 percent due to increase in the purchase of imported water by the United State Bureau of Reclamation by \$1.5 million, the receipt of settlement payment from two legal cases in the amount of \$636 thousand, and the increase in the encroach permit of \$823 thousand.
- Water enterprise expenses increased by \$2.7 million or 1.7 percent as a result the higher direct benefit charges which included cost of funding current fiscal year's ARC in full and a portion of prior years' unfunded ARC of the OPEB.

Management's Discussion and Analysis (continued)

**Revenues by Sources - Business Activity  
(FY 12/13 & FY 11/12)**



**Revenues by Source – Business Activity  
(FY 12/13)**



**Financial Analysis of the District's Funds**

## Management's Discussion and Analysis (continued)

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

### **Governmental funds.**

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of June 30, 2013, the District's governmental funds reported combined ending fund balances of \$337.1 million, an increase of \$30.6 million in comparison with the prior year. The result indicates the revenues generated were sufficient to cover the cost of operations. Revenues increased by \$12.0 million, primarily from increases in property taxes of \$9.0 million, in reimbursement of capital costs of \$2.3 million, and other increases in other revenues.

Reimbursement of capital costs increased by \$2.3 million or 16.9 percent due to higher reimbursement for various capital projects from the Department of Water Resources on the Watershed and Stream Stewardship Program. Property taxes increased by \$9.0 million or 10.2 percent, \$692 thousand in general fund and \$8.3 million in the special revenue funds. Property taxes were higher due to the increase in the assessed value of real properties and the receipt of the Proposition 1A borrowing of the State.

Investment income increased by \$164 thousand or 10.1 percent due to higher cash balances offset by the lower interest rate and the net negative impact from the GASB 31 fair market value adjustment of \$1.7 million. GASB 31 requires that the District records any differences between the fair market and the book value of the investment portfolio as of June 30, 2013 as an adjustment to interest income. Because the District's investment policy requires the District to hold its investments to maturity, the District rarely realizes any gains or losses from these adjustments. This annual adjustment is based upon the individual fund's cash balance. The allocation of the GASB 31 fair market value adjustment is reported in Note 5 found on page 65 of this report.

The District governmental expenditures decreased during the fiscal year by \$8.7 million or 7.0 percent. The operation and operating project expenditures decreased by \$2.1 million or 4.1 percent; and capital project expenditures decreased by \$6.6 million or 12.8 percent. These decreases were due to lower operating and capital projects budget for the fiscal year as well as delay in the implementation of some of these projects.

Approximately \$142.4 million or 42.2 percent of the total fund balance amount (\$337.1 million) constitutes committed and assigned for specific purposes. The remainder of the fund balance is restricted to indicate that it is not available for new spending because of the external enforceable limitations on its use: 1) to fund Clean, Safe Creek and Natural Flood Protection projects (\$178.1 million); 2) to pay debt service (\$6.2 million); and (3) to provide funds for projects funded by bond proceeds (\$10.3 million).

### **General fund**

The general fund is the chief operating fund of the District supporting all administrative and strategic support services costs for the organization. It accounts for all financial resources except those required to be accounted for in another fund and is supported primarily by overhead reimbursements from other funds. At the end of the current fiscal year, the restricted, committed and assigned fund balance of the General Fund was

## Management's Discussion and Analysis (continued)

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\$11.4 million. This amount is \$259 thousand more than the prior year fund balance due to slightly higher revenue resulting from increase in property tax receipts offset by slight increase in the operating and capital expenditures incurred in the fund; and, the increase in the amount transferred to the Water Enterprise Fund for credit of the 1 percent ad valorem tax receipts associated with space credit to keep agriculture groundwater production and help preserve open space.

### **Special revenue funds**

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular watershed functions or activities of the District. The available fund balances at the end of the current fiscal year for the special revenue funds were \$309.0 million, which increased during the current fiscal year by \$21.1 million or 7.3 percent. The special revenue fund reflected higher fund balance and the corresponding increase is Clean Safe Creek & Natural Flood Protection Program by \$16.1 million or 9.9 percent while the Watershed and Stream Stewardship increased by \$5.0 million or 3.9 percent. The net increase is attributed primarily to the \$8.3 million increase in the property tax collections, the \$2.3 million increase in reimbursement of capital projects, the \$6.6 decrease in the capital improvement projects and the \$2.3 million decrease in the operations and operating projects.

Operations and operating project expenditures decreased by \$2.2 million or 4.6 percent and capital improvement projects costs were lower by \$6.6 million or 13.2 percent. These decreases were primarily due to lower operating and capital projects budget for the fiscal year and delay in the implementation of these projects.

### **COP debt service fund**

The COP debt service fund is used to account for resources used for debt service payments. It has a total fund balance of \$6.2 million, all of which is reserved for payment of debt service. The fund balance is at the same level as last year.

### **COP construction fund**

The COP construction fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. It has a fund balance of \$10.3 million from the proceeds of the 2012A Certificate of Participation (COP) to be used for future construction projects. Most of the proceeds of 2012A COP was used to pay off the 2003A COP.

**Proprietary funds.** The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

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

## Management's Discussion and Analysis (continued)

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Net position of the Water Enterprise Fund at the end of the fiscal year were \$680.3 million, an increase of \$34.7 million or 5.4 percent from the prior fiscal year. Net investment in capital assets increased by \$22.3 million, restricted net position is at the same level as last year, and unrestricted net position increased by \$11.7 million. The increase in the net position and the net investment in capital assets is primarily the result of various expenditures related to capital improvement projects. Capital project expenditures include costs incurred on the Silicon Valley Advanced Water Purification Center of \$13.8 million, Water Protection Project of \$4.5 million, Pipeline Rehabilitation Project of \$4.5 million, Anderson Dam Seismic Retrofit of \$4.0 million, Pacheco Pumping Plant Adjustable Speed Drives Replacement of \$2.5 million, Rinconada Water Treatment Plant Reliability Improvement of \$2.2 million, Rinconada Water Treatment Plant Facility Renewal Program Residual Management of \$1.9 million and Pacheco Water Plant Maintenance Building of \$1.5 million

Operating revenues increased by \$14.6 million or 10.2 percent. Ground water revenue went up by \$14.1 million due to increase in volume deliveries and water rate. Treated water revenue went up by \$545 thousand due to increase in water rate offset by decrease in volume deliveries. The decrease in the treated water volume deliveries is the result of water companies purchasing more ground water to take advantage of the lower water rate for non-agriculture ground water rate.

Operating expense increased by \$1.0 million or .8 percent from prior year. This increase is comprised of \$2.0 million increase in water treatment cost, \$1.0 million increase in the transmission and distribution cost and \$744 thousand increase in administrative and general cost, offset by the \$3.5 million decrease in the sources of supply costs. The net increase is the result

Net non-operating revenues increased by \$2.5 million or 122.3% percent due to the following transactions: Increases were incurred on the sales of imported water to the United State Bureau of Reclamation by \$1.5 million, the receipts of settlement payments from two legal cases in the amount of \$636 thousand, the increase in the property tax by \$194 thousand and \$81 thousand increase in investment income. In addition, rental income was higher by \$3 thousand due to higher occupancy rate.

Capital contribution decreased by \$7.2 million or 60.9 percent due to the one-time \$4.0 million Federal American Recovery and Reinvestment funding and \$6.1 million reimbursement from the City of San Jose for the Recycled Water Facilities and Program Integration Program received in FY2012 and a \$802 thousand decrease from San Benito County Water District on San Felipe Division capital projects. These decreases were offset by increases on reimbursements from the following agencies: Bay Area Clean Water agencies for the South Bay Advanced Recycled Water Treatment Project by \$2.9 million and Department of Water Resources for the San Luis By Pass Feasibility Study Program of \$955 thousand.

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

## Management's Discussion and Analysis (continued)

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

Operating expenses increased by \$364 thousand or 1.8 percent due to the slight increase in the cost of water purchases resulting from higher volume of water purchases.

Net non-operating revenues were higher by \$1.6 million due to the increase in the property tax revenue of \$1.7 million but was offset by \$1 thousand decrease in refund received from the Department of Water Resources for prior year charges.

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

The Equipment Fund charges replacement and maintenance costs to all operations, operating, and capital projects based on equipment assignment and hourly usage of equipment on projects. Net position in the Equipment Fund for the fiscal year ended June 30, 2013 decreased by \$755 thousand or 8.7 percent. The amount required to fund the replacement and maintenance cost of the Equipment Fund is determined during the budget process and varies yearly depending upon need. Operating revenues decreased by \$1.3 million, reflective of decreased computer equipment charges for computer software and hardware improvements that were offset by the increase in the vehicle service charges. Equipment maintenance costs and depreciation expenses increased by \$539 thousand during the year due to higher employee direct benefit payment.

The Risk Management Fund charges premiums based on exposure levels by project for liability, property, worker's compensation and self-insurance costs. Revenues required to properly fund the Risk Management Fund are determined during the budget process and varies yearly depending upon need. Net position in the Risk Management Fund for the fiscal year ended June 30, 2013 decreased by \$826 thousand or 11.6 percent. Administration and general expenses were higher by \$1.2 million primarily due to higher accrual of general liability claims, the higher direct benefit charges which included cost of funding current fiscal year's ARC in full and a portion of prior years' unfunded ARC of the OPEB.

## Management's Discussion and Analysis (continued)

### General Fund Budgetary Highlights

The table below shows that the Final Budget has a net increase of \$424 thousand as compared with Adopted Budget of \$47.5 million. This increase includes (a) \$ 34 thousand capital projects budget balance carried forward to FY2012-13; and, (b) \$390 thousand current year budget adjustments.

Adopted Budget	+ Capital Projects Budget Remaining Carry-forward	+ Current Year Budget Adjustments	= Final Budget
\$47,513K	34K	390K	\$47,937K

Total expenditures (budgetary basis) for the fiscal year 2012-13 are \$43.5 million, which is 0.2 percent lower than FY2011-12.

### Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$1,943.9 million (net of accumulated depreciation). The investment in capital assets includes intangible rights, land, buildings, structures and improvements (which include the flood control improvement), machinery and equipment. During fiscal year 2012-13, the total increase in the District's investment in capital assets was 3.3 percent (a 3.2 percent increase for governmental activities and a 3.4 percent increase for the business-type activity).

Major capital projects in progress during the current fiscal year include the following (in millions):

- Lower Silver Creek-R5-6 N. Babb to Cunningham - \$19.2
- Upper Llagas Creek Design Buena Vista to Wright Avenue- \$5.2
- Permanente Creek Bay Foothill Clean Safe Creek - \$2.9
- Sunnyvale East and West Channel - \$2.1
- Guadalupe River-Upper, Southern Pacific Railroad Bridge to Blossom Hill Road (Reach 7-12) - \$2.0
- Berryessa Calaberas/Old Piedmont Corridor - \$1.7
- Lower Berryessa Creek Lower Penintencia Calaberas - \$1.6
- Almaden and Winfield – Small Caps Improvement - \$1.1
- San Francisquito Creek Bay Shoreline - \$1.1
- San Francisquito Construction - \$1.1
- Silicon Valley Advanced Water Purification Center - \$13.8
- Water Protection Project –\$ 4.5
- Pipeline Rehabilitation - \$4.1
- Anderson Dam Seismic Retrofit - \$ 4.0
- Pacheco Pumping Plant Adjustable Speed Drives Replacement - \$2.5
- Rinconada Water Treatment Plant Reliability Improvement - \$2.2
- Rinconada Water Treatment Plant Facility Renewal Program Residual Management - \$1.9
- Pacheco Water Plant Maintenance Building - \$1.5

## Management's Discussion and Analysis (continued)

- South County Recycled Water Plant - \$1.3

**Capital Assets**  
(net of depreciation)  
(Dollars in Thousands)

	Governmental activities		Business-type activity		Total	
	2013	2012	2013	2012	2013	2012
Land	\$157,705	\$156,277	\$17,594	\$17,594	\$175,299	\$173,871
Contract water and storage rights	-	-	55,449	57,872	55,449	57,872
Buildings	27,365	28,115	2,699	2,759	30,064	30,874
Structures and improvements	630,597	637,456	418,425	405,166	1,049,022	1,042,622
Equipment	12,012	12,446	6,225	7,409	18,237	19,855
Construction in progress	301,218	260,037	311,540	294,648	612,758	554,685
Intangibles - Easements	3,032	2,554	-	-	3,032	2,554
<b>Total</b>	<b>\$1,131,929</b>	<b>\$1,096,885</b>	<b>\$811,932</b>	<b>\$785,448</b>	<b>\$1,943,861</b>	<b>\$1,882,333</b>

Information on the District's capital assets activity for fiscal year 2012-13 can be found in Note 6 on pages 66-67 of this report.

### Debt Administration

At the end of the current fiscal year, the District had total long-term debt outstanding of \$372.6 million. This District's long-term obligations outstanding as of June 30, 2013 consisted of the following:

## Management's Discussion and Analysis (continued)

### Santa Clara Valley Water District's Outstanding Obligations

(Dollars in Thousands)

	Governmental activities		Business-type activity		Total	
	2013	2012	2013	2012	2013	2012
Certificates of participation	\$ 123,100	\$ 133,440	\$ -	\$ -	\$ 123,100	\$ 133,440
Revenue bonds	-	-	83,885	86,515	83,885	86,515
Revenue bonds-COP	-	-	119,895	123,965	119,895	123,965
Compensated absences	8,098	8,217	4,631	4,722	12,729	12,939
Litigation claim	-	-	7,062	6,738	7,062	6,738
Semitropic water banking	-	-	6,045	6,045	6,045	6,045
State revolving fund loan	-	-	5,172	5,445	5,172	5,445
Bond Discount	-	-	(791)	(829)	(791)	(829)
Deferred amount on refunding	(4,519)	(6,486)	(2,196)	(2,319)	(6,715)	(8,805)
Deferred interest swap	-	-	(6,726)	(7,007)	(6,726)	(7,007)
Premium on bond issue	-	-	2,541	2,648	2,541	2,648
Premium on refunded debt	12,617	5,538	-	-	12,617	5,538
Claims payable	6,679	6,130	-	-	6,679	6,130
Other post employment benefits	4,320	6,903	2,746	4,425	7,066	11,328
<b>Total</b>	<b>\$ 150,295</b>	<b>\$ 153,742</b>	<b>\$ 222,264</b>	<b>\$ 230,348</b>	<b>\$ 372,559</b>	<b>\$ 384,090</b>

The District's total obligations decreased by \$11.5 million during fiscal year 2012-13. All decreases in obligations were from the normal repayment of principal on existing outstanding debt and reduction of other post employment benefits liability, offset by the increase in the premium on refunded debt resulting from the refunding of the 2003A COP. The 2012A COP was issued as a result of this refunding.

The credit ratings of the District's Watershed Certificates of Participation are AAA from Fitch, Aa1 from Moody's and AA+ from Standard & Poor's. The credit ratings of the Water Utility Enterprise Fund revenue bonds are Aa1 from Moody's and AA from Standard & Poor's.

Additional information on the District's long-term debt can be found in Note 7 on pages 68-75 of this report.

### **Economic Factors and Next Year's Budgets**

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

The FY2013-14 budget reinforces our commitment to focus on providing the core services that are critical to Santa Clara County communities and must be delivered without interruption.

The budget is comprised of \$230.7 million in net operating outlays and \$241.2 million in capital projects. It focuses on:

- Operating and maintaining the vast network and infrastructure necessary to transport, treat and deliver clean, reliable water
- Maintaining flood protection channels to protect communities
- Continuing to provide stream stewardship to safely transport storm water and provide wildlife habitat

## Management's Discussion and Analysis (continued)

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The \$471.9 million budget is driven by an aggressive capital improvement program to rehabilitate the aging infrastructure and projects to deliver clean, reliable water, maintain flood protection channels and provide stream stewardship.

### **Requests for Information**

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



## **BASIC FINANCIAL STATEMENTS**

# SANTA CLARA VALLEY WATER DISTRICT

## Statement of Net Position

June 30, 2013

(Dollars in Thousands)

	Governmental Activities	Business-type Activity	Total
<b>ASSETS</b>			
Cash and investments (Note 3)	\$ 339,313	\$ 135,716	\$ 475,029
Restricted cash and investments (Note 3)	16,879	6,629	23,508
Receivables (net):			
Accounts	4,534	26,482	31,016
Interest	1,200	-	1,200
Taxes	64	38	102
Due from other governments	-	1,699	1,699
Deposits and other assets	464	2,960	3,424
Internal balances	4,257	(4,257)	-
Deferred charges	763	1,112	1,875
Capital assets (Note 6):			
Contract water and storage rights, net	-	55,449	55,449
Nondepreciable	461,955	329,134	791,089
Depreciable, net	669,974	427,349	1,097,323
Total assets	1,499,403	982,311	2,481,714
<b>LIABILITIES</b>			
Accounts payable	5,189	10,513	15,702
Accrued liabilities	1,951	6,618	8,569
Commercial paper, net of discount (Note 7)	-	36,105	36,105
Deposits payable	903	2,637	3,540
Accrued interest payable	1,553	695	2,248
Deferred revenue	-	13	13
Due to other funds (Note 14)	1,699	-	1,699
Noncurrent liabilities (Note 7):			
Litigation claim (Note 17)	-	7,062	7,062
Due within one year	11,008	6,364	17,372
Due in more than one year	139,287	208,838	348,125
Total liabilities	161,590	278,845	440,435
<b>NET POSITION (Note 10)</b>			
Net investment in capital assets	1,011,082	575,683	1,586,765
Restricted			
Debt service	4,686	5,934	10,620
Clean Safe Creek - Other Activities	178,074		178,074
WU State Revolving Loan Requirements	-	401	401
WU San Felipe Emergency	-	3,980	3,980
WU Operating	-	12,598	12,598
WU Rate Stabilization	-	1,539	1,539
WU State Water Projects	-	5,679	5,679
Unrestricted	143,971	97,652	241,623
Total net position	\$ 1,337,813	\$ 703,466	\$ 2,041,279

See accompanying notes to basic financial statements

**SANTA CLARA VALLEY WATER DISTRICT**

Statement of Activities  
For the Year Ended June 30, 2013  
(Dollars in Thousands)

Function	Governmental Activities			Total	Business- Type Activity	Total
	General Government	Watersheds	Interest on Long-term Debt			
<b>Expenses:</b>						
Operations and operating projects	\$ 6,404	\$ 51,735	\$ 7,971	\$ 66,110	\$ 161,609	\$ 227,719
<b>Program revenues:</b>						
Charges for services	-	-	-	-	155,718	155,718
Operating grants and contributions	-	-	-	-	980	980
Capital grants and contributions	-	34,935	-	34,935	4,610	39,545
Net program revenue (expense)	<u>\$ (6,404)</u>	<u>\$ (16,800)</u>	<u>\$ (7,971)</u>	<u>(31,175)</u>	<u>(301)</u>	<u>(31,476)</u>
<b>General revenues:</b>						
Property taxes (Note 8)				92,746	24,200	116,946
Unrestricted investment earnings				3,509	1,163	4,672
Miscellaneous				2,934	5,561	8,495
<b>Transfers (Note 15)</b>				<u>(3,729)</u>	<u>3,729</u>	<u>-</u>
<b>Total general revenues and transfers</b>				<u>95,460</u>	<u>34,653</u>	<u>130,113</u>
<b>Change in net position</b>				64,285	34,352	98,637
<b>Net position, beginning of year</b>				<u>1,273,528</u>	<u>669,114</u>	<u>1,942,642</u>
<b>Net position, end of year</b>				<u>\$ 1,337,813</u>	<u>\$ 703,466</u>	<u>\$ 2,041,279</u>

See accompanying notes to basic financial statements.

# SANTA CLARA VALLEY WATER DISTRICT

Balance Sheet  
 Governmental Funds  
 June 30, 2013  
 (Dollars in Thousands)

	General	Watershed & Stream Steward
<b>ASSETS</b>		
Cash and investments (Note 3)	\$ 16,345	\$ 129,948
Restricted cash and investments (Note 3)		77
Receivables:		
Accounts	13	2,394
Interest	1,200	-
Taxes	5	59
Due from other funds (Note 14)		781
Deposits and other assets	9	9
	\$ 17,572	\$ 133,268
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 1,946	\$ 1,634
Accrued liabilities	1,283	106
Deposits payable	20	579
Due to other funds (Note 14)	2,879	-
Total liabilities	6,128	2,319
<b>Fund balances (Note 9):</b>		
Restricted Fund Balance:	-	-
Committed Fund Balance	7,257	98,134
Assigned Fund Balance	4,187	32,815
Total fund balances	11,444	130,949
<b>Total liabilities and fund balance</b>	<b>\$ 17,572</b>	<b>\$ 133,268</b>

See accompanying notes to basic financial statements.

Clean, Safe Creek & Natural Flood Protection Program	COP Debt Service	COP Construction Fund	Total Governmental Funds
\$ 177,532	\$ -	\$ -	\$ 323,825
214	6,239	10,349	16,879
2,126	-	-	4,533
-	-	-	1,200
-	-	-	64
283	-	-	1,064
90	-	-	108
<u>\$ 180,245</u>	<u>\$ 6,239</u>	<u>\$ 10,349</u>	<u>\$ 347,673</u>
\$ 1,306	\$ -	\$ -	\$ 4,886
561	-	-	1,950
304	-	-	903
-	-	-	2,879
<u>2,171</u>	<u>-</u>	<u>-</u>	<u>10,618</u>
178,074	6,239	10,349	194,662
-	-	-	105,391
-	-	-	37,002
<u>178,074</u>	<u>6,239</u>	<u>10,349</u>	<u>337,055</u>
<u>\$ 180,245</u>	<u>\$ 6,239</u>	<u>\$ 10,349</u>	<u>\$ 347,673</u>

# SANTA CLARA VALLEY WATER DISTRICT

## Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2013

(Dollars in Thousands)

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

Fund balances of governmental funds	\$ 337,055
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of governmental funds.	1,126,154
Internal service funds are used by management to charge the costs of equipment and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	18,479
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.	(1,553)
Underwriter's discount and costs of issuance are capitalized on the government-wide statement of net position, whereas, they are reported as expenditures in the governmental funds.	765
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds:	
Certificates of participation	(123,100)
Deferred amount on refunding	4,519
Net original issue premium	(12,617)
Compensated absences	(7,770)
Other post employment benefits	(4,119)
	<hr/>
Net position of governmental activities	<u><u>\$ 1,337,813</u></u>

See accompanying notes to basic financial statements



# SANTA CLARA VALLEY WATER DISTRICT

## Statement of Revenues, Expenditures and

### Changes in Fund Balances

#### Governmental Funds

For the Year Ended June 30, 2013

(Dollars in Thousands)

	General	Watershed & Stream Stewardship
<b>Revenues:</b>		
Property taxes (Note 8)	\$ 5,486	\$ 55,647
Benefit assessments (Note 8)	-	19,178
Use of money and property:		
Investment income (Note 5)	3	249
Rental	-	1,208
Reimbursement of capital costs (Note 4)	-	10,336
Other	61	1,327
Total revenues	5,550	87,945
<b>Expenditures:</b>		
<b>Current:</b>		
Operations and operating projects	1,432	40,604
<b>Capital improvement projects</b>	1,311	24,725
<b>Debt service:</b>		
Principal repayment	-	-
Interest and fiscal agent fees	-	13
Total expenditures	2,743	65,342
Excess (deficiency) of revenues over (under) expenditures	2,807	22,603
<b>Other financing sources (uses):</b>		
Certificates of participation proceeds	-	-
Payment to refunded bond escrow agent	-	-
Net original issue premium	-	-
Transfers in (Note 15)	125	4,172
Transfers out (Note 15)	(2,673)	(21,801)
Total other financing sources (uses)	(2,548)	(17,629)
Net change in fund balances	259	4,974
Fund balances, beginning of year	11,185	125,975
Fund balances, end of year	\$ 11,444	\$ 130,949

Clean, Safe Creek & Natural Flood Protection Program	COP Debt Service	COP Construction Fund	Total Governmental Funds
\$ 36,093	\$ -	\$ -	\$ 97,226
-	-	-	19,178
31	1,496	6	1,785
215	-	-	1,423
5,421	-	-	15,757
27	-	-	1,415
<u>41,787</u>	<u>1,496</u>	<u>6</u>	<u>136,784</u>
7,162		-	49,198
18,773		-	44,809
-	10,935	-	10,935
-	5,906	-	5,919
<u>25,935</u>	<u>16,841</u>	<u>-</u>	<u>110,861</u>
<u>15,852</u>	<u>(15,345)</u>	<u>6</u>	<u>25,923</u>
-	42,612	10,343	52,955
-	(53,495)	-	(53,495)
-	8,947	-	8,947
682	16,211	-	21,190
(445)	-	-	(24,919)
<u>237</u>	<u>14,275</u>	<u>10,343</u>	<u>4,678</u>
<u>16,089</u>	<u>(1,070)</u>	<u>10,349</u>	<u>30,601</u>
<u>161,985</u>	<u>7,309</u>	<u>-</u>	<u>306,454</u>
\$ 178,074	\$ 6,239	\$ 10,349	\$ 337,055

See accompanying notes to basic financial statements.

