Santa Clara Valley Water District
Board Audit Committee

HQ. Bldg. Boardroom, 5700 Almaden Expressway, San Jose, California
Join Zoom Meeting: https://valleywater.zoom.us/j/91608079873

REGULAR MEETING
AGENDA

Wednesday, August 19, 2026
1:00 PM

District Mission: Provide Silicon Valley safe, clean water for a healthy life, environment and economy.

BOARD AUDIT COMMITTEE
Jim Beall, Chairperson - District 4
Shiloh Ballard, Vice Chairperson - District 2
Tony Estremera - District 6

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body, will be available to the public through the legislative body agenda web page at the same time that the public records are distributed or made available to the legislative body. Santa Clara Valley Water District will make reasonable efforts to accommodate persons with disabilities wishing to participate in the legislative body's meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 630-2277.

DARIN TAYLOR
Committee Liaison

NICOLE MERRITT
Deputy Clerk (Committee Meetings)
Office/Clerk of the Board
(408) 630-3262
nmerritt@valleywater.org

Note: The finalized Board Agenda, exception items and supplemental items will be posted prior to the meeting in accordance with the Brown Act.

Santa Clara Valley Water District
Board Audit Committee

REGULAR MEETING
AGENDA

Wednesday, August 19, 2026	**1:00 PM**	**HQ. Bldg. Boardroom, 5700 Almaden Expressway, San Jose, California** **Join Zoom Meeting:** **https://valleywater.zoom.us/j/91608079873**

IMPORTANT NOTICES AND PARTICIPATION INSTRUCTIONS

Santa Clara Valley Water District (Valley Water) Board of Directors/Board Committee meetings are held as a "hybrid" meetings, conducted in-person as well as by telecommunication, and is compliant with the provisions of the Ralph M. Brown Act.

To maximize public safety while still maintaining transparency and public access, members of the public have an option to participate by teleconference/video conference or attend in-person. To observe and participate in the meeting by teleconference/video conference, please see the meeting link located at the top of the agenda. If attending in-person, you are required to comply with Ordinance 22-03 - AN ORDINANCE OF THE SANTA CLARA VALLEY WATER DISTRICT SPECIFYING RULES OF DECORUM FOR PARTICIPATION IN BOARD AND COMMITTEE MEETINGS located at https://s3.us-west-2.amazonaws.com/valleywater.org.if-us-west-2/f2-live/s3fs-public/Ord.pdf

In accordance with the requirements of Gov. Code Section 54954.3(a), members of the public wishing to address the Board/Committee during public comment or on any item listed on the agenda, may do so by filling out a Speaker Card and submitting it to the Clerk or using the "Raise Hand" tool located in the Zoom meeting application to identify yourself in order to speak, at the time the item is called. Speakers will be acknowledged by the Board/Committee Chair in the order requests are received and granted speaking access to address the Board.

- Members of the Public may test their connection to Zoom Meetings at: https://zoom.us/test
- Members of the Public are encouraged to review our overview on joining Valley Water Board Meetings at: https://www.youtube.com/watch?v=TojJpYCxXm0

Valley Water, in complying with the Americans with Disabilities Act (ADA), requests individuals who require special accommodations to access and/or participate in Valley Water Board of Directors/Board Committee meetings to please contact the Clerk of the Board's office at (408) 630-2711, at least 3 business days before the scheduled meeting to ensure that Valley Water may assist you.

This agenda has been prepared as required by the applicable laws of the State of California, including but not limited to, Government Code Sections 54950 et. seq. and has

not been prepared with a view to informing an investment decision in any of Valley Water's bonds, notes or other obligations. Any projections, plans or other forward-looking statements included in the information in this agenda are subject to a variety of uncertainties that could cause any actual plans or results to differ materially from any such statement. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water's bonds, notes or other obligations and investors and potential investors should rely only on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures and Valley Water's Investor Relations website, maintained on the World Wide Web at https://emma.msrb.org/ and https://www.valleywater.org/how-we-operate/financebudget/investor-relations, respectively.

Under the Brown Act, members of the public are not required to provide identifying information in order to attend public meetings. Through the link below, the Zoom webinar program requests entry of a name and email address, and Valley Water is unable to modify this requirement. Members of the public not wishing to provide such identifying information are encouraged to enter "Anonymous" or some other reference under name and to enter a fictional email address (e.g., attendee@valleywater.org) in lieu of their actual address. Inputting such values will not impact your ability to access the meeting through Zoom.

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https://valleywater.zoom.us/j/91608079873
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1 (669) 900-9128, 91608079873#

1. CALL TO ORDER:

1.1. Roll Call.

2. TIME OPEN FOR PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA.

Notice to the public: Members of the public who wish to address the Board/Committee on matters not listed on the agenda may do so by completing a Speaker Card and submitting it to the Clerk, or by using the "Raise Hand" feature within the Zoom meeting application to request recognition. Speakers will be acknowledged by the Board/Committee Chair in the order requests are received and, when recognized, will be granted speaking access to address the Board/Committee.

Public comments shall be limited to three (3) minutes per speaker, or such other time as determined by the Chair. State law does not permit the Board/Committee to take action on, or engage in extended discussion of, any item not appearing on the posted agenda, except as otherwise authorized under applicable law. If Board/Committee action is requested, the matter may be scheduled for consideration at a future meeting.

All public comments requiring a response will be referred to staff for a written reply. The Board/Committee may take action on any item of business appearing on the posted agenda.

3. APPROVAL OF MINUTES:

3.1. Approval of July 28, 2026, Board Audit Committee Minutes. 26-0670

Recommendation: Approve the minutes.

Manager: Wendy Ho, 408-630-3874

Attachments: Attachment 1: 07282026 BAC Minutes

4. REGULAR AGENDA:

4.1. Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2025. 26-0641

Recommendation: Receive and discuss the audit report of the Water Utility Enterprise funds for the fiscal year ended June 30, 2025.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: Audit Report, FY Ending 2025 WUE Funds

4.2. Receive a Status Update on the Implementation of Audit Recommendations; Authorize Staff to Close Completed Board-Directed Audits or Refer Them to the Chief Audit Executive (CAE) for Follow-up Review; and Discuss Timing of Next Update. 26-0596

Recommendation:

A. Receive a status update on the implementation of audit recommendations;
B. Authorize staff to close completed Board-directed audits or refer them to the CAE for follow-up review, and
C. Discuss timing of the next update.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: Audit Recommendation Status Table
Attachment 2: Audit Recommendation Status Updates (detailed)

4.3. Discuss Potential Audit Topics for 2027 Annual Audit Plan, and Provide Further Guidance as Needed. 26-0652

Recommendation: Discuss potential audit topics for 2027 Annual Audit Plan, and provide further guidance as needed.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: 2023 Risk Assessment Final Report

4.4. Discuss 2026 Annual Audit Plan (Risk Assessment, Asset Management, Pacheco Reservoir Project, and Investigations Process), Receive Status of Open Board-Directed Audit Engagements, and Provide Feedback as Needed. 26-0651

Recommendation:
A. Discuss 2026 annual audit plan (Risk Assessment, Asset Management, Pacheco Reservoir Project, and Investigations Process),
B. Receive status of open Board-directed audit engagements, and
C. Provide feedback as needed.

Manager: Darin Taylor, 408-630-3068

4.5. Review and Discuss 2026 Board Audit Committee (BAC) Work Plan. 26-0653

Recommendation: Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2026 BAC Work Plan.

Manager: Wendy Ho, 408-630-3874

Attachments: Attachment 1: 2026 BAC Work Plan

5. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.

6. ADJOURN:

6.1. Adjourn. The Next Regular Meeting is Scheduled at 1:00 p.m., on September 16, 2026.

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Santa Clara Valley Water District

File No.: 26-0670

Agenda Date: 8/19/2026
Item No.: 3.1.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Approval of July 28, 2026, Board Audit Committee Minutes.

RECOMMENDATION:
Approve the minutes.

SUMMARY:
In accordance with the Ralph M. Brown Act, a summary of Committee discussions, and details of all actions taken by the Board Audit Committee, during all open and public Committee meetings, is transcribed and submitted to the Committee for review and approval.

Upon Committee approval, minutes transcripts are finalized and entered into the Committee's historical records archives and serve as historical records of the Committee's meetings.

ENVIRONMENTAL JUSTICE IMPACT:
The approval of minutes is not subject to environmental justice analysis.

ATTACHMENTS:
Attachment 1: 07282026 BAC Minutes

UNCLASSIFIED MANAGER:
Wendy Ho, 408-630-3874

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BOARD AUDIT COMMITTEE MEETING

DRAFT MINUTES

SPECIAL MEETING
TUESDAY, JULY 28, 2026
1:00 PM

(Paragraph numbers coincide with agenda item numbers)

1. CALL TO ORDER:

A special meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee) was called to order in the Valley Water Headquarters Building Boardroom at 5700 Almaden Expressway, San Jose, California, and by Zoom teleconference, at 1:00 p.m.

1.1 Roll Call.

Committee members in attendance were: District 6 Tony Estremera, District 2 Director and Vice Chairperson Shiloh Ballard, and District 4 Director Jim Beall, Chairperson presiding, constituting a quorum of the Committee.

Staff members in attendance were: Aaron Baker, Audrey Beaman, Theresa Chinte, Jessica Collins, Brian Dean, Enrique De Anda, Amy Fonseca, Rachael Gibson, Walter Gonzalez, Mark Greene, Wendy Ho, Cecil Lawson, Jessica Lovering, Olive Manaloto, Patrice McElroy, Anthony Mendiola, Nicole Merritt, Carmen Narayanan, Tony Ndah, Luz Penilla, Steve Peters, Don Rocha, Amandeep Saini, Desiree Sausele, Manpreet Sra, Kirsten Struve, and Darin Taylor.

Public in attendance were: Katja Irvin (Sierra Club), Tammy Lohr-Schweitzer and Maria Stroth (Baker Tilly), Roger Martinez and Samuel Tolentino (Vasquez and Company LLP), and George Skiles (Sjoberg Evashenk Consulting),

2. TIME OPEN FOR PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA:

Chairperson Beall declared time open for public comment on any item not on the agenda. There was no one present who wished to speak.

3. APPROVAL OF MINUTES:

3.1. Approval of May 20, 2026, Board Audit Committee Meeting Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of May 20, 2026 Committee meeting.

Public Comments:
None.

It was moved by Director Estremera and seconded by Vice Chairperson Ballard and was unanimously carried that the minutes be approved.

4. REGULAR AGENDA:

4.1. Receive and Discuss 2025 Water Usage and Demand Forecasting Audit Report with Management Response; Refer the Final 2025 Water Usage and Demand Forecasting Audit Report to the Board.

Recommendation:
A. Receive and discuss the 2025 Water Usage and Demand Forecasting Audit Report with Management Response, and
B. Refer the final 2025 Water Usage and Demand Forecasting Audit Report to the Board.

Tammy Lohr-Schweitzer and Maria Stroth reviewed the information on this item, per the attached Committee Agenda Memo, and corresponding presentation materials contained in Attachment 2 were reviewed as follows: Tammy Lohr-Schweitzer reviewed Slides 1-5 and Maria Stroth reviewed Slides 6-11.

Copies of Handout 4.1-A, email from Katja Irvin was distributed to the Committee and made available to the public.

Tammy Lohr-Schweitzer, Maria Stroth, Darin Taylor, and Kirsten Struve were available to answer questions.

Public Comments:
Katja Irvin.

The Committee received the information, and noted the following:

- The Committee discussed ratepayers' interest in lowering their water bills and noted a recent study on water demand elasticity by Raftelis Financial Consultants, Inc. and Hazen and Sawyer, indicated that water usage tends to decrease slightly as water costs increase and increase as water costs decrease. The Committee noted that water rates are already one of the variables in the long-term demand model.
- The Committee discussed affordability metrics for households that struggle to pay their water bills and expressed interest in learning how other agencies address affordability and revisiting this topic on a future agenda.
- The Committee confirmed that staff agreed with the audit recommendations regarding the short-term and long-term water demand projections models and will respond to and implement the recommendations.
- The Committee discussed the similarities and differences between the

forecast models in this audit report by Baker Tilly and the water demand elasticity study by Raftelis Financial Consultants, Inc. and Hazen and Sawyer and noted that this audit report by Baker Tilly included recommendations to improve documentation.

- The Committee noted the next Protection and Augmentation of Water Supplies (PAWS) report will include information on the relationship between the forecast models in this audit report by Baker Tilly and the study on water demand elasticity by Raftelis Financial Consultants, Inc. and Hazen and Sawyer.
- The Committee discussed the long-term model reviewed in this audit report by Baker Tilly and noted that it is a new model that incorporates the industry's best practices and represents a significant improvement over the previous model.
- The Committee expressed interest in continuing to be updated on active audits as the Board is considering the next Annual Audit plan to avoid duplication of audit efforts.

It was moved by Director Estremera and seconded by Vice Chairperson Ballard and it was approved for the final 2025 Water Usage and Demand Forecasting Audit Report to be referred to the Board.

4.2. Receive and Discuss Information Regarding the Upcoming Fiscal Year (FY) 2025-2026 Financial Audit, Presented by Vasquez and Company LLP.

Recommendation: Receive and discuss information regarding the upcoming FY 2025-2026 financial audit, presented by Vasquez and Company LLP.

Roger Martinez and Samuel Tolentino reviewed the information on this item, per the attached Committee Agenda Memo, and corresponding presentation materials contained in Attachment 1 were reviewed as follows: Roger Martinez reviewed Slides 1-20 and Samuel Tolentino reviewed Slides 21-29.

Roger Martinez and Samuel Tolentino were available to answer questions.

Public Comments:
None.

The Committee received and discussed the information, took no formal action, and noted the following:

- The Committee confirmed the audit schedule, noted a presentation to the Board is targeted for December 2026, and that no potential federal government impacts are expected to affect the completion of the audit.
- The Committee confirmed that information technology (IT) components will be reviewed.

4.3. Receive and Discuss Financial Audit Reports for Fiscal Year (FY) 2025 from Valley Water's Joint Powers Authority (JPA) Partners.

Recommendation: Receive and discuss financial audit reports for FY 2025 from Valley Water's JPA partners.

Darin Taylor reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachments 1–5.

Darin Taylor and George Skiles were available to answer questions.

Public Comments:
None.

The Committee discussed the information, took no formal action, and noted the following:

- The Committee discussed the available audit reports and the level of investments associated with the JPAs of which Valley Water is a member.
- The Committee expressed interest in a framework for Board members serving on JPAs and staying informed on JPA activities through informal JPA briefings, a review of the Board's Handbook for potential updates regarding JPAs and revisiting the discussion on a future agenda.

4.4. Discuss 2026 Annual Audit Plan (Risk Assessment, Asset Management, Pacheco Reservoir Project, and Investigations Process), Receive Status of Open Board-Directed Audit Engagements, and Provide Feedback as Needed.

Recommendation:
A. Discuss 2026 Annual Audit Plan, Risk Assessment, Asset Management, Pacheco Reservoir Project, and Investigations Process),
B. Receive status of open Board-directed audit engagements and;
C. Provide feedback as needed.

Darin Taylor and George Skiles reviewed the information on this item, per the attached Committee Agenda Memo.

Darin Taylor and George Skiles were available to answer questions.

Public Comments:
None.

The Committee discussed the information, took no formal action, and noted the following:

- The Committee expressed interest in a potential topic to help prepare Board members for the Memorandum of Understanding (MOU) negotiations as part of the upcoming risk assessment process, and without further discussion noted the update on the 2026 Annual Audit Plan.

4.5. Review and Discuss 2026 Board Audit Committee (BAC) Work Plan.

Recommendation: Review and discuss topics of interest raised at prior BAC meetings and approve any necessary

adjustments to the 2026 BAC Work Plan.

Darin Taylor reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachment 1.

Darin Taylor was available to answer questions.

Public Comments:
None.

The Committee discussed the information, took no formal action, and expressed interest in continuing the JPA discussion under Agenda Item 4.3 to the BAC October 21, 2026 meeting, and without further discussion, and noted the update on the 2026 BAC Work Plan.

5. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS:
This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.

Nicole Merritt confirmed the Committee received, and discussed the 2025 Water Usage and Demand Forecasting Audit Report with management response and approved to refer the final report to the Board, and expressed interest in learning how other agencies address affordability and revisiting this topic at a future meeting under Item 4.1; noted the upcoming FY 2025-2026 Financial Audit, Presented by Vasquez and Company LLP under Item 4.2; received and discussed the financial audit reports for FY 2025 from Valley Water's JPA partners and expressed interest in a framework for Board members serving on JPAs and staying informed on JPA activities through informal JPA briefings, a review of the Board's Handbook for potential updates regarding JPAs and revisiting the discussion on a future agenda under Item 4.3; expressed interest in a potential topic to help prepare Board members for the Memorandum of Understanding (MOU) negotiations as part of the upcoming risk assessment process under Item 4.4; and noted the update on the 2026 BAC Work Plan under Item 4.5.

6. ADJOURN:

6.1. Adjourn. The Next Regular Meeting is Scheduled at 1:00 p.m. on August 19, 2026.

Chairperson Beall adjourned the meeting at 2:30 p.m. The next regular meeting is scheduled to occur at 1:00 p.m. on August 19, 2026.

Nicole Merritt,
Deputy Clerk (Committee Meetings)

Date approved:

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Santa Clara Valley Water District

File No.: 26-0641

Agenda Date: 8/19/2026
Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2025.

RECOMMENDATION:
Receive and discuss the audit report of the Water Utility Enterprise funds for the fiscal year ended June 30, 2025.

SUMMARY:
In 2006, Valley Water began conducting an annual Water Utility Fund Audit to assess the reasonableness of the direct and indirect cost allocations between the North County and South County groundwater benefit zones. The audit was initiated to respond to water retailers' and constituents' inquiries on groundwater production charges.

As part of Valley Water's core water supply function, four groundwater benefit zones form the basis for establishing Valley Water's water charges. Water charges are set separately for each zone, reflecting Valley Water activities carried out in each.

In the North County, Zone W-2 encompasses the Santa Clara Valley groundwater basin north of Metcalf Road. It includes those groundwater producing facilities that benefit from recharge with local and imported water. In the South County, Zone W-5 overlays most of the Llagas Subbasin, Zone W-7 encompasses the Coyote Valley, and Zone W-8 encompasses areas in the foothills southeast of Uvas and Chesbro Reservoirs.

The report entitled "Water Utility Enterprise Funds of the Santa Clara Valley Water District - Annual Financial Report for the Fiscal Year Ended June 30, 2025," which encompasses the Water Utility Fund financial statements and independent auditor's opinion, is provided as Attachment 1.

The report is presented in the format prescribed under Generally Accepted Accounting Principles. The report and accompanying audit opinion indicate that the Water Utility fund financial statements are fairly stated in all material respects and that there were no findings. In addition, Attachment 1

includes a Schedule of Revenues and Expenses by Zone, which, according to the report, is also fairly stated in all material respects in relation to the financial statements as a whole.

ENVIRONMENTAL JUSTICE IMPACT:
There are no Environmental Justice impacts associated with this item.

ATTACHMENTS:
Attachment 1: Audit Report, FY Ending 2025 WUE Funds

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Valley Water

Clean Water • Healthy Environment • Flood Protection

Water Utility Enterprise Funds of the Santa Clara Valley Water District

Annual Financial Report

Fiscal Year Ended June 30, 2025

VASQUEZ + COMPANY LLP

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Enterprise Funds of the Santa Clara Valley Water District as of June 30, 2025, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Management's Discussion and Analysis (MD&A) in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the Management's Discussion and Analysis (MD&A) because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

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

Vasquez & Company LLP

Glendale, California
July 8, 2026

Our discussion and analysis of the financial performance of Santa Clara Valley Water District's (Valley Water) Water Utility Enterprise Funds (the "Funds") provide an overview of the Funds' financial activities for the fiscal year ended June 30, 2025. This information is presented in conjunction with the audited financial statements that follow this section.

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

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

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

Overview of the Financial Statements

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

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

The Funds' financial statements are comprised of the following:

- The Statement of Net Position presents information on the Funds' assets, deferred outflow of resources, deferred inflow of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Funds is improving or deteriorating.

- The Statement of Revenues, Expenses and Changes in Net Position provides information about the Funds' revenues and expenses on an accrual basis.

- The Statement of Cash Flows provides relevant information on the Funds' cash receipts and cash payments during the period. This statement presents changes in the Funds' cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities.

- The Notes to Basic Financial Statements provide additional information that is essential to a better understanding of the data provided in the Funds' financial statements.

Financial Highlights

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

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

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

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

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

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

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

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

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

Capital Assets

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

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

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

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

Debt Administration

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

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

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

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

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

Next Year's Budgets

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

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

Requests for Information

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

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

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

BASIC FINANCIAL STATEMENTS

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

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

(Continued)

See accompanying notes to basic financial statements.

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Cash Flows
For the Year Ended June 30, 2025
(Dollars in Thousands)

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

(Continued)

See accompanying notes to basic financial statements.

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

See accompanying notes to basic financial statements.

NOTE 1 THE FINANCIAL REPORTING ENTITY

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

Valley Water is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. Valley Water encompasses all of Santa Clara County. Valley Water is governed by a seven-member Board of Directors (Board). Each member represents one of the equally divided districts drawn through a formal process. The term of office of a director is four years.

On October 12, 2009, Assembly Bill 466 was signed by the Governor of California revising the composition of the Board to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. On May 14, 2010, the Board adopted a resolution that officially set the boundaries of the seven electoral districts. As required by state law, Valley Water redrew its boundaries to reflect 2010 Census results, and on October 11, 2011, the Board adopted Resolution No.11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

The Funds have two groundwater charge zones as follows:

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Fund Financial Statements

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Accounting

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

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

(c) Cash and Investments

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

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

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

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

(d) Lease Receivable

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Lease Receivable (Continued)

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

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

(e) Inventory

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

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

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

(f) Lease or Right to Use Assets

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

(g) Capital Assets

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Capital Assets (Continued)

The estimated useful lives are as follows:

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

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

(h) Amortization of Contract Water Rights

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

(i) Amortization of Water Banking Rights

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

(j) Amortization of Water Delivery Rights

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Receivables

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

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

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

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

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

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

(m) Bond Premiums, Discounts, and Issuance Costs

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Net Position

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

(o) Use of Estimates

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

(p) Pensions

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

(q) Other Post-Employment Benefits (OPEB)

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

(r) Deferred Outflows and Inflows of Resources

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

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

(s) New Pronouncements

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New Pronouncements (Continued)

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

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

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

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

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

NOTE 3 CASH AND INVESTMENTS

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

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

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

Deposits and Investments

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

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

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

Authorized Investments by Valley Water

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Valley Water (Continued)

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

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

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

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

Restricted Cash and Investments for Bond Interest and Redemption

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Debt Agreements (Continued)

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

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

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

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Debt Agreements (Continued)

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

Interest Rate Risk

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

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

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

Credit Risk

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

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

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

Concentration of Credit Risk

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

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

Custodial Credit Risk

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

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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

NOTE 4 REIMBURSEMENT OF CAPITAL COSTS

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

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

NOTE 5 INVESTMENT INCOME

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

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

NOTE 6 CAPITAL ASSETS

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

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

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

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

NOTE 6 CAPITAL ASSETS (CONTINUED)

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

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

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

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES

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

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

(a) Short-term debt (Continued)

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

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

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

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

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

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

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

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

(b) Long-term liabilities

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

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

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

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

(b) Long-term liabilities (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

(b) Long-term liabilities (Continued)

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

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

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

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

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

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

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

(b) Long-term liabilities (Continued)

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

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

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

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

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

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

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

(b) Long-term liabilities (Continued)

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

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

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

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

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

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

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

(b) Long-term liabilities (Continued)

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

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

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

(c) Other Debt Related Information

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

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

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

(c) Other Debt Related Information (Continued)

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

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

NOTE 8 PROPERTY TAXES AND BENEFIT ASSESSMENTS

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

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

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

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

NOTE 9 NET POSITION

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

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

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

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

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

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

NOTE 10 EMPLOYEES' RETIREMENT PLAN

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

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

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

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

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

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

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

Benefits Provided

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
Classified Employee Association (AFSCME Local 101) Engineers Society (IFPTE Local 21) Professional Managers Association (IFPTE - Local 21)	Retired prior to July 1, 1988	-	Fixed amount of $165 per month
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree
	Retired from July 1, 1990 or later and hired prior to December 31, 2006	10 years 15 years	100% medical premium for retiree 100% medical premium for retiree plus one eligible dependent
	Retired from July 1, 1990 or later and hired between December 31, 2006 and March 1, 2017	10 years 15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less. Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years 20 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less. Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

(Continued)

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

Benefits Provided (Continued)

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

(Continued)

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

Benefits Provided (Continued)

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
Unclassified At Will	Hired on or after March 1, 2007	15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
		20 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

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

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

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

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

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

NOTE 12 RISK MANAGEMENT

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

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

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

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

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

NOTE 13 INTERFUND TRANSFERS

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

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

NOTE 14 COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2025, the Funds have open purchase commitments of approximately $227.8 million related to new or existing contracts and agreements. These encumbrances represent commitments of the Funds and do not represent actual expenses or liabilities.