## SANTA CLARA VALLEY WATER DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Change in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2013  
(Dollars in Thousands)

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

Net change in fund balances - total governmental funds	\$	30,601
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$45,233) exceed depreciation (\$10,483) in the current period.		34,750
Property tax revenue in the governmental funds for the amount withheld by the State of California as a result of the passage of Proposition 1A was offset against long-term receivables on the statement of net position and did not impact the statement of activities.		(4,480)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds while it does not have any effect on net position.		
Certificates of participation		10,935
Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but they do not require the use of current financial resources. This amount represents the net change in accrued interest expense not reported in governmental funds.		1,049
Amortization of deferred amount on refunding, discounts, and issuance costs is not recognized in the governmental funds, including write off of refunding, discounts and issuance cost associated with the refunding of 2003 bond. In the government-wide statements, it is capitalized and amortized over the life of the related debts.		
Deferred amount on refunding		(3,101)
Underwriter's discount and cost of issuance		(512)
Net original issue premium		1,868
Net original issue premium and deferred amount of refunding not reported in the governmental statement of activities but recognized in the governmental funds. In the government-wide statement, it is capitalized and amortized over the life of the related debts.		
Net original issue premium		(8,947)
Deferred amount on refunding		1,135
Internal service funds are used by management to charge the costs of equipment and risk management to individual funds. The net revenue of internal service funds is reported with governmental activities.		(837)
Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds:		
Compensated absences		111
Other post employment benefits		2,461
Interest from monies held in restricted bank accounts		(153)
		(153)
Change in net position of governmental activities	\$	64,285

See accompanying notes to basic financial statements

**SANTA CLARA VALLEY WATER DISTRICT**

Statement of Net Position

Proprietary Funds

June 30, 2013

(Dollars in Thousands)

	Business-type Activity			Governmental
	Water	State Water	Total	Activities
	Enterprise Fund	Project Fund		Internal Service Funds
<b>ASSETS</b>				
Current assets:				
Cash and investments (Note 3)	\$ 130,483	\$ 5,233	\$ 135,716	\$ 15,488
Restricted cash and investments (Note 3)	6,629	-	6,629	-
Receivables:				
Accounts	26,070	412	26,482	1
Taxes	5	33	38	-
Due from other funds (Note 14)	1,699	-	1,699	116
Deferred charge	1,112	-	1,112	-
Deposits and other assets	2,960	-	2,960	356
Total current assets	<u>168,958</u>	<u>5,678</u>	<u>174,636</u>	<u>15,961</u>
Non current assets:				
Capital assets: (Note 6)				
Contract water rights, net	33,727	21,722	55,449	-
Nondepreciable	329,134	-	329,134	-
Depreciable, net	427,349	-	427,349	5,775
Total non current assets	<u>790,210</u>	<u>21,722</u>	<u>811,932</u>	<u>5,775</u>
Total assets	<u>959,168</u>	<u>27,400</u>	<u>986,568</u>	<u>21,736</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	10,513	-	10,513	303
Accrued liabilities	6,618	-	6,618	1
Commercial paper, net of discount (Note 7)	36,105	-	36,105	-
Deposits payable	2,637	-	2,637	-
Accrued interest payable	695	-	695	-
Deferred revenue	13	-	13	-
Claims payable (Note 13)	-	-	-	476
Revenue bonds - current (Note 7)	5,099	-	5,099	-
Other Debt (Note 7)	1,265	-	1,265	71
Total current liabilities	<u>62,945</u>	<u>-</u>	<u>62,945</u>	<u>851</u>
Non current liabilities:				
Litigation claim (Note 17)	7,062	-	7,062	-
Long-term debt: (Note 7)				
Revenue bonds (net of unamortized discount and deferred amount on refunding)	191,509	-	191,509	-
Claims payable (Note 13)	-	-	-	6,203
Other post employment benefits payable (Note 12)	2,746	-	2,746	209
Other debt	14,583	-	14,583	251
Total long-term debt	<u>208,838</u>	<u>-</u>	<u>208,838</u>	<u>6,663</u>
Total non current liabilities	<u>215,900</u>	<u>-</u>	<u>215,900</u>	<u>6,663</u>
Total liabilities	<u>278,845</u>	<u>-</u>	<u>278,845</u>	<u>7,514</u>
<b>NET POSITION (Note 10)</b>				
Net investment in capital assets	553,962	21,721	575,683	5,775
Restricted				
Debt service	5,934	-	5,934	-
State revolving loan requirement	401	-	401	-
San Felipe operations	3,980	-	3,980	-
Operating reserves	12,598	-	12,598	-
Rate stabilization	1,539	-	1,539	-
State water projects	-	5,679	5,679	-
Unrestricted	<u>101,909</u>	<u>-</u>	<u>101,909</u>	<u>8,447</u>
Total net position	\$ 680,323	\$ 27,400	\$ 707,723	\$ 14,222
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.	(4,257)	-	(4,257)	-
Net position of business-type activities	<u>\$ 676,066</u>	<u>\$ 27,400</u>	<u>\$ 703,466</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

**SANTA CLARA VALLEY WATER DISTRICT**  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2013  
(Dollars in Thousands)

	Business-type Activity			Governmental
	Water Enterprise Fund	State Water Fund	Total	Internal Service Funds
<b>Operating revenues:</b>				
Ground water production charges	\$ 62,084	\$ -	\$ 62,084	\$ -
Treated water charges	92,359	-	92,359	-
Surface and recycled water revenue	1,275	-	1,275	-
Operating grants	980	-	980	-
Charges for services	-	-	-	9,319
Other	946	-	946	-
Total operating revenues	<u>157,644</u>	<u>-</u>	<u>157,644</u>	<u>9,319</u>
<b>Operating expenses:</b>				
Sources of supply	47,898	19,305	67,203	-
Water treatment	30,287	-	30,287	-
Transmission and distribution:				
Raw water	11,137	-	11,137	-
Treated water	1,636	-	1,636	-
Administration and general	18,392	-	18,392	3,986
Claims and Adjustments	324	-	324	-
Equipment maintenance	-	-	-	5,890
Insurance	-	-	-	-
Depreciation and amortization	22,064	944	23,008	1,129
Total operating expenses	<u>131,738</u>	<u>20,249</u>	<u>151,987</u>	<u>11,005</u>
Operating income (loss)	<u>25,906</u>	<u>(20,249)</u>	<u>5,657</u>	<u>(1,686)</u>
<b>Nonoperating revenues (expenses):</b>				
Property taxes (Note 8)	4,685	19,515	24,200	-
Investment income (Note 5)	1,163	-	1,163	9
Rental income	96	-	96	-
Other	3,397	1,122	4,519	96
Interest and fiscal agent fees	(8,878)	-	(8,878)	-
Net nonoperating revenues	<u>463</u>	<u>20,637</u>	<u>21,100</u>	<u>105</u>
Income before capital contributions and transfers	<u>26,369</u>	<u>388</u>	<u>26,757</u>	<u>(1,581)</u>
Capital contributions (Note 4)	4,610	-	4,610	-
Transfers in (Note 15)	3,804	-	3,804	-
Transfers out (Note 15)	(75)	-	(75)	-
Change in net position	<u>34,708</u>	<u>388</u>	<u>35,096</u>	<u>(1,581)</u>
Net position, beginning of year	<u>645,615</u>	<u>27,012</u>	<u>672,627</u>	<u>15,803</u>
Net position, end of year	680,323	27,400	707,723	<u>\$ 14,222</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.	(4,257)	-	(4,257)	
Net position of business-type activities	<u>\$ 676,066</u>	<u>\$ 27,400</u>	<u>\$ 703,466</u>	

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

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

Net change in net position - business-type activities	\$ 35,096
Activity of internal service fund due from business-type activities	(744)
Change in net position of business-type activities (page 37)	<u>\$ 34,352</u>

See accompanying notes to basic financial statements.

# SANTA CLARA VALLEY WATER DISTRICT

## Statement of Cash Flows

### Proprietary Funds

For the Year Ended June 30, 2013

(Dollars in Thousands)

	Business-type Activity			Governmental
	Water	State	Total	Internal
	Enterprise Fund	Water Fund		Service Funds
<b>Cash flows from operating activities:</b>				
Receipts from customers and users	\$ 155,349	\$ (412)	\$ 154,937	\$ 9,271
Payments to suppliers	(56,720)	(19,757)	(76,477)	(6,178)
Payments to employees	(52,863)	-	(52,863)	(3,555)
Payments for internal services used	(4,257)	-	(4,257)	-
Other receipts	3,397	1,122	4,519	96
Net cash provided by (used for) operating activities	<u>44,906</u>	<u>(19,047)</u>	<u>25,859</u>	<u>(366)</u>
<b>Cash flows from noncapital financing activities:</b>				
Property taxes received	4,685	19,553	24,238	-
Due from other governments	354	-	354	-
Transfers in from other funds	3,804	-	3,804	-
Transfers out to other funds	(75)	-	(75)	-
Net cash provided by noncapital financing activities	<u>8,768</u>	<u>19,553</u>	<u>28,321</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>				
Principal payments on general obligation bonds	(6,701)	-	(6,701)	-
Principal payments on other loans	19,162	-	19,162	-
Capital contributions received	4,610	-	4,610	-
Interest and fiscal agent fees paid	(8,553)	-	(8,553)	-
Acquisition of contract water rights	(7,389)	-	(7,389)	-
Acquisition and construction of capital assets	(42,104)	-	(42,104)	(1,424)
Net cash used by capital and related financing activities	<u>(40,975)</u>	<u>-</u>	<u>(40,975)</u>	<u>(1,424)</u>
<b>Cash flows from investing activities:</b>				
Sale of restricted investments	172	-	172	-
Rental income received	96	-	96	-
Interest received on cash and investments	1,163	-	1,163	9
Net cash provided by investing activities	<u>1,431</u>	<u>-</u>	<u>1,431</u>	<u>9</u>
Net increase (decrease) in cash and cash equivalents	14,130	506	14,636	(1,781)
Cash and cash equivalents, beginning of year	116,353	4,727	121,080	17,269
Cash and cash equivalents, end of year	<u>\$ 130,483</u>	<u>\$ 5,233</u>	<u>\$ 135,716</u>	<u>\$ 15,488</u>
<b>Cash and cash equivalents are reported on the Statement of Net Position as follows:</b>				
Cash and investments	\$ 130,483	\$ 5,233	\$ 135,716	\$ 15,488
Restricted cash and investments	6,629	-	6,629	-
Less cash and investments not meeting the definition of cash equivalents	(6,629)	-	(6,629)	-
Cash and cash equivalents, end of year	<u>\$ 130,483</u>	<u>\$ 5,233</u>	<u>\$ 135,716</u>	<u>\$ 15,488</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ 25,906	\$ (20,249)	\$ 5,657	\$ (1,686)
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>				
Depreciation and amortization	22,065	944	23,009	1,130
Other receipts	3,397	1,122	4,519	96
<b>Change in operating assets and liabilities:</b>				
Decrease in deposits and other assets	(183)	-	(183)	-
(Increase)/decrease in accounts receivable	(1,609)	(412)	(2,021)	3
Increase in due to due from other funds	(710)	-	(710)	(51)
(Increase)/decrease in property tax receivable	24	-	24	-
Decrease/(increase) in prepaid asset	-	-	-	(16)
Decrease/(increase) in inventory	32	-	32	(10)
Decrease in accounts payable	(3,323)	(364)	(3,687)	(242)
Increase/(decrease) in accrued liabilities	568	(88)	480	(5)
Decrease in deposits payable	186	-	186	-
Increase in claims payable	-	-	-	544
Increase in litigation claim	323	-	323	-
Increase/(decrease) in other post employment benefits & compensated absences	(1,770)	-	(1,770)	(129)
Net cash provided (used) by operating activities	<u>\$ 44,906</u>	<u>\$ (19,047)</u>	<u>\$ 25,859</u>	<u>\$ (366)</u>
<b>Noncash investing, capital, and financing activity:</b>				
Purchase of capital assets on account	\$ 31	\$ -	\$ 31	\$ -

See accompanying notes to basic financial statements.

**SANTA CLARA VALLEY WATER DISTRICT**

Statement of Fiduciary Net Position

Agency Funds

June 30, 2013

(Dollars in Thousands)

**ASSETS**

Cash and investments (Note 3)	\$ 171
Total assets	<u>171</u>

**LIABILITIES**

Deposits payable	171
Total liabilities	<u>\$ 171</u>

See accompanying notes to basic financial statements.

# **SANTA CLARA VALLEY WATER DISTRICT**

## **Notes to Basic Financial Statements**

**For the Year Ended June 30, 2013**

### **(1) THE FINANCIAL REPORTING ENTITY**

#### **(a) Description of the Reporting Entity**

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

The District is governed by a seven member Board of Directors (District Board). Five of the members are elected from the area of each of the five District supervisorial districts and two members are appointed from specific geographic areas by the Board of Supervisors to represent the District at large. The term of office for the directors is four years.

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

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

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

#### **(b) Blended Component Unit**

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

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

operations of the Corporation are accounted for in the special revenue and debt service funds.

Component unit financial information can be obtained from the General Accounting Unit of the District at 5750 Almaden Expressway, San Jose, CA 95118.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Presentation**

*Government-wide Financial Statements*

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

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities. All internal balances in the statement of net position have been eliminated except those representing balances between the government activities and business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated. However, transactions between the governmental and business-type activities have not been eliminated.

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

When both restricted and unrestricted net position is available, restricted resources are used for qualified expenditures for capital improvement projects before any unrestricted resources are spent.

*Fund Financial Statements*

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

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

The District reports the following governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District that are not accounted for through other funds.
- The *Watershed and Stream Stewardship Fund* is funded by the District's one percent property tax allocation and used to protect, restore, or enhance the watersheds, streams and natural resources therein. Starting from fiscal year 2008-09, this fund was redefined to consolidate all watershed stewardship activities from a portion of the District's ad valorem property tax allocation.

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

- ◆ The *Lower Peninsula Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek. The geographic area includes the Cities of Palo Alto, Los Altos, Los Altos Hills, Mountain View, and portions of Cupertino.
- ◆ The *West Valley Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe Slough, Sunnyvale West Outfall, Sunnyvale East Outfall, Calabazas Creek, San Tomas Aquino Creek, and Saratoga Creek. The geographic area includes portions of the Cities of Sunnyvale, Cupertino, Monte Sereno, San Jose, Santa Clara, Campbell, Saratoga and the Town of Los Gatos.
- ◆ The *Guadalupe Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe River. The major tributaries are Los Gatos Creek, Canoas Creek, Ross Creek, Guadalupe Creek, and Alamos Creek. The geographic area includes portions of the Cities of Santa Clara, San Jose, Campbell, Monte Sereno, and the Town of Los Gatos.
- ◆ The *Coyote Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of Coyote Creek. The major tributaries are Lower Penitencia Creek, Scott Creek, Berryessa Creek, Upper Penitencia Creek, Silver Creek, Thompson Creek, Fisher Creek, and Packwood Creek. The geographic area includes the City of Milpitas and portions of the Cities of San Jose and Morgan Hill.
- ◆ The *Uvas/Llagas Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Pajaro River in Santa Clara County. The major tributaries are Little Llagas Creek, Llagas Creek, west branch of Llagas Creek, Uvas-Carnadero Creek, Pescadero Creek, and Pacheco Creek. The Uvas/Llagas Watershed Fund is comprised of mostly unincorporated area and includes the City of Gilroy and portions of the Cities of San Jose and Morgan Hill.

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

- The *Clean, Safe Creeks and Natural Flood Protection Program* is used to manage specific revenues and expenditures approved with the passage of Measure B in November 2000.
- The *COP Debt Service Fund* is used to account for monies being held for reserve requirements and arbitrage rebate for the District's debt payments.
- The *COP Construction Fund* is used to account for COP proceeds used for the construction of major capital projects with their respective watersheds.

The District reports the following proprietary funds:

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

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

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

**(b) Basis of Accounting**

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

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

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

For its business-type activities and enterprise fund, the District has elected, under Governmental Accounting Standard's Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water enterprise fund is the sale of water to outside customers and of the District's internal service funds are charges for services provided to internal departments. Operating expenses for the enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Agency funds are used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds. Funds held in the Deposit Fund use the accrual method of accounting.

**(c) Noncurrent Governmental Assets/Liabilities**

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide statement of net position.

**(d) Cash and Investments**

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

The District reported investments in nonparticipating interest earnings contracts (including guaranteed investment contracts) at cost, investments that mature beyond one year from the date of acquisition at fair value, and investments that mature within one year or less from the

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

date of acquisition at amortized cost. The fair value of investments is based on current market prices.

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

**(e) Inventory**

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

**(f) Capital Assets**

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets of governmental activities include pipelines, channel linings, floodwalls, levees, bridge flood proofing, box culverts and re-vegetation. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

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

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

**(g) Amortization of Contract Water Rights**

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

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**(h) Amortization of Water Banking Rights**

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

**(i) Amortization of Water Delivery Rights**

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

**(j) Receivables**

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

**(k) Due from Other Governments**

Amounts due from other governments represent amounts due from various government agencies for reimbursement of the District's expenditures/expenses in association with construction projects.

**(l) Accrued Vacation and Sick Leave Pay**

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

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

**(m) Bond Premiums, Discounts and Issuance Costs**

Water Enterprise bond discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Issuance costs are reported as deferred charges.

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

On the statement of net position and the statement of activities the 2004 COP, 2007A COP, and 2012A COP premiums, as well as issuance costs, are deferred and amortized over the life of the certificates. COP payable are reported net of the applicable bond premium. Issuance costs are reported as deferred charges.

**(n) Accounting for Encumbrances**

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

**(o) Net position**

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

**(p) 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.

**(q) New Pronouncements**

***Future Accounting Pronouncements:***

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

**GASB Statement No. 65** – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standard that reclassify, as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is not effective until June 30, 2014. The District has not determined the effect of this Statement.

**GASB Statement No. 66** – In March 2012, GASB issued Statement No. 66, *Technical Corrections- 2012- an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is not effective until June 30, 2014. The District has not determined the effect of this Statement.

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**GASB Statement No. 67** – In June 2012, GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide post-employment benefits other than pensions. This Statement is not effective until June 30, 2014. The District has not determined the effect of this Statement.

**GASB Statement No. 68** – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of this Statement is to improve accounting and financial reporting by state and local government for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trust or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is not effective until June 30, 2015. The District has not determined the effect of this Statement.

**GASB Statement No. 69** – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for government combinations and disposals of government operations. The Statement provides authoritative guidance on a variety of government combinations including mergers, acquisitions, and transfers of operations. This Statement is not effective until June 30, 2015, The District has not determined the effect of this Statement.

**GASB Statement No. 70** – In April 2013, GASB issued Statement no. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the governmental will be required to make payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated futures outflows can be established, the amount of the liability to be recognized should be discounted present value of the minimum amount within the range. This Statement is not effective until June 30, 2014. The District has not determined the effect of this Statement.

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**(3) CASH AND INVESTMENTS**

Total District cash and investments at June 30, 2013 are as follows (in thousands):

Statement of Net Position:	
Cash and investments	\$ 475,029
Restricted cash and investments	23,508
Statement of Fiduciary Net Position:	
Cash and investments	171
	<u>\$ 498,708</u>

**Investments**

At June 30, 2013, cash and investments consist of the following (in thousands):

U.S. Government Agencies	\$ 360,879
U.S. Treasury Obligations	20,461
Medium Term Notes	9,108
Local Agency Investment Fund	66,552
Guaranteed Investment Contracts	4,745
Santa Clara County Investment Pool	11
Mutual Funds	39,055
Money Market Funds	454
Total Investments	<u>501,265</u>
Carrying amount of cash	(2,557)
Total Cash and Investments	<u>\$ 498,708</u>

Note: Negative carrying amount of cash was caused by the issuance of accounts payable checks on Friday, June 28, 2013. Majority of these checks were not expected to clear the bank until Monday, July 1, 2013. Only portion of the total amount of accounts payable checks issued on June 28, 2013 was transferred from the investment pool to the regular checking account on June 28, 2013 resulting in a negative cash balance. The remaining amount was transferred the following business day.

As of June 30, 2013, the fair market value of the District's investment in the State investment pool (LAIF) is \$66,552,000 which consists of \$50,014,000 in non-restricted cash and \$16,538,000 in restricted bond proceeds. The \$16.5 million bond proceeds are related to the 2012A Certificate of Participation Acquisition and Construction fund (\$10.3 million) and Debt Service Reserve fund (\$6.2 million). The total amount invested by all public agencies in LAIF at that date is \$58,803,312,000. Of that amount, 98.04 percent is invested in non-derivative financial products and 1.96 percent in asset-backed securities and medium-term and short-term structured notes. The Local Investment Advisory Board (Board) has oversight

**SANTA CLARA VALLEY WATER DISTRICT**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2013**

responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in LAIF.

As of June 30, 2013, the District's investment in the Santa Clara County Investment Pool (Pool) is \$11,000 which is restricted for payment of the 1963 water utility bonds. The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool. Participants' equity in the Pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. The value of the District shares in the Pool, is determined on an amortized cost basis, which is different than the fair value of the District's position in the Pool. The District's investment in the Pool is stated at fair value, available upon demand and considered a cash equivalent.