(b) San Felipe Project Water Deliveries

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

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

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

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

(c) Participation Rights in Storage Facilities

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

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

NOTE 14 COMMITMENTS (CONTINUED)

(c) Participation Rights in Storage Facilities (Continued)

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

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

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

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

NOTE 15 CONTINGENCIES

(a) Litigation

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

NOTE 15 CONTINGENCIES (CONTINUED)

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

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

NOTE 16 CERTAIN RISK DISCLOSURES (GASB 102)

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

NOTE 17 CHANGE IN ACCOUNTING PRINCIPLE

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

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

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

NOTE 18 SUBSEQUENT EVENTS

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

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

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

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

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

SUPPLEMENTARY INFORMATION

Santa Clara Valley Water District
Water Utility Enterprise Funds
Schedule of Revenues, Expenses and Changes in Net Position by Zone -
Budgetary Basis Reconciliation to GAAP Basis
Year ended June 30, 2025 (Dollars in Thousands)

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

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

Santa Clara Valley Water District
Water Utility Enterprise Funds
Schedule of Revenues, Expenses and Changes in Net Position by Zone - Budgetary Basis Discussion
Year ended June 30, 2025 and 2024 (Dollars in Thousands)

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

Budgetary basis discussion:

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

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

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

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

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

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

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

Water Utility Enterprise Funds Rate Summary

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

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

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

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

Santa Clara Valley Water District

File No.: 26-0596

Agenda Date: 8/19/2026
Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Receive a Status Update on the Implementation of Audit Recommendations; Authorize Staff to Close Completed Board-Directed Audits or Refer Them to the Chief Audit Executive (CAE) for Follow-up Review; and Discuss Timing of Next Update.

RECOMMENDATION:
A. Receive a status update on the implementation of audit recommendations;
B. Authorize staff to close completed Board-directed audits or refer them to the CAE for follow-up review, and
C. Discuss timing of the next update.

SUMMARY:
The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

The last status report to the BAC was in February 2026. As of this report, there are four (4) Board-directed audits, and one (1) Program-required audit that are open (see Attachment 1). Currently, there are fourteen (14) active audit recommendations that are not fully resolved and are marked as "Pending/Underway." Since the February report, nine (9) audit recommendations have been marked as "Completed/Implemented" (see Attachment 2).

A brief high-level summary about the efforts made by staff to address pending recommendations for a given audit based on the detailed updates provided by recommendation owners in Attachment 2 are provided below.

- **<u>2021 PERMITTING BEST PRACTICES AUDIT</u>**
  On October 13, 2020, TAP International Inc. was requested to conduct the Permitting Best Practices Audit that resulted in fourteen (14) recommendations to enhance communication and processing speed, introduce best practices where appropriate, and improve customer experience. Presentation of the Permitting Best Practices Audit final report was approved and

recommended by the Board Audit Committee on May 26, 2021, and presented to the full Board at the July 13, 2021, Board meeting. Since July 2021, eight (8) of the fourteen (14) recommendations have been implemented. Key improvements include reducing processing time for low-risk, repetitive permit applications, establishing dedicated environmental planner support and streamlined California Environmental Quality Act (CEQA) review, identifying workflows and IT system requirements, and completing a procurement process for permit database upgrades. In addition, a Billing Process and Policy was created to address financial controls, and permit forms and webpages were updated. Finally, a revised Water Resources Protection Ordinance and updated fee rate schedule were developed and adopted by the Board. To date, six (6) out of the fourteen (14) audit recommendations remain "Pending/Underway," none of which are identified as "High" priority. The majority of the pending recommendations pertain to the permit database upgrade, which is well underway. In addition, the Water Resources Protection Manual is being updated by staff to provide clear requirements for use of Valley Water lands. Staff will continue to provide updates via the annual audit status report to the BAC until all recommendations have been addressed.

- **2023 CAPITAL IMPROVEMENT PROGRAM (CIP) PERFORMANCE AUDIT**
  On May 24, 2022, the Board approved the initiation of the CIP Performance Audit, which resulted in eight (8) problem statements, each with a recommendation (some with sub-recommendations) for a total of fifteen (15) individual recommendations intending to improve the CIP planning processes, enhance the CIP 5-year plan, and improve transparency and consistency of the information reported in the CIP. Presentation of the CIP Performance Audit final report was approved by the BAC on August 16, 2023, and presented to the full Board at the October 24, 2023, Board meeting. Since October 2023, staff has initiated the implementation of the recommendations. Implementation of the recommendations should ensure projects are selected and prioritized using defined criteria, that key goals and milestones in the CIP plan are achievable given agency resources, continue ongoing efforts to implement leading practices as identified in the audit final report, enhance quality assurance procedures, and ensure compliance with Change Management procedures. As of this report, thirteen (13) recommendations have been implemented. Currently, two (2) recommendations are still pending, of which one (1) is identified as high priority, and one (1) as medium. Staff estimates the recommendations will be fully implemented by Q4 of fiscal year (FY) 2027. Staff continues to work on implementing the remaining recommendations and will return to provide a status report at the December 16, 2026, BAC meeting in order to include the CIP Benchmarking Study findings.

- **2024 HUMAN RESOURCES PERFORMANCE AUDIT**
  On March 26, 2024, the Board approved the initiation of the Human Resources (HR) Performance Audit. The audit was conducted between August and November 2024, which resulted in ten (10) recommendations. The presentation of the HR Performance final report was approved and recommended by the Board Audit Committee on March 19, 2025, and subsequently presented to the full Board at the April 8, 2025, Board meeting. Since April 2025, nine (9) of the ten (10) recommendations have been implemented, and one (1) audit recommendation is identified as "Pending/Underway," of which one (1) is identified as High priority. Key improvements include conducting monthly all HR employee team meetings, providing change management and communication training to HR leadership, continuing to

prioritize required training for all new supervisors, enhancing the effectiveness of the supervisory training program, and incorporating additional topics. An HR Operations Plan outlining key initiatives was developed, reviewed, and approved by HR Leadership in Q4 2025. Several updates within the Equal Employee Opportunity Program have been implemented, including increased visibility of forms, processes, and staffing for employees, and regular in-person supervisory and employee Sexual Harassment Prevention Training by the EEO team. A new confidentiality survey and evaluation process has been implemented. Lastly, Human Resources, in partnership with other key players, selected a new Human Capital Management (HCM) system and are working with Information Technology (IT) on the first phase of implementation. Two (2) audit recommendations were recently completed in May 2026. HR participated in the new ERP System selection and HR completed the employee classification review related to confidentiality. Next steps involve ensuring that a representative from HR with a strong understanding of HR system needs is involved in implementing the selected HCM system capabilities against HR's system needs. HR leadership and representatives are on the implementation team to ensure a careful process for successful system adoption is applied. Human Resources will continue to work on implementing the remaining recommendations and return to provide a status report at the March 2027 BAC meeting.

- **2025 WATER CONSERVATION PROGRAM PERFORMANCE AUDIT**:
  On February 12, 2025, Valley Water engaged Baker Tilly (Auditor) to conduct the performance audit of the Water Conservation Program. The audit focused on reviewing Valley Water's conservation strategies and evaluating Valley Water's overall approach to conservation and to identify best practices, opportunities to further enhance its strategic approach to promoting or incentivizing conservation, and lessons learned from past practices within Valley Water and other water agencies. Staff presented the audit report, including management's responses, to the BAC at its January 21, 2026, meeting and subsequently provided a report to the full Board on February 24, 2026. The audit resulted in five (5) recommendations, two (2) of which staff have implemented. As of this report, three (3) recommendations remain open. For Recommendation #1, management reported that the remaining three full-time positions continue to be documented as unfunded needs in the budget process and that program progress will continue to be monitored to guide the addition of staff in a phased approach. For Recommendation #2, an RFP was issued, a consultant was selected, and contract negotiations are expected to be completed in late 2026. Staff will continue to work on the remaining recommendations and return to provide a status report at the January 2027 BAC meeting.

- **2025 WATER USAGE AND DEMAND FORECASTING AUDIT**:
  On October 8, 2025, Valley Water engaged Baker Tilly (Auditor) to conduct the Water Usage and Demand Forecasting Audit. The audit focused on reviewing Valley Water's methods and approaches to forecast water usage and demand, including how forecasting models are used to inform the Water Supply Master Plan. The audit covered forecasting practices between January 1, 2020, and December 31, 2024, and included evaluating the reliability of past forecasts. It also included reviewing policies, procedures and other guidelines, evaluating forecasting methodology, and conducting benchmarking research, including how peer water agencies incorporate the potential effects of climate change in their forecasting models. Staff

presented the audit report with management's responses to the BAC at the July 28, 2026, BAC meeting and is expected to present the information to the full Board on September 8, 2026.

- **2024 RENEWED SCW PROGRAM PERFORMANCE AUDIT (a Program-required audit):** On October 2, 2024, a task order was issued to conduct the first audit of the renewed Safe, Clean Water and Natural Flood Protection Program (SCW Program or Program). The renewed SCW Program, effective July 1, 2021, replaced the previous 2012 Safe, Clean Water and Natural Flood Protection Program (2012 Program) in its entirety. To ensure accountability and transparency, the Program requires independent professional audits at least every five years while the Program is in effect. At the request of the Independent Monitoring Committee (IMC) and subsequent Board direction, staff initiated this audit earlier than the required five-year interval. The audit assessed implementation of the renewed SCW Program for the period from July 1, 2021, through June 30, 2024, and focused on governance, transparency, compliance, and performance. Conducted between August and November 2024, the audit resulted in nine (9) recommendations. The Renewed SCW Program Performance Audit final report was approved and recommended by the Board Audit Committee on October 15, 2025, and subsequently presented to the full Board at the November 19, 2025, Board meeting. Since the February 2026 status report, seven (7) of the nine (9) recommendations have been implemented. Key improvements include strengthening governance and partnership management, documenting compliance with Measure S, improving Board resolutions and change control practices, strengthening oversight tools, improving data accuracy, and better aligning key performance indicators (KPIs) with program objectives. Additional improvements include Board approval of KPI adjustments for Projects D1 and F3, implementation of supervisory reviews for Maximo work order data, development of an internal Strategic Decision & Risk Log for the Santa Clara Flood Control Joint Powers Authority (SFCJPA), enhancements to SCW funding reconciliation and public reporting, and validation of the Measure S tax resolution filing process, including documentation of the appropriate County offices for filing and confirmation of use of the certified resolution template for the FY2026-27 Measure S tax resolution. Next steps include automating acreage data from GIS geospatial polygons into Maximo to further improve data accuracy and continuing implementation of the remaining recommendations. Staff will return to the Board Audit Committee on October 21, 2026, with a status update as implementation progresses.

The BAC is requested to receive the information provided today, and provide guidance to staff as necessary, including whether to close the completed board-directed audit (2020 Safe, Clean Water Program Grant Management Audit) or refer it to the CAE for follow-up review.

ENVIRONMENTAL JUSTICE IMPACT:
The proposed recommendations are not subject to environmental justice analysis. Audits are conducted to identify areas that may expose Valley Water to risk, or areas that may need to implement new processes in order to meet the Board's priorities.

ATTACHMENTS:
Attachment 1: Audit Recommendation Status Table
Attachment 2: Audit Recommendation Status Updates (detailed).

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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Table 1:

Board-directed Audit Name	Total Number of Recommendations	# of Recommendations Not Selected for Further Analysis	%	# of Recommendations Either Pending or Underway	%	# of Recommendations Either Completed or Implemented	%
2021 Permitting Best Practices Audit	14	0	0%	6	43%	8	57%
2023 Capital Improvement Program Performance Audit	15	0	0%	2	13%	13	87%
2024 Human Resources Performance Audit	10	0	0%	1	10%	9	90%
2024 Board Policies Compliance Audit (in progress)							
2025 Water Conservation Program Performance Audit	5	0	0%	3	60%	2	40%
2025 Water Usage and Demand Forecasting (in progress)							
2025 Capital Project Delivery Audit (in progress)							
2025 Centralized/Decentralized Contracting Practices Audit (in progress)							
2026 Asset Management Audit (in progress)							
2026 Investigations Processes Audit (in progress)							
2026 Pacheco Reservoir Project Audit (Start in CY26 Q3)							
2026 Risk Assessment (Start after selection of next CAE)							
Subtotal:	**44**	**0**	**0%**	**12**	**27%**	**32**	**73%**

RED TEXT = New Audits underway; Data will be added when final report is accepted

Table 2:

Program Audit Name	Total Number of Recommendations	# of Recommendations Not Selected for Further Analysis	%	# of Recommendations Either Pending or Underway	%	# of Recommendations Either Completed or Implemented	%
2024 Renewed Safe, Clean Water Program Performance Audit	9	0	0%	2	22%	7	78%
Subtotal:	**9**	**0**	**0%**	**2**	**22%**	**7**	**78%**
GRAND TOTALS:	**53**	**0**	**0%**	**14**	**26%**	**39**	**74%**

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Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
294	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	2		F2: CPRU's Permit Process Could be Better at Meeting Customer and its Own Expectations for Timeliness and Communication - Permittees Want Faster Permit Processing and Better Communication with Applicants - CPRU Has Mixed Success in Meetings Its Goals for Timely Permit Processing F3: Timeliness Concerns Attributed to Multiple Factors - Engineers Spend More Time Reviewing Permits - Bottlenecks Occur at the End of the Permit Review Process - Permit Applicants Experience Challenges in Meeting Insurance Requirements - Some Permit Applications Are Not Recorded on a Timely Basis - Permit Review Activities Need Better Standardization and Clarity - Permit Processing is Primarily a Manual Process - CPRU Does Not Consistently Plan for Large Reviews	The CPRU Manager should complete standardization of permit review policies, practices, roles, and responsibilities.	Low	Pending/Underway	Management Response: Management agrees with the recommendation. CPRU will update and complete the existing permit review policies, practices, and instruction guidance for various types of transactions to bring consistency in the review of projects. Target Implementation Date: June 2022 Auditor Response: Management's response generally addresses the recommendation. A follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023. **Status 08/2026: Ongoing** The Water Resources Protection Manual update is not anticipated to be completed until December 2026. Revised Target Implementation Date: December 2026
297	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	5		F2: CPRU's Permit Process Could be Better at Meeting Customer and its Own Expectations for Timeliness and Communication - Permittees Want Faster Permit Processing and Better Communication with Applicants - CPRU Has Mixed Success in Meetings Its Goals for Timely Permit Processing F3: Timeliness Concerns Attributed to Multiple Factors - Engineers Spend More Time Reviewing Permits - Bottlenecks Occur at the End of the Permit Review Process - Permit Applicants Experience Challenges in Meeting Insurance Requirements - Some Permit Applications Are Not Recorded on a Timely Basis - Permit Review Activities Need Better Standardization and Clarity - Permit Processing is Primarily a Manual Process - CPRU Does Not Consistently Plan for Large Reviews	The CPRU Manager should assign customer liaison responsibilities (to one or two individuals) to ensure consistent and timely communication on permit applications to help meet customer expectations.	Low	Pending/Underway	Management Response: Management partially agrees with the recommendation. In general, the assignment of liaison responsibilities will increase confusion and will take more time of the staff reviewing the permit to provide and explain the details of customer's request to the liaison. CPRU Manager will explore the role of a liaison where this may increase efficiency and coordinate with IT to explore other tools to integrate with the database (See response to Recommendation 6). CPRU Manager will request additional resources from Management. Use of additional technicians to assist in background research for projects and review of routine, low-risk tasks will free up time to allow engineers to ensure consistent and timely communication on permit applications. Target Implementation Date: October 2022 Auditor Response: Management's response generally addresses the recommendation. The use of additional resources – either a liaison or technician(s) – to perform provide customer service, would allow engineers more time to perform the technical reviews of permit applications and help to reduce review times. These additional resources may be critical to meeting customer's expectations while Valley Water's planned implementation of a new information systems for customer resource management (CRM) is undertaken that will also interface with another new information system that is planned to replace the current CPRU database. A follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023. **Status 08/2026: Ongoing** CPRU, IT and the Timmons Group are finishing discovery and feedback of CPRU work processes. The necessary procurement and agreements to implement IT integrations for plan review (DigEplan), document storage (OnBase) and Cityworks upgrade to Unity are executed. The current estimated Go Live for Cityworks is April 2027. Revised Target Implementation Date: Recommendation 6--April 2027
298	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	6		F4: Local Agencies' Strategies Could Benefit Valley Water - Some Agencies Utilize Online Customer Service Portals to Upload Permit Application and to Check Permit Status - One Agency Uses a Project Coordinator to Facilitate Communication and Timely Processing - Other Agencies Identify Themselves Differently; Renaming CPRU May Avoid Confusion - Other Agencies Outreach Annually to Publicize Agency's Permit Services	The CPRU Manager, in collaboration with Valley Water Information Technology Unit, should continue efforts to identify and implement the solutions for desired functionality needed to strengthen permit processing, which include: a. Electronic submission of permit applications and supporting documents that automatically creates an electronic permit review file. b. Expanded search function for researching past projects and permits. c. Customizable dashboards and/or reports that facilitate management oversight of permit processing timeliness, invoice aging, and other measures of performance. d. Tools, such as a request form or ticketing system, to help CPRU track requests for services in addition to permit reviews received from internal and external stakeholders. e. Ability for customers to self-check the status of their applications and other service requests through interface of the new customer resource management system with the new document management system. f. Minimize the administrative burden of tracking and reporting time spent on permit review and other asset protection services by CPRU and other Valley Water units.	Low	Pending/Underway	Management Response: Management agrees and will approach the implementation of this recommendation in phases: 1. Modernize processes, support submission of permit applications, track requests, complete reviews, facilitate online reporting for customers and reduce administrative burden of tracking and reporting through the selection and implementation of a new CPRU online portal. Management will consider options to include this functionality within other active projects such as the Wells Management System Upgrade and Access Valley Water. (6a, d, e, f) 2. Expand search/research functions and reduce administrative burden via the implementation of the Data Consolidation Capital Project Proof of Concept currently underway and scheduled for completion in October 2022. (6b, f) 3. Create Dashboards and reports via the implementation of the Data Consolidation Capital Project Proof of Concept currently underway and scheduled for completion in October 2022, the ERP Capital Project currently underway. (6c)" Target Implementation Date: Varies Auditor Response: Management's response generally addresses the recommendation. A target date to complete all activities should be established and a follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023. **Status 08/2026: Ongoing.** 1. Ongoing. Work with the Timmons Group to implement Cityworks is underway. Timmons currently estimates that the new online portal will Go Live by Apri; 2027. Cityworks will include all the functionality recommended by the audit items a thru e. Cityworks will reduce staff labor answering questions from customers on project status, allow for automated customer guidance on how to submit a complete application, and allow for dashboards to monitor and track customer submittals and timelines which the current database cannot do. 2. Ongoing. CPRU has specified that its online customer service portal must have expanded and agile search capabilities. 3. Ongoing. CPRU has specified that its online customer service portal must have configurable dashboards for management. Revised Target Implementation Date: April 2027

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
304	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	12		F5: Update Needed for Fee Schedule and Cost Recovery Strategy - Valley Water Recovers Only a Small Percentage of CPRU's Operating Costs from Permit Fees and Other Services - Updating Valley Water's Fee Schedule, Based on a Fee Study, Could Help Ensure Appropriate Cost Recovery - Updated Guidance for Billing for Staff Time Spent Reviewing Permits is Needed - Other Local Water Agencies Charge Hourly Rate Instead of Flat Fee for Inspections	The CPRU Manager should adopt a risk-based permit review strategy to reduce processing time for low-risk, repetitive types of permit applications. Clarify in the strategy how time spent on the review of permit applications and other processing tasks should be tracked and invoiced.	Low	Pending/Underway	Management Response: Management agrees with this recommendation. a. CPRU Manger will consider strategies to reduce processing time for low-risk, repetitive types of permit applications. CPRU Manager and experienced staff, through permit guidance instructions will add further clarity for new and less experienced staff and reduce ambiguity in the process. (Target Date: June 2022) b. Implementation of Recommendation 6 via the implementation of the Data Consolidation Capital Project Proof of Concept and the ERP Capital Project and the results of the fee study with the implementation of Recommendation 11, and results from Recommendation 13 will provide better information and insight to strategize the tracking and invoicing of permit applications and other processing tasks. (Target Date: June 2023 depending on the research outcome in Recommendation 13) Target Implementation Date: Varies Auditor Response: Management's response generally satisfies the recommendation. A follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023. **Status 08/2026:** a. Complete b. Ongoing. See Recommendation 6. Revised Target Implementation Date: Recommendation 6—April 2027.
305	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	13		F6: Robust Internal Control Framework Needed to Ensure Accurate and Timely Invoicing and Collection of Fee Payments	The CPRU Manager and the Chief Financial Officer should seek to identify an IT solution to ensure timely and accurate recording of invoices, payments, and deposits. One option to consider is to use Valley Water's core financial management information system.	Low	Pending/Underway	Management Response: Management agrees and will engage in the research, specification, selection, procurement, and implementation of a comprehensive tool capable of ensuring accurate recording of invoices, payments, and deposits. Target Implementation Date: June 2023 depending on research outcome. Auditor Response: Management's response generally addresses the recommendation. A follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023. Status 08/2026: Ongoing. See Recommendation 6 for IT upgrade status. CPRU has specified that its online customer service portal must have an ability to integrate invoicing. Revised Target Implementation Date: Recommendation 6—April 2027
306	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	14		F6: Robust Internal Control Framework Needed to Ensure Accurate and Timely Invoicing and Collection of Fee Payments	The CPRU Manager, in coordination with the Chief Financial Officer, should establish processes for invoicing and collection of payments that includes a robust framework of financial management internal controls, in particular the segregation of duties for billing and collections; cash management; monitoring of aging receivables; and reconciliation.	Low	Pending/Underway	Management Response: Management agrees and will approach the implementation of this recommendation in phases: 1. Implement the suggested financial management internal controls under the current CPRU data base system, (Target date – July 2021). 2. Engage a consultant to assist in the development of a billing and revenue collection policy that incorporates best practices (Target date – March 2022). 3. Implement an IT solution for invoicing that is linked to Valley Water's core financial system and aligns with Valley Water's billing and revenue collection policy (Target date – June 2023 depending on the research outcome (R13) Target Implementation Date: Varies. Auditor Response: Management's response generally addresses the recommendation. A follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023. **Status 08/2026:** a. Complete. b. Complete. c. Ongoing. See Recommendation 6 for IT upgrade status. CPRU has specified that its online customer service portal must have an ability to integrate invoicing. Currently CPRU has to create invoices in Oracle and MuniBilling which created additional work to address the recommendation in the interim. Revised Target Implementation Date: Recommendation 6--April 2027
344	2023 Capital Improvement Program Performance Audit	Business Planning and Analysis (CIP Team)	1	b	Schedule and spending targets established in the CIP 5-Year Plan may not be achievable.	Improve CIP goal attainment, including the likelihood that expenditure and schedule targets are met, by identifying specific staff and contract resources required to complete projects, including the type of resource, quantity of resource, and timing of the need for the resource	High	Pending/Underway	Management agrees and believes this recommendation will be addressed through the implementation of our new resource planning/staff forecasting tool VEMO. **07/21/26:** The VEMO Tool will not be utilized as a staff forecasting tool for VW capital projects. A CIP Long-term Forecasting (LTF) Tool is under devlopment in Vena for Capital Projects for managers to use for labor hours and services & supplies forecasting over a 15-year outlook, for all Capital Projects. The new target date for full implementation of this recommendation is Q4, FY27.