**Authorized Investments by the District**

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Government Agency Issues (A)	5 years	N/A	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	1 year	AA-	30%	3.6%
				\$100,000 & FDIC
Nonnegotiable Certificates of Deposit (B)	1 year	N/A	5%	Membership
Collateralized Repurchase Agreements	30 days	AA-	None	None
Medium Term Notes	3 years	AA-	15%	1.8%
Taxable Municipal Obligations	5 years	AAA	None	12%
California Local Agency Investment Fund (C)	N/A	N/A	(B)	(B)
Mutual Funds	N/A	AAA	10%	10%
Money Market Account with Union Bank	N/A	N/A	None	12%

(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), and Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation of America and the Tennessee Valley Authority.

(B) District's investment policy is still in the process of being revised to match the FDIC limit of \$250,000.

(C) LAIF will accept no more than \$50 million of an agency's unrestricted funds while placing no constraints on funds

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**Restricted Cash and Investments for Bond Interest and Redemption**

Under the provisions of the District's revenue bond resolutions and Installment Purchase Agreement for the 2007B & 2012A Certificates of Participation (COP) and 2006A & 2006B Water Utility Revenue and Refunding Bonds, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee. As of June 30, 2013, the amount invested in assets held by fiscal agent amounted to \$7.5 million for certificates of participation and \$4.9 million for revenue bonds and was equal to or in excess of the amount required at that date.

As of June 30, 2013, the District also has \$0.4 million safe drinking water state revolving loan fund which is a reserve fund for debt service payment to the California State Department of Water Resources.

**Restricted Cash and Investments for Capital Projects**

The District has construction and acquisition funds from the 2012A Certificates of Participation (COP) which is used to pay for the capital projects on flood control and watershed improvements authorized by the COP indenture. At June 30, 2013, the balance of this fund is \$10,349,000. The District has also issued commercial paper to provide for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District. At June 30, 2013, the balance of the unspent commercial paper proceeds is \$24,000.

**Restricted Cash and Investments for Watershed Management Projects**

The District has entered into certain cost sharing agreements with the U.S. Army Corps of Engineers (the Corps). Under these agreements the District is required to deposit monies into escrow accounts to be used by the Corps for watershed management projects. At June 30, 2013 the District's restricted deposits held in escrow for construction of the Guadalupe Watershed and Clean Safe Creek & Natural Flood management projects amounted to \$291,000.

**Authorized Investments by Debt Agreements**

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

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

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

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

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

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

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

(E) Repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA's or FHLMC's 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

**SANTA CLARA VALLEY WATER DISTRICT**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2013**

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

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

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

**Interest Rate Risk**

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

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

	Total	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. Government Agencies	\$ 294,751	\$ 125,659	\$ 79,145	\$ 89,947	\$ -
U.S. Government Agencies - Callable	66,128	-	7,594	58,534	-
U.S. Treasury Obligations	20,461	-	-	20,062	399
Medium Term Notes	9,108	-	-	9,108	-
Local Agency Investment Fund	66,552	66,552	-	-	-
Guaranteed Investment Contracts	4,745	-	-	-	4,745
Santa Clara County Investment Pool	11	11	-	-	-
Mutual Funds	39,055	39,055	-	-	-
Money Market Funds	454	454	-	-	-
<b>Total Investments</b>	<b>\$ 501,265</b>	<b>\$ 231,731</b>	<b>\$ 86,739</b>	<b>\$ 177,651</b>	<b>\$ 5,144</b>

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**Credit Risk**

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

Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements and the actual rating as of June 30, 2013 for each investment type as provided by Standard and Poor's (in thousands):

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end			
				AAA	AA+	AA	Not Rated
U.S. Government Agencies	\$ 360,879	AA-	-	-	\$ 360,879	-	-
U.S. Treasury Obligations	20,461	N/A	20,461	-	-	-	-
Medium Term Notes	9,108	AA-	-	3,124	-	5,984	-
Local Agency Investment Fund	66,552	N/A	-	-	-	-	66,552
Guaranteed Investment Contracts	4,745	N/A	-	-	-	-	4,745
Santa Clara County Investment Pool	11	N/A	-	-	-	-	11
Mutual Funds	39,055	AAA	-	39,055	-	-	-
Money Market Funds	454	N/A	-	-	-	-	454
<b>Total Investments</b>	<b>\$ 501,265</b>		<b>\$ 20,461</b>	<b>\$ 42,179</b>	<b>\$ 360,879</b>	<b>\$ 5,984</b>	<b>\$ 71,762</b>

**Concentration of Credit Risk**

The District's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code. However, the District is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual District Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2013, those investments consisted of (in thousands):

Issuer	Investment Type	Reported Amount
<b>Government-Wide</b>		
Federal Home Loan Mortgage Corp.	U.S. Government Agency	\$84,128
Federal National Mortgage Association	U.S. Government Agency	145,941
Federal Home Loan Bank	U.S. Government Agency	88,980
Federal Farm Credit Bank	U.S. Government Agency	41,830

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**Custodial Credit Risk**

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

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

**(4) REIMBURSEMENT OF CAPITAL COSTS**

The District derives certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following is a summary of such reimbursements in fiscal year 2012/13 (in thousands):

	Governmental Activity	Business Type Activity
Local Agencies:		
City of Morgan Hill	\$ 782	\$ -
San Benito County Water District	-	721
State Agency:		
Department of Water Resources	4,787	3,889
Federal Agency:		
US Department of Agriculture, National Resource Conservation Service	10,188	-
Total	\$ 15,757	\$ 4,610

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**(5) INVESTMENT INCOME**

The District earns income from the investment of cash not required for current expenditures. Beginning after June 15, 1997, the Governmental Accounting Standard Board issued GASB pronouncement number 31 to establish accounting and financial reporting standards for all investments. One provision of this standard was to report investments at fair value in the balance sheets. Because of this requirement, investment income must be adjusted upwards or downwards to reflect the fair value change from one fiscal year to the next fiscal year. In making the adjustment, the investment income earned directly by the investments is modified.

The following represents the investment income as reported in the financial statements, the current year GASB 31 fair value adjustment, and the unadjusted investment income at June 30, 2013 (in thousands):

	<u>Interest as Reported</u>	<u>FY 2013 GASB 31 Fair Value Adjustment</u>	<u>Interest Earned Before Adjustment</u>
<b>Fund:</b>			
General	\$ 3	\$ (89)	\$ 92
Watershed & Stream Steward	249	(685)	934
Clean, Safe, Creek	31	(904)	935
COP Debt Service	1,496	-	1,496
COP Construction	6	-	6
Water Enterprise	1,163	(676)	1,839
Equipment	3	(17)	20
Risk Insurance	6	(69)	75
Total Interest	<u>\$ 2,957</u>	<u>\$ (2,440)</u>	<u>\$ 5,397</u>

**SANTA CLARA VALLEY WATER DISTRICT**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2013**

**(6) CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2013 was as follows (in thousands):

	Balance July 1, 2012	Additions	Deletions	Transfers / Reclassified	Balance June 30, 2013
<b>Governmental Activities</b>					
Nondepreciable capital assets:					
Land	\$ 156,277	\$ 1,178	\$ -	\$ 250	\$ 157,705
Intangibles - easement	2,554	478	-	-	3,032
Construction in progress	260,037	42,971	-	(1,790)	301,218
Total nondepreciable capital assets	<u>418,868</u>	<u>44,627</u>	<u>-</u>	<u>(1,540)</u>	<u>461,955</u>
Depreciable capital assets:					
Buildings	37,504		-	-	37,504
Structures and improvements	713,403	-	-	1,540	714,943
Equipment:					
Governmental funds	20,542	606		-	21,148
Internal service funds	19,005	1,429	(630)	-	19,804
Total depreciable capital assets	<u>790,454</u>	<u>2,035</u>	<u>(630)</u>	<u>1,540</u>	<u>793,399</u>
Less accumulated depreciation					
Buildings	(9,389)	(750)	-	-	(10,139)
Structures and improvements	(75,947)	(8,399)	-	-	(84,346)
Equipment:					
Governmental funds	(13,577)	(1,334)	-	-	(14,911)
Internal service funds	(13,524)	(1,130)	625	-	(14,029)
Total accumulated depreciation	<u>(112,437)</u>	<u>(11,613)</u>	<u>625</u>	<u>-</u>	<u>(123,425)</u>
Net depreciable capital assets	<u>678,017</u>	<u>(9,578)</u>	<u>(5)</u>	<u>1,540</u>	<u>669,974</u>
Total capital assets, net	<u>\$ 1,096,885</u>	<u>\$ 35,049</u>	<u>\$ (5)</u>	<u>\$ -</u>	<u>\$ 1,131,929</u>
<b>Business-type activity</b>					
Nondepreciable capital assets:					
Land	\$ 17,594	\$ -	\$ -	\$ -	\$ 17,594
Construction in progress	294,648	41,849	-	(24,957)	311,540
Total nondepreciable capital assets	<u>312,242</u>	<u>41,849</u>	<u>-</u>	<u>(24,957)</u>	<u>329,134</u>
Depreciable capital assets:					
Contract water and storage rights	157,674	7,389	-	-	165,063
Buildings	2,992	-	-	-	2,992
Structures and improvements	613,468	-	-	24,957	638,425
Equipment	21,672	286	(96)	-	21,862
Total depreciable capital assets	<u>795,806</u>	<u>7,675</u>	<u>(96)</u>	<u>24,957</u>	<u>828,342</u>
Less accumulated depreciation and amortization					
Contract water and storage rights	(99,802)	(9,812)	-	-	(109,614)
Buildings	(233)	(60)	-	-	(293)
Structures and improvements	(208,302)	(11,698)	-	-	(220,000)
Equipment:	(14,263)	(1,438)	64	-	(15,637)
Total accumulated depreciation and amortization	<u>(322,600)</u>	<u>(23,008)</u>	<u>64</u>	<u>-</u>	<u>(345,544)</u>
Net depreciable capital assets	<u>473,206</u>	<u>(15,333)</u>	<u>(32)</u>	<u>24,957</u>	<u>482,798</u>
Total capital assets, net	<u>\$ 785,448</u>	<u>\$ 26,516</u>	<u>\$ (32)</u>	<u>\$ -</u>	<u>\$ 811,932</u>

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

During fiscal year 2012-13, new construction in progress increased by \$41.2 million in the governmental activities. The breakdown of additions to the construction in progress was as follows: \$1.3 million to the general fund, \$22.8 million to the watersheds, and \$17.1 million to the Clean Safe Creek & Natural Flood Protection Fund. There were 44 projects in progress during the fiscal year with the major projects listed below (in millions):

- Lower Silver Creek-R5-6 N. Babb to Cunningham - \$19.2
- Upper Llagas Creek Design Buena Vista to Wright Avenue - \$5.2
- Permanente Creek Bat Foothill Clean Safe Creek - \$2.9
- Sunnyvale East and West Channel - \$2.1
- Guadalupe River-Upper, Southern Pacific Railroad Bridge to Blossom Hill Road (Reach 7-12) - \$2.0
- Berryessa Calaveras/Old Piedmont Corridor - \$1.7
- Lower Berryessa Creek Lower Penitencia Calaveras - \$1.6
- Almaden and Winfield Small Capital Improvements - \$1.1
- San Francisquito Creek Bat Shoreline - \$1.1
- San Francisquito Construction - \$1.1

New construction in progress increased in the business-type activities by \$16.9 million. Forty-four projects were in progress during the fiscal year with major project listed below (in millions):

- Silicon Valley Advanced Water Purification Center - \$13.8
- Water Protection Project - \$4.5
- Pipeline Rehabilitation - \$4.1
- Anderson Dam Seismic Retrofit - \$ 4.0
- Pacheco Pumping Plant Adjustable Speed Drives Replacement - \$2.5
- Rinconada Water Treatment Plant Reliability Improvement - \$2.2
- Rinconada Water Treatment Plant Facility Renewal Program Primary Electrical System - \$1.9
- Pacheco Water Plant Maintenance Building - \$1.5
- South County Recycled Water Plant - \$1.3

Depreciation expense was charged to projects of the primary government as follows (in thousands):

General government	\$ 2,190
Watersheds	8,293
Capital assets held by the District's internal service funds are charged to the various functions based on their usage of assets.	<u>1,130</u>
Total depreciation expense – governmental activities	<u>\$11,613</u>
 Total depreciation and amortization expense – business-type activity	
Water enterprise	<u>\$23,008</u>

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**(7) SHORT-TERM AND LONG-TERM LIABILITIES**

**(a) Short-term debt**

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

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

As of June 30, 2013, the outstanding non-taxable commercial paper issued was \$26.5 million with an interest rate of 0.14% to 0.16% maturing September 5, 2013, while the outstanding taxable commercial paper was \$9.6 million with interest rate of 0.18% maturing on September 5, 2013. The new maturity date of both the taxable and non-taxable commercial papers is December 4, 2013 with interest rate of 0.10% to 0.15%.

The District's short-term debt outstanding consists of the following, as of June 30, 2013 (in million):

	<u>Authorized</u>	<u>Issued</u>	<u>Available</u>
Commercial Paper Program	\$100	\$36.1	\$63.9

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**(b) Long-term liabilities**

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

<u>Type of indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
<b>General long-term obligations</b>					
Certificates of participation					
2004A Certificates of participation	2024	2.5 - 5%	32,965	\$ 10,825	\$ 1,485
2007A Certificates of participation	2030	4% - 5%	78,780	65,310	2,575
2012A Certificates of participation	2024	3% - 5%	52,955	46,965	3,995
Compensated absences				8,098	1,725
Claims payable				6,679	476
Other post employment benefits				4,320	-
Deferred amount on refunding				(4,519)	(343)
Premium on refunded debt				12,617	1,095
Total general long-term obligations				<u>\$ 150,295</u>	<u>\$ 11,008</u>
<b>Enterprise Fund Debt</b>					
2006A Water revenue bond	2035	3.5% - 5%	74,265	\$ 61,610	\$ 2,135
2006B Water revenue bond	2035	5.15%-5.31%	25,570	22,275	600
2007A Water revenue COP bond	2037	4% - 5.0%	77,270	71,650	1,580
2007B Water revenue COP bond	2037	5.55%-floating	53,730	48,245	1,120
Bond discount				(791)	(38)
Deferred amount on refunding				(2,196)	(123)
Deferred interest rate swap				(6,726)	(281)
Premium on debt issuance				2,541	106
Compensated absences				4,631	986
Other post employment benefits				2,746	-
Semitropic water banking agreement	2035		46,900	6,045	-
State revolving fund loan	2027		6,350	5,172	279
Litigation claim				7,062	-
Total enterprise fund debt				<u>\$ 222,264</u>	<u>\$ 6,364</u>

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

The following is a summary of changes in long-term liabilities as of June 30, 2013 (in thousands):

	<u>7/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2013</u>	<u>One Year</u>
<b>Governmental activities:</b>					
2003A COP	\$ 52,360	\$ -	\$ (52,360)	\$ -	\$ -
2004A COP	13,310	-	(2,485)	10,825	1,485
2007A COP	67,770	-	(2,460)	65,310	2,575
2012A COP	-	52,955	(5,990)	46,965	3,995
Compensated absences	8,217	4,845	(4,964)	8,098	1,725
Claims payable	6,130	1,052	(503)	6,679	476
Other post employment benefits	6,903	-	(2,583)	4,320	-
Deferred amount on refunding	(6,486)	(1,134)	3,101	(4,519)	(343)
Premium on refunded debt	5,538	8,947	(1,868)	12,617	1,095
	<u>\$ 153,742</u>	<u>\$ 66,665</u>	<u>\$ (70,112)</u>	<u>\$ 150,295</u>	<u>\$ 11,008</u>
Total governmental activities long-term liabilities	<u>\$ 153,742</u>	<u>\$ 66,665</u>	<u>\$ (70,112)</u>	<u>\$ 150,295</u>	<u>\$ 11,008</u>
<b>Business-type activities:</b>					
2006A revenue bonds	\$ 63,665	\$ -	\$ (2,055)	\$ 61,610	\$ 2,135
2006B revenue bonds	22,850	-	(575)	22,275	600
2007A COP revenue bonds	73,155	-	(1,505)	71,650	1,580
2007B COP revenue bonds	50,810	-	(2,565)	48,245	1,120
Bond discount on refunding	(829)	-	38	(791)	(38)
Deferred amount on refunding	(2,319)	-	123	(2,196)	(123)
Deferred interest rate swap	(7,007)	-	281	(6,726)	(281)
Premium on debt issuance	2,648	-	(107)	2,541	106
Compensated absences	4,722	3,783	(3,874)	4,631	986
Other post employment benefits	4,425	-	(1,679)	2,746	-
Semitropic water banking agreement	6,045	-	-	6,045	-
State revolving fund loan	5,445	-	(273)	5,172	279
Litigation claim	6,738	324	-	7,062	-
	<u>\$ 230,348</u>	<u>\$ 4,107</u>	<u>\$ (12,191)</u>	<u>\$ 222,264</u>	<u>\$ 6,364</u>
Total business-type activities long-term liabilities	<u>\$ 230,348</u>	<u>\$ 4,107</u>	<u>\$ (12,191)</u>	<u>\$ 222,264</u>	<u>\$ 6,364</u>

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

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

Year ending June 30:	Governmental activities		Business-type activity	
	Principal	Interest	Principal	Interest and amortization
2014	8,055	5,843	5,714	10,567
2015	8,355	5,480	5,971	10,313
2016	7,630	5,063	6,268	10,021
2017	8,020	4,681	6,565	9,717
2018	8,385	4,310	6,877	9,406
2019 - 2023	43,700	15,483	39,656	41,758
2024- 2028	28,245	6,411	49,823	31,565
2029- 2033	10,710	810	52,893	18,763
2034 - 2037	-	-	35,185	5,487
<b>Total Requirements</b>	<b>123,100</b>	<b>\$ 48,081</b>	<b>208,952</b>	<b>\$ 147,597</b>
Add: unamortized premium on issuance	\$ 12,617		2,541	
Less: unamortized discount and deferred amount on refunding	(4,519)		(2,987)	
Less: deferred interest rate swap	-		(6,726)	
Add: compensated absences	8,098		4,631	
Add: claims payable	6,679		-	
Add: other post employment benefits	4,320		2,746	
Add: semitropic water banking agreement	-		6,045	
Add: litigation claim	-		7,062	
<b>Total principal outstanding at June 30, 2013</b>	<b>\$ 150,295</b>		<b>\$ 222,264</b>	

**Governmental Activities**

The following provides a brief description of the District's debt for governmental activities outstanding as of June 30, 2013:

2003A Certificates of Participation

In February 2003, the District issued \$85,715,000 of Refunding and Improvement Certificates of Participation. The proceeds of the 2003A Certificates were used to refinance \$76,445,000 of the 1994A Certificates of Participation and new certificates were issued to finance the cost

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

of certain other flood control improvements. The District has pledged its flood control system's revenue to secure the semi-annual installments of debt service payment. The 2003A Certificates of Participation were refunded by the 2012A Certificates of Participation on November 13, 2012.

2004A Certificates of Participation

In January 2004, the District issued \$32,965,000 of Refunding and Improvement Certificates of Participation. The proceeds of the 2004A Certificates were used to refinance \$38,915,000 of the remaining 1994A Certificates of Participation and new certificates were issued to finance the cost of certain other flood control improvements. The District purchased a surety bond to fund the Debt Service Reserve Fund. The District has pledged its flood control system's revenue to secure the semi-annual installments of debt service payment.

2007A Certificates of Participation

In February 2007, the District issued \$78,780,000 of Refunding and Improvement Certificates of Participation, Series 2007A. The proceeds of the 2007A Certificates of Participation were used to refinance \$73,050,000 of the remaining 2000A and 2000B Certificates of Participation and new certificates were issued to finance the cost of certain other flood control improvements. The District purchased a surety bond to fund the Debt Service Reserve Fund. Additionally, the District used funds accumulated in the 2000A and 2000B Debt Service Reserve Fund to reduce the size of the 2007A issuance. As a result, the 2000A and 2000B Certificates of Participation are considered defeased and the liabilities have been removed from the Statement of Net position. The District has pledged its flood control system's revenue to secure the semi-annual installments of debt service payment.

2012A Certificates of Participation

In November 2012, the District issued \$52,955,000 of Refunding and Improvement Certificates of Participation, Series 2012A. The proceeds of 2012A Certificates of Participation were used to refinance \$52,360,000 of the 2003A Certificates of Participation and new certificates were issued to finance the cost of certain other flood control improvements. The District has pledged its flood control system's revenue to secure the semi-annual installments of debt service payment.

The current refunding resulted in a reduction in debt service payment of \$11,271,391 over the next 12 years and obtained an economic gain (difference between the present value of the old and new debt services payments) of \$6,950,218. Including the portion of the 2012A Certificate of Participation used to finance new improvements, the total aggregate reduction in debt service payments over the next 12 years is \$25,799.

Claims Payable

The District is self-insured and reports all its risk management activities in its Risk Management Internal Service Fund. Detailed information and calculation of the claims payable account balance are explained in Note 14, Risk Management.

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**Business-type Activity**

The following provides a brief description of the District's debt for business-type activity outstanding as of June 30, 2013:

2006A/B Water Enterprise Revenue Bonds

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

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

2007A/B Water Enterprise Revenue Certificates of Participation

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

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

Semitropic Water Banking Agreement

In December 1995, the Santa Clara Valley Water District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The Santa Clara Valley Water District's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering water. At June 30, 2013, the District has paid \$40.9 million towards the base fee obligation of this agreement.

State Revolving Fund Loan

In November 2004, the District entered into a loan agreement with the State of California Department of Water Resources, on behalf of State of California Department of Health Services, under the Safe Drinking Water State Revolving Fund Law of 1997 for \$6.3 million. The loan was used to fund the construction of filter-to-waste and wash water clarification projects at the Santa Teresa Water Treatment Plant. At June 30, 2013, the District has paid \$1.2 million towards the principal balance of this obligation.

Litigation Claim

In fiscal year 2009, the District recorded a liability of \$5.9 million, which was the potential judgment amount from the tentative ruling on the case Great Oaks Water Company vs. Santa Clara Valley Water District. On February 3, 2010, the judge issued Judgment After Trial and ordered the District to pay Great Oaks Water Company \$5.9 million plus post judgment interest of \$886.62 per day. The District recorded post judgment interest of \$160 thousand in fiscal year 2009-10, \$324 thousand in fiscal year 2010-11, \$325 thousand in fiscal year 2011-12, and \$324 thousand in fiscal year 2012-13. Additional information regarding this litigation is disclosed in Note 17 (a), Contingencies.

Compensated Absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized. Prior to fiscal year 2009, all funds reimbursed the general fund on a pro-rata basis of salary expense cost for the payment of these payouts at the end of each year and the funds were held in the reserve as designated for compensated absences. On June 24, 2008, the Board authorized the transfer of \$17.7 million from the compensated absences reserve to a trust fund to prefund other post employment benefits. Effective fiscal year 2008, the compensated absences liability for the year has been recognized in the District's enterprise funds.

Other Post Employment Benefits (OPEB)

The District provides post-employment healthcare benefits to retired employees and/or their surviving spouses in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors. The District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* during fiscal year 2007-08. OPEB expense and obligation are recognized in the proprietary funds in full accrual basis while governmental funds are in modified accrual basis. OPEB expense and obligation reported in government wide financial statements are recognized in full accrual basis. Additional information on OPEB is disclosed in Note 12, Post Employment Benefits.