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
345	2023 Capital Improvement Program Performance Audit	Business Planning and Analysis (CIP Team)	1	c	Schedule and spending targets established in the CIP 5-Year Plan may not be achievable.	Improve CIP goal attainment, including the likelihood that expenditure and schedule targets are met, by conducting and formally memorializing analyses of common cost and schedule delays in the Lessons Learned database in ProjectMates and share results agency-wide	High	**Completed/Implemented**	Management agrees and will implement this recommendation through ProjectMates. **07/21/26**: Complete. VW Management believes this remmendation is complete as Lessons Learned trainings are on-going, Change Management Categories are tracked/monitored annually, and Construction Cost Estimating Trainings are held annually.
348	2023 Capital Improvement Program Performance Audit	Business Planning and Analysis (CIP Team)	2	c	Valley Water's performance in delivering capital projects is obscured by the lack of a robust performance measurement system	Develop a performance measurement system that effectively demonstrates Valley Water's performance in achieving the goals of the CIP and the capital infrastructure goals of its master plans. This includes incorporating anticipated timelines within which the results of recent process improvements are expected to be evident and measurable in CIP outcomes.	Medium	Pending/Underway	Management agrees. Management is proposing a two-year implementation period for ProjectMates, with a follow-up audit to validate success (e.g. follow-up audit to be initiated in FY26 to allow time for implementation of ProjectMates and Vemo). **07/21/26**: Permformance Metrics have been identified and will be reevaluated following the completion of a CIP Benchmarking Study, which is scheduled to be completed this September. A new tracking and reporting tool is currently under development. The new target date for full implementation of this recommendation is Q2, FY27.
365	2024 Human Resources	HR Deputy	1	c	Due to leadership changes and insufficient communication, HR employees struggle to trust Department leadership	Review HR employee classifications for HR staff to determine whether their job function suggests they should be confidential positions.	Medium	**Completed/Implemented**	Although Management agrees with this finding, we believe there is more to it. Valley Water's employment engagement survey conducted in 2023 resulted in a focus on trust and communication as an entire agency. Over the last year, Human Resources (HR) has diligently focused on these areas. The annual 2024 department retreat concentrated on this area, and all employees committed to adding 2025 performance goals, a clear sign of our collective dedication to improving trust and communication. C. Position Evaluation- Management will review and evaluate the positions within the Human Resources Department to address confidentiality. **06/25/2026 Status: Completed.** District Counsel reviewed the definition of "Confidential" employees related to the Ralph C. Dills Act (Dills Act) and Meyers Milias Brown Act (MMBA) and provided a recommendation. Human Resources is in the process of implementing this recommendation. Human Resources developed and implemented new confidentiality survey and evaluation process.
368	2024 Human Resources	Human Resources & IT	3	a	The Department is experiencing challenges using Infor, the District's enterprise resource planning system (ERP), as its human resource information system (HRIS) due to challenges with system implementation and lack of system integration.	As the District seeks a new ERP system, ensure that a representative from HR with a strong understanding of system needs is highly involved in evaluating system capabilities against HR's system needs.	High	**Completed/Implemented**	Management agrees with the recommendations and are in process of obtaining an ERP to address our HRIS deficiencies. Human Resources recently implemented an HRIS unit within the department. Not having the unit greatly hindered the ability to understand the functionality and interfaces needed for an effective and efficient ERP system. Key HR staff have been identified to be part of the evaluation and implementation of the ERP. In addition to an ERP system Valley Water will contract with an implementation partner certified in implementing the solution provider's software. The Request for Proposal (RFP) for both the software solution and the implementer was published in January 2025. **06/25/2026 Status: Completed.** RFP completed Q1 2025. Dayforce selected.
369	2024 Human Resources	Human Resources & IT	3	b	The Department is experiencing challenges using Infor, the District's enterprise resource planning system (ERP), as its human resource information system (HRIS) due to challenges with system implementation and lack of system integration.	After a new system is selected, conduct a thorough implementation process to support successful system adoption.	High	Pending/Underway	Management agrees with the recommendations and are in process of obtaining an ERP to address our HRIS deficiencies. Human Resources recently implemented an HRIS unit within the department. Not having the unit greatly hindered the ability to understand the functionality and interfaces needed for an effective and efficient ERP system. Key HR staff have been identified to be part of the evaluation and implementation of the ERP. In addition to an ERP system Valley Water will contract with an implementation partner certified in implementing the solution provider's software. The Request for Proposal (RFP) for both the software solution and the implementer was published in January 2025. **06/25/2026 Status: Ongoing.** Selected ERP and Executive Steering Committee completed kickoff. Selected ERP and Project team completed kickoff. Selected ERP and Project team implementing the first phase of the implementation.

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
373	2024 Renewed SCW Prog	CFO, Financial Planning & Management Services	1		The audit identified a minor procedural discrepancy in how Valley Water files Measure S tax resolutions with Santa Clara County. While the measure specifies filing with the Auditor-Controller and County Recorder, current practice is to file with the County Clerk-Recorder and Tax Assessor, reflecting changes in County office structure.	Formally document the assessment that the current process meets the functional intent of Measure S, Provision C. Furthermore, incorporate clarifying language into future Board resolutions to explicitly state the specific County offices where certified copies will be filed. Document the rationale supporting the current filing process and include clarifying language in future Board resolutions specifying why certified copies are filed with the current County offices.	Low	Completed/Implemented	Response: Management agrees with the recommendation and staff will implement this recommendation. Implementation Date: Q4, FY26 for FY2026-2027 Annual Rate Setting Report (May 2026). **7/16/2026: Completed.** Staff validated that internal process guidelines correctly document the Santa Clara County Clerk-Recorder and Tax Assessor offices as the appropriate offices for filing SCW Measure S tax resolutions. Staff also verified that the FY2026-27 Measure S tax resolution was prepared using the certified resolution template and filed timely with the Santa Clara County Clerk-Recorder office.
374	2024 Renewed SCW Prog	CFO, Financial Planning & Management Services and AO, Office of Integrated Water Management – Business Planning and Analysis Unit	2		The process for reconciling SCW capital project funding allocations with adjustments approved in the CIP Plan needs improvement to support accurate and timely reporting in the SCW Annual Report.	Revise methods for identifying, reconciling, and reporting SCW funding allocation adjustments. Establish a corrected baseline, create a formal reconciliation process for CIP changes, require management review before publication, and clarify public reporting expectations in the Change Control Process.	High	Completed/Implemented	Response: Management agrees with the recommendation and staff will implement the recommendation. Implementation Date: Q4, FY26 **7/16/26: Completed** in Q4 in accordance with the management response.
375	2024 Renewed SCW Prog	AO, Office of Integrated Water Management – Business Planning and Analysis Unit	3		A clearer crosswalk is needed between CIP and SCW project schedule adjustments to improve transparency for stakeholders. Currently, differences in reporting cycles and formats make it challenging to track the impact of schedule changes on KPI delivery.	Continue the practice of clearly and visually differentiating the milestone for achieving a project's KPI from the milestones for other project phases; illustrate and explain how adjustments to capital project schedules in the CIP Plan impact the delivery schedule for the corresponding SCW Program KPI; when presenting the annual CIP Plan for Board approval, explicitly report on how proposed schedule changes will affect the KPI delivery dates for SCW projects; and update the Change Control Process to clarify how schedule changes will be made publicly available through reporting and posting on the Program's web page.	High	Completed/Implemented	Response: Management agrees with the recommendation and staff will implement the recommendation. Implementation Date: Q4, FY26 **7/16/26: Completed** in Q4 in accordance with the management response.
377	2024 Renewed SCW Prog	COB, Office of the Clerk of the Board	5		Ongoing vacancies on the IMC have made it challenging to consistently meet quorum requirements and distribute workload among members.	Partner with the Board to enhance recruitment strategies, to identify, attract, and recruit qualified candidates.	Medium	Pending/Underway	Response: Management agrees with the recommendation and staff will explore additional recruitment strategies in partnership with the Board of Directors. Implementation Date: Q4, FY27 **7/16/26:** Directors met with prospective applicants in Q4 of FY 2026 for vacant seats in District 4 and District 7. An appointment for the vacant District 4 seat will be going to the Board for approval on August 11, 2026. Three current IMC members were reappointed by the Board on June 9, 2026.
378	2024 Renewed SCW Prog	COO, Watersheds	6		Valley Water's role in this externally led partnership, Project E5, has shifted from project lead to funding partner. The project's existing management mechanisms, designed for direct project execution, may not be the most effective tools for managing this evolving role.	Implement a Strategic Decision & Risk Log to identify and monitor key decisions, document Valley Water's official positions, assess associated risks, and guide proactive engagement.	High	Completed/Implemented	Response: Management agrees with the recommendation and where applicable, staff will develop and implement a Strategic Decision & Risk Log to formalize its partnership management. Implementation Date: Q4, FY26 **7/20/2026: Completed.** Staff have developed and implemented an internal-facing Strategic Decision & Risk Log which is periodically updated to reflect ongoing developments with the SFCJPA and high-level decisions being made by management.
379	2024 Renewed SCW Prog	COO, Watersheds	7		The KPI for Project E5 holds Valley Water accountable for a community outcome it no longer directly controls due to the transfer of leadership to the SFCJPA. The KPI, as currently worded, does not accurately reflect Valley Water's role.	Continue to re-evaluate the KPI, shifting from an outcome-based metric to one that measures Valley Water's specific, controllable contributions, such as a funding or partnership-based deliverable.	High	Pending/Underway	Response: Management agrees with the recommendation and staff will reevaluate Project E5: San Francisquito Creek Flood Protection KPIs to determine how best to reflect current realities. If it is determined that modifications to the KPIs are required, management will propose them in accordance with the Change Control Process. Implementation Date: Q4, FY27 **7/16/26:** On June 23, 2026, the Board initiated the public hearing process for a proposed KPI modification to reflect the current project responsibilities. The first hearing was held on July 14, 2026, with the second scheduled for August 11, 2026.

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
380	2024 Renewed SCW Prog	DOO, Watersheds Operations and Maintenance Division	8		Inconsistent processes for entering and compiling operational data impacted the accuracy of reported performance figures. For Project F5, inconsistencies were noted in the initial entry of source data, while for Project D1, reported figures in the SCW Annual Report varied from the underlying data in the Maximo system.	Enhance procedures to ensure accurate data entry and processes for ensuring final reports align with source data.	Low	**Completed/Implemeted**	Response: Management agrees with the recommendations and staff will develop a process to verify that the data entered is in alignment with the work performed. Implementation Date: Q4, FY26 **7/20/26**: Short Term: Implementation of a supervisory review for key data fields within Maximo work orders to verify accuracy data. Long Term (January 2027): Currently working with GIS and Maximo team to automate acreages from geospatial polygons to ensure data accuracy.
381	2024 Renewed SCW Prog	COO, Watersheds	9		KPIs could be improved to support long-term financial sustainability and more accurately reflect the scope of program activities. Project F1.1's KPI represents a perpetual maintenance commitment, while KPIs for Projects D1 and F3 could be enhanced for clarity and scope.	Enhance review of KPIs to ensure they are financially sustainable, remain aligned with current project activities, and that their descriptions clearly articulate the project's scope and deliverables.	Medium	**Completed/Implemented**	Response: Management acknowledges the recommendation. Staff is assessing related policies and processes. Depending on the outcome of those efforts, Valley Water may consider modifying the KPI in the current 15-year financial cycle or revisit it in the next 15-year financial cycle. Implementation Date: Q4, FY26 **7/16/26**: Completed. Following KPI review, the Board approved Project D1 and F3 KPI adjustments in accordance with the Change Control Process. Management determined that a KPI adjustment for Project F1.1 was not necessary and presented this recommendation to the BPMC, which supported the recommendation at its April 21, 2026, meeting.
382	2025 Water Conservation Program	Water Supply Planning and Conservation Unit	1		Valley Water's Water Conservation team is understaffed compared to peer agencies, which may limit capacity to manage workloads and poses risk to achieving the District's long-term conservation goals.	To ensure the Water Conservation team can meet the District's long-term conservation goals, Valley Water should consider adding at least five additional staff to the Water Conservation team who are dedicated to stakeholder engagement and administrative and program support.	Medium	Pending/Underway	Response: This recommendation is consistent with the 2021 Water Conservation Strategic Plan findings, recommending an additional 6 full-time staff to meet the Board's 2040 goal. In 2021, three full-time staff were added. Since the program meets its annual water savings metric, the remaining three positions are documented as unfunded needs in the budget process. Additionally with the adoption of the Board's 2050 Target, an additional ten (10) full-time staff will need to be added to the program. Management will continue to monitor the programs progress towards meeting its annual metric to guide adding additional staff in a phased approach to be mindful of water rate affordability concerns. Implementation Date: Ongoing **6/26/2026:** This recommendation is consistent with the 2021 Water Conservation Strategic Plan findings, recommending an additional 6 full-time staff to meet the Board's 2040 goal. In 2021, three full-time staff were added. The remaining three positions are documented as unfunded needs in the budget process. Additionally with the adoption of the Board's 2050 Target, an additional ten (10) full-time staff will need to be added to the program. Management will continue to monitor the programs progress towards meeting its annual metric to guide adding additional staff in a phased approach to be mindful of water rate affordability concerns.
383	2025 Water Conservation Program	Water Supply Planning and Conservation Unit	2		Valley Water employs a multiple channel outreach approach similar to its peers but does not currently have a formal integrated communications strategy. Along with limited staffing capacity, this may constrain its ability to effectively engage diverse and underserved populations and fully realize the potential of its water conservation programs.	To build on the District's existing outreach activities, the Water Conservation team should work with other District departments, including the Office of Communications, to develop and implement a formalized, comprehensive, data-driven strategic engagement strategy that clearly defines target audiences, messaging priorities, and outreach methods.	Medium	Pending/Underway	Response: Management agrees with this recommendation and will incorporate the development of a data-driven strategic engagement strategy as part of the 5-year update to the 2021 Water Conservation Strategic Plan. A RFP is under development with the goal of hiring a consultant in late 2026. Implementation Date: 2026 - 2028 **6/26/2026:** An RFP was issued, a consulant was selected, and negotitions are expected to be completed in late 2026.
386	2025 Water Conservation Program	Water Supply Planning and Conservation Unit	3	c	The effectiveness of Valley Water's water conservation programs is constrained by capacity challenges and opportunities to improve alignment with the following key support departments: Procurement, Communications, and IT.	To facilitate better coordination, the Water Conservation team should formalize collaboration efforts with the Communications department by establishing a clear framework that defines roles, responsibilities, and decision making authority for the annual water conservation campaign.	Low	Pending/Underway	Response: The water conservation team meets with the Procurement, Communications, and IT teams on a monthly basis to facilitate coordinating various work activities and ensure that existing roles and responsibilities are well defined. During times of the development of water conservation campaigns, which are now year-round, meetings with the communications team occur every two weeks. With respect to communications, the Water Conservation Unit leads: campaign priorities and campaign funding. Creative development is collaborative and campaign execution and media buys are lead by the Communications team. Management will incorporate establishing a clear framework, roles, responsibilities and decision-making authority as part of the RFP under finding #2. Implementation Date: 2026 - 2028 **6/26/2026:** Pending/Underway

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Santa Clara Valley Water District

File No.: 26-0652

Agenda Date: 8/19/2026
Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Discuss Potential Audit Topics for 2027 Annual Audit Plan, and Provide Further Guidance as Needed.

RECOMMENDATION:
Discuss potential audit topics for 2027 Annual Audit Plan, and provide further guidance as needed.

SUMMARY:
The purpose of this agenda item is to discuss the potential audit topics to be proposed as the 2026 Annual Audit Plan, discuss any new related information as appropriate, and provide any guidance the BAC deems appropriate.

The BAC Charter, Article I, Paragraph 4 states, "The Committee shall assist the Board, consistent with direction from the full Board, by identifying potential areas for audit and audit priorities, and to review, update, plan and coordinate execution of Board audits." To that end, the Board's Chief Audit Executive (CAE) conducted a risk assessment in FY 2023 to identify key areas of risk that could be considered for auditing.

The 2023 Risk Assessment Final Report dated November 2023 (Attachment 1) is attached for reference. The Risk Assessment includes heat maps of Valley Water's operational areas based on risk impact (low, moderate, and high risk). The results of the risk assessment included input from Valley Water's Board of Directors (the Board), executives, and management and was used to help develop the proposed 2024-2026 Audit Plan, included as Appendix B of Attachment 1. Based on this risk assessment and subsequent committee meeting discussions, the BAC recommended to the Board, and the Board approved the completion of performance audits on the following topics:

- Information Technology / Cybersecurity
- Human Resources
- Board Policies
- Capital Project Delivery

- Contracting Practices
- Water Conservation Strategies
- Water Usage and Demand Forecasting
- Asset Management
- Investigations Process
- Pacheco Reservoir

The last of these performance audits (Pacheco Reservoir) is projected to be completed in Q1 of Calendar Year 2027.

At the December 5, 2025, Board meeting, the Board also directed the Chief Audit Executive to complete a new Risk Assessment that will be used to inform the proposed 2027-2029 Audit Plan. This Risk Assessment is scheduled to commence in August 2026.

The BAC Audit Charter (Article III, Paragraph 7.2) requires that, by November 30 of each year, the BAC shall submit its recommended Annual Audit Plan to the full Board for consideration and direction.

The purpose of this meeting is to begin discussion of potential audit topics and the schedule for completing the proposed Annual Audit Plan for the full Board's consideration.

ENVIRONMENTAL JUSTICE IMPACT:
The Annual Audit Plan is not subject to environmental justice analysis. The Annual Audit Plan serves as a tool for communicating audit priorities as determined by the BAC and the Board of Directors.

ATTACHMENTS:
Attachment 1: 2023 Risk Assessment Final Report.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Santa Clara Valley Water District
Independent Board Auditor

Districtwide Risk Assessment – 2023

November 2023

SJOBERG EVASHENK
CONSULTING, INC

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Introduction

The Santa Clara Valley Water District (Valley Water or District) asked Sjoberg Evashenk Consulting to conduct a districtwide risk assessment as part of a long-term internal audit planning process. A fundamental component of a successful internal audit function requires determining which departments, programs, or activities to audit—and allocating scarce audit resources in a way that adds the greatest value to the District. As such, the purpose of this project was to identify key organizational units, programs, or operations of Valley Water and to assess each in terms of the potential risk factors that could impede the effective delivery of services, reduce operational efficiency, or impair transparency and public accountability. As the relative magnitude and prevalence of potential risk factors associated with key programs increase, so too does the potential value a performance audit of the program will be to Valley Water.

Background

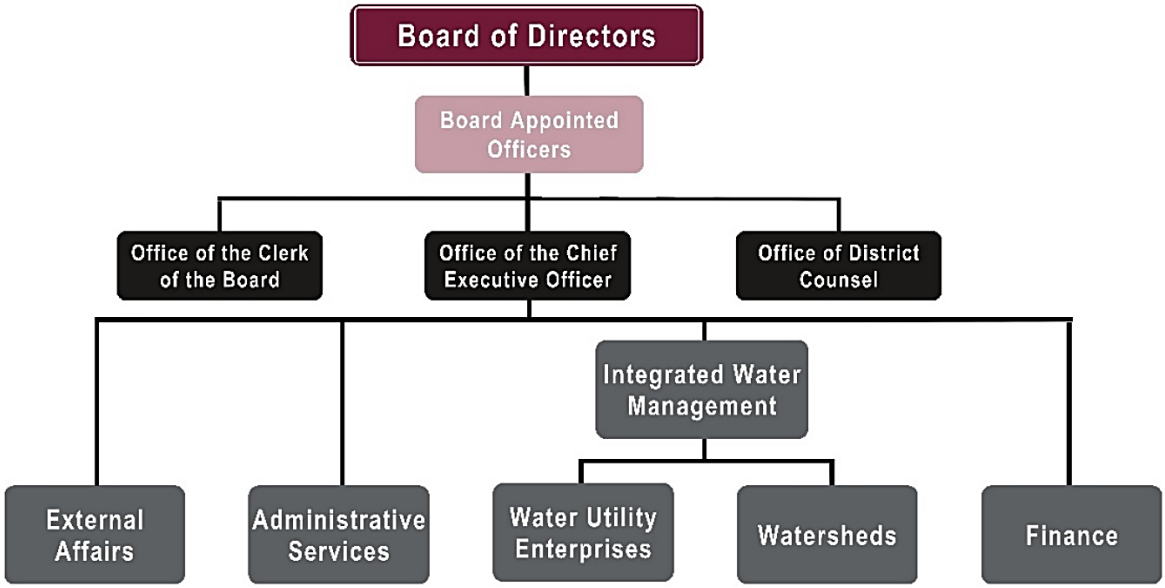
The Santa Clara Valley Water District (Valley Water) is Santa Clara County's water resource management agency responsible for providing safe, clean water, flood protection, and stewardship of streams through its management of water treatment and distribution systems, construction and maintaining flood control channels, and overseeing water rate setting and conservation efforts. The mission of Valley Water is to provide safe, clean water for a healthy life, environment, and economy.

Valley Water is led by a seven-member Board of Directors (Board), with each Board director representing one of seven equally-divided districts in the Silicon Valley. The Board is responsible for establishing policy, adopting resolutions, and establishing the directives, goals, and objectives that guide all the work of Valley Water employees—including the overall vision for the District. These are documented in three formal types of policies:

- Board Governance Policies—policies which guide the practices of the Board itself.
- Executive Limitations Policies—policies which establish the responsibilities of the Chief Executive Officer and delegations of authority.
- Ends Policies—policies that establish the goals and objectives that the Board has for the District, and the ends toward which the Chief Executive Officer is charged to achieve.

Three District officers are appointed by and report directly to the Board: The Chief Executive Officer (CEO), District Counsel, and the Clerk of the Board. The Office of District Counsel serves as legal counsel to the Board and advises the Board and Valley Water management regarding all legal matters. The Clerk of the Board staffs all Board and committee meetings and serves as the District's election official and the custodian of official records of the District. The CEO oversees all executive operations of Valley Water, including Integrated Water, which is managed by the Assistant Chief Executive Officer an includes the Water Utility and Watershed business areas, as well as several units that collectively support Valley Water's capital infrastructure plan. In addition to Integrated Water. The CEO also oversees three critical departments: the Financial Planning and Management Services Department, Office of Administrative Services, and the Office of External Affairs. Valley Water's organizational chart is depicted in Exhibit 1.

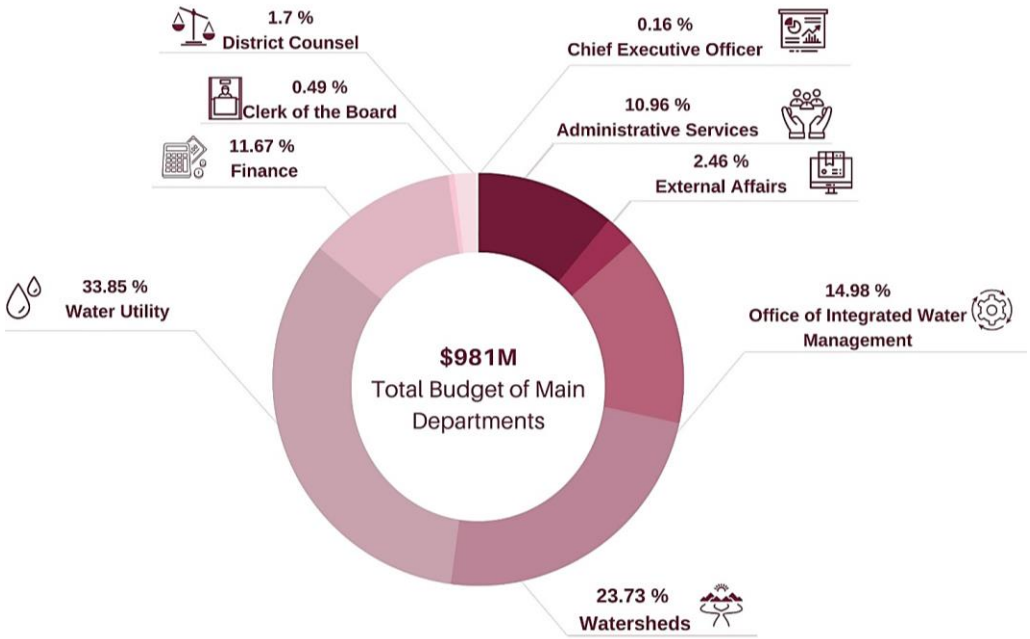
EXHIBIT 1. VALLEY WATER ORGANIZATION CHART



Source: Official Valley Water Organization Charts

As illustrated below, Valley Water's Fiscal Year 2023-24 budgeted operating expenses totaled approximately $857 million,[1] of which Integrated Water, Watershed, and Water Utility Enterprise business areas comprise roughly 80 percent of all District expenditures.

EXHIBIT 2. ALLOCATED BUDGETED EXPENDITURES BY DEPARTMENT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

[1] Elsewhere in this report, we refer to approximately $981 million in budget appropriations. The difference between Valley Water's total $857 million budget and individual department appropriations of $981 million, which includes intra-district reimbursements of $124.9 million, and these net to total operating and capital outlays of $856.6 million.

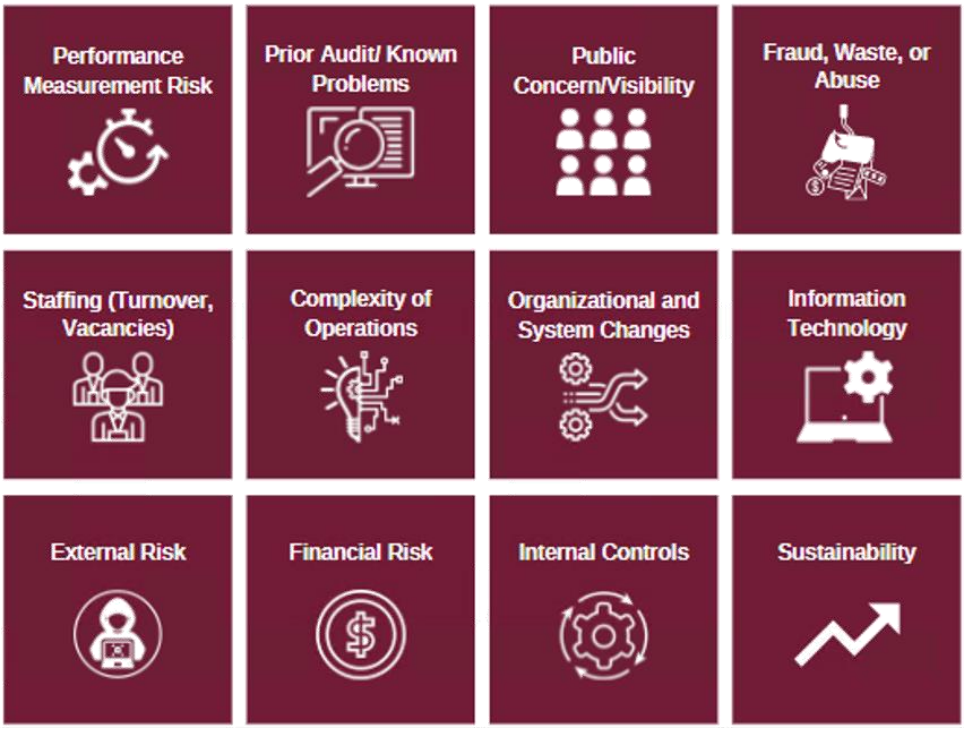
Risk Assessment Approach

The Charter of the Board Audit Committee (BAC) states that the BAC shall endeavor to complete a Valley Water-wide risk assessment, at a minimum, tri-annually, and that the full Board shall approve an annual audit plan. Audit standards issued by the Institute of Internal Auditors require that the chief audit executive establish a risk-based plan to determine the priorities of the management audit activity, and that the plan be consistent with the organization's goals. The purpose of a risk assessment is to help ensure that limited audit resources are deployed in a manner that fulfills the purpose of Valley Water by identifying inherent risks to the successful execution of district operations, programs, and services; and differentiating between all the potential risks and areas of interest and prioritizing them based on the potential value that the audit may provide to Valley Water. This process is intended to facilitate a deliberative approach to directing limited audit resources and to inform management of potential areas of risk for which it may wish to take action; it is not intended to provide specific conclusions regarding an organization's operations or programs, or to present specific recommendations for improvement.

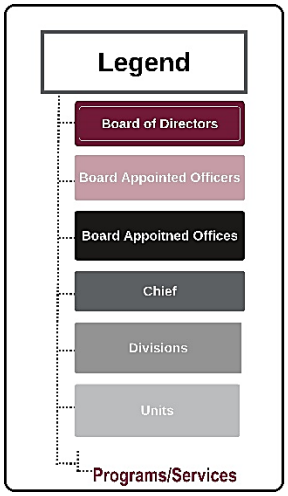
To fulfill the strategic purpose of a districtwide risk assessment, our team interviewed nearly 30 District officers and managers to gather information about Valley Water operations, programs, and functions; to identify potential and inherent risks to the achievement of the missions, objectives, and goals of each; and to discuss current initiatives and activities of the departments. We also obtained and evaluated current and historical background information for each office, department, and program, including information available through Valley Water's website, program descriptions, budget documentation, strategic plans and annual reports, policies and procedures, and other relevant documentation, etc. In doing so, we identified the audit universe and auditable units, including District departments and the defined programs, services, and functions carried out by each department, and identified the sources and types of risks associated with the missions, objectives, and goals of each.

Some information was obtained directly from objective reporting of past and current performance. This includes the relative size of one department's budget or workforce in relation to other departments, one department's financial exposure resulting from claims filed as compared to other departments, the number of contracts or capital projects managed by one department as compared to others, as well as key performance indicators and departmental performance reports. Other information was obtained through subjective analyses of current issues and trends affecting each department. This includes understanding and assessing public concern related to certain programs, services, or functions of District government; determining the extent to which certain problems are already known, such as through the press or previously completed audits or studies; or the extent to which previously manual activities have been automated. Both subjective and objective risk categories drive the ultimate calculated risk score for each department and program area, and the relative risk associated with each when compared to other Valley Water departments or program areas. Exhibit 3 illustrates the types of risk factors considered as part of this risk assessment.

EXHIBIT 3. RISK SOURCES & TYPES RELATED TO THE ADMINISTRATION OF DISTRICT DEPARTMENTS AND PROGRAMS



Based on information provided and auditor judgement, we assessed each organizational unit and program in terms of the potential risks that could impede effective delivery of services, reduce operational efficiency, or impair transparency and public accountability. In doing so, we prepared "risk profiles" for each department, which include an organizational chart for each department that reflects the functional responsibilities of each department, division, unit, and program. The structure of the appropriate department will be displayed in an organizational chart reflecting the legend on the right. The risk profiles also include general indicators of the size of the division, a description of the core functions of the division and inherent risks and general concerns associated with the division's operations. In short, inherent risks are factors that may impede the ability of the division to achieve, in an effective or efficient manner, its core functions.

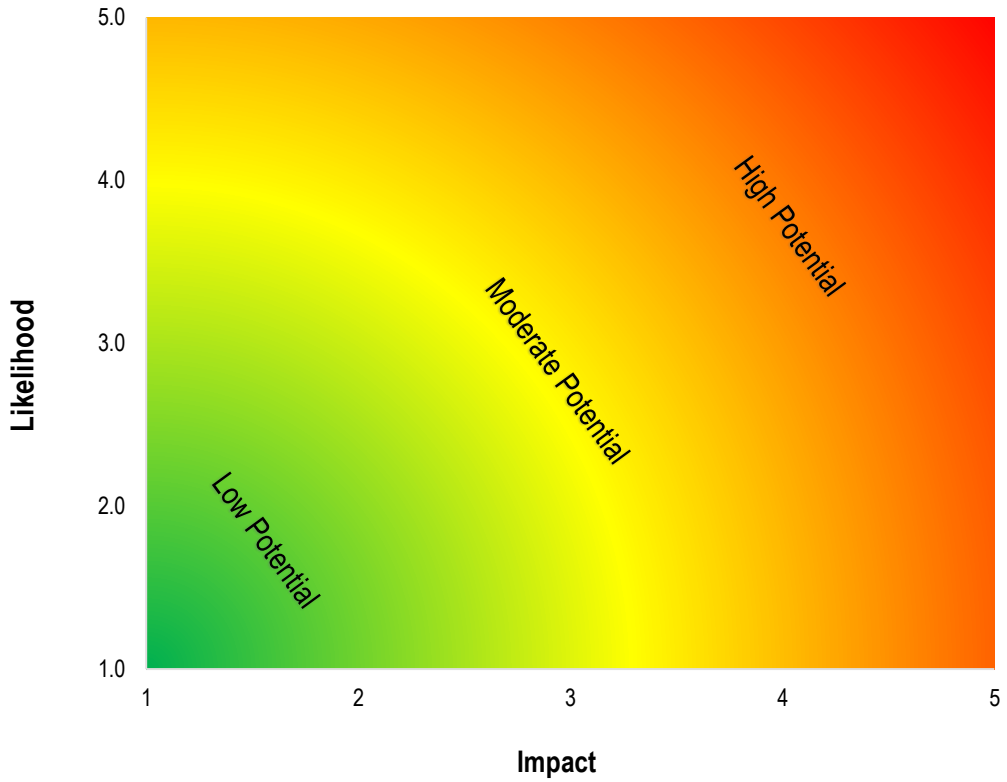


While this report presents risk ratings for key departments, divisions, and programs, it is important to note that a high-risk score is not indicative of poor performance, lacking internal controls, or bad business practices. Rather, risk scores indicate the extent to which key programmatic or operational areas within District departments present sufficient inherent risks to warrant audit resources, and the extent to which we believe a performance audit of that area will yield value to Valley Water.

To illustrate our assessment of risk associated with the auditable units within each department as compared to each other and to other divisions throughout Valley Water, we include in each department profile a heat map similar to that shown in Exhibit 4. This is meant to illustrate the extent to which, or

likelihood that, inherent risks associated with core District functions warrant audit resources and the potential impact that such an audit could have in assisting Valley Water to address current and emerging challenges—that is, the relative value of spending audit resources in one business area of the District versus another area.

EXHIBIT 4. SAMPLE HEAT MAP



Based on our assessment of risk, we present numerous audit topics related to each division and/or program. A larger audit could include each of these as a specific audit objective; smaller audits could address just one or two of the topics listed in each profile.

This approach is designed to provide Valley Water with information necessary to develop an audit plan that focuses on those areas within District government that are most likely to benefit from a performance audit. It is also designed to present the rationale behind our risk ratings to the BAC, and to facilitate an open and deliberative forum to discuss audit priorities and to determine the focus of limited audit resources.

Department Risk Profiles

This section presents background information and risk profiles for each of Valley Water's key departments, including offices reporting directly to the Board of Directors—the Chief Executive Officer, District Counsel, and Clerk of the Board—as well as the departments reporting directly to the Chief Executive Officer: Administrative Services, External Affairs, Financial Planning and Management Services, and Integrated Water. Each profile includes a discussion of a Valley Water department; background information, core functions, key statistics and characteristics, inherent risks, and challenges associated with each; and potential audit topics designed to address those areas where internal audit resources could prove most valuable.

Office of the Chief Executive Officer

With a Fiscal Year 2023-24 budget of approximately $1.5 million and a staff of 3 FTE positions, the Office of the CEO represents less than one (1) percent of the District's overall budget. The Office of the CEO is responsible for all operations of the District, carrying out policies and direction of the Board, making recommendations to the Board on a variety of issues, appointing and supervising subordinate officers of the District, ensuring compliance with Board policies, being responsive and available to the community, and achieving Valley Water's objectives, goals, and mission. The Assistant Chief Executive Officer, Chief Financial Officer, Chief Operating Officer of External affairs, and Chief Operating Officer of Administration all report directly to the CEO.

Key Statistics and Responsibilities

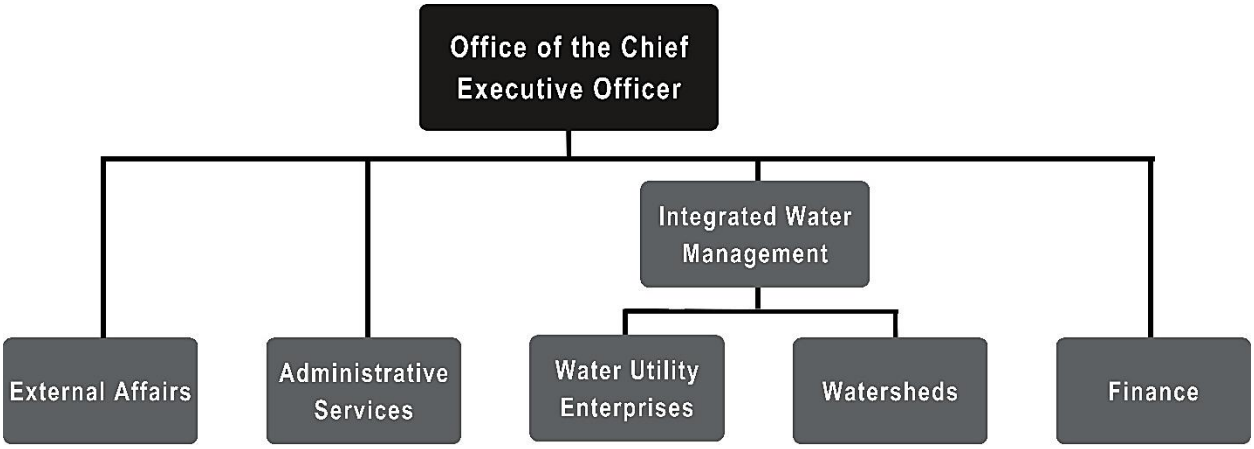
FY 2023/24

FTEs:	**3**	Total Budget $981M	**0.16% Total Budget**
Budget:	**$1.6M**		

- **Provides strategic direction and supervision to guide the organization in fulfilling Valley Water's mission.**
- **Assumed executive leadership at Valley Water and supports the Board of Directors.**
- **Performs Financial Management through overseeing the Finance Division.**

The Office of the CEO provides strategic direction and supervision to guide the organization in fulfilling Valley Water's mission, achieve the Board's Ends Policies, support the Board of Directors, and comply with the Board's Executive Limitations Policies. During Fiscal Year 2023, the Office of the CEO reported achieving several notable accomplishments, including continuing to lead the Valley Water throughout the ongoing drought and the COVID-19 pandemic; prioritizing investments in critical infrastructure and the safety of Valley Water staff; and delivering safe, clean, and reliable water to Santa Clara County. Exhibit 5 illustrates the distribution of the CEO's direct reports.

EXHIBIT 5. OFFICE OF THE CHIEF EXECUTIVE OFFICER ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of the CEO, on its own, has a relatively low budget and FTE allocation when compared to other organizational units. However, its role in implementing Board policy and strategic initiatives, developing budgets, monitoring resource allocation, and framing and messaging District priorities and communications place the Office in a position of strategic importance and high public visibility. The CEO's role is multifaceted, as they must balance the District's Ends Policies to serve the needs of Santa Clara County while adhering to executive limitations that set specific boundaries on the Office's authority. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

Office of the Chief Executive Officer	
The CEO is responsible for the success of Valley Water. This includes successfully providing safe, clean water for a healthy life, environment, and economy. It also includes doing so in a manner that is responsible, sustainable, and alignment with Board policies. The CEO employs experts to directly manage distinct business areas within the District, including Finance, Administration, External Affairs, and the core operations of the District: Integrated Water Management, including Water Utility Enterprises and Watersheds. This encompasses supply management, flood protection, environmental stewardship, and more, all aimed at serving Santa Clara County's 1.9 million residents as well as a significant and diverse business community. The CEO coordinates the flow of information between management, the Board, and various committees, and provides administrative and logistical support to the Board.	**Budget:** $1,579,221 **FTE:** 3 **Inherent Risks:** As the leader of Valley Water, the greatest risk facing the CEO relates to the successful delivery of safe, clean water, consistent with the mission of Valley Water. From the perspective of the Board, however, the question is not limited to whether the CEO achieves this mission, but it is also essential that the CEO so in a manner compliant with established policies—both Ends Policies and Executive Limitations. This requires transparency in management reporting, goal-driven performance measurement and evaluation, and assurances of compliance with Executive Limitations Policies.

Risk Summary

The operational responsibilities of the Office of the CEO are typically addressed by performance auditors by focusing on specific programs under the purview of the CEO, such as programs administered by

Finance, Administration, External Affairs, Integrated Water Management, Water Utility, or Watersheds. The Officers overseeing each major program area would address potential audit findings, recommendations, and corrective action.

There are certain performance audits, however, that go beyond the purview of any particular departmental officer or manager, and those pertain primarily to matters of governance: reporting to the Board of Directors; establishing policies and procedures; establishing a sound tone-at-the-top that focuses on the importance of achieving goals and the organizational mission while also emphasizing the importance of internal control, transparency, and accountability; establishing and monitoring systems of performance measurement and evaluation; and ensuring compliance with Board policies and other legal or regulatory requirements.

Based on this assessment, there are two audit topics that ranked the highest and warrant consideration for future audit planning. These include:

1) The District's overall approach to performance measurement, the purpose of which would be to identify ways to build upon exiting performance metrics in a manner that provides the Board reasonable assurances that metrics exist to evaluate progress to achieving Ends Policies, as well as to evaluate the overall efficiency and effectiveness of Valley Water operations.
2) The Districts overall compliance with Board policies, including Board Governance Policies, Ends Policies, and Executive Limitations Policies.

Office of the Clerk of the Board

With an approximate Fiscal Year 2023-24 budget of $5.6 million—representing 0.6 percent of the District's overall budget—and 15 FTE positions, the Office of the Clerk of the Board supports the Board of Directors and serves the public by providing records maintenance and management services, staffing Board and committee meetings, serving as Valley Water's election official, and overseeing the Records & Library Services Unit. These services include directly supporting the work of the Valley Water Board of Directors; preparation, posting and maintenance of agendas, minutes, ordinances, resolutions and contracts of the Board of Directors; coordinating advertisement of legal notices; maintaining and updating Board resolutions and policies (including Board Governance Policies, Ends Policies, and Executive Limitations Policies); managing and publishing Board and committee agendas and minutes in accordance with the Brown Act; receiving official records; responding to public records requests in a timely manner, and ensuring compliance with the Public Records Act; coordinating with the County of Santa Clara

Key Statistics and Responsibilities

FY 2023/24

FTEs:	**15**	Total Budget $981M	**0.49% Total Budget**
Budget:	**$4.8M**		

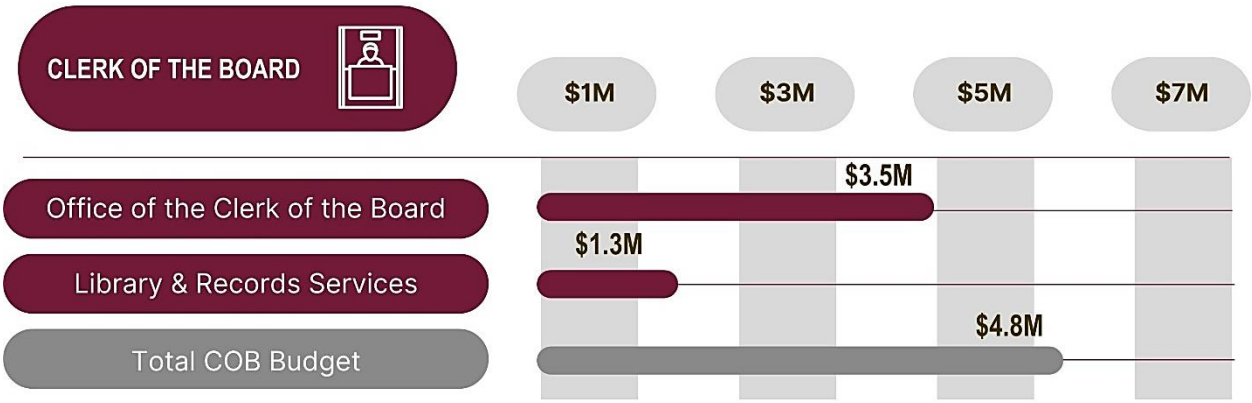
- **Oversees the Records & Library Services Unit.**
- **Directly supports the work of the Board of Directors, facilitating the public's access to Board information, and monitoring the Board budget and Board members' expenses.**
- **Serves as Valley Water's election official.**

on all matters related to elections; and monitoring the Board budget and Board members' expenses in accordance with District Ordinance 02-01, Resolution 11-73, Board Governance Policy GP-10.

In Fiscal Year 2023, the Office of the Clerk of the Board cites various accomplishments, including having successfully managed over 33 Regular Board Meetings and over 100 Board Committee Meetings in accordance with the District Act, Board Policies, and the Brown Act; successfully scheduled over 1,000 meetings for individual Directors; and tracked, monitored, and reported on the registration of external lobbyists in accordance with Ordinance 10-01.

The Office of the Clerk of the Board is organized into two units: the Clerk of the Board and the Records & Library Services. Exhibit 6 below is a breakdown of each division's budgeted expenses for Fiscal Year 2023-24.