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

Compliance with Bond Covenants

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

**(8) PROPERTY TAXES AND BENEFIT ASSESSMENTS**

The District derives certain revenues from the assessment of property tax parcel levies and the levy of benefit assessments and a special parcel tax. The property tax levy is composed of three categories: (1) a 1 percent tax allocation; (2) voter approved levy to service the 1963 Water General Obligation bonds (G.O. bonds); and (3) voter approved levy to repay capital and operating costs related to imported water from the State Water Project. Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments. In November 2000, voters approved a 15-year special parcel tax to fund the countywide Clean, Safe Creeks and Natural Flood Protection Program. The levy became effective July 1, 2001 and is based on the proportionate storm water runoff for each property.

Property tax and benefit assessment revenues recorded for the year ended June 30, 2013 are as follow (in thousands):

	General Fund	Special Revenue Funds	Water Enterprise Fund
Property taxes:			
1% tax allocation	\$ 5,486	\$ 55,647	\$ 4,678
Special parcel tax	-	36,093	-
Voter approved indebtedness:			
State water	-	-	19,515
G.O. bonds	-	-	7
Total taxes	<u>5,486</u>	<u>91,740</u>	<u>24,200</u>
Benefit assessments	<u>-</u>	<u>19,178</u>	<u>-</u>
Total property taxes and benefit assessments	<u>\$ 5,486</u>	<u>\$ 110,918</u>	<u>\$ 24,200</u>

The County is responsible for the assessment, collection, and apportionment of property taxes for the District. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). The District is responsible for determining the amount of benefit assessment, special parcel tax, and State Water Project Debt Service. Secured property taxes and benefit assessments are each payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for as collected and remitted by the District within the governmental fund revenues. The proprietary fund records property taxes as they are levied. Property taxes on

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

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

**(9) FUND BALANCES**

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

- Nonspendable fund balance includes net resources that cannot be spent because they are either a) not spendable because of their form b) must be maintained intact pursuant to legal or contractual requirements.
- Restricted fund balance includes amounts that are subject to limitations imposed by either a) creditors, grantors, contributors or laws and regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance includes spendable resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the District’s highest level of decision-making authority, the District Board, through adopted resolutions. Those constraints remain binding unless the District Board removes or changes in the same manner to previously commit those resources. These District Board’s actions must occur prior to June 30<sup>th</sup> of the applicable fiscal year.
- Assigned fund balance includes amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed. The intent can be established or changed at the discretion of the District Board, or an official designated for that purpose, the Chief Executive Officer, in accordance with the provisions of the Governance Policies of the Board, Policy No. EL-5, *Purchasing and Contracts*.
- Unassigned fund balance represents residual net resources that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

Spending Prioritization in Using Available Resources:

When an expenses is incurred for purposes for which both restricted resources and unrestricted resources net position are available, the District’s considers restricted resources to be spent first.

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

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

The various reserves and designations are established by actions of the Board of Directors and can be increased, reduced or eliminated by similar actions with the exception of encumbrances on the assigned fund balance, which can be reduced or eliminated without the action of the Board of Directors. The District's reserves amounts are reviewed annually to ensure compliance with the District's reserve policy. Changes to the restricted, committed and assigned reserves are presented to the Board of the Directors for review and approval. Detailed schedule of fund balances as of June 30, 2013 is as follows (in thousands):

	General	Watershed & Stream Steward	Clean, Safe Creek & Natural Flood Protection Program (CSC)	COP Debt Service	COP Con- struction	Total Govern- mental Funds
<b>Restricted Fund Balance:</b>						
Debt Service	\$ -	\$ -	\$ -	\$ 6,239	\$ -	\$ 6,239
Debt Service Proceeds	-	-	-	-	10,349	10,349
CSC-Encumbrance	-	-	15,634	-	-	15,634
CSC-Operating and Capital Contingencies	-	-	64,568	-	-	64,568
CSC-Other Activities	-	-	2,098	-	-	2,098
CSC-Special Purpose Environment Enhance	-	-	17,941	-	-	17,941
CSC-Newly Improved Creeks	-	-	5,393	-	-	5,393
CSC-Special Purpose Open Space Trails	-	-	7,600	-	-	7,600
CSC-Current Authorized Capital Projects	-	-	64,840	-	-	64,840
Total restricted fund balance	-	-	178,074	6,239	10,349	194,662
<b>Committed Fund Balance:</b>						
Operating & Capital Contingencies	7,234	62,578	-	-	-	69,812
Current Authorized Capital Projects	23	35,556	-	-	-	35,579
Total committed fund balance	7,257	98,134	-	-	-	105,391
<b>Assigned Fund Balance:</b>						
Encumbrances	4,187	32,815	-	-	-	37,002
Total assigned fund balance	4,187	32,815	-	-	-	37,002
Total fund balances	\$ 11,444	\$ 130,949	\$ 178,074	\$ 6,239	\$ 10,349	\$ 337,055

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**(10) NET POSITION**

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

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

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

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

Below is the detailed schedule of the proprietary funds' net position as of June 30, 2013 (in thousands):

	Water Enterprise Fund	State Projects Fund	Equipment Fund	Risk Management Fund
<b>Restricted Net Position</b>				
Debt Service	\$ 5,934	\$ -	\$ -	\$ -
State Revolving Loan Requirement	401	-	-	-
San Felipe Emergency Reserve	3,980	-	-	-
Operating Reserve	12,598	-	-	-
Rate Stabilization	1,539	-	-	-
State Water Projects	-	2,737	-	-
Encumbrances	-	2,942	-	-
Total restricted net position	<u>24,452</u>	<u>5,679</u>	<u>-</u>	<u>-</u>
<b>Unrestricted Net Position</b>				
Operating & Capital Contingencies	24,285	-	1,154	-
Currently Authorized Projects	23,614	-	-	-
Property Self-Insurance/Catastrophic	-	-	-	6,236
Floating Rate Debt Payment Stabilization	462	-	-	-
Supplemental Water Supply	3,126	-	-	-
Encumbrances	50,422	-	1,000	57
Total unrestricted net position	<u>101,909</u>	<u>-</u>	<u>2,154</u>	<u>6,293</u>
<b>Net investment in capital assets</b>	<u>553,962</u>	<u>21,721</u>	<u>5,769</u>	<u>6</u>
<b>Net Position</b>	<u>\$ 680,323</u>	<u>\$ 27,400</u>	<u>\$ 7,923</u>	<u>\$ 6,299</u>

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**(11) EMPLOYEES' RETIREMENT PLAN**

**Plan Description**

All permanent employees are eligible to participate in the miscellaneous plan with the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries based on member's years of service, age and final compensation. District employees vest after five years of service and are eligible to receive retirement benefits at age fifty. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District's ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95811.

**Funding Policy**

District employees are required to contribute 8.0 percent of their annual covered salary to CalPERS. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the District for fiscal year 2012-13 was 16.694 percent with one-time adjusted rate 16.071 percent for the period of January 1, 2013 to June 30, 2013

In January 2003, the District amended its contract with CalPERS to include the enhanced retirement formula of 2.5 percent at 55. In December 2011, the District and its bargaining units agreed on new three year Memorandum of Understanding (MOU), January 1, 2012 to December 31, 2014. The current MOUs implemented a contract amendment with CalPERS to add a second-tier retirement formula of 2.0 percent at 60. District employees hired on or after March 19, 2012 are covered under this formula with a required contribution of 7.0 percent of their annual covered salary to CalPERS. Under the Public Employees' Pension Reform Act of 2013 (PEPRA), District employees hired after January 1, 2013 will have a third-tier retirement formula of 2.0 percent at 62 and they are required to contribute 6.75% of their annual covered salary to CalPERS. In addition, the current MOUs require all District employees to contribute 3.0 percent of their salary to reimburse the District's annual required employer contribution. The contribution requirements of plan members are established by State statute and employer contribution rate is established and may be amended by CalPERS.

**Annual Pension Cost**

For fiscal year 2012-13, the District's annual pension cost of \$12,611,256 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

expenses) and (b) projected annual salary increases that vary by duration of service. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of CalPERS assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. All annual pension costs are paid upon receipt of invoices.

Year	(APC)	APC Contributed	Obligation
6/30/2011	\$ 11,325	100%	\$ -
6/30/2012	14,379	100%	-
6/30/2013	12,611	100%	-

**FUNDED STATUS OF PLAN**

(Dollars in Thousands)

Actuarial Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability/ (Excess Assets) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	Unfunded (Overfunded) Actuarial Accrued Liability As a % of Payroll [(a)-(b)]/(c)
6/30/2009	\$ 458,952	\$ 375,014	\$ 83,938	81.7%	\$ 81,324	103.2%
6/30/2010	487,009	400,422	86,587	82.2%	81,624	106.1%
6/30/2011	528,826	429,944	98,882	81.3%	80,604	122.7%

**(12) POST-EMPLOYMENT BENEFITS**

The District provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses, and to certain employees who retire due to disability who meet the eligibility requirements and elect the option. The District must be the employee's last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay. As of June 30, 2013, there were 380 retirees and surviving spouses receiving these health care benefits.

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

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



**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

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

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

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

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

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

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

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

#### **Funding Policy**

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

#### **Annual OPEB Cost and Net OPEB Obligation**

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

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

The following table shows the components of the District's annual OPEB cost for fiscal year 2012-13, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution		\$	10,964,500
Interest on net OPEB obligation			833,400
Adjustment to annual required contribution			<u>(717,100)</u>
Annual OPEB cost (expense)			11,080,800
Contributions made – FY13 cost	\$ (11,872,894)		
Contributions made – FY12 accrual	( 1,999,641)		
Contributions made – Prior years' unfunded ARC	<u>( 1,470,684)</u>		
Total Contributions made in FY13			<u>( 15,343,219)</u>
Increase (decrease) in Net OPEB obligation			( 4,262,419)
Net OPEB obligation, June 30, 2012			<u>11,328,192</u>
Net OPEB obligation, June 30, 2013			<u>\$ 7,065,773</u>

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

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
6/30/2011	\$ 13,930,369	73.03%	\$ 9,927,690
6/30/2012	11,095,000	87.38%	11,328,192
6/30/2013	11,080,800	138.47%	7,065,773

**Funded Status and Funding Progress**

As of June 30, 2011, the latest valuation date, the funded status of the OPEB plan, was as follows:

Actuarial accrued liability (AAL)		\$	156,061,200
Actuarial value of plan assets		\$	32,273,200
Unfunded actuarial accrued liability (UAAL)		\$	123,788,000
Funded ratio (actuarial value of plan assets/AAL)			21%
Covered payroll		\$	81,761,500
UAAL as a percentage of covered payroll			151%

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

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

**Actuarial Methods and Assumptions**

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

The June 30, 2011 actuarial valuation used the Entry Age Normal (EAN) cost method. The actuarial assumptions included a discount rate of 7.5% and a 3.25% inflation rate. Healthcare cost trend rates ranged from an initial rate range of 8% to 4.5%. The unfunded liability is being amortized as a percent of payroll over 30 years on a closed basis. The remaining years in amortization period at June 30, 2013 was 25 years.

**(13) RISK MANAGEMENT**

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

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

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

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2013, the liability for self-insurance claims was \$6,679,000. This liability is the District's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

Changes in the reported liability since June 30, 2011 are as follows (in thousands):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2011	\$ 2,431	\$ 4,388	\$ 6,819
Current year premiums, incurred claims and changes in estimates	(339)	221	(118)
Claim payments	(233)	(338)	(571)
Claims payable at June 30, 2012	<u>1,859</u>	<u>4,271</u>	<u>6,130</u>
Current year premiums, incurred claims and changes in estimates	1,273	(210)	1,063
Claim payments	(221)	(293)	(514)
Claims payable at June 30, 2013	<u>\$ 2,911</u>	<u>\$ 3,768</u>	<u>\$ 6,679</u>

**(14) DUE TO AND FROM OTHER FUNDS**

The summary of current due to/from other funds, as of June 30, 2013, follows (in thousands):

Due to other funds	Due from other funds	Amount	Due within one year
General Fund	Watershed & Stream Stewardship	\$ 781	\$ 781
General Fund	Clean Water Creek & Natural Flood	283	283
General Fund	Water Enterprise	1,699	1,699
General Fund	Equipment	70	70
General Fund	Risk Insurance	46	46
		<u>\$ 2,879</u>	<u>\$ 2,879</u>

These amounts represent certain expenditures in the various funds that will be reimbursed by the general fund within one year and can be found on the governmental and proprietary funds balance sheets.

**(15) TRANSFERS IN AND OUT**

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

In the year ended June 30, 2013, \$16.2 million was transferred from the governmental funds to service debt payments; \$3.8 million was transferred for the Open Space credit on property tax receipts, \$0.6 million was transferred for the reimbursement OPEB expenses; and \$4.3 million was transferred to reimburse capital costs.

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

Interfund transfers for the year ended June 30, 2013, is as follows (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Watershed & Stream Stewardship	\$ 50
	Water Enterprise	75
Watershed & Stream Stewardship	Lower Peninsula Watershed	795
	West Valley Watershed	599
	Guadalupe Watershed	1,318
	Coyote Watershed	871
	Uvas/Llagas Watershed	144
	Clean Safe Creek & Natural Flood	445
	Watershed & Stream Stewardship	682
COP Debt Service Fund	General Fund	771
	Lower Peninsula Watershed	3,832
	West Valley Watershed	2,336
	Guadalupe Watershed	4,896
	Coyote Watershed	3,765
	Uvas/Llagas Watershed	611
Water Enterprise	General Fund	1,902
	Watershed & Stream Stewardship	1,902
Total interfund transfers		\$ 24,994

**(16) COMMITMENTS**

**(a) Contract and Purchase Commitments**

As of June 30, 2013, the proprietary funds had open purchase commitments of approximately \$54.4 million related to new or existing contracts and agreements. Governmental funds had encumbrances of approximately \$52.6 million as reflected in the accompanying basic financial statements. These encumbrances represent commitments for the expenditure of funds and do not represent expenditures or liabilities.

**(b) San Felipe Project Water Deliveries**

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

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

repayment of the San Felipe Division facilities from a water service contract to a repayment contract with fixed semi-annual payments. The semi-annual payments for January 2007

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

through July 2016 are \$7,466,867. The amended contract preserved the attributes of a water service contract for other Central Valley Project costs.

The estimated commitment for the payment of allocated capital and capital interest charges of the contracted water service component as of September 30, 2011 was \$26,775,130. The total commitment, including applicable interest, of the repayment contract was \$439,261,342. The remaining commitment as of June 30, 2013 was \$342,192,074.

**(c) Participation Rights in Storage Facilities**

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

The District pays the program capital costs when storing and recovering Tier 1 water. As of June 30, 2013, the District has paid \$40.9 million towards the base fee obligation of this agreement. During the first 10 years the District has a reservation for the full 35 percent allocation; by January 1, 2006, if the District's contributions towards the program capital costs did not equal \$46.9 million the District's permanent storage allocation will be reduced. The District decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

The District currently has a storage allocation of 350,000 acre-feet. As of June 30, 2013, the District has 291,283 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of \$20,518,750 has been recorded through fiscal year 2013.

**(17) CONTINGENCIES**

**(a) Litigation**

As a public entity and due to its size and its activities, at virtually all times, the District is a defendant, co-defendant, or cross-defendant in various court cases in which money damages are sought. The largest case in which the District is involved in currently is Great Oaks Water Company v. Santa Clara Valley Water District.

On February 3, 2010, the Honorable Kevin Murphy issued Judgment After Trial and decided that the District owes Great Oaks Water Company a refund of groundwater charges in the amount of \$4,623,096 plus interest at 7% per annum. The award of pre-judgment interest as of December 1, 2009 amounts to \$1,285,524. Judge Murphy also awarded post-judgment interest at the rate of \$886.62 per day until the date of the entry of judgment. Judge Murphy also decided that the District owes Great Oaks Water Company damages in the amount of \$1,306,830. Recovery of this damages amount is in the alternative to the award of refund described above, and is not subject to application of any interest.

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

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

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

Other than the case noted above, the outcome of other lawsuits is not presently determinable. Counsel for the District has indicated that material losses, if any, arising from these lawsuits are adequately provided with self-insured District funds or under indemnification agreements or insurance coverage and therefore, would not have material effect on June 30, 2013 basic financial statements.

**(b) Grants and Subventions**

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

**(c) Central Valley Project**

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

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

In compliance with the Central Valley Improvement Act (CVPIA), the District entered into negotiations, along with all other CVP contractors, with the U.S. Bureau of Reclamation for contract renewal. Because of concerns related to litigation challenging the renewal process, the District entered into an amended contract. The amendment maintained the basic

**SANTA CLARA VALLEY WATER DISTRICT**  
Notes to Basic Financial Statements (Continued)  
For the Year Ended June 30, 2013

provisions of the original contract, implemented provisions of CVPIA, and allowed the establishment of a fixed repayment for the San Felipe Division facilities.

**(d) Perchlorate**

In 2003, perchlorate was discovered at the Olin Corporation facility and over a wide area in the Llagas subbasin in South County, impacting a number of water supply wells. The investigation and clean-up of the contamination are under the jurisdiction of the Central Coast Regional Water Quality Control Board. As of November 2011, perchlorate is still present above the Maximum Contaminant Level in a few South County water supply wells and over a wide area of the subbasin. Olin's remedial efforts to date have been focused on clean-up of the site, including soil removal and groundwater treatment. Olin is in the process of beginning the clean-up of contaminated groundwater beyond the Olin site.

**(18) SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 15, 2013, which is the date of the financial statements were issued. There are no reportable subsequent events through this date.



**Required  
Supplementary  
Information**



**SANTA CLARA VALLEY WATER DISTRICT**  
Schedule of Funding Progress - Other Post Retirement Benefit Plan  
June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
( a )	( b )	( b-a )	( a/b )	( c )	( [b-a]/c )	
6/30/2007	\$ -	\$ 141,459,000	\$ 141,459,000	0.0%	\$78,300,000	180.7%
12/31/2008	19,580,319	150,156,794	130,576,475	13.0%	76,369,316	171.0%
6/30/2011	32,273,200	156,061,200	123,788,000	20.7%	81,761,500	151.4%

**SANTA CLARA VALLEY WATER DISTRICT**

Schedule of Revenues, Expenditures and  
Change in Fund Balances - Budget and Actual  
Budgeted Governmental Funds  
For the Year Ended June 30, 2013  
(Dollars in Thousands)

	General Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues:</b>				
Property taxes	\$ 4,550	\$ 4,550	\$ 5,486	\$ 936
Use of money and property:				
Investment income	18	18	3	(15)
Rental	-	-	-	-
Reimbursement of capital costs	-	-	-	-
Other	87	87	61	(26)
Total revenues	4,655	4,655	5,550	895
<b>Expenditures:</b>				
<b>Operating budget:</b>				
Operations and operating projects	44,469	44,469	40,896	3,573
Debt service:				
Principal repayment	604	604	608	(4)
Interest and fiscal charges	169	169	163	6
Total operating budget	45,242	45,242	41,667	3,575
<b>Capital budget:</b>				
Capital improvement projects	2,271	2,747	1,850	897
Total expenditures	47,513	47,989	43,517	4,472
Excess (deficiency) of revenues over (under) expenditures	(42,858)	(43,334)	(37,967)	5,367
<b>Other financing sources (uses):</b>				
Intra-district overhead reimbursement	45,225	42,000	39,492	(2,508)
Transfers in	-	-	125	125
Transfers out	(1,902)	(1,902)	(1,902)	-
Total other financing sources	43,323	40,098	37,715	(2,383)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	\$ 465	\$ (3,236)	(252)	\$ 2,984
<b>Reconciliation of GAAP and budgetary basis:</b>				
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			\$ (1,495)	
Capital improvement projects			(110)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			1,468	
Capital improvement projects			648	
Fund Balances, beginning of year			11,185	
Fund Balances, end of year			11,444	

Watershed & Stream Stewardship				Clean, Safe Creeks & Natural Flood Protection			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
\$ 46,000	\$ 46,000	\$ 55,647	\$ 9,647	\$ 35,861	\$ 35,861	\$ 36,093	\$ 232
729	729	249	(480)	962	962	31	(931)
-	-	1,208	1,208	159	159	215	56
22,500	22,500	10,336	(12,164)	13,600	13,600	5,421	(8,179)
2,365	2,365	1,327	(1,038)	-	-	27	27
<u>71,594</u>	<u>71,594</u>	<u>68,767</u>	<u>(2,827)</u>	<u>50,582</u>	<u>50,582</u>	<u>41,787</u>	<u>(8,795)</u>
45,824	46,468	40,915	5,553	8,162	9,267	6,942	2,325
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>45,824</u>	<u>46,468</u>	<u>40,915</u>	<u>5,553</u>	<u>8,162</u>	<u>9,267</u>	<u>6,942</u>	<u>2,325</u>
5,712	31,374	8,379	22,995	12,540	37,395	17,128	20,267
<u>51,536</u>	<u>77,842</u>	<u>49,294</u>	<u>28,548</u>	<u>20,702</u>	<u>46,662</u>	<u>24,070</u>	<u>22,592</u>
20,058	(6,248)	19,473	25,721	29,880	3,920	17,717	13,797
-	-	-	-	-	-	-	-
3,824	3,824	4,172	348	1,111	1,111	682	(429)
(3,013)	(3,013)	(2,634)	379	(398)	(398)	(445)	(47)
<u>811</u>	<u>811</u>	<u>1,538</u>	<u>727</u>	<u>713</u>	<u>713</u>	<u>237</u>	<u>(476)</u>
<u>\$ 20,869</u>	<u>\$ (5,437)</u>	21,011	<u>\$ 26,448</u>	<u>\$ 30,593</u>	<u>\$ 4,633</u>	17,954	<u>\$ 13,321</u>
		\$ (1,416)				\$ (514)	
		(16,921)				(4,521)	
		1,727				294	
		573				2,876	
		<u>125,975</u>				<u>161,985</u>	
		<u>130,949</u>				<u>178,074</u>	

See accompanying notes to required supplementary information

# SANTA CLARA VALLEY WATER DISTRICT

## Notes to Required Supplementary Information

For the Year Ended June 30, 2013

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

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

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

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

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

**Supplemental  
Information**



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

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

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# SANTA CLARA VALLEY WATER DISTRICT

## Schedule of Revenues, Expenditures and Change in Fund Balances

### Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Fund For the Year Ended June 30, 2013 (Dollars in Thousands)

	Lower Peninsula Watershed	West Valley Watershed
<b>Revenues:</b>		
Benefit assessments (Note 8)	\$ 4,632	\$ 2,936
Total revenues	<u>4,632</u>	<u>2,936</u>
<b>Expenditures:</b>		
<b>Debt service:</b>		
Interest and fiscal charges	4	1
Total expenditures	<u>4</u>	<u>1</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,628</u>	<u>2,935</u>
<b>Other financing sources (uses):</b>		
Transfers in (Note 16)	-	-
Transfers out (Note 16)	<u>(4,628)</u>	<u>(2,935)</u>
Total other financing sources (uses)	<u>(4,628)</u>	<u>(2,935)</u>
Net change in fund balances	-	-
Fund balances, beginning of year	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>