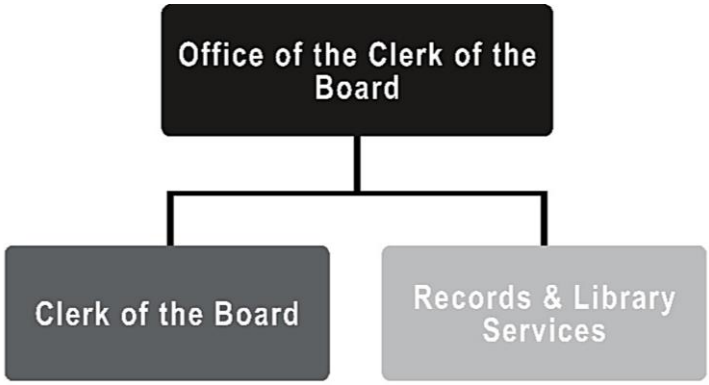
EXHIBIT 6. BUDGET BREAKDOWN BY DEPARTMENT



Source: FY 2022-23 & Fiscal Year 2023-24 Operating and Capital Rolling Biennial Budget

The Office of the Clerk of the Board allocates functional responsibilities to each of the two units as depicted in Exhibit 7 below.

EXHIBIT 7. OFFICE OF THE CLERK OF THE BOARD DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of the Clerk of the Board plays a pivotal role in Valley Water's governance, but it faces inherent risks that require careful management. Chief among these risks is the potential for improper documentation and minute-taking during Board meetings, which could compromise transparency and governance procedures. The evolving landscape of governance procedures necessitates continuous compliance efforts. Efficient management of a large volume of documents, including publicly recorded ones, is essential to prevent delays and resource misallocation.

Moreover, tracking lobbying activities demands vigilance to ensure compliance and accurate reporting. Lastly, the office must balance its involvement in policy reviews and maintain a high-level perspective to mitigate risks related to inefficiency or insufficient support of core operations. To successfully navigate these challenges, the Clerk of the Board should maintain meticulous record-keeping, stay current with governance procedures, and continually evaluate and optimize their operations while upholding the transparency and integrity of Valley Water's governance processes. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

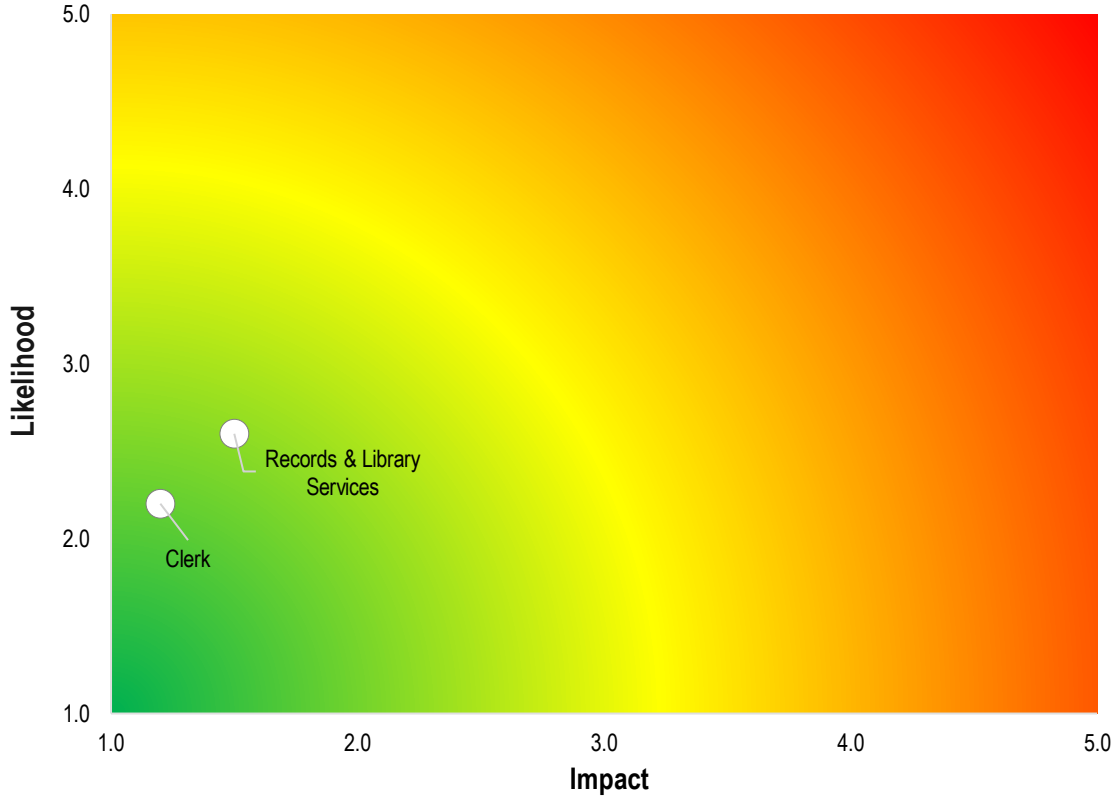
OFFICE OF THE CLERK OF THE BOARD	
The Office of the Clerk of the Board oversees the Records & Library Services Unit as well as completing work regarding coordinating information between the Board Committees and the Board, and Committee Oversight Manager; providing administrative and logistical support to the Board committees; managing Board committee membership; ensuring agenda and meetings are in compliance with the Brown Act; coordinating, posting and distributing Board committee and Board agenda items; supporting and assisting Board committee chairs during meetings; managing Board committee work plans; tracking and managing Board committee attendance; managing historical records of Board committees; keeping accurate records of the proceedings of the Board and all committees; keeping a record of all Board resolutions and actions of the Board of Directors in such manner that the information contained therein will be readily accessible to the public; and managing Board committee web pages.	**Budget:** $ 3,517,767 **FTE:** 10 **Inherent Risks:** Inefficiencies that could impact the receipt and recording of publicly recorded documents, as well as the availability of records; cost-effective administration of document requests; potentially inefficient or insufficient support of the Office's core operations. Further, Board Governance Policies have not been fully reviewed or updated in six or more years.

RECORDS & LIBRARY SERVICES	
The Records & Library Services is responsible for the administration of the Records Management Center and the Valley Water Library, administration of the Valley Water Records Management Program; and the provision of Valley Water's responses to legal demands for records.	**Budget:** $ 1,316,042 **FTE:** 5 **Inherent Risks:** Inefficiencies that could impact the receipt and recording of publicly recorded documents, as well as the availability of records; cost-effective administration of document requests; potentially inefficient or insufficient support of the Office's core operations.

Risk Summary

The Office of Clerk of the Board has a relatively low budget and FTE allocation when compared to other Valley Water departments, and generally represents relatively low risk when compared to other departments based on our assessment of a variety of risk factors. Despite this, the Clerk of the Board serves an essential function facilitating the work of the Board and ensuring transparency into Board and District activities. Because of this, the potential benefits of a performance audit of the Clerk of the Board are likely to be in assessing the overall efficiency and effectiveness of the Office's day-to-day operations. With this in mind, we illustrate below the risk rankings of each unit or program area in relation to one another.

EXHIBIT 8. PROGRAM RISK RATINGS

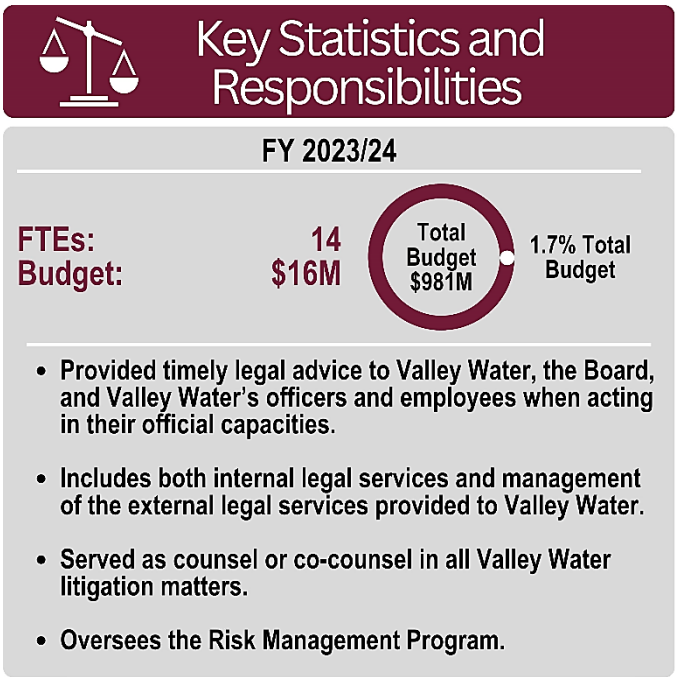


This risk assessment revealed the following potential audit objective:

1) Evaluate the Office's business processes, information systems, and workload management practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Office of District Counsel

With an approximate Fiscal Year 2023-24 budget of $15 million—representing less than one (1) percent of the District's overall budget—and fourteen (14) FTE positions, the Office of District Counsel is managed by the Discrict Counsel, a Board-appointed officer of Valley Water. The Office is responsible for general legal advice and services, personnel, litigation, and specialty advice including but not limited to land use, the environment, eminent domain, and real estate, among others. The Office advises the Board of Directors on all legal matters, and manages Valley Water's Risk Management Unit.

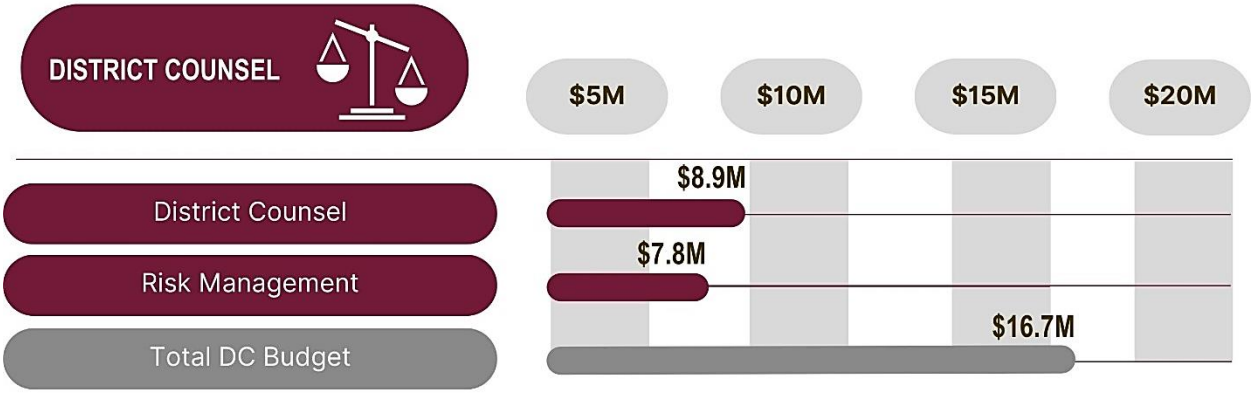


The Office of District Counsel at Valley Water is a critical component with eight attorneys specializing in labor and employment, California Environmental Quality Act (CEQA), and water law. They handle in-house legal matters such as public works contracting, municipal law, water law, and real estate while engaging external counsel for large projects. Notably, they address the complex issue related to Santa Clara Valley's unhoused population, a challenge with potential legal and environmental risks. The absence of an electronic calendaring system is a notable efficiency concern, with plans to introduce document management and automated calendaring tools. However, inherent risks include legal challenges, non-compliance with governance procedures, and document management challenges. The influx of new managers and a risk-averse culture also challenge organizational cohesion. The Office handles all items going to the Board, albeit with constraints due to a risk-averse culture that leads to extensive reviews.

In Fiscal Year 2023, the Office cites various accomplishments, including having provided timely legal advice to Valley Water, the Board, and Valley Water's officers and employees when acting in their official capacities; provided representation to Valley Water relating to annual groundwater production charges and to the update of Valley Water's groundwater charge zones; and served as counsel or co-counsel in all Valley Water litigation matters.

The Office of District Counsel is organized into two units: The Office of District Counsel and the Risk Management Unit. Exhibit 9 provides a breakdown of each division's budgeted expenses for Fiscal Year 2023-24.

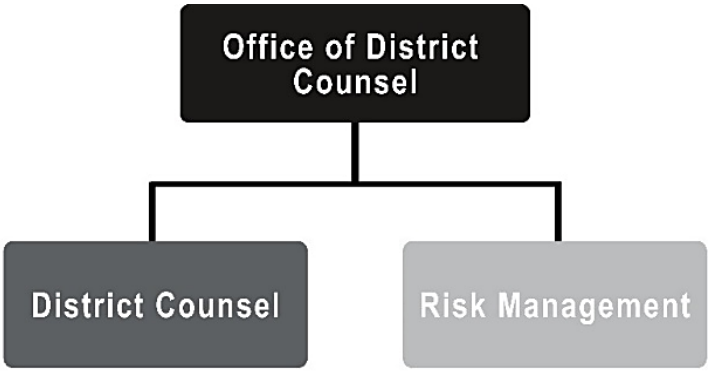
EXHIBIT 9. BUDGET BREAKDOWN BY DEPARTMENT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

The Office of District Counsel allocates functional responsibilities to each of the two units as depicted in Exhibit 10 below.

EXHIBIT 10. DISTRICT COUNSEL ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & 2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of District Counsel is integral to the organization's legal affairs yet confronts various inherent risks. The foremost concern lies in the efficiency of legal services provided, given the substantial and diverse operational and administrative responsibilities of Valley Water. The Office has a relatively low level of funding and FTE allocation when compared to other departments, as well as relatively low level of cash or other high-risk assets. Inherent risks associated with the District Counsel remain relatively low, but include continued adherence to professional standards, the efficient use of professional service contracts for outsourced legal services, balancing differing perspectives on risk mitigation, and the implementation of business processes and controls to mitigate risk and prevent the loss of District assets. Following is an

evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

OFFICE OF DISTRICT COUNSEL	
The Office of District Counsel provides professional, timely, and strategic legal advice to and representation of Valley Water and its Board of Directors, officers, and employees. It includes both internal legal services and management of the external legal services provided to Valley Water.	**Budget:** $ 8,885,440 **FTE:** 11 **Inherent Risks:** Efficiency in delivering professional services considering the significant budget allocation, the effective and efficient management of third-party contracts, records management, and the ability to provide timely review and advice regarding a wide range of topics to District employees and the Board, along with reviewing items presented to the Board, are critical areas of focus.

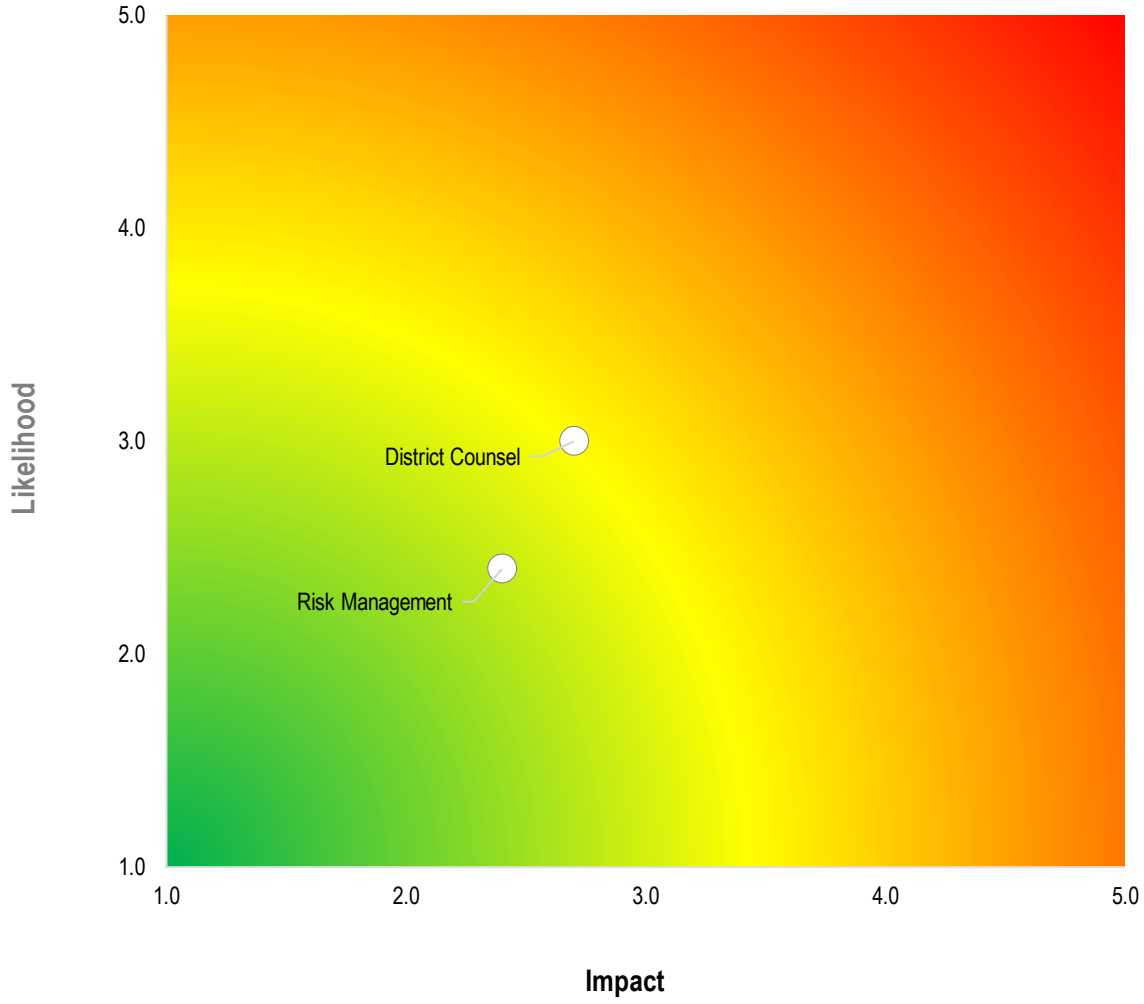
RISK MANAGEMENT UNIT	
The Risk Management Unit at Valley Water is primarily tasked with identifying and evaluating loss exposures to protect the organization's assets. This involves overseeing the Workers' Compensation program and implementing risk retention (self-insurance) and risk transfer (insurance) programs to maximize cost-effective coverage and ensure compliance with Board Governance policies. Additionally, the division is vital in maintaining a proactive stance toward risk management within the organizational structure to mitigate inherent risks effectively.	**Budget**: $ 7,783,334 **FTE**: 3 **Inherent Risks**: Health and safety risks for employees and the public due to inadequate safety protocols; security risks, such as unauthorized access to facilities or sensitive information; adequacy of risk identification and assessment processes; the necessity for heightened compliance awareness, and the effectiveness of risk mitigation strategies; and the effectiveness of risk mitigation strategies.

Notably, a performance audit of the Office of the District Counsel was recently performed in 2020. It identified issues related to the frequency of communication, timeliness of services, and nonuniformity in service delivery; and it recommended implementing an updated operating model, enhancing policy and procedure development, utilizing tools like workflow management, service level agreements, performance management systems, and gathering multi-source feedback assessments to increase satisfaction.

Risk Summary

Overall, the Office of the District Counsel represents relatively low risk in terms of audit priority when compared to other Valley Water departments and programs, as illustrated in the risk ranking in Exhibit 11.

EXHIBIT 11. PROGRAM RISK RATING



Performance audit topics of the Office generally would not focus on the exercise of professional judgment or legal counsel, but would rather focus on the efficiency with which the Office manages resources. This could include internal business processes related to broader District responsibilities (such as risk management, contract review and processing, record retention and public records requests, etc.) and the Office's administration of legal services contracts.

The Office of District Counsel has recently undergone a performance audit, which examined the Office's operations, including Risk Management, suggesting it may be prudent to hold off on another audit of the Office for the immediate future. Nevertheless, this risk assessment revealed the following potential audit objectives:

1) Evaluate the Office's business processes and information systems to identify potential inefficiencies or opportunities for improvement in the Office's administrative functions.

2) Evaluate risk management practices, including the District's reliance on third-party administrators and service providers, risk retention and transfer evaluations, claims processing, and workplace

health and safety programs, as well as existing workload demands and future opportunities to enhance risk management operations in a growing District government.

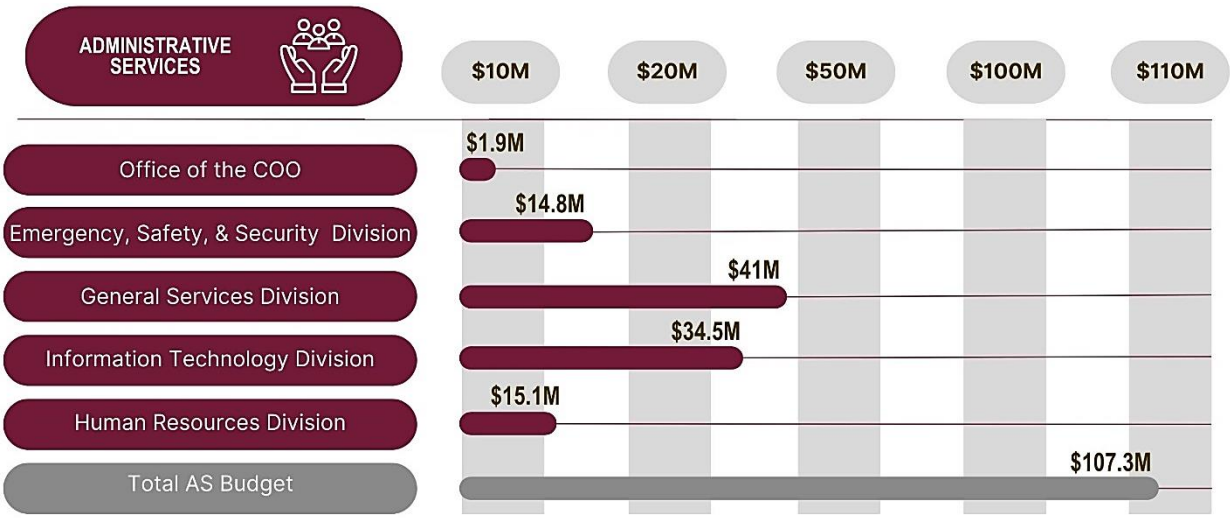
Administrative Services

With an approximate Fiscal Year 2023-24 budget of $107 million—representing approximately 10.96 percent of the District's overall budget—and 165 FTE positions, the Office of Administrative Services oversees the Emergency, Safety, & Security Division; the General Services Division; the Information Technology Division; and the Human Resources Division. The primary roles of the Office of Administrative Services include supporting the mission of Valley Water—to provide Silicon Valley safe, clean water for a healthy life, environment, and economy—by providing essential business services for Valley Water.

In FY 2023, the Office of Administrative Services cites various accomplishments, including Labor Relations having completed Performance Improvement training for all Managers; the Office of Emergency Services having conducted the Annual Winter Preparedness Workshop with external stakeholders; the Environmental, Health & Safety Services continued and completed multiple facility fall protection engineering projects from the previous fiscal year; the Security Office developed a Security Drone Program; the Construction Contracts and Support Unit from the General Services Division completed the advertisement, bidding, and award of nine capital projects; the IT Division completed the 2019 IT Strategic Plan; and the HR Division updated recruitment and selection processes to incorporate new trends and tools to ensure that it has the ability to recruit a highly qualified and diverse workforce which provided management support for the operational work of the departments.

Directed by a Chief Operating Officer, the Office of Administrative Services is organized into four divisions: Emergency, Safety, & Security Division; the General Services Division; the Information Technology Division; and the Human Resources Division—each of which includes distinct functional units that carry out the work of the division. Exhibit 12 provides a breakdown of each division's budgeted expenses for Fiscal Year 2023-24.

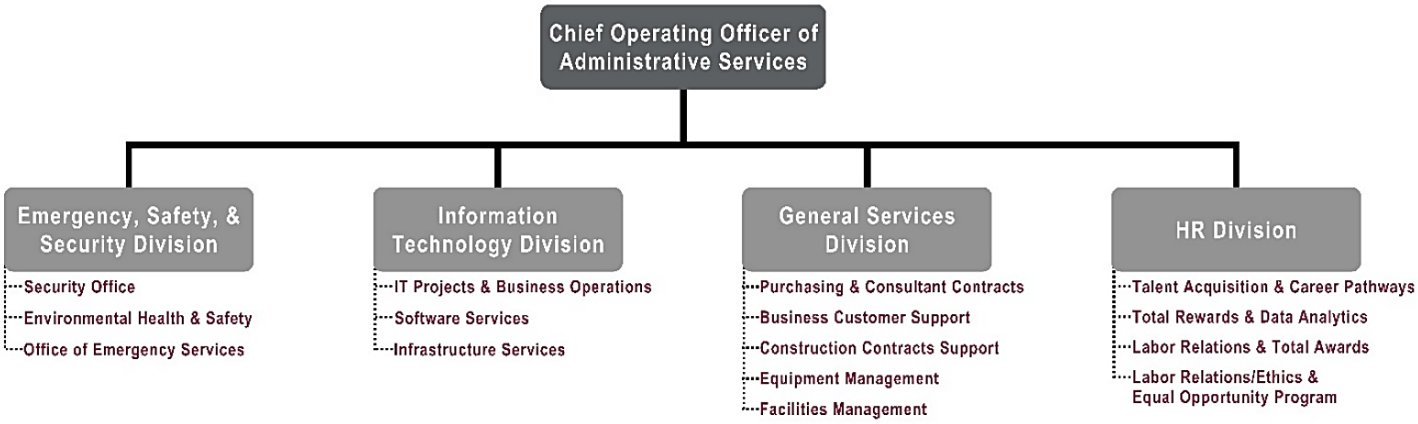
EXHIBIT 12. BUDGET BREAKDOWN BY DIVISION



Source: Fiscal Year 2023-24 & FY 2024-25 Operating and Capital Rolling Biennial Budget

The Office of Administrative Services allocates functional responsibilities to each of the five areas as depicted in Exhibit 13.

EXHIBIT 13. ADMINISTRATIVE SERVICES DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of Administrative Services plays a crucial role in supporting the mission of Valley Water, which is to provide safe, clean water for a healthy life, environment, and economy throughout Silicon Valley. This office is responsible for delivering essential business services to ensure the efficient functioning of the organization. The office oversees multiple units and divisions, including the Emergency, Safety, & Security Division, the General Services Division, the Information Technology Division, and the Human Resources Division. These highly specialized and distinct functions under the umbrella of Administrative Services demonstrates the office's importance and impact on Valley Water's operations and capital programs.

Inherent risks associated with the Office of Administrative Services include the complexity of the responsibilities and functions within the Office; operational risks associated with the efficient execution of critical support functions which could impact the core operations of the District; impacts on employee satisfaction, morale, and productivity; health and safety risks related to safety programs; information technology and cybersecurity risks; and procurement and vendor management risks. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

OFFICE OF THE CHIEF OPERATING OFFICER OF ADMINISTRATIVE SERVICES	
The Office of the Chief Operating Officer (COO) of Administrative Services oversees the General Services division, Human Resources division, Information Technology division, Emergency, Safety & Security division, and Labor Relations department. The COO leads and manages the AS to achieve the Board's Ends Goals and Objectives. This includes providing Administrative Services to leadership, staff, and funding to fulfill the essential functions and responsibilities of the Office. In general, the Office provides for management activities that promote communication, human resources development, budgeting, project efficiencies and process improvement, mentoring and recruitment, and supporting District-wide and special events/efforts that benefit the whole organization.	**Budget:** $1,860,646 **FTE:** 3 **Inherent Risks:** Complexity of the Office's diverse administrative responsibilities, the general operational efficiency of managing a broad and diverse span of control, and strategic risks related to the implementation of organizational goals and objectives.

EMERGENCY, SAFETY, & SECURITY DIVISION	
The Emergency, Safety and Security Division includes the Office of Emergency Services (OES), Environmental Health and Safety Unit (EH&S), and the Security Office (SO). The Division provides a safe and secure environment for Valley Water infrastructure, staff, and facilities, while maintaining a level of preparedness to respond to unplanned incidents and events.	**Budget:** $ 14,840,573 **FTE:** 19 **Inherent Risks:** Health and safety risks for employees and the public; security risks, such as unauthorized access to facilities or other physical assets.

Security Office

The Security Office was allocated a Fiscal Year 2023-24 budget of $ 7,238,321 for a total of five (5) FTE. This office provides risk-based security capabilities through a preparedness cycle encompassing analysis, development, planning, and verification. Its role involves safeguarding critical infrastructure and personnel against various threats, including terrorism and vandalism, using a guard force, patrols, remote monitoring, and a Security Operations Center. However, it's important to note that the Security Staff and Guard Force do not possess law enforcement powers and are not equipped with firearms, which limits their ability to respond to potential high-order threats effectively. Despite facing challenges relating to the sufficiency of the security office's infrastructure, such as an outdated CCTV and access control system and dealing with

issues related to the unhoused population, the SO serves as a crucial liaison between Valley Water and law enforcement agencies.

Environmental Health & Safety

The Environmental Health & Safety Unit performs a wide range of activities including:

- Workplace Health and Safety, including environmental, health and safety written program development and maintenance, technical and behavioral safety training, incident investigation services, ergonomic evaluations and corrective measures, contractor safety program evaluation, safety inspection and audit services and support, hazard analysis and risk prevention services, fall protection surveys and fall hazard mitigation, OSHA compliance oversight and monitoring, Department of Transportation driver safety program, alcohol and drug abuse prevention and testing services, and industrial hygiene services.

- Hazardous materials management, including storage and disposal management; electronic waste and recycling compliance and annual report submittal; underground and above ground storage tank inspections and permitting; Hazardous Materials Business Plans development and submittal; environmental regulatory facilities permit management; 24/7 hazardous materials emergency response capabilities; Spill Prevention, Control, and Countermeasure Program, which is designed to help prevent the discharge of oil into the water supply; and the California Accidental Release Program, which aims to prevent the accidental release of hazardous substances that could harm the public; among other programs.

- Additionally, the Environmental, Health and Safety Unit responds to requests from customers for specific health and safety services consultation and program assistance to ensure that Valley Water's health and safety programs are functional and sustainable. It also acts as Valley Water's liaison with applicable regulatory agencies when required.

Key inherent risks associated with these roles and responsibilities relate to the health and safety of the public and Valley Water employees, ensuring regulatory compliance regarding the management and control of hazardous substances as well as potential discharge affecting ground and surface water, and managing costs associated with regulatory permit fees, hazardous waste disposal fees, regulatory training costs, and supplies and equipment.

Office of Emergency Services

The Office of Emergency Services Unit is responsible for ensuring comprehensive, integrated, risk-based, emergency management for the personnel and critical infrastructure of Valley Water. Emergency Services manages the Valley Water Emergency Operations Plan, the Business Continuity Program, the FEMA-approved Local Hazard Mitigation Plan, and the development of Stream/Flood Emergency Action Plans. The program is also responsible for maintaining inter-agency relationships, Multi-Agency Coordination systems, Mutual Aid and Emergency Assistance Agreements, managing a Training and Exercise Plan that meets Standardized Emergency Management System (SEMS) and National Incident Management System

(NIMS) requirements, managing a dedicated Emergency Operations Center, and promoting California Office of Emergency Services (CalOES) professional credentialing.

Ultimately, risks associated with the effectiveness of emergency response units are dependent on the extent to which they adhere to best and leading practices in preparing for, responding to, and mitigating the effects of emergencies. This includes mitigating delays in emergency response coordination and communication, adequacy of emergency response plans for water supply interruptions, and ensuring compliance with state and federal emergency management regulations. It also includes seeking accreditation through the Emergency Management Accreditation Program and ensuring adequate emergency and temporary staffing levels to avoid delays and cost overruns.

Information Technology Division	
Provides management oversight, leadership and strategic support for Information Technology Infrastructure, Information Security Services, and Software Services, to ensure operational effectiveness and fiscal accountability. The Information Technology Division serves the technology needs of Valley Water. The division delivers and maintains key information technology services that meet current and future needs of Valley Water. The division also provides oversight of effectiveness, efficiency, and implementation of major Information Technology initiatives.	**Budget:** $ 34,798,353 **FTE:** 39 **Inherent Risks:** Maintaining cost-efficiency and compliance; improper use of data; the internet of things (IoT) vulnerability; system failures; cybersecurity; reliability and functionality of systems and applications; ensuring proper controls over sensitive assets and data; effective disaster recovery; risks, including data breaches and cyber-attacks; ensuring infrastructure is designed to meet current and future needs of employees, customers, and the public. Staffing challenges arise from both limited human resources and a significant burden of technical debt, primarily driven by the necessity to support legacy, outdated, and redundant applications. These challenges are further compounded by the extensive overlap among various projects, highlighting the critical requirement for centralized IT governance and project approval processes.

Information Technology Projects & Business Operations

The Information Technology Projects and Business Operations Unit is responsible for project management, strategic planning and alignment, complex analysis, program development, compliance, policy development, budget, and reporting and financial planning. It ensures innovative technologies are effectively utilized across the organization; prioritizes and sequences technology projects; and leads, plans, oversees and participates in the more complex and difficult work of staff responsible for providing administrative, human resources, financial, and compliance support to the Information Technology division.

With these roles and responsibilities, the inherent risks include risks associated with Information Technology project management, including scope creep and budget overruns; data breaches or cyberattacks that could compromise sensitive customer and operational data; business continuity planning and disaster recovery for IT systems.

Software Services

The Software Services Unit develops (where appropriate), supports, and maintains Valley Water's business applications. These include Valley Water's Enterprise Resources Planning (ERP) system (Infor), work and asset management system (Maximo), project management system (ProjectMates), resource management system (Vemo), geographic information system (GIS), in-house applications, and the Valley Water's internet and intranet, among many other enterprise-wide or limited use systems.

With these roles and responsibilities, the inherent risks include risks related to software development and customization for critical water management systems; software vulnerabilities and patch management; and ensuring software compliance with regulatory standards.

Infrastructure Services

The Infrastructure Services Unit is responsible for implementing and maintaining the network and data-center infrastructure, cybersecurity posture, telephone systems, communications systems, tablets, workstations, and connectivity (e.g., servers, networks, WIFI, etc.). This unit maintains a help desk and serves as the first point of contact for staff to report issues; troubleshoots, resolves issues, and escalates more significant concerns; and supports Audio/Visual needs enterprise-wide, including the Board Room.

With these roles and responsibilities, the inherent risks include cybersecurity, both with respect to Valley Water's own infrastructure and the many independent cloud-based solutions currently employed by the District. It also includes risks related to the maintenance and security of critical IT infrastructure; system downtime and its impact on water supply and customer service; and infrastructure scalability to accommodate growth and changing technology needs.

General Services Division	
The General Services Division is responsible for purchasing of goods and consultant services, construction contract award and compliance, facility and fleet management, business support, and warehouse services in support of Valley Water's mission and operational needs.	**Budget:** $ 40,994,675 **FTE:** 71 **Inherent Risks:** Procurement and vendor management risks, including procurement fraud and conflicts of interest.; inventory and asset management risks, including misplacement or loss of assets; ensuring competitive and transparent bidding processes; vendor performance and contract compliance; delays and cost overruns in construction projects; quality control and safety risks in construction; compliance with safety standards for equipment operation; maintenance and safety risks related to district facilities; and energy management and sustainability initiatives.

Purchasing & Consulting Contracts Services Unit

The Purchasing & Consulting Contracts Services Unit provides strategic and technical sourcing for the purchase and acquisition of all goods, services, consulting services and contracts; manages the competitive solicitations for all procurements, including goods and general services, as well as professional

services; and provides guidance related to contract administration and support. As part of this responsibility, General Services also manages Valley Water's Small and Local Business Enterprise Program, which conducts outreach for consultant contracts to tap into the community for small and local business opportunities.

With these roles and responsibilities, the inherent risks include ensuring the availability of efficient and effective procurement and contracting vehicles to meet the needs of Valley Water programs; ensuring the most competitive price for high-quality goods or services, transparency in purchasing decisions, and compliance with relevant laws and regulations; ensuring proper segregation of duties between purchasing and accounts payable functions; ensuring compliance with requirements related to supplier diversity while promoting opportunities for small and local businesses; and avoiding potential conflicts of interest and other forms of fraud, waste, or abuse.

Construction Contracts Support Unit

The Construction Contracts Support Unit is responsible for the development and solicitation of Valley Water's construction contracts, which are typically structured as design-bid-build contracts; providing analytical support for both Water Utility Enterprise and Watershed capital projects; assisting with status reporting related to the contracts; and ensuring labor compliance of construction contractors during construction. With these roles and responsibilities, the inherent risks include potential inefficiencies or delays in contracting that could lead to project delays, the potential that contract language could fail to provide a sound basis for controlling costs or otherwise protecting the interests of the District, and the potential the contract vehicles available to the District are not sufficient to meet Valley Water's needs.

Notably, a Contract Change Order Audit was recently performed in 2019. It identified change order management and administration activities for extremely large capital construction projects as areas of risk and recommended various improvements, including requiring Independent Cost Estimates, establishing a separate advisory body for change order approval, enhancing constructability reviews, centralizing procurement activities, and developing a Resource Services Office (RSO) to support project and construction managers and promote uniform implementation of change order management across all capital projects.

Equipment Management Unit

The Equipment Management Unit is responsible for procuring, maintaining, and managing a fleet of passenger and utility vehicles for use by Valley Water employees; maintaining an inventory of Class IV equipment (construction materials such as fortification and barrier materials), handheld equipment, and other non-information technology tools and assets used by the Water Utility and Watershed operations. Inherent risks include maintaining adequate internal controls over vehicle and maintenance assets; ensuring competitive procurement for all assets; and ensuring an effective preventive maintenance program; and controlling all assets in a manner that prevents theft or misuse.

Facilities Management Unit

The Facilities Management Unit seeks to provide a safe and well-maintained work environment in all facilities owned by Valley Water, apart from water utility facilities. This includes providing customer service

and core maintenance functions such as building repairs, heating, ventilation, air conditioning, plumbing, electrical, life safety, elevator services, and janitorial services. Inherent risks associated with this responsibility include maintaining facilities in a responsive, timely, and cost-effective manner; controlling high-risk assets (tools, equipment, etc.); energy management and sustainability initiatives; workforce safety; managing cost increases stemming from emergency repairs, as well as controlling costs to ensure allowability and avoid cost over-runs; and maintaining an asset inventory system that is up-to-date and reflects reasonably accurate condition assessments of facilities sufficient to enable an effective preventive maintenance program. Like many facilities maintenance programs, deferred maintenance remains a concern.

Business Customer Support & Warehouse Unit

The Business Customer Support & Warehouse Unit provides operational support including staffing the public counter and managing cashiering operations, the switchboard, mail delivery, reprographic, word processing and forms, and inventory control services. It also serves as the central receiving and distribution point for the organization and manages the central stores / warehouse operation as well as distributed storage locations. With these roles and responsibilities, the inherent risks include risks related to customer service; inventory management and control, including the prevention of theft or misuse of Valley Water assets; and timely and accurate fulfillment of customer requests.

Human Resources Division

The Human Resources Division is responsible for planning, managing, directing, and coordinating the staff and operations to provide Valley Water assistance in the areas of human resources. The Division includes four (4) functional units and eight (8) distinct programs. Human Resources is responsible for strategic planning; identifying workforce requirements needed to achieve goals; analyzing trends with data analytics; ensuring compliance with local, state, and federal regulation; administrative responsibilities (e.g., employee benefits, employee records); employee development; creating an inclusive work culture that thrives on a diverse workforce; succession planning; and maintaining and updating Human Resource policies that comply with the law and meet organizational goals.	**Budget:** $ 15,038,569 **FTE:** 31 **Inherent Risks:** Effectively recruiting, developing, and retaining a talented workforce that meets Valley Water's needs today and in the future; promoting a culture that fosters a work environment conducive to Valley Water's mission and a safe and healthy work environment; and ensuring compliance with employment laws and regulations.

HR Business Services Unit

The HR Business Services Unit is responsible for updating Human Resource policies, procedures and quality assurance/quality control documents that are currently outdated and will provide dedicated recruitment sourcing services through targeted outreach, developing outreach lists for each classification, and utilizing software solutions to expand recruitment efforts. With these roles and responsibilities, the inherent risks include risks related to HR administration and record-keeping; compliance with labor laws and regulations; and data security and privacy of HR information.

Labor Relations / Ethics & Equal Opportunity Program

The Labor Relations / Ethics & Equal Opportunity Program (EEO) Unit promotes a proactive and positive labor relations program, in compliance with legal mandates, negotiated agreements, and constructive

management principles. Labor Relations represents Valley Water management in all matters involving matters covered under collective bargaining agreements and employee relations involving represented employees. Labor Relations negotiates, interprets, applies, and enforces contracts and regulations, and acts as a resource in the areas of administrative policies and procedures. This program also interprets memoranda of understanding (MOU's) and bargain with labor representatives; conducts EEO investigations; and ensures alignment with ethics. With these roles and responsibilities, the inherent risks include labor relations risks, including labor dissatisfaction, disputes or strikes; ethical concerns and conflicts of interest; ensuring equal opportunity; and compliance risks concerning adherence to labor laws and regulations.

Total Rewards & Data Analytics Unit

The Total Rewards & Data Analytics Unit provides recommendations utilizing multiple data types, business knowledge, and strategic assumptions in addition to data-generated resources to produce decision-making. With these roles and responsibilities, the inherent risks include risks related to employee compensation and benefits; data security and privacy in compensation data; and compliance with reporting requirements.

Benefits & Wellness Program

The Benefits & Wellness Program is responsible for the administration of employee and retiree benefit plans, conducting new hire orientations and separations, processing payroll and HR transactions, and administration of the award-winning Wellness Program (includes fitness reimbursement, ongoing employee education on overall various health initiatives, annual wellbeing fair, lunch and learns, employee rewards, etc.). With these roles and responsibilities, the inherent risks include risks related to employee health and wellness initiatives; benefits administration and compliance with healthcare regulations; and program effectiveness in promoting employee well-being.

HRIS Administration & Data Analytics Program

The HRIS Administration & Data Analytics Program utilizes a Human Resources Information System to record, store, and manage employee data such as payroll, benefits, performance reviews, and training records. With these roles and responsibilities, the inherent risks include risks related to HR information systems, including data security; data analytics accuracy and compliance with privacy regulations; availability and reliability of HR data for decision-making.

Classification & Compensation Program

The Classification & Compensation Program conducts classification reviews, pay practices, salary surveys, annual equity reviews, and the development of incentive programs. With these roles and responsibilities, the inherent risks include risks related to job classification and compensation structures; compliance with wage and hour laws; and ensuring equitable compensation practices.

Talent Acquisition

Within the Talent Acquisition & Career Pathways Unit, Human Resources is responsible for recruiting and developing Valley Water's workforce. This includes administering all recruitment and examination activities for Valley Water positions; facilitating the selection and hiring processes designed to fill vacant positions;

leading and directing internship programs designed to introduce individuals to the work of Valley Water, which may lead to future employees; administering the temporary staffing program; and partnering with community organizations and colleges for workforce planning.

Inherent risks associated with this responsibility is the potential for unsuccessful talent acquisition and management resulting in a District workforce that does not meet the needs of Valley Water, its customers, or the public; unfair interviewing, selection, or hiring practices or favoritism, diminishing District goals related to diversity, equity, and inclusion; diversity in hiring and promotion; compensation levels that are insufficient to attract, retain, and motivate a talented and qualified workforce; a classification system that fails to facilitate the hiring of entry-level positions and the development of the District's future leaders; and the potential that background check practices fail to indicate problematic histories of candidates.

Workforce Development Program

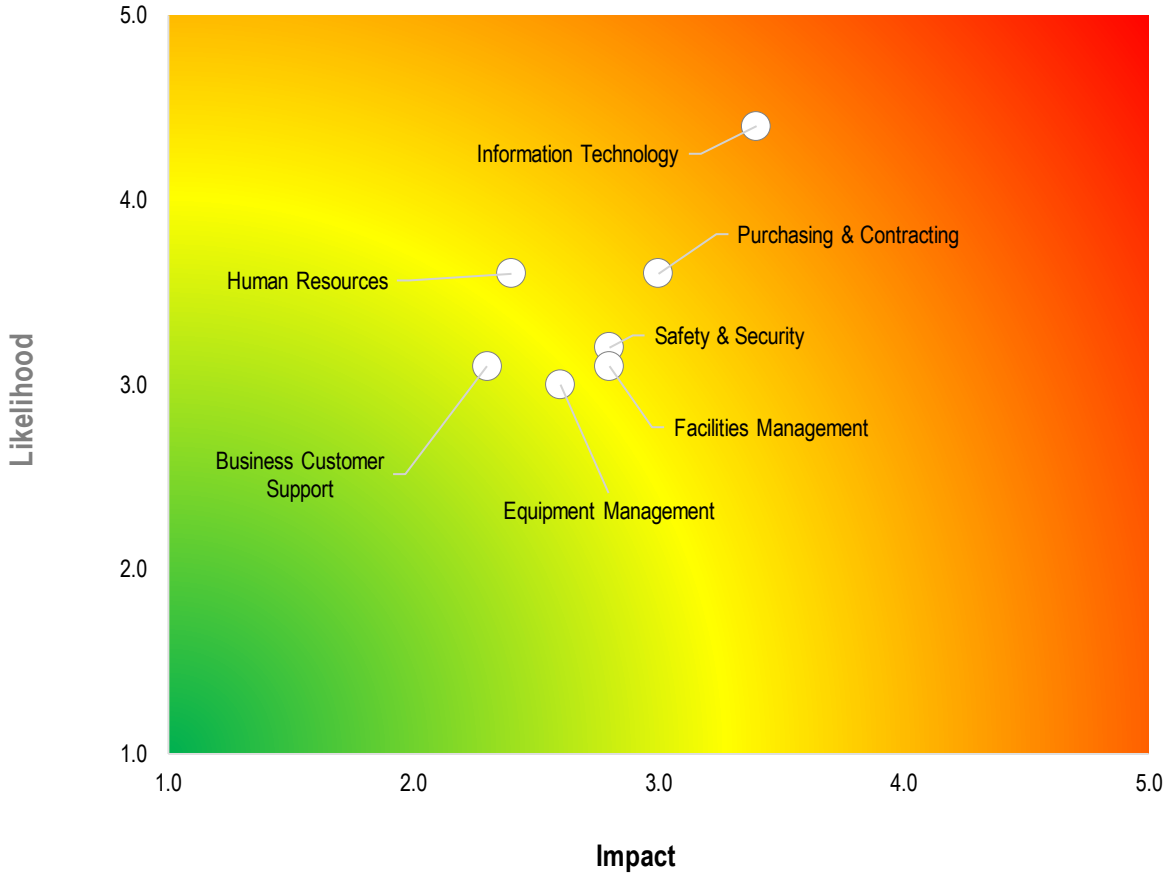
Also, within the Talent Acquisition & Career Pathways Unit, Human Resources is responsible for facilitating the development of Valley Water's future workforce. Its Workforce Development Program helps to guide employees' into the future by administering workforce development and succession planning, developing long-term recruitment strategies within the community, providing technical and non-technical training programs, assessing the needs of Valley Water employees and career goals, identifying current and future business needs, promoting professional development, administering the District's performance evaluation program, and administering wellness activities and events. This Unit is also responsible for developing and administering the NextGen Program, which seeks to develop the next generation of water professionals, the Career and Technical Education (CTE) program, and a roadmap to connect high school and college students to future career goals.