Guadalupe Watershed	Coyote Watershed	Uvas/Llagas Watershed	Total
\$ 6,215	\$ 4,639	\$ 756	\$ 19,178
<u>6,215</u>	<u>4,639</u>	<u>756</u>	<u>19,178</u>
2	2	1	10
<u>2</u>	<u>2</u>	<u>1</u>	<u>10</u>
6,213	4,637	755	19,168
-	-	-	-
(6,213)	(4,637)	(755)	(19,168)
<u>(6,213)</u>	<u>(4,637)</u>	<u>(755)</u>	<u>(19,168)</u>
-	-	-	-
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SANTA CLARA VALLEY WATER DISTRICT**

Schedule of Revenues, Expenditures and  
Change in Fund Balances - Budget and Actual  
Selected Watershed Activities Contained  
Within the Watershed and Stream Stewardship Fund  
For the Year Ended June 30, 2013  
(Dollars in Thousands)

	Lower Peninsula Watershed			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues:</b>				
Benefit assessments	\$ 4,634	\$ 4,634	\$ 4,632	\$ (2)
Total revenues	4,634	4,634	4,632	(2)
<b>Expenditures:</b>				
<b>Operating budget:</b>				
Debt service:				
Principal repayment	2,194	2,194	2,202	(8)
Interest and fiscal charges	1,648	1,648	1,635	13
Total operating budget	3,842	3,842	3,837	5
Total expenditures	3,842	3,842	3,837	5
Excess (deficiency) of revenues over (under) expenditures	792	792	795	3
<b>Other financing sources (uses):</b>				
Transfers out	(792)	(792)	(795)	(3)
Total other financing sources (uses)	(792)	(792)	(795)	(3)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	\$ -	\$ -	-	\$ -

West Valley Watershed				Guadalupe Watershed			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
\$ 2,936	\$ 2,936	\$ 2,936	-	\$ 6,216	\$ 6,216	\$ 6,215	\$ (1)
<u>2,936</u>	<u>2,936</u>	<u>2,936</u>	<u>-</u>	<u>6,216</u>	<u>6,216</u>	<u>6,215</u>	<u>(1)</u>
1,499	1,499	1,647	(148)	3,344	3,344	3,714	(370)
904	904	690	214	1,716	1,716	1,184	532
<u>2,403</u>	<u>2,403</u>	<u>2,337</u>	<u>66</u>	<u>5,060</u>	<u>5,060</u>	<u>4,898</u>	<u>162</u>
<u>2,403</u>	<u>2,403</u>	<u>2,337</u>	<u>66</u>	<u>5,060</u>	<u>5,060</u>	<u>4,898</u>	<u>162</u>
533	533	599	66	1,156	1,156	1,317	161
<u>(533)</u>	<u>(533)</u>	<u>(599)</u>	<u>(66)</u>	<u>(1,156)</u>	<u>(1,156)</u>	<u>(1,317)</u>	<u>(161)</u>
<u>(533)</u>	<u>(533)</u>	<u>(599)</u>	<u>(66)</u>	<u>(1,156)</u>	<u>(1,156)</u>	<u>(1,317)</u>	<u>(161)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SANTA CLARA VALLEY WATER DISTRICT**  
Schedule of Revenues, Expenditures and  
Changes in Fund Balances - Budget and Actual (Continued)  
Selected Watershed Activities Contained  
Within the Watershed and Stream Stewardship Fund  
For the Year Ended June 30, 2013  
(Dollars in Thousands)

	Coyote Watershed			Variance with Final Budget Favorable (Unfavorable)
	Original Budget	Final Budget	Budgetary Basis Actual	
<b>Revenues:</b>				
Benefit Assessments	\$ 4,641	\$ 4,641	\$ 4,639	\$ (2)
Total revenues	<u>4,641</u>	<u>4,641</u>	<u>4,639</u>	<u>(2)</u>
<b>Expenditures:</b>				
<b>Operating budget:</b>				
Debt service:				
Principal repayment	2,130	2,130	2,283	(153)
Interest and fiscal charges	<u>1,707</u>	<u>1,707</u>	<u>1,484</u>	<u>223</u>
Total operating budget	<u>3,837</u>	<u>3,837</u>	<u>3,767</u>	<u>70</u>
Total expenditures	<u>3,837</u>	<u>3,837</u>	<u>3,767</u>	<u>70</u>
Excess (deficiency) of revenues over (under) expenditures	<u>804</u>	<u>804</u>	<u>872</u>	<u>68</u>
<b>Other financing sources (uses):</b>				
Transfers out	<u>(804)</u>	<u>(804)</u>	<u>(872)</u>	<u>(68)</u>
Total other financing sources (uses)	<u>(804)</u>	<u>(804)</u>	<u>(872)</u>	<u>(68)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

Uvas / Llagas Watershed

Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
\$ 756	\$ 756	\$ 756	\$ -
<u>756</u>	<u>756</u>	<u>756</u>	<u>-</u>
479	479	482	(3)
<u>135</u>	<u>135</u>	<u>130</u>	<u>5</u>
<u>614</u>	<u>614</u>	<u>612</u>	<u>2</u>
<u>614</u>	<u>614</u>	<u>612</u>	<u>2</u>
<u>142</u>	<u>142</u>	<u>144</u>	<u>2</u>
<u>(142)</u>	<u>(142)</u>	<u>(144)</u>	<u>(2)</u>
<u>(142)</u>	<u>(142)</u>	<u>(144)</u>	<u>(2)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>



## **Water Enterprise Fund**

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

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# SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenses and  
Change in Net Position - Budget and Actual  
Water Enterprise Fund  
For the Year Ended June 30, 2013  
(Dollars in Thousands)

	Water Enterprise Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues:</b>				
Property taxes	\$ 3,820	\$ 3,820	\$ 4,685	\$ 865
Intergovernmental services	2,495	2,495	980	(1,515)
Ground water production charges	55,467	55,467	62,084	6,617
Treated water charges	81,946	81,946	92,359	10,413
Surface and recycled water revenue	1,427	1,427	1,275	(152)
Investment income	689	689	1,163	474
Capital reimbursements	2,836	2,836	4,610	1,774
Other	860	860	4,439	3,579
Total revenues	149,540	149,540	171,595	22,055
<b>Expenses:</b>				
<b>Current:</b>				
Operations and operating projects	112,403	119,875	114,157	5,718
<b>Debt Service:</b>				
Principal repayment	5,473	5,473	6,973	(1,500)
Interest and fiscal charges	9,914	9,914	8,554	1,360
<b>Capital outlay:</b>				
Capital improvement projects	41,961	69,491	56,334	13,157
Total expenses	169,751	204,753	186,018	18,735
Excess (deficiency) of revenues over (under) expenses	(20,211)	(55,213)	(14,423)	40,790
<b>Other financing (uses):</b>				
Transfers in	3,804	3,804	3,804	-
Transfers out	-	-	(75)	(75)
Excess (deficiency) of revenues and other financing sources over (under) expenses	\$ (16,407)	\$ (51,409)	\$ (10,694)	\$ 40,715
<b>Reconciliation of GAAP and budgetary basis:</b>				
Depreciation and amortization expense not budgeted			(22,064)	
Capitalized expenditures			49,524	
Debt principal and GAAP basis accruals for interest payable			6,649	
GAAP basis expenses and other liabilities			1,337	
Expenses of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(2,373)	
Capital improvement projects			(20,652)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			10,576	
Capital improvement projects			22,405	
Net position, beginning of year			645,615	
Net position, end of year			\$ 680,323	

State Water Fund				Total			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
\$ 19,000	\$ 19,000	\$ 19,515	\$ 515	\$ 22,820	\$ 22,820	\$ 24,200	\$ 1,380
-	-	-	-	2,495	2,495	980	(1,515)
-	-	-	-	55,467	55,467	62,084	6,617
-	-	-	-	81,946	81,946	92,359	10,413
-	-	-	-	1,427	1,427	1,275	(152)
-	-	-	-	689	689	1,163	474
-	-	-	-	2,836	2,836	4,610	1,774
1,000	1,000	1,122	122	1,860	1,860	5,561	3,701
20,000	20,000	20,637	637	169,540	169,540	192,232	22,692
23,381	23,381	22,247	\$ 1,134	135,784	143,256	136,404	6,852
-	-	-	-	5,473	5,473	6,973	(1,500)
-	-	-	-	9,914	9,914	8,554	1,360
-	-	-	-	41,961	69,491	56,334	13,157
23,381	23,381	22,247	1,134	193,132	228,134	208,265	19,869
(3,381)	(3,381)	(1,610)	1,771	(23,592)	(58,594)	(16,033)	42,561
-	-	-	-	3,804	3,804	3,804	-
-	-	-	-	-	-	(75)	(75)
\$ (3,381)	\$ (3,381)	\$ (1,610)	\$ 1,771	\$ (19,788)	\$ (54,790)	\$ (12,304)	\$ 42,486
		(944)				(23,008)	
		-				49,524	
		-				6,649	
		-				1,337	
		-				(2,373)	
		-				(20,652)	
		2,942				13,518	
		-				22,405	
		27,012				672,627	
		\$ 27,400				\$ 707,723	

## Internal Service Funds

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

**Equipment Fund** - to account for the maintenance and operation of the District's vehicle fleet, heavy construction, and information system equipment. Financing is provided through rental charges to operations based upon usage.

**Risk Management Fund** - to account for the monies set aside to pay for all claims, judgments, and premium costs. Financing is provided through premiums charged to District operations.

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# SANTA CLARA VALLEY WATER DISTRICT

## Combining Statement of Net Position

### Internal Service Funds

June 30, 2013

(Dollars in Thousands)

	Equipment	Risk Management	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments (Note 3)	\$ 2,607	\$ 12,881	\$ 15,488
Accounts receivable	-	1	1
Due from other funds (Note 14)	70	46	116
Prepaid assets	-	286	286
Inventory	70	-	70
Total current assets	<u>2,747</u>	<u>13,214</u>	<u>15,961</u>
Noncurrent assets:			
Capital assets (Note 6)			
Depreciable assets	19,787	18	19,805
Accumulated depreciation	(14,018)	(12)	(14,030)
Total noncurrent assets	<u>5,769</u>	<u>6</u>	<u>5,775</u>
Total assets	<u>8,516</u>	<u>13,220</u>	<u>21,736</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	262	41	303
Accrued liabilities	1	-	1
Claims payable (Note 13)	-	476	476
Other Debts (Note 7)	46	25	71
Total current liabilities	<u>309</u>	<u>542</u>	<u>851</u>
Non current liabilities:			
Claims payable (Note 14)	-	6,203	6,203
Other post employment benefits payable (Note 12)	117	92	209
Other Debts (Note 7)	167	84	251
Total non current liabilities	<u>284</u>	<u>6,379</u>	<u>6,663</u>
Total liabilities	<u>593</u>	<u>6,921</u>	<u>7,514</u>
<b>NET POSITION (Note 10)</b>			
Net investment in capital assets	5,769	6	5,775
Unrestricted	<u>2,154</u>	<u>6,293</u>	<u>8,447</u>
Total net position	<u>\$ 7,923</u>	<u>\$ 6,299</u>	<u>\$ 14,222</u>

# SANTA CLARA VALLEY WATER DISTRICT

## Combining Statement of Revenues, Expenses and Change in Fund Net Position Internal Service Funds

For the Year Ended June 30, 2013  
(Dollars in Thousands)

	Equipment	Risk Management	Total
<b>Operating revenues:</b>			
Vehicle service charges	\$ 3,834	\$ -	\$ 3,834
Computer equipment use charges	2,344	-	2,344
Self-insurance service charges	-	3,141	3,141
	<u>6,178</u>	<u>3,141</u>	<u>9,319</u>
<b>Operating expenses:</b>			
Administration and general	-	3,986	3,986
Equipment maintenance	5,890	-	5,890
Depreciation and amortization	1,129	-	1,129
	<u>7,019</u>	<u>3,986</u>	<u>11,005</u>
Operating (loss)	<u>(841)</u>	<u>(845)</u>	<u>(1,686)</u>
<b>Nonoperating revenues:</b>			
Investment income (Note 5)	3	6	9
Other	83	13	96
	<u>86</u>	<u>19</u>	<u>105</u>
Change in net position	(755)	(826)	(1,581)
Net position, beginning of year	<u>8,678</u>	<u>7,125</u>	<u>15,803</u>
Net position, end of year	<u>\$ 7,923</u>	<u>\$ 6,299</u>	<u>\$ 14,222</u>

# SANTA CLARA VALLEY WATER DISTRICT

## Combining Statement of Cash Flows

### Internal Service Funds

For the Year Ended June 30, 2013

(Dollars in Thousands)

	Equipment	Risk Management	Total
<b>Cash flows from operating activities:</b>			
Receipts from customers and users	\$ 6,147	\$ 3,124	\$ 9,271
Payments to suppliers	(4,048)	(2,130)	(6,178)
Payments to employees	(2,185)	(1,370)	(3,555)
Other receipts	83	13	96
Net cash provided (used) by operating activities	<u>(3)</u>	<u>(363)</u>	<u>(366)</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	<u>(1,424)</u>	<u>-</u>	<u>(1,424)</u>
<b>Cash flows from investing activities:</b>			
Interest received on cash and investments	<u>3</u>	<u>6</u>	<u>9</u>
Net increase/(decrease) in cash and cash equivalents	<u>(1,424)</u>	<u>(357)</u>	<u>(1,781)</u>
Cash and cash equivalents, beginning of year	4,031	13,238	17,269
Cash and cash equivalents, end of year	<u><u>\$ 2,607</u></u>	<u><u>\$ 12,881</u></u>	<u><u>\$ 15,488</u></u>
 <b>Reconciliation of operating income to net cash provided</b>			
<b>by operating activities:</b>			
Operating income (loss)	\$ (841)	\$ (845)	\$ (1,686)
<b>Adjustments to reconcile operating income (loss)</b>			
<b>to net cash provided by operating activities:</b>			
Depreciation and amortization	1,129	1	1,130
Other receipts	83	13	96
<b>Change in operating assets and liabilities:</b>			
Increase (decrease) in accounts receivable	-	3	3
Increase in Due to Due from other funds	(31)	(20)	(51)
Increase in prepaid assets	-	(16)	(16)
Increase in inventory	(10)	-	(10)
Decrease in accounts payable	(248)	6	(242)
Decrease in accrued liabilities	(5)	-	(5)
Decrease/(increase) in claims payable	(5)	549	544
Decrease in other post employment benefits and compensated absences	<u>(75)</u>	<u>(54)</u>	<u>(129)</u>
Net cash used for operating activities	<u><u>\$ (3)</u></u>	<u><u>\$ (363)</u></u>	<u><u>\$ (366)</u></u>

**SANTA CLARA VALLEY WATER DISTRICT**  
Schedule of Revenues, Expenses and  
Change in Fund Net Position - Budget and Actual  
Internal Service Funds  
For the Year Ended June 30, 2013  
(Dollars in Thousands)

	Equipment			Variance with Final Budget Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<b>Revenues:</b>				
Investment income	\$ 22	\$ 22	\$ 3	\$ (19)
Vehicle service charges	3,836	3,836	3,834	(2)
Computer equipment use charges	2,348	2,348	2,344	(4)
Gain on sale of fixed assets	80	80	83	3
Self-insurance service charges	-	-	-	-
Other	-	-	-	-
Total revenues	6,286	6,286	6,264	(22)
<b>Expenditures:</b>				
<b>Current:</b>				
Operations and operating projects	4,771	5,081	5,067	14
Capital equipment acquisition	2,408	2,408	2,324	84
Total expenditures	7,179	7,489	7,391	98
Excess (deficiency) of revenues over (under) expenditures	\$ (893)	\$ (1,203)	(1,127)	\$ 76
<b>Reconciliation of GAAP and budgetary basis:</b>				
Depreciation and amortization expense not budgeted			(1,129)	
Capitalized expenditures			1,429	
Net change in prepaid assets recognized on the GAAP basis			-	
GAAP basis expenses and other liabilities			72	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			23	
Capital improvement projects			(969)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			18	
Capital improvement projects			928	
Net position, beginning of year			8,678	
Net position, end of year			\$ 7,923	

Risk Management				Total			
Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Favorable (Unfavorable)
\$ 81	\$ 81	\$ 6	\$ (75)	\$ 103	\$ 103	\$ 9	\$ (94)
-	-	-	-	3,836	3,836	3,834	(2)
-	-	-	-	2,348	2,348	2,344	(4)
-	-	-	-	80	80	83	3
3,309	3,309	3,141	(168)	3,309	3,309	3,141	(168)
-	-	13	13	-	-	13	13
<u>3,390</u>	<u>3,390</u>	<u>3,160</u>	<u>(230)</u>	<u>9,676</u>	<u>9,676</u>	<u>9,424</u>	<u>(252)</u>
4,132	4,132	4,040	92	8,903	9,213	9,107	106
-	-	-	-	2,408	2,408	2,324	84
<u>4,132</u>	<u>4,132</u>	<u>4,040</u>	<u>92</u>	<u>11,311</u>	<u>11,621</u>	<u>11,431</u>	<u>190</u>
<u>\$ (742)</u>	<u>\$ (742)</u>	(880)	<u>\$ (138)</u>	<u>\$ (1,635)</u>	<u>\$ (1,945)</u>	(2,007)	<u>\$ (62)</u>
		-				(1,129)	
		-				1,429	
		16				16	
		51				123	
		(30)				(7)	
		-				(969)	
		17				-	
		-				35	
		-				928	
		<u>7,125</u>				<u>15,803</u>	
		<u>\$ 6,299</u>				<u>\$ 14,222</u>	

## Agency Funds

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

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

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**SANTA CLARA VALLEY WATER DISTRICT**  
 Combining Statement of Changes in Assets and Liabilities  
 Agency Funds  
 For the Year Ended June 30, 2013  
 (Dollars in Thousands)

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
<b><u>Deposit Fund</u></b>				
<b>Assets:</b>				
Cash and investments (Note 3)	\$ 169	\$ 22	\$ 20	\$ 171
Total assets	169	22	20	171
<b>Liabilities:</b>				
Accounts payable	-	8	8	-
Deposits payable	169	22	20	171
Total liabilities	\$ 169	\$ 30	\$ 28	\$ 171

## **Capital Assets Used in the Operation of Governmental Funds**

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Land, improvements to land, buildings, and equipment that are used in operations and that have initial useful lives extending beyond a single reporting period.

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**SANTA CLARA VALLEY WATER DISTRICT**  
 Capital Assets Used in the Operation of Governmental Funds  
 Schedule By Source<sup>1</sup>  
 June 30, 2013  
 (Dollars in Thousands)

**Governmental activities capital assets:**

Land	\$ 157,705
Buildings	37,505
Structures and improvements	714,943
Equipment	21,148
Construction in process	301,218
Intangibles - Easements	3,032
<b>Total governmental funds capital assets</b>	<b>\$ 1,235,551</b>

**Investments in governmental funds capital assets by source:**

General fund	\$ 98,573
Special revenue funds:	
Watershed & Stream Stewardship	976,766
Clean Safe Creeks	160,212
<b>Total governmental funds capital assets</b>	<b>\$ 1,235,551</b>

<sup>1</sup> This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net position.

**SANTA CLARA VALLEY WATER DISTRICT**  
 Capital Assets Used in the Operation of Governmental Funds  
 Schedule By Function and Activity<sup>1</sup>  
 June 30, 2013  
 (Dollars in Thousands)

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings</u>	<u>Structures and Improvements</u>	<u>Equipment</u>	<u>Construction in Progress</u>	<u>Intangibles Easements</u>	<u>Total</u>
<b>CEO Support Operations</b>							
Chief Executive Office	\$ -	\$ -	\$ -	\$ 408	\$ -	\$ -	\$ 408
Public Affairs	-	-	-	17	-	-	17
<b>Watershed Operations</b>							
Chief Operating Office	-	-	-	4,557	-	-	4,557
<b>Watershed Management Division</b>							
Watershed Business Management	-	-	-	107	-	-	107
Watershed Planning	-	-	-	38	-	-	38
Lower Peninsula/West Valley Mgmt.	-	-	-	66	-	-	66
Guadalupe Watershed Mgmt.	-	-	-	153	-	-	153
Coyote & Uvas/Llagas Mgmt.	-	-	-	28	-	-	28
<b>Capital Program Services Division</b>							
Capital Program Services Departments	-	-	-	314	-	-	314
<b>Water Utility Enterprise Operations</b>							
Chief Operating Office	-	-	-	3	-	-	3
Water Utility Enterprise	-	-	-	80	-	-	80
<b>Administration</b>							
Chief Administrative Office	-	-	-	219	-	-	219
Clerk Of The Board	-	-	-	5	-	-	5
<b>Financial Services Division</b>							
Office of Administrative Services	-	-	-	52	-	-	52
Business And Finance Program	-	-	-	1,594	-	-	1,594
<b>Information Management Division</b>							
Information Management Division	-	-	-	74	-	-	74
Information Mgmt. Support Departments	-	-	-	2,502	-	-	2,502
<b>General Services Division</b>							
Technical Services Division	-	-	-	12	-	-	12
Technical Services Support Division	-	-	-	1,091	-	-	1,091
<b>Human Resources Program</b>							
Human Resources Program	-	-	-	61	-	-	61
<b>Other:</b>							
District-wide property	157,705	37,505	714,943	9,767	301,218	3,032	1,224,170
<b>Total capital assets</b>	<u>\$ 157,705</u>	<u>\$ 37,505</u>	<u>\$ 714,943</u>	<u>\$ 21,148</u>	<u>\$ 301,218</u>	<u>\$ 3,032</u>	<u>\$ 1,235,551</u>

<sup>1</sup> This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net position.

**SANTA CLARA VALLEY WATER DISTRICT**  
 Capital Assets Used in the Operation of Governmental Funds  
 Schedule of Changes By Function and Activity<sup>1</sup>  
 For the Year Ended June 30, 2013  
 (Dollars in Thousands)

<b>Function and Activity</b>	<b>Governmental Funds Capital Assets July 1, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Governmental Funds Capital Assets June 30, 2013</b>
<b>100 CEO Support Operations</b>				
102 Chief Executive Office	\$ 408	\$ -	\$ -	\$ 408
130 Public Affairs	17	-	-	17
<b>200 Watershed Operations</b>				
202 Chief Operating Office	4,007	550	-	4,557
<b>210 Watershed Management Division</b>				
215 Watershed Business Management	94	13	-	107
230 Watershed Planning	38	-	-	38
250 Lower Peninsula/West Valley Mgmt.	66	-	-	66
270 Guadalupe Watershed Mgmt.	153	-	-	153
290 Coyote & Uvas/Llagas Mgmt.	28	-	-	28
<b>310 Capital Program Services Division</b>				
340 Capital Program Services Departments	314	-	-	314
<b>410 Water Utility Enterprise Operations</b>				
410 Chief Operating Office	3	-	-	3
420 Water Utility Enterprise	70	10	-	80
<b>600 Administration</b>				
602 Chief Administrative Office	219	-	-	219
604 Clerk Of The Board	5	-	-	5
<b>670 Financial Services Division</b>				
610 Office of Administrative Services	52	-	-	52
670 Business And Finance Program	1,598	(4)	-	1,594
<b>710 Information Management Division</b>				
715 Information Management Division	74	-	-	74
720 Information Mgmt. Support Departments	2,465	37	-	2,502
<b>810 General Services Division</b>				
815 Technical Services Division	12	-	-	12
820 Technical Services Support Division	1,091	-	-	1,091
<b>910 Human Resources Program</b>				
660 Human Resources Program	61	-	-	61
<b>Other:</b>				
District-wide property	1,179,542	44,628	-	1,224,170
	<u>\$ 1,190,317</u>	<u>\$ 45,234</u>	<u>\$ -</u>	<u>\$ 1,235,551</u>

<sup>1</sup> This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net position.



# Statistical Section

## Comprehensive Annual Financial Report

Santa Clara Valley  
Water District



Back of tab

# SANTA CLARA VALLEY WATER DISTRICT

## Statistical Section

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

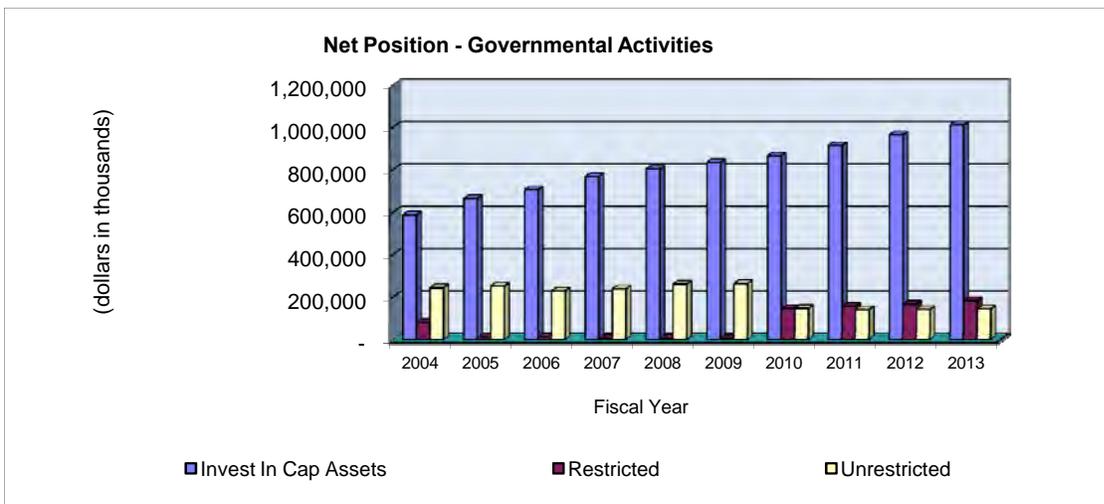
<b><u>Contents</u></b>	<b>Page</b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	126
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.	134
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.	141
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	147
<b>Operating Information</b> These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	149

The District implemented GASB Statement No. 34 in fiscal year 2000/01; schedules presenting government-wide information include information beginning in that year.

The District implemented GASB Statement No. 44 in fiscal year 2005/06; newly required schedules presenting information in the Statistical Section beginning in that year.

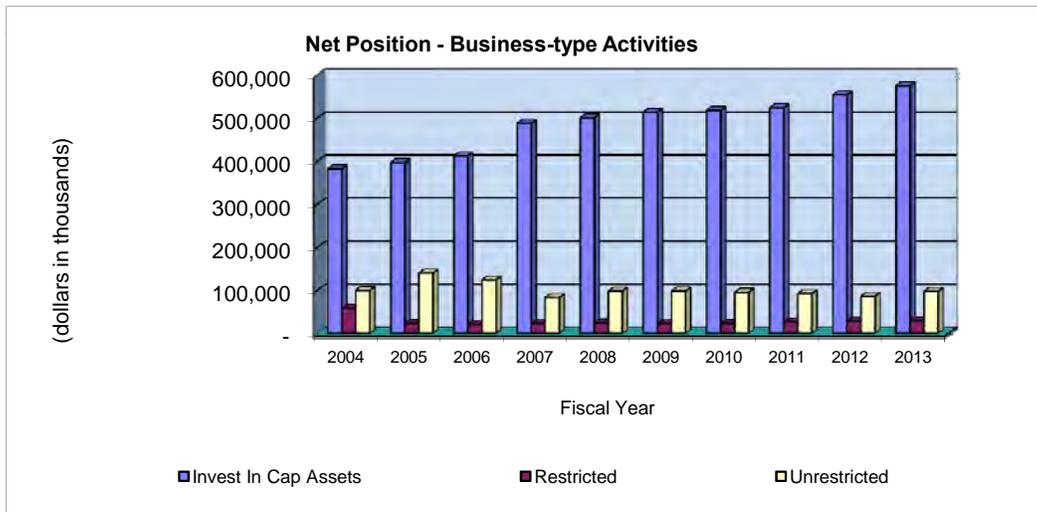
Santa Clara Valley Water District  
 Net Position by Component  
 Last Ten Fiscal Years  
 (accrual basis of accounting)  
 (dollars in thousands)

	2004	2005	2006	2007
<b>Governmental activities</b>				
Net Investment in capital assets	\$ 587,667	\$ 664,735	\$ 706,201	\$ 768,503
Restricted	81,137	10,661	11,447	6,519
Unrestricted	243,841	251,220	228,844	238,292
<b>Total governmental activities net position</b>	<b>\$ 912,645</b>	<b>\$ 926,616</b>	<b>\$ 946,492</b>	<b>\$ 1,013,314</b>
<b>Business-type activities</b>				
Net Investment in capital assets	\$ 382,192	\$ 397,271	\$ 412,458	\$ 487,993
Restricted	59,138	22,939	21,256	22,729
Unrestricted	100,240	140,045	124,540	83,380
<b>Total business-type activities net position</b>	<b>\$ 541,570</b>	<b>\$ 560,255</b>	<b>\$ 558,254</b>	<b>\$ 594,102</b>
<b>Primary government</b>				
Net Investment in capital assets	\$ 969,859	\$ 1,062,006	\$ 1,118,659	\$ 1,256,496
Restricted	140,275	33,600	32,703	29,248
Unrestricted	344,081	391,265	353,384	321,672
<b>Total primary government net position</b>	<b>\$ 1,454,215</b>	<b>\$ 1,486,871</b>	<b>\$ 1,504,746</b>	<b>\$ 1,607,416</b>



Source: Santa Clara Valley Water District General Accounting Unit

2008	2009	2010	2011	2012	2013
\$ 803,594	\$ 834,814	\$ 866,291	\$ 915,118	\$ 964,394	\$ 1,011,082
5,482	5,502	145,370	157,221	166,845	182,760
260,865	264,074	146,800	141,640	142,289	143,971
<u>\$ 1,069,941</u>	<u>\$ 1,104,390</u>	<u>\$ 1,158,461</u>	<u>\$ 1,213,979</u>	<u>\$ 1,273,528</u>	<u>\$ 1,337,813</u>
\$ 500,821	\$ 514,102	\$ 518,237	\$ 524,557	\$ 554,316	\$ 575,683
24,011	22,824	22,944	26,824	28,082	30,131
98,098	98,288	95,656	92,661	86,716	97,652
<u>\$ 622,930</u>	<u>\$ 635,214</u>	<u>\$ 636,837</u>	<u>\$ 644,042</u>	<u>\$ 669,114</u>	<u>\$ 703,466</u>
\$ 1,304,415	\$ 1,348,916	\$ 1,384,528	\$ 1,439,675	\$ 1,518,710	\$ 1,586,765
29,493	28,326	168,314	184,045	194,927	212,891
358,963	362,362	242,456	234,301	229,005	241,623
<u>\$ 1,692,871</u>	<u>\$ 1,739,604</u>	<u>\$ 1,795,298</u>	<u>\$ 1,858,021</u>	<u>\$ 1,942,642</u>	<u>\$ 2,041,279</u>



Santa Clara Valley Water District  
Change in Net Assets  
Last Ten Fiscal Years  
(accrual basis of accounting)  
(dollars in thousands)

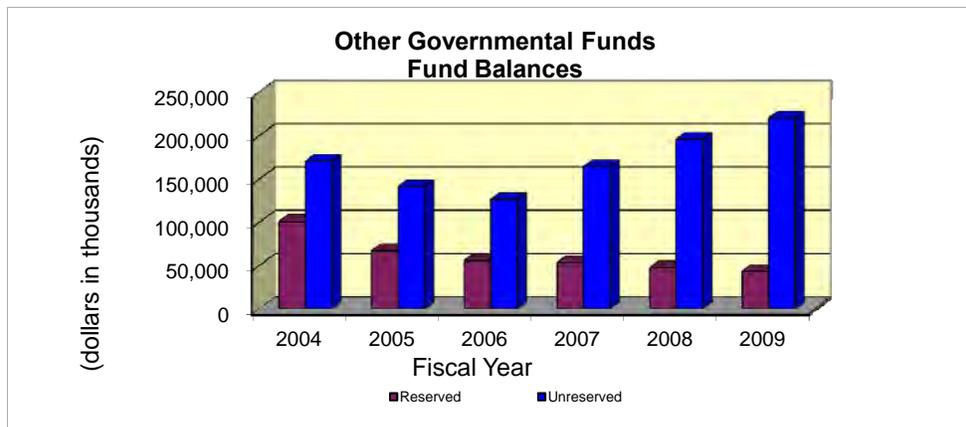
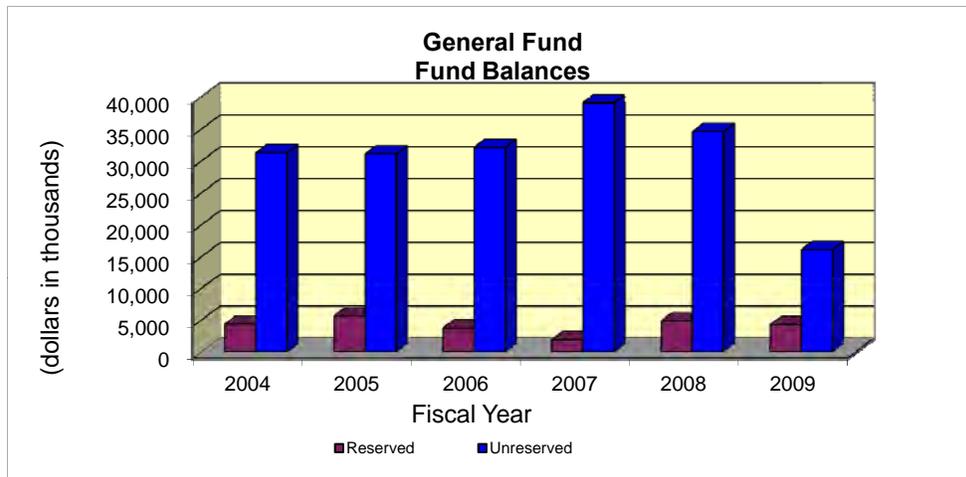
	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Expenses</b>			
Governmental activities:			
General government:	\$ 15,553	\$ 4,846	\$ 7,149
Watersheds	34,033	46,188	48,406
Interest on long-term debt	8,406	11,735	9,344
Total governmental activities expenses	<u>57,992</u>	<u>62,769</u>	<u>64,899</u>
Business-type activities:			
Water enterprise	104,752	115,340	137,846
Total primary government expenses	<u>\$ 162,744</u>	<u>\$ 178,109</u>	<u>\$ 202,745</u>
<b>Program Revenues</b>			
Governmental activities:			
Capital grants and contributions	\$ 40,936	\$ 19,135	\$ 24,613
Business-type activities:			
Charges for services	108,565	104,831	108,009
Operating grants and contributions	3,412	2,039	1,269
Capital grants and contributions	6,304	313	1,407
Total business-type activities program revenues	<u>118,281</u>	<u>107,183</u>	<u>110,685</u>
Total primary government program revenues	<u>\$ 159,217</u>	<u>\$ 126,318</u>	<u>\$ 135,298</u>
Net (expense)/revenue			
Governmental activities	\$ (17,056)	\$ (43,634)	\$ (40,286)
Business-type activities	13,529	(8,157)	(27,161)
Total primary government net expense	<u>\$ (3,527)</u>	<u>\$ (51,791)</u>	<u>\$ (67,447)</u>
<b>General Revenues and Other Changes in Net Position</b>			
Governmental activities:			
Property taxes	\$ 65,954	\$ 46,396	\$ 50,923
Unrestricted investment earnings	7,501	9,188	6,616
Miscellaneous	3,383	2,408	2,136
Transfers	3,020	(387)	487
Total governmental activities	<u>79,858</u>	<u>57,605</u>	<u>60,162</u>
Business-type activities:			
Property taxes	19,548	20,085	19,338
Unrestricted investment earnings	2,369	3,614	3,086
Miscellaneous	4,987	2,756	3,223
Transfers	(3,020)	387	(487)
Total business-type activities	<u>\$ 23,884</u>	<u>\$ 26,842</u>	<u>\$ 25,160</u>
<b>Change in Net Position</b>			
Governmental activities	\$ 62,802	\$ 13,971	\$ 19,876
Business-type activities	37,413	18,685	(2,001)
Total primary government	<u>\$ 100,215</u>	<u>\$ 32,656</u>	<u>\$ 17,875</u>

Source: Santa Clara Valley Water District General Accounting Unit

2007	2008	2009	2010	2011	2012	2013
\$ 9,065	\$ 11,617	\$ 12,602	\$ 9,317	\$ 9,954	\$ 5,408	\$ 6,404
47,604	47,676	45,440	51,841	54,562	50,292	51,735
8,746	8,503	8,269	7,841	7,476	7,034	7,971
<u>65,415</u>	<u>67,796</u>	<u>66,311</u>	<u>68,999</u>	<u>71,992</u>	<u>62,734</u>	<u>66,110</u>
129,374	141,889	168,753	155,145	155,389	158,888	161,609
<u>\$ 194,789</u>	<u>\$ 209,685</u>	<u>\$ 235,064</u>	<u>\$ 224,144</u>	<u>\$ 227,381</u>	<u>\$ 221,622</u>	<u>\$ 227,719</u>
\$ 24,844	\$ 21,869	\$ 20,072	\$ 23,690	\$ 38,578	\$ 32,611	\$ 34,935
125,234	135,477	136,356	120,264	121,347	141,783	155,718
2,818	2,437	3,923	1,696	1,458	1,111	980
105	708	-	1,602	10,443	11,803	4,610
<u>128,157</u>	<u>138,622</u>	<u>140,279</u>	<u>123,562</u>	<u>133,248</u>	<u>154,697</u>	<u>161,308</u>
<u>\$ 153,001</u>	<u>\$ 160,491</u>	<u>\$ 160,351</u>	<u>\$ 147,252</u>	<u>\$ 171,826</u>	<u>\$ 187,308</u>	<u>\$ 196,243</u>
\$ (40,571)	\$ (45,927)	\$ (46,239)	\$ (45,309)	\$ (33,414)	\$ (30,123)	\$ (31,175)
(1,217)	(3,267)	(28,474)	(31,583)	(22,141)	(4,191)	(301)
<u>\$ (41,788)</u>	<u>\$ (49,194)</u>	<u>\$ (74,713)</u>	<u>\$ (76,892)</u>	<u>\$ (55,555)</u>	<u>\$ (34,314)</u>	<u>\$ (31,476)</u>
\$ 78,801	\$ 83,417	\$ 87,425	\$ 86,852	\$ 86,217	\$ 88,247	\$ 92,746
12,802	15,736	12,897	7,098	3,337	2,253	3,509
2,392	2,003	3,457	5,161	2,189	2,453	2,934
2,429	1,398	(6,539)	269	(2,811)	(3,281)	(3,729)
<u>96,424</u>	<u>102,554</u>	<u>97,240</u>	<u>99,380</u>	<u>88,932</u>	<u>89,672</u>	<u>95,460</u>
21,491	22,945	21,372	24,241	23,181	22,327	24,200
6,401	9,556	8,245	3,787	1,779	1,082	1,163
3,469	992	4,602	5,447	1,575	2,573	5,561
(2,429)	(1,398)	6,539	(269)	2,811	3,281	3,729
<u>\$ 28,932</u>	<u>\$ 32,095</u>	<u>\$ 40,758</u>	<u>\$ 33,206</u>	<u>\$ 29,346</u>	<u>\$ 29,263</u>	<u>\$ 34,653</u>
\$ 55,853	\$ 56,627	\$ 51,001	\$ 54,071	\$ 55,518	\$ 59,549	\$ 64,285
27,715	28,828	12,284	1,623	7,205	25,072	34,352
<u>\$ 83,568</u>	<u>\$ 85,455</u>	<u>\$ 63,285</u>	<u>\$ 55,694</u>	<u>\$ 62,723</u>	<u>\$ 84,621</u>	<u>\$ 98,637</u>

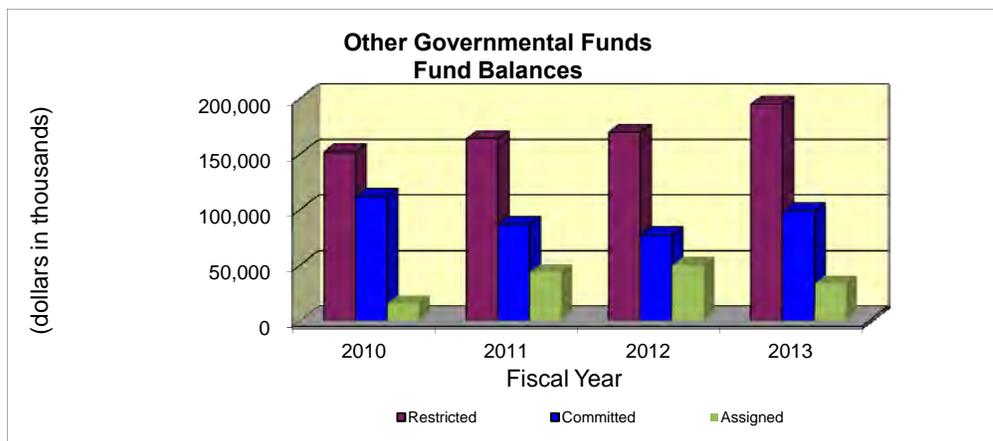
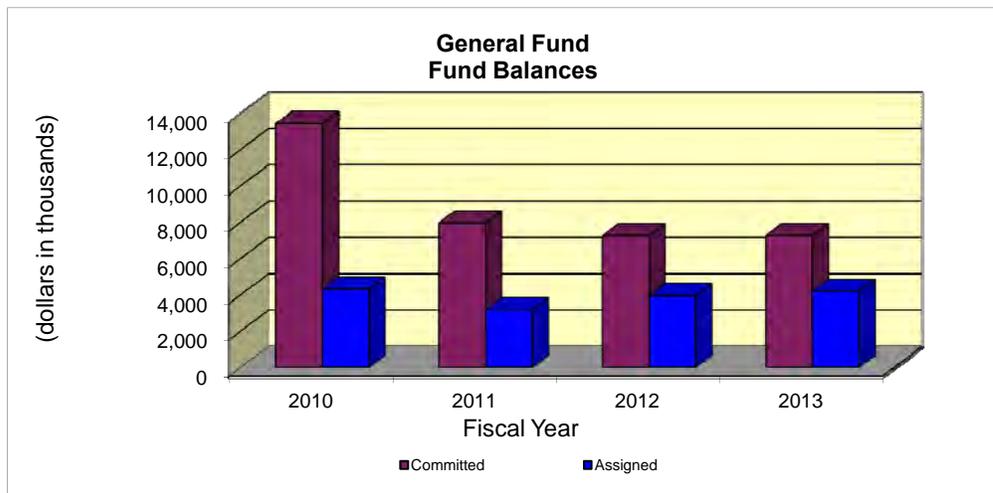
Santa Clara Valley Water District  
Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting)  
(dollars in thousands)

	2004	2005	2006	2007	2008	2009
<b>General Fund</b>						
Reserved	\$ 4,338	\$ 5,645	\$ 3,742	\$ 1,942	\$ 4,848	\$ 4,257
Unreserved	31,284	31,094	32,131	39,073	34,581	16,117
<b>Total general fund</b>	<b>\$ 35,622</b>	<b>\$ 36,739</b>	<b>\$ 35,873</b>	<b>\$ 41,015</b>	<b>\$ 39,429</b>	<b>\$ 20,374</b>
<b>All other governmental funds</b>						
Reserved, reported in						
Special revenue funds	\$ 63,322	\$ 34,053	\$ 26,232	\$ 18,709	\$ 21,091	\$ 21,897
Capital project fund	21,553	18,651	14,609	24,867	17,729	12,618
Debt service fund	16,021	14,270	14,964	9,660	8,569	8,623
Unreserved, reported in:						
Special revenue funds	170,474	141,295	126,304	164,002	195,721	220,252
Capital project fund	-	-	-	-	-	-
<b>Total all other governmental funds</b>	<b>\$ 271,370</b>	<b>\$ 208,269</b>	<b>\$ 182,109</b>	<b>\$ 217,238</b>	<b>\$ 243,110</b>	<b>\$ 263,390</b>



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

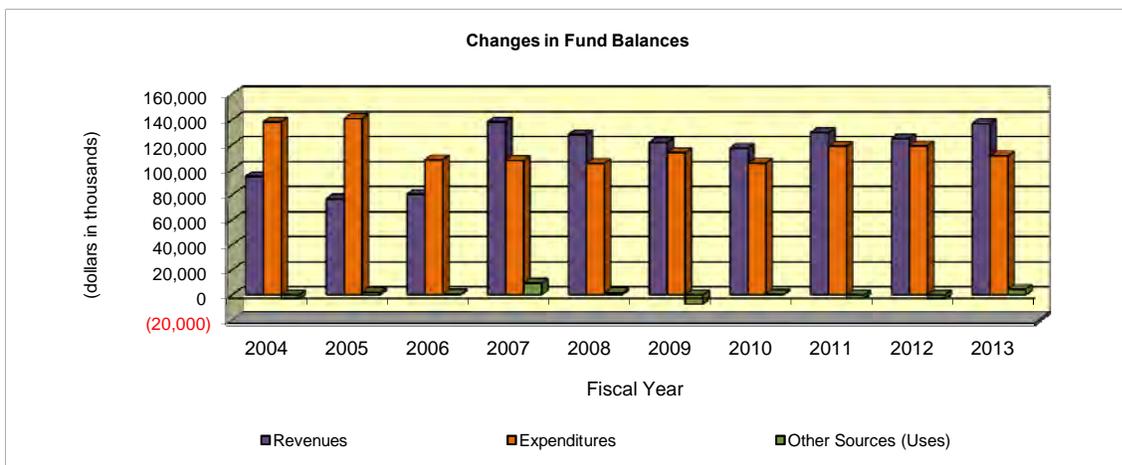
	Restated 2010	Restated 2011	2012	2013
<b>General Fund</b>				
Committed	\$ 13,429	\$ 7,945	\$ 7,244	\$ 7,257
Assigned	4,308	3,157	3,941	4,187
<b>Total general fund</b>	<u>\$ 17,737</u>	<u>\$ 11,102</u>	<u>\$ 11,185</u>	<u>\$ 11,444</u>
<b>All other governmental funds</b>				
Restricted	\$ 151,614	\$ 163,372	\$ 169,294	\$ 194,662
Committed	111,338	86,183	76,465	98,134
Assigned	15,215	43,486	49,510	32,815
<b>Total all other governmental funds</b>	<u>\$ 278,167</u>	<u>\$ 293,041</u>	<u>\$ 295,269</u>	<u>\$ 325,611</u>