With these responsibilities, inherent risks include consistency in training among divisions; coordination of work-specific or technical training provided by divisions and general workplace training (e.g., supervision, leadership development, skills enhancement, and mandatory training programs) provided by Human Resources to ensure an effective holistic workforce development program; resistance to change; and the potential for misalignment between workforce development and succession plans and Valley Water's strategic goals and objectives.

Risk Summary

Based on this assessment, we find that all key programs and divisions within Administrative Services represent moderate- to high-risk. Districtwide, management expressed general satisfaction with the District's information systems and other business areas within Administrative Services, but also noted opportunities for improvement. Program areas throughout Valley Water depend on Administrative Services in nearly everything they do—recruiting staff to perform critical work, procuring goods and services needed to perform critical tasks, managing the physical assets needed to maintain Valley Water's infrastructure, providing the information systems needed to facilitate and support staff's work, etc. The transactional nature of much of Administrative Services' work, its control of significant physical assets, and its role in procuring goods and services (and expending District monies), all contribute to risk rating that warrant performance audit resources. In Exhibit 14, we illustrate the relative risk ratings of Administrative Service's operating divisions.

EXHIBIT 14. PROGRAM RISK RATINGS



This risk assessment revealed the following potential audits and objectives:

1) Information technology is generally considered to be a moderate- to high-risk function in any government organization, and recommended performance audits typically focus on:
    a. Cybersecurity and network hygiene;
    b. Data management protocols;
    c. Customer service efficiency;
    d. Disaster recovery planning;
    e. Cost-effectiveness of operations, including contracting and purchasing; and
    f. Information technology project management policies, processes, and practices, and the consistency of the IT Department's efforts with best practices.
2) Determine whether the District's human resources management activities are consistent with industry standards; sufficient to ensure compliance with federal, state, and local laws and regulations; effective in attracting, retaining, and motivating a highly talented, qualified, and effective workforce; and appropriately resourced and right-sized for Valley Water. This should

include key elements of human resources management, such as policies and procedures related to and its administration of the following:

a. Hiring and recruiting;

b. Classification and compensation;

c. Employee recordkeeping;

d. Human Resources Information System functionality and system controls;

e. Employee relations and performance management;

f. Benefits administration;

g. Workplace investigations;

h. Professional and workforce development, training, and succession planning;

i. State and federal compliance.

3) The administration of compensation practices to ensure employer costs are appropriately controlled by determining whether benefit enrollment processes appropriately control employee enrollment and cost-sharing, including the verification of dependent eligibility, and the recording of employee compensation within Infor to ensure compensation (including bonuses and other differential pay) are appropriately approved and authorized.

4) Cashiering processes, including those performed through differing information and cashiering systems, the impact that staff turnover has had on cashiering operations, and the role of Finance and Administration in ensuring adequate internal and system controls associated with each.

5) Valley Water's facilities maintenance program, including evaluating the Department's ongoing control, monitoring, assessment, and maintenance of Valley Water facilities and properties to identify opportunities to enhance efficiencies and protect District assets.

6) Valley Water's equipment management program, including determining the extent to which the acquisition, maintenance, and control of equipment and fleet vehicles are performed in a manner consistent with best practices, controls over sensitive assets are effective to prevent misuse, routine and preventive maintenance is performed in accordance to acceptable guidelines, the potential for abuse of District vehicles/fuel/equipment is appropriately mitigated, and practices are both efficient and effective.

7) The overall efficiency of the Emergency, Safety, & Security Division, and the extent to which the Division carries out its responsibilities in a manner consistent with best practices and regulatory requirements.

8) Warehouse operations, including the processes and protocols for inventory acquisition and management, conducting inventory audits, and otherwise controlling assets held in inventory, and the efficiency and effectiveness of such processes.

9) The practices of the Business Customer Support program, including its business and workload management practices, to identify potential inefficiencies or opportunities for improvement in the program's operational activities and administrative functions.

10) Procurement activities, including General Services' practices relating to the following:

a. Ensuring consistency with Valley Water policies, procedures, and other relevant guidance;

b. Proper segregation of duties with accounts payable functions and operational activities;

c. Consistency with best practices;

d. Efficiency in executing procurements in a manner that meets districtwide needs;

e. Timeliness of contracting and procurement practices, including the identification of potential bottlenecks;

f. Evaluating the appropriateness of the procurement vehicles used for different types of procurements, including the purchases of goods and supplies, professional services, construction contractors, operations and maintenance contractors, and other types of procurements; and

g. Benchmarking research, including the extent to which Valley Water's procurement practices compare with other public sector agencies.

External Affairs

With an approximate budget for the Fiscal Year 2023-24 year of $ 24.1 million—representing 2.46 percent of the District's overall budget—and 45 FTE positions, External Affairs is managed by a Chief Operating Officer who reports directly to the Chief Executive Officer. External Affairs is responsible for overseeing and coordinating strategic external affairs initiatives, encompassing the Office of Communication, Office of Civic Engagement, Office of Government Relations, and Office of Racial Equity, Diversity, and Inclusion.

Key Statistics and Responsibilities

FY 2023/24

FTEs:	**45**	Total Budget $981M	**2.46% Total Budget**
Budget:	**$24.1M**		

- Coordinates external policies, legislation, and communication to advance Valley Water's business objectives.
- Manages media relations, community engagement, government relations, and fosters racial equity and inclusion to enhance the organization's public perception and community ties.
- Champions water supply, flood protection, revenue enhancement, and environmental stewardship concerns at multiple government tiers, influencing legislative outcomes and funding.
- Facilitates transparent communication on water-related issues, bolstering community comprehension and backing.

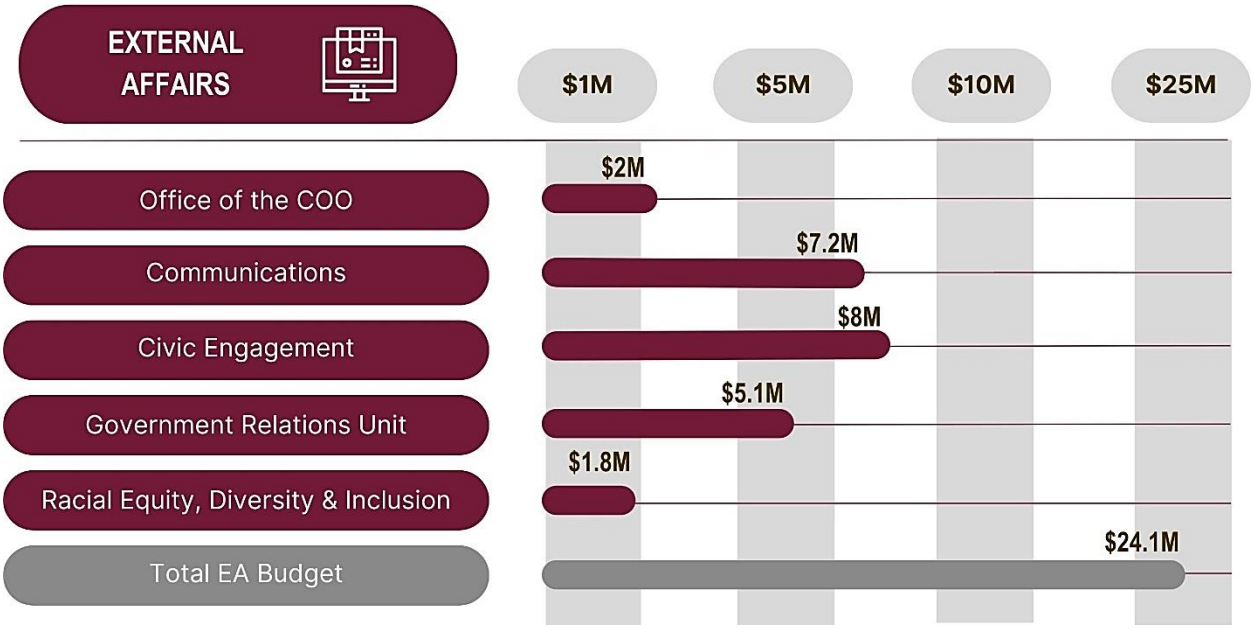
The primary roles of External Affairs include actively planning, integrating, and executing external policies, legislation, and communication efforts to address Valley Water's business interests, encompassing media relations, community engagement, government relations, and the promotion of racial equity and inclusion.

In Fiscal Year 2023, External Affairs cites various accomplishments, including welcoming employees' return to in-person work through over 25 employee resource group-led events, including lectures, cultural celebrations, volunteering, and networking events. Employees enjoyed these opportunities to reconnect with peers after COVID-19. Over 1,100 participants attended these events through Q3; launched two new pilot DEI capacity-building trainings: Conscious Conversations and Uncovering Racism; and adopted first-

time resolutions acknowledging: Filipino American History Month (October), German American Heritage Month (October), Italian American Heritage Month (October), Polish American Heritage Month (October), International Holocaust Remembrance Day (January), Lunar New Year (February) and Genocide Remembrance Day (April).

External Affairs is organized into five units: The Office of the Chief Operating Officer of External Affairs, Office of Communication, Office of Civic Engagement, Office of Government Relations, and Office of Racial Equity, Diversity, and Inclusion. Exhibit 15 provides a breakdown of each unit's budgeted expenses for Fiscal Year 2023-24.

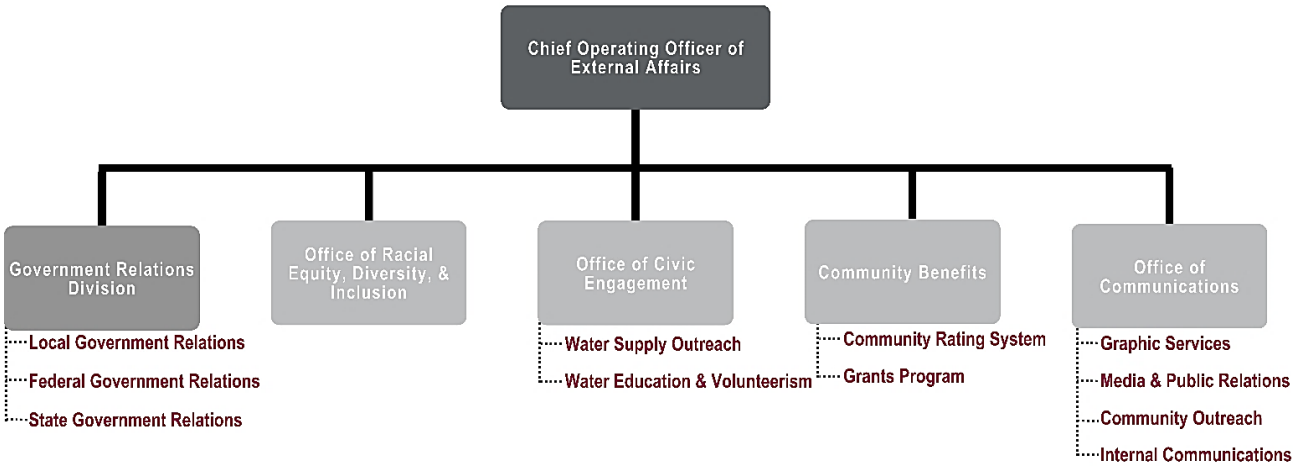
EXHIBIT 15. BUDGET BREAKDOWN BY UNIT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

External Affairs allocates functional responsibilities to each of the five areas as depicted in Exhibit 16.

EXHIBIT 16. OFFICE OF EXTERNAL AFFAIRS ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of External Affairs is vital to Valley Water's strategic operations, overseeing and coordinating various external affairs initiatives. External Affairs comprises units such as Communication, Civic Engagement, and Racial Equity, Diversity, and Inclusion, as well as the division of Government Relations. Its primary role involves strategic planning and integration of external policies, legislation, and communication efforts to address Valley Water's business interests, including media relations, community engagement, government relations, and promoting equity and inclusion.

Integrating diverse units, such as Communication, Civic Engagement, Government Relations, and Racial Equity, Diversity, and Inclusion, reflects the District's commitment to fostering inclusivity, promoting equity, and addressing community needs. However, the wide range of functions within External Affairs may also pose challenges regarding coordination and resource allocation. Ensuring effective communication and collaboration among units can be complex, potentially leading to inefficiencies or overlapping efforts. Additionally, the Office of Racial Equity, Diversity, and Inclusion's success in promoting a diverse workforce and addressing environmental justice relies on the commitment and involvement of all stakeholders across the organization. Failure to prioritize equity initiatives could hinder progress and impact the District's reputation and social standing.

Inherent risks associated with the External Affairs include strategic risks related to the development and implementation of external affairs plans and initiatives; regulatory and compliance risks due to the changes in legislation and government policies, risks associated with insufficient progress in promoting diversity and inclusion within the District's operations; the effectiveness of civic engagement strategies in connecting with the community; and communication risks related to the accuracy, timeliness, and transparency of information shared with stakeholders. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

Office of the Chief Operating Officer of External Affairs	
External Affairs is responsible for programs that increase employee and community awareness and engagement on Valley Water programs, projects, and challenges. External Affairs provides the strategic planning and integration of external policies and legislation as it relates to the business interests of Valley Water and is responsible for managing Valley Water's relationships with the community, government officials, the media, and other key stakeholders. External Affairs is also responsible for managing racial equity, diversity, and inclusion efforts.	**Budget:** $ 1,993,349 **FTE:** 5 **Inherent Risks:** Strategic risks related to the development and implementation of external affairs plans and initiatives. Reputational risks arising from external affairs decisions that may be controversial or negatively perceived by stakeholders.

Office of Civic Engagement Unit	
Through collaborations, educational initiatives, community service options, and grant programs, the Office of Civic Engagement (OCE) actively fosters connections with the community. Its primary aim is to establish a solid foundation of trust and support for Valley Water's objectives and mission. OCE is responsible for managing several key programs, including the Safe, Clean Water Grants & Partnerships Program, Public Art initiatives, Education Outreach efforts, the Water 101 Academy/Ambassadors Program, Creek Stewardship projects, Water Supply Outreach activities, and the Community Rating System. Additionally, OCE provides programmatic oversight and coordination for the Board Advisory Youth Commission and the Low-income Residential Water Rate Assistance Program.	**Budget:** $ 7,959,139 **FTE: 13** **Inherent Risks:** Strategic risks related to the effectiveness of civic engagement strategies, ensuring these strategies genuinely resonate with diverse community members, are crucial to maintaining public trust and credibility. Additionally, community engagement can be challenging, given the need to navigate potential conflicts and competing interests within local communities. OCE also faces risks associated with flood insurance ratings; failure to meet rating criteria could result in reduced discounts for flood insurance, affecting the community. Lastly, budget constraints may limit OCE's outreach and engagement efforts, necessitating effective resource management to fulfill its mission despite potential financial limitations.

Water Supply Outreach Program

The Water Supply Outreach Program focuses on raising public awareness about water supply issues, engaging with the community through events and programs, and building relationships with local governments. Challenges include effectively communicating complex water supply topics to diverse audiences and addressing potential resistance or misunderstandings.

Water Education & Volunteerism Program

The Water Education & Volunteerism Program is responsible for educational outreach programs and fostering community engagement through volunteer opportunities. Challenges involve maintaining sustained interest and participation in educational initiatives and coordinating volunteers effectively for various water-related projects.

Community Benefits Program

The Community Benefits Program works on initiatives to benefit local communities through projects, partnerships, and outreach efforts. Challenges may include balancing the diverse needs and expectations of different communities and ensuring equitable distribution of benefits.

Community Rating System Program

The Community Rating System Program manages efforts to raise community awareness about flood risks and encourages participation in the Community Rating System for potential flood insurance discounts. Challenges include maintaining effective communication channels among key stakeholders and the public, as well as promoting active participation.

Office of Government Relations Unit	
The Office of Government Relations advocates at the local, regional, state, and federal levels to promote and advance the water supply, flood protection, revenue enhancement, and environmental stewardship interests of Valley Water and the residents of Santa Clara County, in alignment with the Board's legislative priorities. Government Relations serves as the internal and external connection for legislation, development of strategic support and opposition, and supplemental funding opportunities for Valley Water.	**Budget:** $ 5,118,321 **FTE:** 10 **Inherent Risks:** Regulatory and compliance risks due to changes in legislation and government policies. Advocacy risks associated with the representation of the District's interests to government entities.

Local Government Relations Program

The Local Government Relations Program focuses on fostering positive relationships with local government bodies to advocate for water-related projects and initiatives. Challenges may involve navigating competing interests and aligning district goals with local priorities.

Federal Government Relations Program

The Federal Government Relations Program advocates for federal funding and support for district projects, managing relationships with federal agencies and legislators. Challenges include coordinating efforts at the federal level and addressing regulatory hurdles.

State Governmental Relations Unit

The State Governmental Relations Unit is responsible for advocating for district interests at the state level, securing funding and permissions for projects. Challenges include managing relationships with state officials and navigating the complexities of legislative processes.

Racial Equity, Diversity, and Inclusion Unit	
The Office of REDI serves to strengthen and expand Valley Water's ability to deliver innovative services through the development, implementation, and oversight of policies to advance equity, diversity, and inclusion (DEI) efforts. Through collaborations with internal stakeholders, REDI works to help attract, retain, and promote a diverse and talented workforce. REDI also helps to promote environmental justice externally to all the communities Valley Water serves, and fosters engagement with local tribal communities. REDI initiates DEI training efforts and hosts cultural speaker engagements to increase staff awareness of underserved communities. REDI also serves to guide and support the work of Valley Water's Employee Resource Groups, of which memberships to a chartered Valley Water ERG is free and open to all employees	**Budget:** $ 1,757,075 **FTE:** 4 **Inherent Risks:** Risks associated with insufficient progress in promoting diversity and inclusion within the District's operations. Reputational risks if the unit's efforts are perceived as insincere or inadequate by stakeholders.

The Racial Equity, Diversity, and Inclusion Unit was established in Fiscal Year 2020-21 to provide expertise and leadership in the areas of employee relations, employee engagement, diversity and inclusion, and

workplace culture—and to do so from a perspective dominated by the principles of diversity, equity, and inclusion. Since it was established, the role of the Unit has evolved from an internal focus on DEI initiatives to a more externally focused equity assurance effort, guided by the Strategic Master Plan and Equity Action Plans. Key challenges include continuing to refine the unit's role respective to the District as a whole.

Office of Communications Unit	
The Office of Communications informs, engages, and educates the community, including Valley Water employees, on water conservation, water supply and quality, flood protection and environmental stream stewardship efforts. Communications provides timely responses to media inquiries on relevant topics. Through social media platforms, marketing campaigns and public relations efforts, Communications highlights the work of Valley Water and its Board of Directors.	**Budget:** $ 7,274,122 **FTE:** 15 **Inherent Risks:** Communication risks related to the accuracy, timeliness, and transparency of information shared with stakeholders. Crisis communication risks if the District faces reputational challenges or public incidents.

Graphic Services

The Graphic Services Program handles visual design and collateral creation for various departments, ensuring consistent branding and effective communication. Challenges may involve managing design requests from different teams and delivering high-quality materials within tight deadlines.

Media & Public Relations

The Media & Public Relations Program is responsible for managing the District's media presence, responding to press inquiries, and promoting district initiatives. Challenges include maintaining a positive public image and effectively addressing media inquiries during crisis situations.

Community Outreach

The Community Outreach Program engages with the community through various programs and initiatives to raise awareness about water-related issues and encourage participation. Challenges include sustaining community interest and involvement over time.

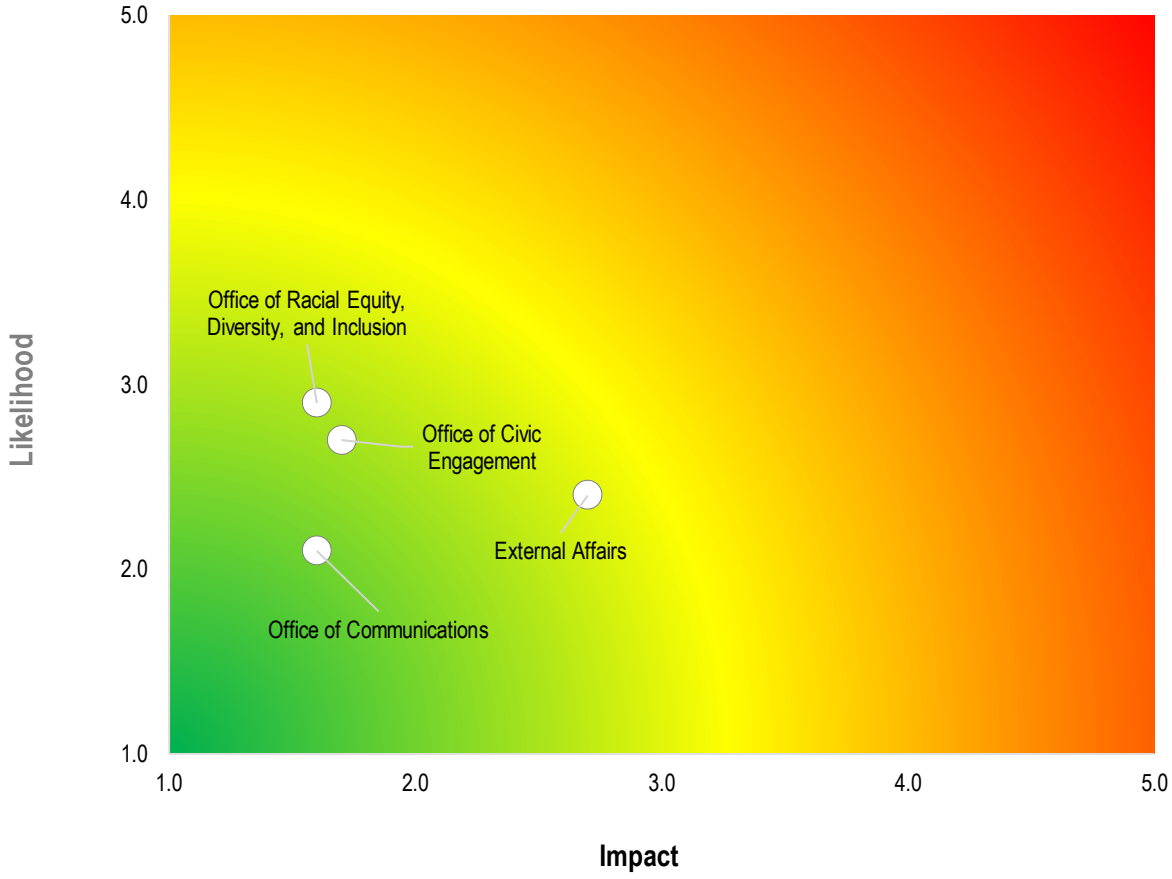
Internal Communications

The Internal Communications Program is responsible for communication within the organization, including employee engagement, events, and surveys. Challenges involve ensuring transparent and effective communication across different departments and addressing employee concerns and feedback.

Risk Summary

The Office of External Affairs has a relatively low budget and FTE allocation when compared to other Valley Water departments, and generally represents relatively low risk when compared to other departments based on our assessment of a variety of risk factors. Despite this, External Affairs is in many ways the public face of Valley Water. Because of this, the potential benefits of a performance audit of External Affairs are likely to be in assessing the overall efficiency and effectiveness of the Office's day-to-day operations. In Exhibit 17, we illustrate below the risk rankings of each unit or program area in relation to one another.