Source: Santa Clara Valley Water District General Accounting Unit

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

	2004	2005	2006	2007
<b>Revenues</b>				
Property taxes	\$ 65,954	\$ 46,396	\$ 50,923	\$ 78,801
Benefit assessments	19,234	19,187	19,212	19,213
Intergovernmental services	-	-	-	-
Use of money and property:				
Investment income	5,666	7,537	6,360	11,442
Rental	1,436	1,463	1,533	1,480
Reimbursement of capital costs	365	1,171	1,765	26,784
Other	1,925	912	584	482
<b>Total Revenues</b>	<b>94,580</b>	<b>76,666</b>	<b>80,377</b>	<b>138,202</b>
<b>Expenditures</b>				
Operations and operating project	47,469	42,974	41,707	46,021
Capital improvement projects	78,835	80,011	49,685	43,943
Debt Service:				
Payment to refunded bond escrow agent	-	-	-	667
Principal repayment	2,670	7,125	7,380	7,690
Interest and fiscal charges	9,274	10,716	9,133	8,840
<b>Total expenditures</b>	<b>138,248</b>	<b>140,826</b>	<b>107,905</b>	<b>107,161</b>
Excess of revenues over (under) expenditures	<u>(43,668)</u>	<u>(64,160)</u>	<u>(27,528)</u>	<u>31,041</u>
<b>Other financing sources (uses)</b>				
Transfers in	42,640	33,039	34,607	27,312
Transfers out	(40,206)	(30,863)	(34,105)	(24,590)
Proceeds from issuance of debt	32,965	-	-	78,780
Payment to refunded bond escrow agent	(40,738)	-	-	(76,478)
Net original issue premium	1,973	-	-	4,206
<b>Total other financing sources (uses)</b>	<b>(3,366)</b>	<b>2,176</b>	<b>502</b>	<b>9,230</b>
<b>Net change in fund balances</b>	<b><u>\$ (47,034)</u></b>	<b><u>\$ (61,984)</u></b>	<b><u>\$ (27,026)</u></b>	<b><u>\$ 40,271</u></b>
Debt service as a percentage of non-capital expenditures	24.1%	28.8%	26.2%	27.1%

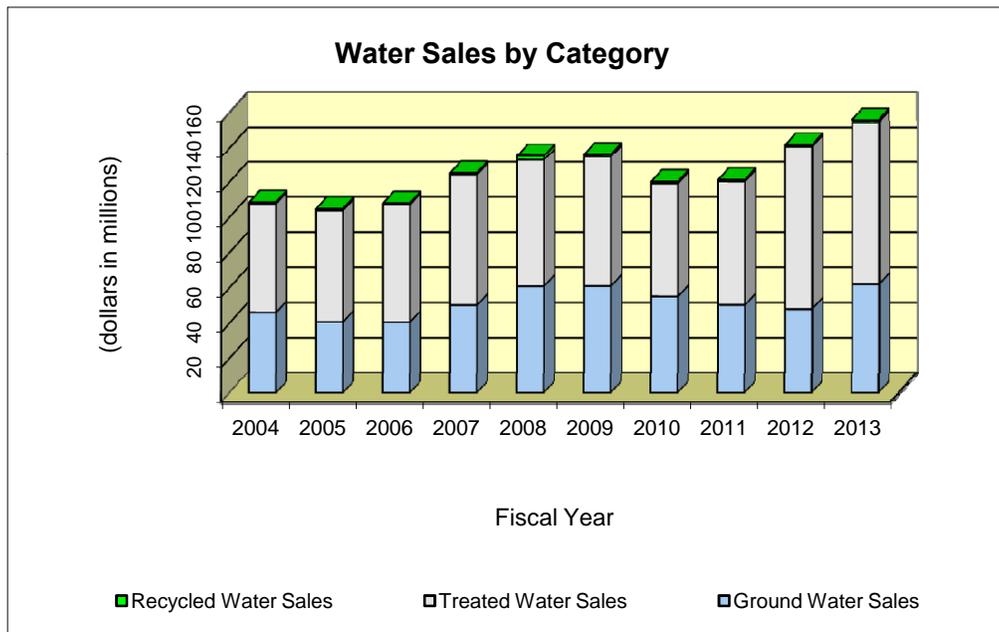


Source: Santa Clara Valley Water District General Accounting Unit

	2008	2009	2010	2011	2012	2013
\$	83,417	\$ 87,425	\$ 82,372	\$ 86,217	\$ 88,247	\$ 97,226
	17,866	19,255	19,226	19,091	19,131	19,178
	-	-	-	-	-	-
	14,259	11,475	6,565	2,860	1,621	1,785
	1,309	1,300	1,312	1,388	1,416	1,423
	10,533	1,311	4,480	19,487	13,480	15,757
	650	1,012	3,167	701	922	1,415
	<u>128,034</u>	<u>121,778</u>	<u>117,122</u>	<u>129,744</u>	<u>124,817</u>	<u>136,784</u>
	47,216	57,710	46,998	53,778	51,353	49,198
	41,384	39,188	41,727	48,478	51,394	44,809
	-	-	-	-	-	-
	8,600	8,715	9,045	9,280	9,720	10,935
	7,946	7,931	7,509	7,158	6,758	5,919
	<u>105,146</u>	<u>113,544</u>	<u>105,279</u>	<u>118,694</u>	<u>119,225</u>	<u>110,861</u>
	<u>22,888</u>	<u>8,234</u>	<u>11,843</u>	<u>11,050</u>	<u>5,592</u>	<u>25,923</u>
	31,322	32,604	30,589	20,950	24,375	21,190
	(29,924)	(39,613)	(30,292)	(23,761)	(27,656)	(24,919)
	-	-	-	-	-	52,955
	-	-	-	-	-	(53,495)
	-	-	-	-	-	8,947
	<u>1,398</u>	<u>(7,009)</u>	<u>297</u>	<u>(2,811)</u>	<u>(3,281)</u>	<u>4,678</u>
\$	<u>24,286</u>	<u>\$ 1,225</u>	<u>\$ 12,140</u>	<u>\$ 8,239</u>	<u>\$ 2,311</u>	<u>\$ 30,601</u>
	26.0%	22.2%	25.6%	23.2%	23.0%	25.7%

Water Sales by Category  
Last Ten Fiscal Years  
(dollars in thousands)

Fiscal Year	Ground Water Sales	Treated Water Sales	Surface & Recycled Water Sales	Total Water Sales
2004	\$ 46,143	\$ 61,688	\$ 734	\$ 108,565
2005	40,798	63,219	814	104,831
2006	40,675	66,614	720	108,009
2007	50,251	74,165	818	125,234
2008	60,998	71,879	2,600	135,477
2009	61,103	74,012	1,241	136,356
2010	55,189	64,157	918	120,264
2011	50,384	70,135	828	121,347
2012	48,030	92,904	849	141,783
2013	62,084	92,359	1,275	155,718



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

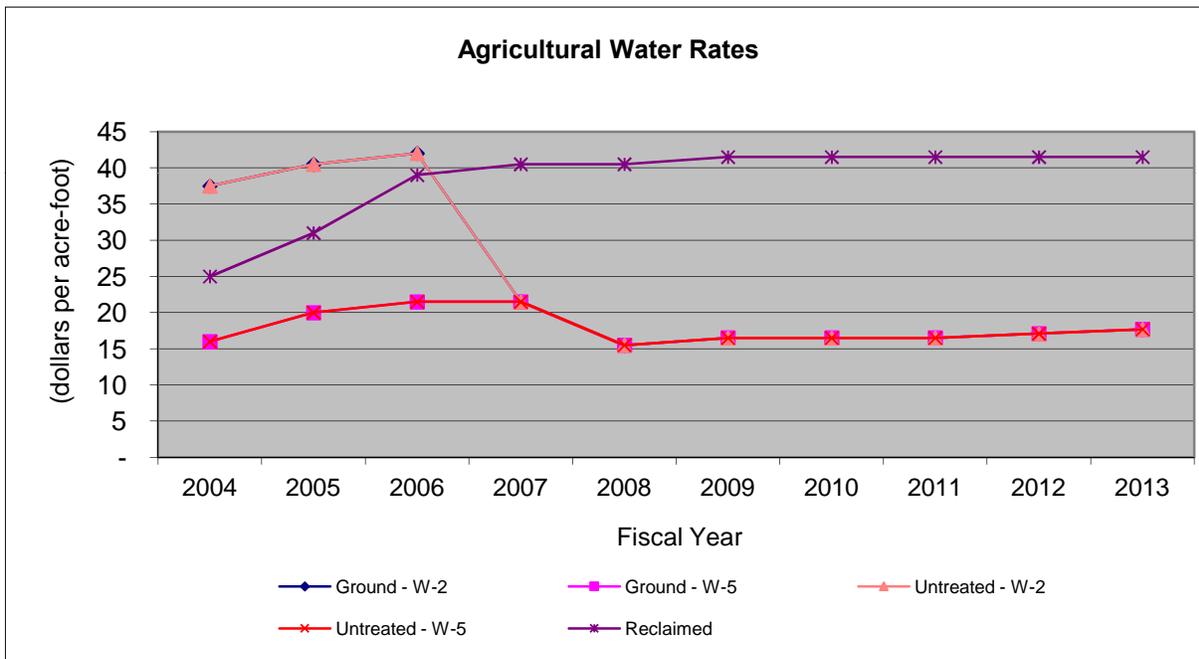
Santa Clara Valley Water District  
Principal Water Sales Customers  
Current year and Nine years ago  
(dollars in thousands)

Water Customer	Fiscal Year 2013			Fiscal Year 2004		
	Water Sales	Rank	Percent of Total Water Sales	Water Sales	Rank	Percent of Total Water Sales
San Jose Water Company	\$ 88,469	1	56.81%	\$ 58,601	1	53.98%
City of Santa Clara	12,138	2	7.79%	8,059	2	7.42%
City of San Jose	11,282	3	7.25%	7,906	3	7.28%
California Water Service Co.	9,461	4	6.08%	6,880	4	6.34%
City of Sunnyvale	8,054	5	5.17%	5,752	5	5.30%
Great Oaks Water Company	6,200	6	3.98%	5,039	6	4.64%
City of Gilroy	2,702	7	1.74%	1,361	9	1.25%
City of Morgan Hill	2,482	8	1.59%	1,330	10	1.23%
City of Milpitas	2,393	9	1.54%	2,013	7	1.85%
City of Cupertino	2,328	10	1.50%	1,666	8	1.53%
<b>Total</b>	<b>\$ 145,509</b>		<b>93.45%</b>	<b>\$ 98,607</b>		<b>90.82%</b>
<b>Total Water Sales</b>	<b>\$ 155,718</b>			<b>\$ 108,565</b>		

Source: Santa Clara Valley Water District - Revenue Management Unit

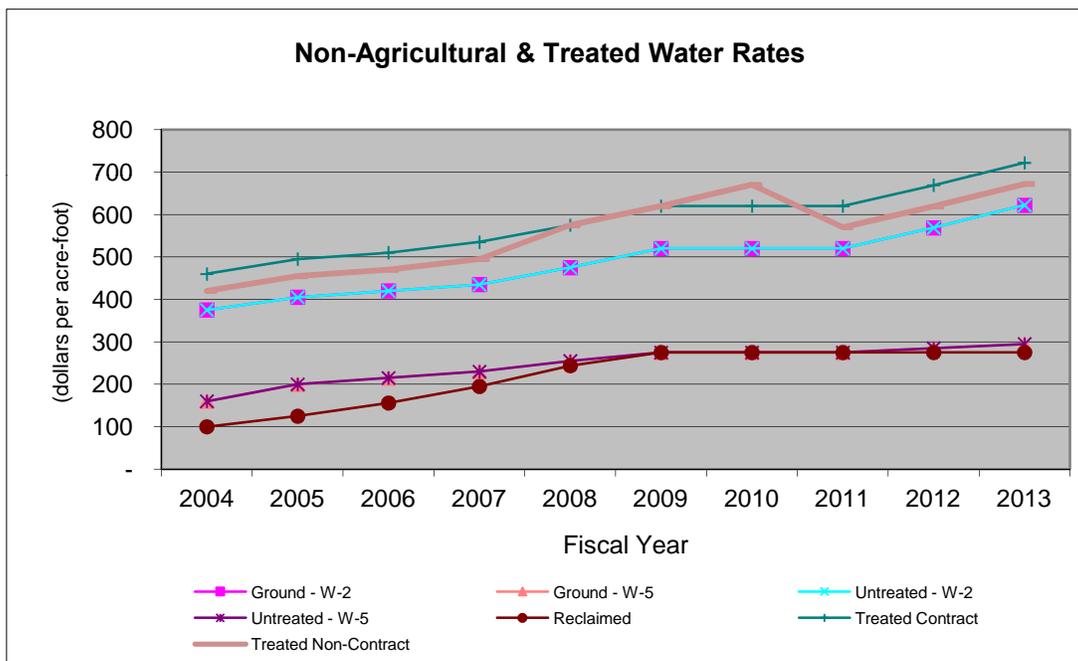
Santa Clara Valley Water District  
 Water Enterprise Rates Summary  
 Last Ten Fiscal Years  
 (rates in dollars per acre-foot)

Fiscal Year	Groundwater Rates				Treated Water Rates	
	Zone W-2		Zone W-5		Contract	Non Contract
	AG	Non-AG	AG	Non-AG		
2004	\$ 37.50	\$ 375.00	\$ 16.00	\$ 160.00	\$ 460.00	\$ 420.00
2005	40.50	405.00	20.00	200.00	495.00	455.00
2006	42.00	420.00	21.50	215.00	510.00	470.00
2007	21.50	435.00	21.50	230.00	535.00	495.00
2008	15.50	475.00	15.50	255.00	575.00	575.00
2009	16.50	520.00	16.50	275.00	620.00	620.00
2010	16.50	520.00	16.50	275.00	620.00	670.00
2011	16.50	520.00	16.50	275.00	620.00	570.00
2012	17.10	569.00	17.10	285.00	669.00	619.00
2013	17.70	622.00	17.70	295.00	722.00	672.00



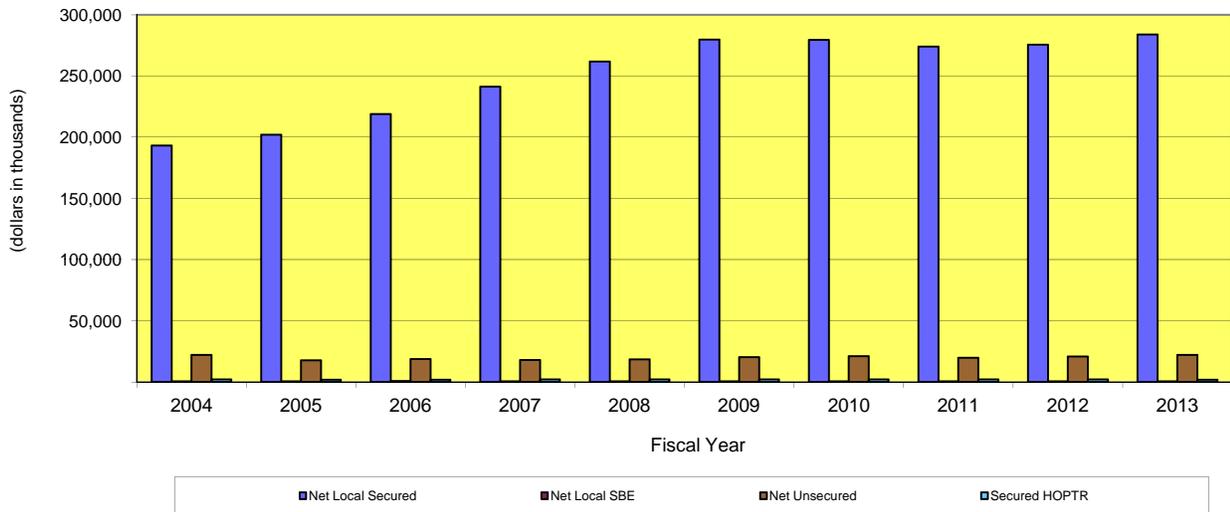
Source: Santa Clara Valley Water District - Wells & Water Production Unit

Untreated Water Rates				Reclaimed Water Rates	
Zone W-2		Zone W-5		AG	Non-AG
AG	Non-AG	AG	Non-AG	AG	Non-AG
\$ 37.50	\$ 375.00	\$ 16.00	\$ 160.00	\$ 25.00	\$ 100.00
40.50	405.00	20.00	200.00	31.00	125.00
42.00	420.00	21.50	215.00	39.00	156.00
21.50	435.00	21.50	230.00	40.50	195.00
15.50	475.00	15.50	255.00	40.50	244.00
16.50	520.00	16.50	275.00	41.50	275.00
16.50	520.00	16.50	275.00	41.50	275.00
16.50	520.00	16.50	275.00	41.50	275.00
17.10	569.00	17.10	285.00	41.50	275.00
17.70	622.00	17.70	295.00	41.50	275.00



SANTA CLARA VALLEY WATER DISTRICT  
 Assessed and Estimated Actual Value of Taxable Property  
 Last Ten Fiscal Years  
 (dollars in thousands)

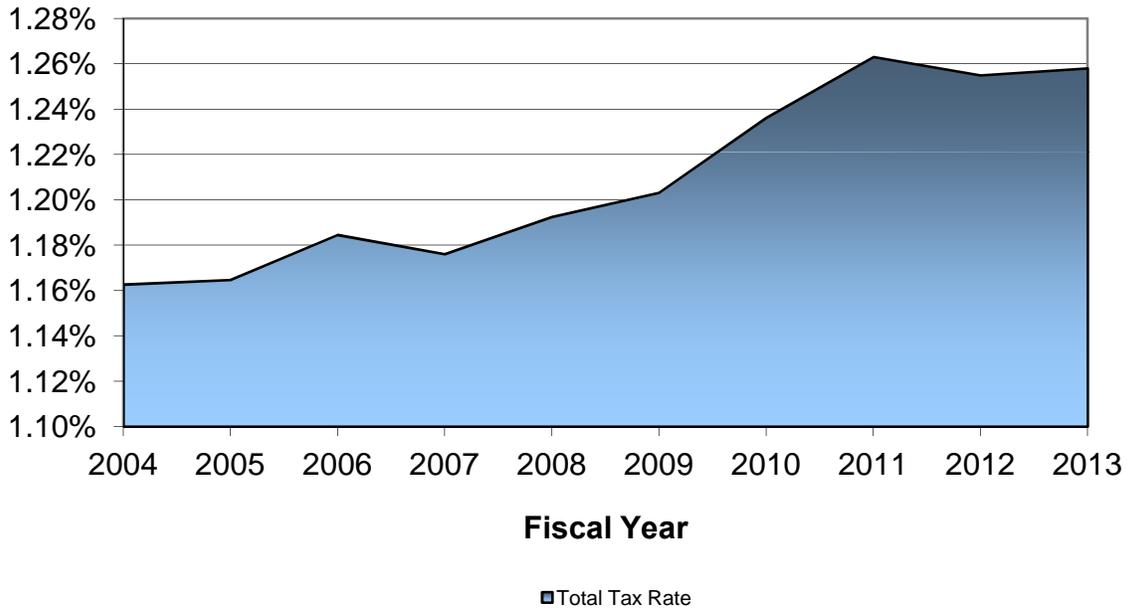
Fiscal Year	Net Local Secured	SBE	Total Secured	Net Unsecured	Total	Exempt Valuation		Total Direct Tax Rate
						Secured HOPTR	Total	
2004	\$ 193,189,575	\$ 465,989	\$ 184,691,740	\$ 22,076,991	\$ 208,598,360	\$ 1,967,624	\$ 210,596,589	\$ 18,322
2005	201,958,267	549,864	193,655,564	17,712,736	215,732,555	1,945,661	217,700,179	20,028.42
2006	218,911,222	713,130	202,508,131	18,802,938	220,220,867	1,956,373	222,166,528	17,328.99
2007	241,363,008	587,685	219,624,352	17,998,934	238,427,290	1,963,081	240,383,663	17,307.62
2008	261,930,112	537,968	262,468,080	18,578,048	281,046,128	1,992,833	283,038,961	20,095.77
2009	279,767,066	554,935	280,322,001	20,381,412	300,703,413	2,005,174	302,708,587	18,465.22
2010	279,623,760	602,948	280,226,708	21,112,122	301,338,830	2,007,990	303,346,820	22,447.66
2011	274,020,130	595,208	274,615,338	19,652,921	294,268,259	2,007,881	296,276,140	21,331.88
2012	275,581,705	557,469	276,139,174	20,791,740	296,930,914	1,978,658	298,909,572	19,130.21
2013	283,903,536	525,302	284,428,838	22,225,683	306,654,521	1,951,818	308,606,339	21,293.84



Source: County of Santa Clara Property Tax Apportionment Division

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

Fiscal Year	Basic County Wide Levy	County	Cities	Santa Clara Valley Water District	Schools and Other Districts	Total Tax Rate
2004	1.0000%	0.0388%	0.0129%	0.0087%	0.1043%	1.1626%
2005	1.0000%	0.0388%	0.0247%	0.0092%	0.1118%	1.1647%
2006	1.0000%	0.0388%	0.0258%	0.0078%	0.1036%	1.1845%
2007	1.0000%	0.0388%	0.0310%	0.0072%	0.1177%	1.1760%
2008	1.0000%	0.0388%	0.0331%	0.0071%	0.1134%	1.1924%
2009	1.0000%	0.0388%	0.0323%	0.0061%	0.1259%	1.2031%
2010	1.0000%	0.0388%	0.0326%	0.0074%	0.1574%	1.2362%
2011	1.0000%	0.0388%	0.0350%	0.0072%	0.1820%	1.2630%
2012	1.0000%	0.0388%	0.0334%	0.0064%	0.1763%	1.2549%
2013	1.0000%	0.0388%	0.0316%	0.0069%	0.1807%	1.2580%



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

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

Taxpayer	Fiscal Year 2013 <sup>(3)</sup>			Fiscal Year 2004 <sup>(2)</sup>		
	Taxable Assessed Value <sup>(1)</sup>	Rank	Percentage of Taxable Assessed Value	Taxable Assessed Value <sup>(1)</sup>	Rank	Percentage of Taxable Assessed Value
Stanford University	\$ 4,323,992	1	1.51%			
Cisco Technology, Inc.	1,330,103	2	0.47%	\$ 933,885	8	0.43%
Sobrato Interests	1,153,802	3	0.40%	1,337,625	2	0.61%
Blackhawk Parent LLC	1,069,640	4	0.37%			
Intel Corporation	735,233	5	0.26%	1,397,104	1	0.64%
Essex Portfolio LP	718,257	6	0.25%			
Campus Holdings, Inc.	699,846	7	0.24%			
The Irvine Company LLC	683,410	8	0.24%			
Mission West Properties, LLC	615,024	9	0.22%			
Silicon Valley CA I LLC	613,724	10	0.21%			
Spieker Properties, LP				1,323,541	3	0.61%
Pacific Gas and Electric				1,017,862	4	0.47%
SBC California				826,379	5	0.38%
Hewlett Packard Co.				986,789	6	0.45%
Berg & Berg Developers, et al				923,140	7	0.42%
Arrillaga, Perry et al				803,387	9	0.37%
Applied Materials, Inc.				807,579	10	0.37%
<b>Total</b>	<b>\$ 11,943,031</b>		<b>4.17%</b>	<b>\$ 10,357,291</b>		<b>4.75%</b>
Net Assessed Value of Taxable Property	<u>\$ 285,855,354</u>			<u>\$ 217,700,179</u>		

(1) The taxable assessed value includes tax assessments on real property and personal property.

(2) Source: Santa Clara County Tax Collector, Systems Division

(3) Source: Prepared for the Santa Clara Valley Water District by California Municipal Statistics, Inc.

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

Fiscal Year	General Obligation Bonds	Percentage of Assessed Value of Property	Per Capita
2004	\$ 5,835	0.0027%	3
2005	4,565	0.0021%	3
2006	3,205	0.0013%	2
2007	2,630	0.0010%	1
2008	2,025	0.0007%	1
2009	1,390	0.0005%	1
2010	910	0.0003%	-
2011	405	0.0001%	-
2012	-	n/a	-

Source: *Santa Clara Valley Water District General Accounting Unit*

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

Fiscal Year	Governmental Activities		Business-type Activities	
	General Obligation Bonds	Certificate of Participation	General Obligation Bonds	Revenue Bonds
2004	\$ -	\$ 192,657	\$ 5,835	\$ 56,402
2005	-	185,666	4,565	55,379
2006	-	178,418	3,205	54,313
2007	-	177,355	2,630	100,262
2008	-	168,857	2,025	224,479
2009	-	161,238	1,390	222,470
2010	-	151,294	910	217,992
2011	-	142,112	405	213,307
2012	-	132,494	-	208,418
2013	-	131,199	-	201,780

Source: Santa Clara Valley Water District General Accounting Unit

Notes:

n/a Current information not available

Total Primary Government	Percentage of Personal Income	Per Capita
\$ 257,502	0.3116%	\$ 149
249,075	0.2858%	142
239,230	0.2481%	135
280,247	0.2692%	155
395,361	n/a	215
385,098	n/a	207
370,196	n/a	196
355,824	n/a	188
340,912	n/a	179
332,979	n/a	181

**SANTA CLARA VALLEY WATER DISTRICT**

Computation of Direct and Overlapping Debt  
June 30, 2013

2012-13 Assessed Valuation: \$ 308,606,338,343

<u><b>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</b></u>	<u>% Applicable</u>	<u>District's Share of Debt 6/30/13</u>
Santa Clara County	100%	\$805,800,000
Foothill-DeAnza Community College District	100%	621,564,288
San Jose-Evergreen Community College District	100%	301,902,199
Other Community College Districts	.051 - 98.9%	382,829,525
Gilroy Unified School District	100%	175,997,495
Palo Alto Unified School District	100%	289,574,249
San Jose Unified School District	100%	550,927,986
Santa Clara Unified School District	100%	428,710,000
Other Unified School Districts	1.365 - 100%	201,132,486
Campbell Union High School District	100%	156,055,000
East Side Union High School District	100%	656,733,656
Fremont Union High School District	100%	299,550,108
Other High School Districts	94.642 - 100%	112,913,888
Campbell School District	100%	146,472,432
Cupertino Union School District	100%	164,416,973
Evergreen School District and Community Facilities District No. 92-1	100%	106,201,562
Franklin McKinley School District	100%	76,437,533
Los Altos School District	100%	78,515,560
Los Gatos Union School District	100%	107,180,000
Moreland School District	100%	83,199,594
Oak Grove School District	100%	104,579,352
Sunnyvale School District	100%	132,701,263
Other School Districts	5.255 - 100%	400,792,090
City of Gilroy	100%	32,520,000
City of Palo Alto	100%	74,235,000
City of San Jose	100%	441,025,000
City of Saratoga	100%	11,540,000
Saratoga Fire Protection District	100%	4,253,737
El Camino Hospital District	100%	141,310,000
City Community Facilities Districts	100%	59,215,000
City of San Jose Special Assessment Bonds	100%	20,180,000
Other City 1915 Act Bonds (Estimated)	100%	59,893,588
<b>Santa Clara Valley Water District Benefit Assessment District</b>	<b>100%</b>	<b>131,199,000</b>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$7,359,558,564</b>

Ratios to 2012 - 13 Assessed Valuation:

**Direct Debt (\$131,199,000)** **0.04%**  
 Total Direct and Overlapping Tax and Assessment Debt 2.38%

<u><b>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</b></u>	<u>% Applicable</u>	<u>District's Share of Debt 6/30/13</u>
Santa Clara County General Fund Obligations	100%	\$ 819,956,840
Santa Clara County Pension Obligations	100%	378,994,822
Santa Clara County Office of Education Certificates of Participation	100%	10,400,000
San Jose-Evergreen Community College District OPEB	100%	47,450,000
West Valley - Mission Community College District General Fund Obligations	99%	64,715,215
Gilroy Unified School District Certificates of Participation	100%	31,425,000
San Jose Unified School District General Fund Obligations	100%	30,000,000
Santa Clara Unified School District Certificates of Participation	100%	13,430,000
East Side Union High School District Benefit Obligations	100%	31,125,000
Alum Rock Union School District Certificates of Participation	100%	28,000,000
Other School District General Fund Obligations	21.876-100	65,407,583
City of Cupertino Certificates of Participation	100%	43,940,000
City of Gilroy Certificates of Participation	100%	45,975,000
City of Los Gatos General Fund Obligations	100%	22,820,000
City of San Jose General Fund Obligations	100%	724,025,000
City of Santa Clara General Fund Obligations	100%	33,766,000
City of Sunnyvale General Fund Obligations	100%	23,475,000
Other City General Fund Obligations	100%	44,760,843
Santa Clara County Vector Control District Certificates of Participation	100%	3,455,000
Mid-peninsula Regional Park District General Fund Obligations	68.86%	93,402,969
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$ 2,556,524,272</b>

**TOTAL DIRECT DEBT** **\$131,199,000**  
**TOTAL COMBINED OVERLAPPING DEBT** **\$12,164,110,131**  
**COMBINED TOTAL DEBT** **\$ 12,295,309,131 (1)**

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

Ratios to 2012 - 13 Assessed Valuation:

**Total Direct Debt (\$131,199,000)** 0.04%  
 Combined Total Debt 3.98%

Ratios to Redevelopment Incremental Valuation (\$32,304,925,988):

Total Overlapping Tax Increment Debt 7.36%

Source: Prepared for the Santa Clara Valley Water District by California Municipal Statistics, Inc.

## SANTA CLARA VALLEY WATER DISTRICT

Revenue Bond Coverage  
Last Ten Fiscal Years  
(Dollars in Thousands)

Fiscal Year	Adjusted Revenue	Adjusted Operating Expense	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage Factor
				Principal*	Interest*	Total	
2004	\$ 125,274	\$ 75,902	\$ 49,372	\$ 7,025	\$ 3,359	\$ 10,384	\$ 4.7546
2005	115,069	79,909	35,160	1,060	2,992	4,052	8.6772
2006	118,513	99,973	18,540	1,105	2,947	4,052	4.5755
2007	140,439	94,813	45,626	1,720	3,554	5,274	8.6511
2008	151,509	94,363	57,146	2,135	8,703	10,838	5.2727
2009	156,579	105,535	51,044	2,345	9,480	11,825	4.3166
2010	135,810	102,564	33,246	4,814	8,446	13,260	2.5072
2011	133,676	108,093	25,583	5,020	8,019	13,039	1.9620
2012	154,750	111,505	43,245	5,230	7,945	13,175	3.2824
2013	171,066	111,120	59,946	6,973	7,596	14,569	4.1146

Source: Santa Clara Valley Water District General Accounting Unit

\* Does not include debt service on general obligation debt

In July 1994, the District refunded its outstanding water revenue bonds and restructured its debt covenants under a Master Resolution governing the issuance of all Water Utility System debt obligations. This restructuring of debt covenants included the method of calculating revenue bond coverage.

For fiscal year 2012-13, operating revenue of \$157,644 has been increased by \$13,422 and operating expense of \$131,738 has been decreased by \$20,618 as prescribed by the Master Resolution. These adjustments relate primarily to intergovernmental revenues and depreciation and amortization, other post employment benefits, compensated absences and claims and adjustment expenses. The complete calculation can be obtained from the Finance Department at 5750 Almaden Expressway, San Jose, CA 95118.

**SANTA CLARA VALLEY WATER DISTRICT**

Computation of District Act Debt Margin

June 30, 2013

(Dollars in Thousands)

Authorized short-term debt under authority of District Act Section 25.6	\$8,000
Outstanding short-term debt under Section 25.6, June 30, 2012	<u>0</u>
District Act Section 25.6 debt margin on short-term debt	<u><u>\$8,000</u></u>

Note: California law authorizes the issuance of debt that is not subject to the Section 25.6 District Act limit and the District has issued commercial paper short term debt in a transaction with the Santa Clara Valley Water District Public Facilities Financing Corporation and others.

The Santa Clara Valley Water District's debt issuance practices are governed by the provisions of California law. The Codes do not set a formal debt limit for water districts. However, the short term borrowing authority set in Section 25.6 of the special legislation which formed the Santa Clara Valley Water District (the District Act) provides a limit on short term debt (maturity of less than five years) of \$8,000,000 that can be borrowed under authority of that Section. The District is in compliance with its District Act and the other provisions of California law provide additional independent authority for debt.

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

Fiscal Year	Population <sup>(1)</sup>	Personal Income (thousands of dollars) <sup>(2)</sup>	Per Capita Personal Income	Consumer Price Index <sup>(3)</sup>	School Enrollment <sup>(4)</sup>	Total Employment <sup>(5)</sup>	Unemployment Rate <sup>(5)</sup>
2004	1,731,300	\$ 82,638,917	\$ 47,732	1.4%	251,198	773,400	6.9%
2005	1,759,585	87,154,432	49,531	1.1%	253,065	774,700	5.7%
2006	1,773,258	95,670,811	53,952	3.9%	254,622	775,300	5.0%
2007	1,808,058	105,575,784	58,392	2.6%	255,722	809,500	4.7%
2008	1,837,075	105,978,791	57,689	4.7%	259,116	822,700	6.0%
2009	1,857,621	103,568,953	55,754	0.2%	261,945	787,700	11.8%
2010	1,880,876	102,589,854	54,544	1.1%	265,544	879,100	11.3%
2011	1,890,909	111,880,131	59,167	1.1%	266,267	798,200	9.9%
2012	1,899,567	n/a	n/a	0.9%	270,109	794,236	8.5%
2013	1,842,254	n/a	n/a	1.4%	273,701	865,900	6.8%

Source: <sup>(1)</sup> State of California - Department of Finance

<sup>(2)</sup> U.S. Department of Commerce - Bureau of Economic Analysis

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

<sup>(4)</sup> State of California - Department of Education and Santa Clara County Office of Education

<sup>(5)</sup> State of California - Employment Development Department

n/a Current information not available

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

Company or Organization	Fiscal Year 2013			Fiscal Year 2004		
	Employees <sup>(2)</sup>	Rank	Percentage of Total County Employment	Employees <sup>(2)</sup>	Rank	Percentage of Total County Employment
Google, Inc.	16,500	1	1.91%			
Cisco Systems	15,492	2	1.79%			
County of Santa Clara	15,000	3	1.73%			
Apple Computer	13,000	4	1.50%			
Stanford University	11,442	5	1.32%			
Stanford Hospital & Clinics	8,451	6	0.98%	5,500	4	0.71%
Kaiser Permanente	8,435	7	0.97%			
Applied Materials	8,000	8	0.92%			
Lockheed Martin Space Systems	6,400	9	0.74%	7,500	1	0.97%
Intel Corporation	5,900	10	0.68%	6,000	3	0.78%
LSI Logic Corporation				7,000	2	0.91%
IBM Storage Systems				5,000	5	0.65%
SGI Silicon Graphics				4,443	6	0.58%
Hewlett-Packard Co.				4,000	7	0.52%
Z-Force, Inc.				3,572	8	0.46%
Santa Clara Valley Medical Center				3,500	9	0.45%
Advanced Micro Devices				3,000	10	0.39%
<b>Total</b>	<b>108,620</b>		<b>12.54%</b>	<b>49,515</b>		<b>6.42%</b>
<b>Total County Employment<sup>(1)</sup></b>			<b>865,900</b>			<b>771,200</b>

Source: (1) State Employment Development Department, Labor Market Information Division  
(2) Rich's Business Information - Santa Clara County

Santa Clara Valley Water District  
 Full-time Equivalent District Employees by Function/Program  
 Fiscal Year 2006 - 2013

Function/Program	Fiscal Year							
	2006	2007	2008	2009	2010	2011	2012	2013
Office of the CEO	16	15	10	13	12	11	10	10
Office of the District Counsel	4	5	6	11	11	9	9	9
Community & Government Relations	16	15	10	20	20	7	8	8
County-Wide Watershed Management	134	134	122	122	119	117	105	98
Capital Programs	153	153	152	152	145	143	126	117
Water Utility Operations	23	23	39	43	43	43	43	43
Water Supply	31	31	27	11	11	11	11	11
Water Conservation	10	10	10	10	10	10	10	10
Surface & Groundwater Management	32	32	35	34	34	34	34	34
Water Quality	25	25	24	22	22	22	22	22
Control Systems	11	11	11	11	11	11	11	11
Water Utility Maintenance	31	31	25	23	23	23	23	23
Treated Water Operations	33	33	36	36	36	36	36	36
Raw Water Operations	23	23	26	25	25	25	25	25
Administrative & Business Management	12	12	5	11	11	11	8	8
Clerk of the Board	7	7	8	10	12	12	12	12
Organizational Training & Development	6	6	16	10	6	6	6	6
Business Support Services	17	17	28	18	16	16	16	16
Library & Records	8	8	8	5	5	6	6	6
Budget Office	7	7	9	4	8	8	8	8
Accounting	20	20	19	18	18	18	18	18
Information & Systems Management	46	46	38	42	43	43	39	39
Technical Services	6	6	6	3	3	3	3	3
Wells & Water Production	15	15	13	20	20	18	18	18
Real Estate & Right-of-Way	9	9	9	8	8	8	8	8
Equipment Management	11	11	12	12	12	12	12	12
Warehouse & Inventory Control	8	8	7	7	7	6	6	6
Facilities Maintenance	14	14	15	15	15	15	15	15
Purchasing	10	10	10	9	9	9	9	9
Permits	-	-	14	16	16	16	16	16
Contracts Administration	5	5	5	6	6	5	4	4
Human Resources & Benefits	27	27	21	21	21	21	21	21
Health & Safety	8	8	7	6	6	6	6	6
<b>Total</b>	<b>778</b>	<b>777</b>	<b>783</b>	<b>774</b>	<b>764</b>	<b>741</b>	<b>704</b>	<b>688</b>

Source: SCVWD Human Resources & Benefits Unit

Santa Clara Valley Water District  
Operating Indicators by Function/Program  
Fiscal Years 2006 - 2013

Function/Program	Fiscal Year							
	2006	2007	2008	2009	2010	2011	2012	2013
<b>District Well Ordinance Program</b>								
New Wells	713	1,194	674	846	583	775	541	443
Destroyed Wells	707	954	931	620	663	653	531	502
Well Permits	1,955	2,692	2,031	2,047	1,564	1,626	1,740	1,265
Well Inspections	1,420	2,269	1,852	1,685	1,286	1,517	1,350	1,080
<b>Watershed Management</b>								
Miles of Vegetation Removed/Managed	188	272	202	187	185	175	241	221
Cubic Yards of Sediment Removed	39,420	96,329	33,523	7,383	17,409	15,623	32,456	21,456
Miles of Bank Erosion Protection	1.2	0.8	0.9	1.4	-	2	0.5	1.1
<b>Laboratory Services Unit</b>								
Water Samples Tested (approx.)	146,000	120,499	84,056	119,190	99,385	132,638	111,265	158,082
Water Quality Violations	-	-	-	-	-	-	-	-
<b>Water Measurement Division</b>								
Meter Readings/Site Visits	6,627	6,612	6,200	7,418	5,934	5,981	5,939	6,019
Meter Repairs/Preventative Maintenance	200	463	281	342	302	328	316	313
Backflow Device Testings	120	203	102	200	190	170	151	177
<b>Community Projects Review</b>								
Permits Issued	401	365	242	213	217	229	220	257
Land Development Review Requests	2,342	1,708	1,313	1,336	1,080	1,030	964	865
Underground Service Alerts	40,356	35,026	38,676	39,079	27,782	28,651	37,348	46,599
Requests for Flood Zone Information	246	108	109	109	91	90	70	72
Environmental Impact Reports Reviewed	144	202	90	130	115	107	55	33
Water Resource Protec. Ordinance Violations	23	22	24	136	121	125	234	193
<b>Human Resources</b>								
Permanent Positions Hired	63	41	30	19	20	13	17	21
Temporary Workers Employed	150	98	100	54	49	121	112	140
Employment Applications Processed	1,445	1,973	1,795	952	1,163	1,000	2,685	1,524
<b>Health &amp; Safety</b>								
Ergonomic Assessments	42	67	73	62	46	44	36	39
Confined Space Assessments	200	211	346	193	210	247	117	139
Employee Safety Committee Meetings	12	12	9	11	12	10	11	9
<b>Projects Managed by Type:</b>								
Capital Projects	128	134	244	179	178	138	129	126
Operating Projects	62	64	86	67	56	46	48	43
Operations Projects	350	379	448	400	373	354	365	396

Source: Various Government Departments

Santa Clara Valley Water District  
Capital Asset Statistics by Function/Program  
Fiscal Year 2006 - 2013

Function/Program	Fiscal Year							
	2006	2007	2008	2009	2010	2011	2012	2013
<b>Water Utility Enterprise</b>								
Acres of groundwater recharge ponds	393	393	393	393	393	393	393	393
Miles of canals	17	17	17	17	17	17	17	17
Miles of pipeline	142	143	143	143	143	143	144	144
Miles of tunnels	8	8	8	8	8	8	8	8
Number of treatment plants	3	3	3	3	3	3	4	4
Number of pumping stations	3	5	5	5	5	5	5	5
Number of treated water reservoirs	1	1	1	1	1	1	1	1
<b>Water Utility Operations</b>								
Process Control Instrumentation	660	899	998	987	1,071	1,128	1,161	1,406
Mechanical Drives	47	50	50	50	54	54	54	72
Chemical Mixers	85	90	86	86	87	87	87	89
Electrical Motors	341	357	376	375	381	407	432	452
Power Distribution Equipment	227	247	572	618	640	736	913	1,248
Pumps	436	442	469	469	475	496	515	547
Utility Vaults & Structures	988	988	955	958	1,019	1,050	1,051	1,062
Chemical & Water Storage Tanks	120	162	167	169	170	179	192	199
Valves	678	884	945	950	994	1,059	1,070	1,613
Valve Operators	365	467	490	492	524	577	579	799
Generators	13	19	21	21	23	23	26	25
Flow Meters	188	225	247	256	258	271	296	381
Electric Drives	119	148	148	152	152	160	170	173
Blowers & Compressors	166	166	167	167	168	164	174	146
Miscellaneous Equipment	296	297	301	315	429	459	467	477
<b>Watersheds</b>								
Miles of creeks and rivers managed for flood control	700	700	700	700	700	700	700	700
Number of reservoirs	10	10	10	10	10	10	10	10
Total District reservoir capacity (acre-feet)	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415
Acres of Wildlife Habitat Restored								569
<b>Fleet Equipment</b>								
Class I Passenger Vehicles	227	224	223	204	202	190	190	185
Class II Heavy Duty Trucks	70	70	70	72	78	79	78	82
Class III Tractors, Const. Equip., Generators, Forklifts	29	27	27	26	25	25	26	24
Class IV Misc. Small Tools & Engines	946	998	498	520	597	648	643	655

**Source:** Various Government Departments

## SANTA CLARA VALLEY WATER DISTRICT

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Flood Control System Revenues:				
Benefit assessment, gross <sup>1</sup>	\$ 19,428	\$ 19,381	\$ 19,406	\$ 19,407
Property tax <sup>3</sup>	35,620	16,187	20,281	44,677
Investment income <sup>3</sup>	2,055	4,177	2,733	4,206
Rental income <sup>3</sup>	1,374	1,360	1,414	1,383
Other <sup>3</sup>	1,806	832	179	421
Total Flood Control System Revenue	<u>\$ 60,283</u>	<u>\$ 41,937</u>	<u>\$ 44,013</u>	<u>\$ 70,094</u>
Debt Service:				
1994A Certificates of participation, net	\$ 5,596	\$ -	\$ -	\$ -
2000A Certificates of participation	5,540	5,544	5,539	5,334
2003A Certificates of participation	4,355	3,824	7,478	7,593
2004A Certificates of participation	-	4,953	2,289	2,285
2007A Certificates of participation	-	-	-	-
2012A Certificates of participation	-	-	-	-
Total Debt Service	<u>\$ 15,491</u>	<u>\$ 14,321</u>	<u>\$ 15,306</u>	<u>\$ 15,212</u>
Coverage	3.89	2.93	2.88	4.61

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

- FY2013 - \$194
- FY2012 - \$193
- FY2011 - \$193
- FY2010 - \$194
- FY2009 - \$195
- FY2008 - \$181
- FY 2007 - \$194
- FY 2006 - \$194
- FY 2005 - \$194
- FY 2004 - \$194

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

Source: Santa Clara Valley Water District General Accounting Unit

2008	2009 <sup>3</sup>	2010	2011	2012	2013
\$ 18,047	\$ 19,450	\$ 19,420	\$ 19,284	\$ 19,324	19,372
48,012	50,660	45,010	47,567	48,457	55,647
5,678	5,137	2,671	1,099	560	249
1,238	1,159	1,137	1,139	1,210	1,208
557	903	1,045	564	798	1,327
<u>\$ 73,532</u>	<u>\$ 77,309</u>	<u>\$ 69,283</u>	<u>\$ 69,653</u>	<u>\$ 70,349</u>	<u>77,803</u>
\$ -	\$ -	\$ -	\$ -	-	-
-	-	-	-	-	-
7,330	7,533	7,433	6,958	6,018	1,141
2,287	2,304	2,488	2,395	2,285	2,380
4,640	5,759	5,757	5,761	5,759	5,757
-	-	-	-	-	6,443
<u>\$ 14,257</u>	<u>\$ 15,596</u>	<u>\$ 15,678</u>	<u>\$ 15,114</u>	<u>\$ 14,062</u>	<u>\$ 15,721</u>
5.16	4.96	4.42	4.61	5.00	4.95

<sup>3</sup> Effective July 1, 2008, special revenue funds - Lower Peninsula Watershed, West Valley Watershed, Guadalupe Watershed, Coyote Watershed and Uvas/Llagas Watershed - were redefined as benefit assessment funds comprised of voter-approved debt repayment phase of the benefit assessment program. The total revenues presented in the Combining Schedule of Revenues, Expenditures and Changes in Fund Balances of Selected Watershed Activities Contained Within the Watershed and Stream Watershed Fund include only benefit assessments. Other revenues were presented in the Statement of Revenues, Expenditures and Changes in Fund Balances of the Watershed and Stream Stewardship Fund.

For the purpose of the Flood Control System Debt Service Coverage, revenues that are allocable to the special revenue funds were included in the calculation of the coverage.





Santa Clara Valley  
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## FY 2012-13 Comprehensive Annual Financial Report