EXHIBIT 17. PROGRAM RISK RATINGS



This risk assessment revealed the following potential audit objective:

1) Evaluate the Office's business processes, information systems, and workload management practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Office of Financial Planning and Management Services

With an approximate Fiscal Year 2023-24 budget of $98.5 million—representing 9.6 percent of the District's overall budget—and 47 FTE positions, the Office of Financial Planning and Management Services (Finance) is managed by Valley Water's Chief Financial Officer. Finance executes, records, and/or reconciles all financial transactions of the District (including the collection, receipt, disbursement and accounting of all monies received in accordance with Generally Accepted Accounting Principles), provides analyses and recommendations on decisions brought forth by operations, prepares and develops financial statements and other financial programs, manages and invests cash assets of the District, issues and manages debt instruments, prepares and manages the District's budget, conducts financial analysis and forecasting, coordinates all external and internal audits, establishes controls that minimize financial risks, and drives organizational change through a robust continuous improvement program. Finance staff also

serve as the primary advisors to the Chief Executive Officer and the Board of Directors in financial planning and advice.

In Fiscal Year 2023, Finance cites various accomplishments, including having delivered the PERS/OPEB update to the Board on March 14, 2023; presented 30-year forecast to the Board on March 28, 2023, per Board request; and established a repository for Board and management directed audits conducted in the past 10 years. Prior audit work has also noted generally sound revenue forecasting models, which serve as a basis for determining resources available for planned operating and capital expenditures.

Key Statistics and Responsibilities

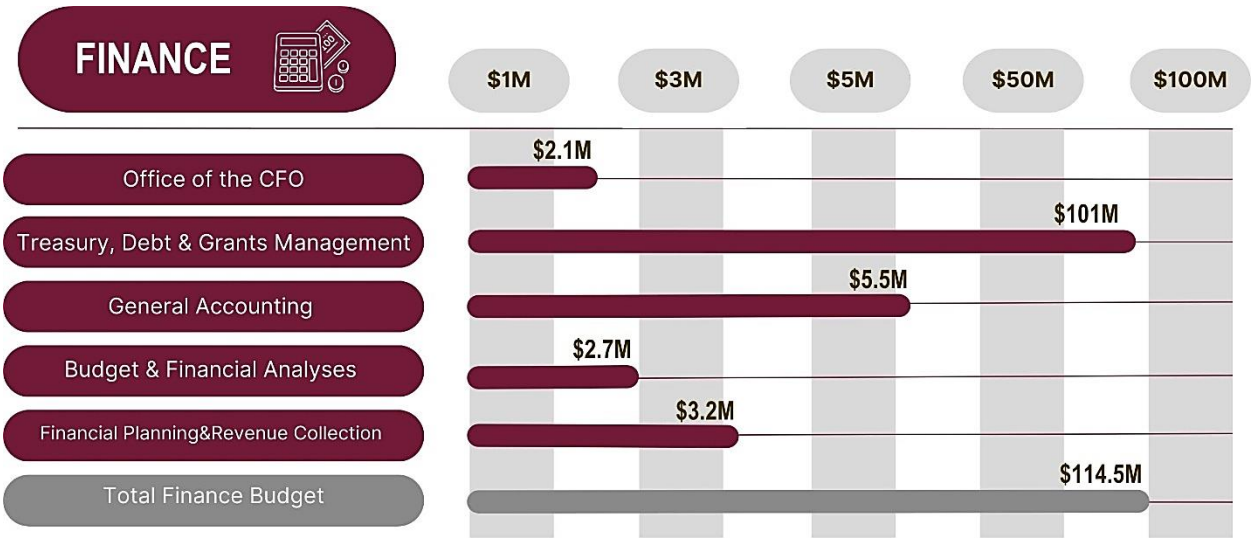
FY 2023/24

FTEs: 47
Budget: $114.5M

- **Manages financial transactions, accounting, cash assets, debt, and budgeting while advising executive leadership.**
- **Oversees treasury, debt, and grants, ensuring compliance and efficient financial operations.**
- **Prepares long-term financial plans, collects revenue, and forecasts for financial sustainability.**

Finance is organized into five units: the Office of the Chief Financial Officer; Treasury, Debt, & Grants Management Unit; General Accounting Unit; Budget & Financial Analyses Unit; and the Financial Planning and Revenue Collection Unit. Exhibit 18 below is a breakdown of each divisions budgeted expenses for Fiscal Year 2023-24.

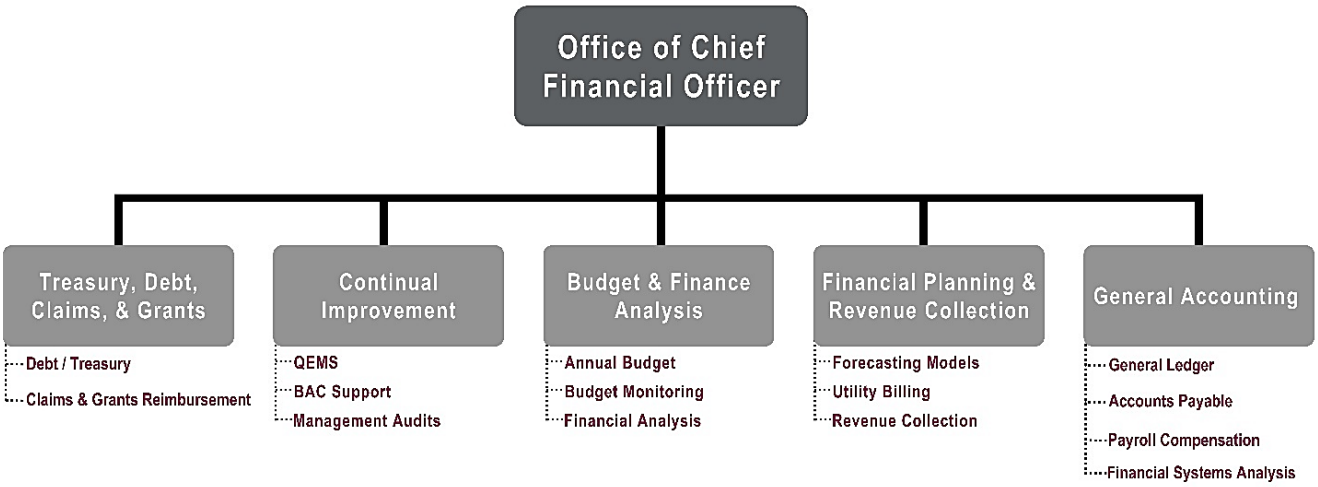
EXHIBIT 18. BUDGET BREAKDOWN BY DEPARTMENT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Finance allocates functional responsibilities to each of the five units as depicted in Exhibit 19 below.

EXHIBIT 19. FINANCIAL PLANNING & MANAGEMENT SERVICES DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Further, recent legislation AB 939 impacts the District's financing options, particularly concerning the use of ad valorem taxes or assessments to pay for bonds, altering the method for paying the principal, interest, and premiums for bonds. It also removes the previous $8,000,000 limit on borrowing and extends a provision related to director compensation.

Risk Analysis

Finance has a relatively low level of funding and FTEs as compared to other departments, but is responsible for a significantly high level of cash or other high-risk assets such as revenue collection from various sources, significant cash and debt management responsibilities, and federal and state grant management. Most of the divisions within Finance perform functions that are common subjects of internal and external audit activities: grant management, accounting, cash receipts and disbursements and reconciliations, etc. Generally, each employs systems of internal controls to ensure compliance, fiscal integrity, and the prevention of fraud, waste, and abuse. As is typical in many local governments, Finance is subject to annual external audits, which focus on accounting functions and general financial-related internal controls and has been historically subject to a variety of internal audits over the years.

Inherent risks associated with Finance include ensuring investment policies are fiscally sound and in line with best practices for ensuring compliance with debt and investment policies and asset allocation; engaging in effective cash management practices; complying with grants and increasing grant footprint; preventing and detecting theft; and considering the impact of cashiering operations on general accounting functions. Below, we present the key divisions/programs administered by Finance, the core responsibilities of each, and key factors contributing to the programs' risk rating.

Office of the Chief Financial Officer	
Serves as a partner to assist other departments in achieving their objectives. Facilitates necessary financial transactions, provides analyses and recommendations on decisions brought forth by operations, establishes controls that minimize financial risks, and drives change or improvements in business processes or practices in order to improve productivity.	**Budget:** $ 2,097,214 **FTE:** 4 **Inherent Risks:** Financial sustainability of Valley Water; regulatory compliance; the ability to prevent and detect potential fraud, waste, and abuse, or other misuses of Valley Water assets; and effectively providing reliable and transparent financial analyses to management, the Board, and the public.

Treasury, Debt, Claims, & Grants Unit	
Oversees Districtwide treasury operations, debt financing, and grants programs. This involves managing an $82 million annual debt service budget, and producing required reports for bond covenants and regulatory compliance. Comprising three sections—Treasury, Debt, and Grants—the unit supervises bank accounts, investments, supports small banks, manages short-term and long-term debt, and streamlines compliance and claims processes for improved efficiency.	**Budget:** $ 101,057,917 **FTE:** 9 **Inherent Risks:** Liquidity risk in managing debt obligations; credit risk associated with debt issuers; compliance risks in managing claims and grants disbursements; potential that investment practices could exceed the bounds of Board-established investment policies; potential for fraud or misuse of grant funds; delays in reimbursement from external grantors.

Debt/Treasury

The Treasury Unit Handles short-term and long-term debt management, including commercial paper programs and revenue-supported long-term projects. It also oversees treasury tasks such as bank account management, investments, cash management, and supporting small banks through Certificate of Deposit purchases. Inherent risks of the Debt/Treasury Services include interest rate, liquidity, credit, and other risks similar to other public sector treasury functions—and compliance with Board-adopted investment policies.

Claims & Grants Reimbursement

The Claims & Grants Unit is responsible for ensuring compliance and efficient processing of claims and grant reimbursements. This includes managing the coordination of claims, overseeing follow-ups, and streamlining the grant application and reimbursement processes. Inherent risks include ensuring compliance with grant requirements relating to timely grant disbursements, allowable uses grant funds, and potential delays in reimbursement from external grantors. To mitigate these risks, Finance is establishing a new division specializing in grant management to better coordinate and streamline the grant application, reporting, and receipting process.

General Accounting Unit	
General Accounting includes the responsibility to manage the general ledger, accounts payable, payroll, and Valley Water's enterprise financial system, Infor. General ledger responsibilities generally include all accounting and financial reporting requirements, in accordance with professional standards, and the reconciliation of all accounts. Accounts payable is charged with processing payments to Valley Water's contractors, consultants, vendors, and staff expense claims, as well as administering petty cash and filing payment documents. Payroll processes the bi-weekly payroll for all Valley Water employees, employee benefits accounting, payroll tax withholdings, and submission of Federal and State reporting requirements. Financial Systems provide for the maintenance and security of payroll, benefits, human resources, and financial applications.	**Budget:** $5,487,444 **FTE:** 19 **Inherent Risks:** High magnitude of financial exposure, including compliance with financial reporting requirements; the ability to provide efficient or effective support of financial support functions; compliance with grants and increasing grant footprint; integrity and effectiveness of internal controls related to fiscal transactions of all types; inefficient or inaccurate payroll processes resulting from reported system limitations of Infor; the potential for fraud, waste, and abuse; and integration issues with other financial systems.

General Ledger

The General Ledger Unit administers all accounting responsibilities for Valley Water, the recording and reconciling of financial transactions; processing payroll, accounts payable, and journal entries; preparing financial statements; coordinating Valley Water's annual financial audit; and managing the Infor system. Inherent risks primarily relate to the potential for inaccuracies in financial records and the potential for fraud, waste, and abuse.

Accounts Payable

The Accounts Payable Unit handles check runs, reviews all expenditures for proper authorization and prior approval, processes incoming requests for payments, manages payment schedules, and maintains accurate financial records while ensuring compliance with approval processes. Inherent risks in accounts payable activities include ensuring the integrity of internal controls over the use and expenditure of District financial resources to prevent and/or detect any potential inappropriate or unauthorized expenditure. This could include the potential for inadvertent or intentional duplicate or erroneous payments, vendor fraud and invoice manipulation, inadequate documentation for expenditures, or the potential for fraud, waste, or abuse.

Payroll Compensation

The Payroll Compensation Unit is responsible for payroll processing, including W-2s and other tax filings. The unit works closely with Human Resources to ensure accurate and timely compensation for employees. Inherent risks include payroll processing errors resulting from erroneous employee timekeeping, erroneous recordkeeping by Human Resources, inappropriate application of compensation rules as set forth in collective bargaining agreements or Valley Water policies (e.g., policies related to overtime or differential pay), or Infor system limitations. Most recently, concerns have been raised regarding the functionality of Infor in processing payroll, which has led to substantial manual processes by this Unit to ensure accurate and timely payroll. As a general rule, the infusion of substantial manual processes into what is normally a highly reliable and automated function introduces the potential for human error and increases the risk of payroll inaccuracies as well as fraud, waste, and abuse.

Financial Systems Analysis

The Financial Systems Analysis Unit works behind the scenes to manage and optimize the financial system, Infor, to ensure data accuracy, perform analyses, generate standard and ad hoc financial reports, and to address system-related challenges. Inherent risks associated with this function relate to maintaining effective segregation of duties (including system access and restrictive user profiles), ensuring the optimal efficiency of the system to enable financial staff to carry out their duties in an effective and efficient manner, and the potential for system failures or data integration problems.

Continual Improvement Unit	
Through Valley Water's Quality and Environmental Management System, the Continual Improvement team plays a crucial role in strengthening the CEO's leadership and offering vital support to the Board. This involves conducting audits as directed by the CEO and providing the Board with regular updates on the status of its continual improvement efforts.	**Budget:** $782,804 **FTE**: 3 **Inherent Risks:** In general, there are not substantial risks associated with continuous improvement programs, at least as they relate to an organization's core operations, because such programs tend to be independent of such programs. However, several factors can impede continuous improvement efforts within organizations, including a lack of independence or objectivity in facilitating improvement efforts, the need to balance potential improvement initiatives with the costs of such initiatives, the potential for continuous improvement processes to become rigid and burdensome, and the potential for change fatigue.

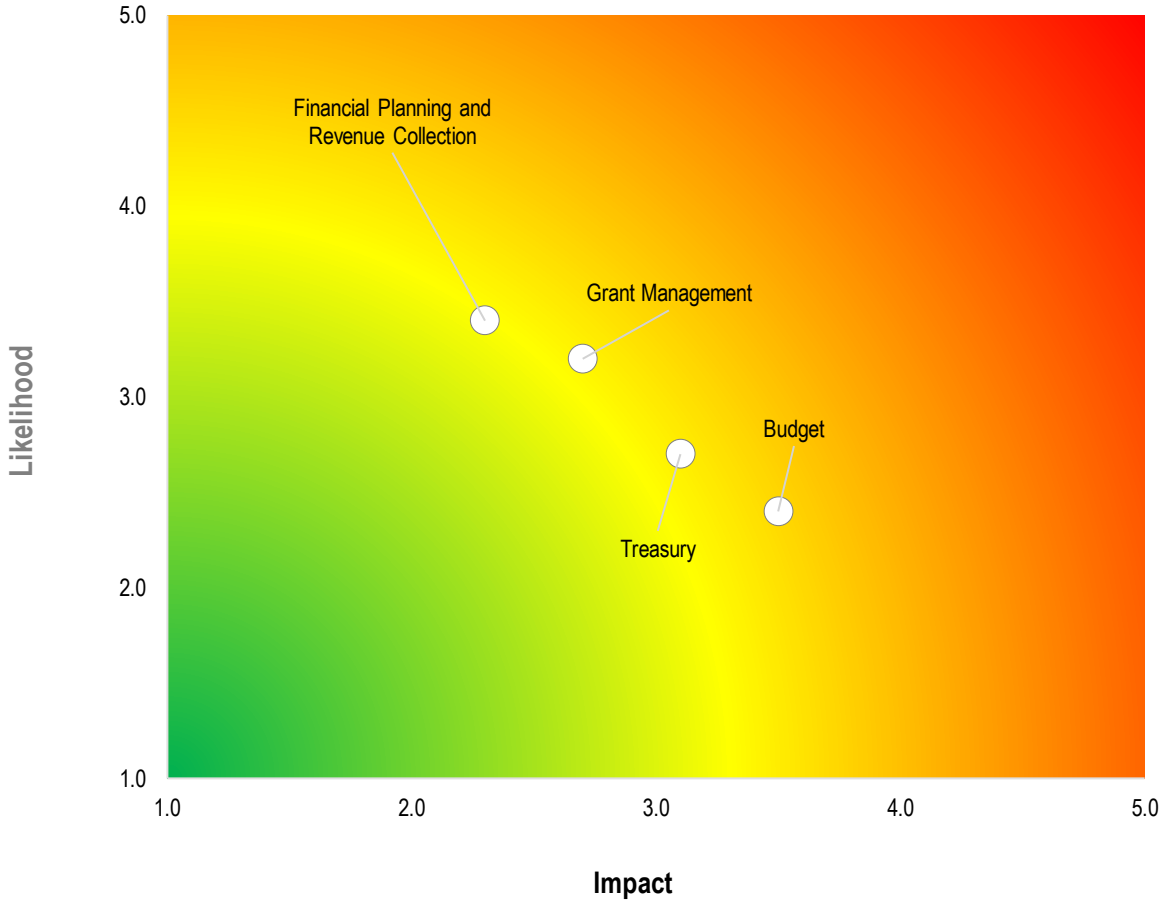
Budget and Finance Analysis Unit	
This Unit manages the preparation of the annual operating budget, including Districtwide collaboration on funding strategies, developing, and executing the Annual Budget publication, assisting with the development of the five-year Capital Improvement Plan, maintaining multi-year financial models, forecasting and monitoring revenues and expenditures throughout the fiscal year, and coordinating with program and project managers throughout the year to provide budget and finance analyses on an ongoing basis.	**Budget:** $ 2,700,568 **FTE:** 8 **Inherent Risks:** Projected growth in operating and capital expenditures, related debt, and overall sustainability; reliability of financial models and forecasts; reasonably accurate budget-to-actual monitoring and reporting; effectiveness of the Valley Water budget as a planning tool and as a basis for performance measurement; and efficiency of the biannual budgetary process.

Financial Planning & Revenue Collection Unit	
Financial Planning prepares and manages long term financial plans and forecasts and drives the groundwater production charge setting process. This Unit is responsible for preparing detailed financial plans and forecasting models that both management and the Board rely upon to make long-term planning decisions regarding Valley Water's infrastructure. Revenue Collection collects water revenue, property tax revenue, and benefit assessments for Valley Water. Water revenue is comprised of charges for groundwater, recycled, surface, and treated water usage. This includes billing and collection processes for various entities, including treated and groundwater retailers, water utility customers, loan owners, and surface water users. Property taxes and benefit assessments collected are the voter-approved Safe Clean Water Special Tax, Flood Control Benefit Assessment, State Water Project levy, and the allocated share of countywide 1% ad valorem property tax receipts.	**Budget:** $ 3,177,720 **FTE:** 7 **Inherent Risks:** The potential, in an environment affected by the Covid pandemic and climate change, that revenue forecasting will become increasing complex and challenging; changes in water demand affecting revenue projections; sustainability given the potential for substantial increases in capital project costs, and limitations on certain revenue streams; and balancing the need for rate adjustments with community and board expectations. Risks also include the potential that primarily manual and self-reported customer billing processes could lead to errors or otherwise under-collected fees; revenue leakage due to inaccurate metering or billing; collection difficulties for overdue accounts; risk of non-payment or late payment by customers; and the potential for fraud, waste, and abuse.

Risk Summary

Most of the divisions in Finance perform functions that are common subjects of internal and external audit activities: financial analysis, revenue forecasting, accounts payable, accounts receivable, cash management, account reconciliations and accounting practices, grant management, cash investments, cash handling, etc. Generally, each employs systems of internal controls to ensure compliance, fiscal integrity, and the prevention of fraud, waste, and abuse. Nevertheless, given the transactional nature of Finance and the significant responsibility of Finance in managing Valley Water's fiscal assets, much of the operational activities of Finance remains at the moderate-risk level. With these key factors in mind, we illustrate below the risk rankings of each division or program area in relation to one another.

Exhibit 20. Program Risk Ratings



Based on this assessment, there are several potential audit topics that warrant consideration for future audit planning.

1) Grant management activities, including determining whether existing policies and procedures; systems of internal control related to the recording, tracking, and monitoring of grant funds to ensure full compliance and recovery; and staffing and system resources are sufficient to administer, optimize, and account for grant monies in an efficient and effective manner.
2) Treasury operations, including evaluating cash management, investment, treasury functions, and determining the extent to which investment and cash management activities adhere to best practices and established investment policies.
3) Budget processes, including evaluating budget and financial planning protocols and practices, the sufficiency of budgetary tools available to Valley Water management to monitor budget-to-actual performance, and the overall efficiency and effectiveness of the District's biennial budget cycle.
4) The efficiency and effectiveness of system integration between the Finance enterprise system, Infor, and other information systems utilized to manage Valley Water fiscal activity.

5) The Completeness of policies and procedures, including how they are maintained, updated, made available and communicated to all relevant parties.

6) Accounts receivable, including assessing the manual billing processes employed by Finance to bill and collect from utility customers.

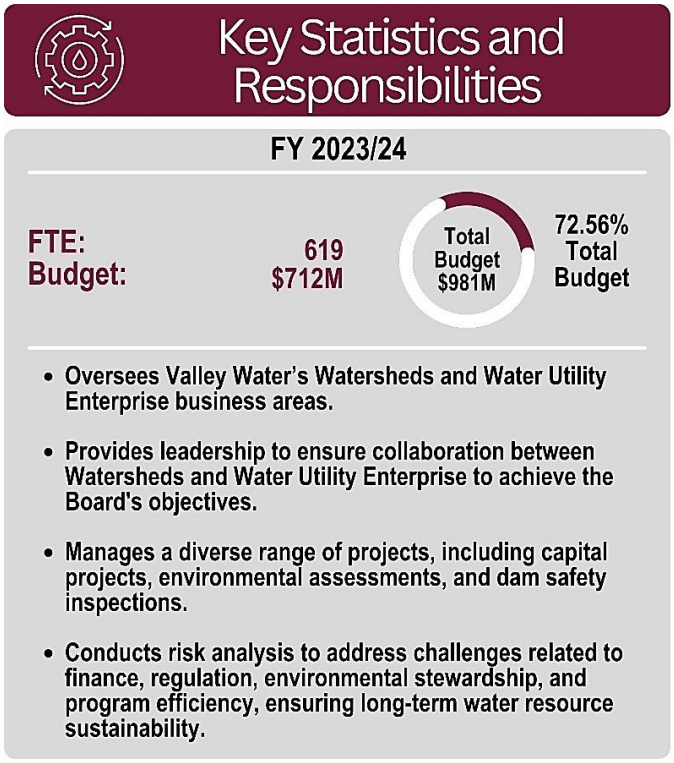
7) Financial analysis and forecasting practices, including the extent to which revenue forecasting is consistent with best practices in an environment significantly impacted by the pandemic and climate change, and the extent to which forecasting models and fiscal policies provide an effective framework for ensuring long-term sustainability.

8) Payroll and compensation practices, including whether practices ensure total compensation and payments to employees, including executive management and Board members, comply with collective bargaining agreements and Board policies.

Office of Integrated Water Management

With an approximate Fiscal Year 2023-24 budget of $783 million—representing 75.8 percent of the District's overall budget—and 619 FTE positions with Operations, the Office of Integrated Water Management (Integrated Water) is managed by the Office of the Assistant Chief Executive Officer (ACEO). The ACEO directly oversees Valley Water's Watersheds and Water Utility Enterprise business areas, which are primarily responsible for achieving Valley Water's primary goals—that is, to:

1) To achieve a reliable water supply;
2) Improve flood protection; and
3) Ensure healthy and resilient ecosystems.



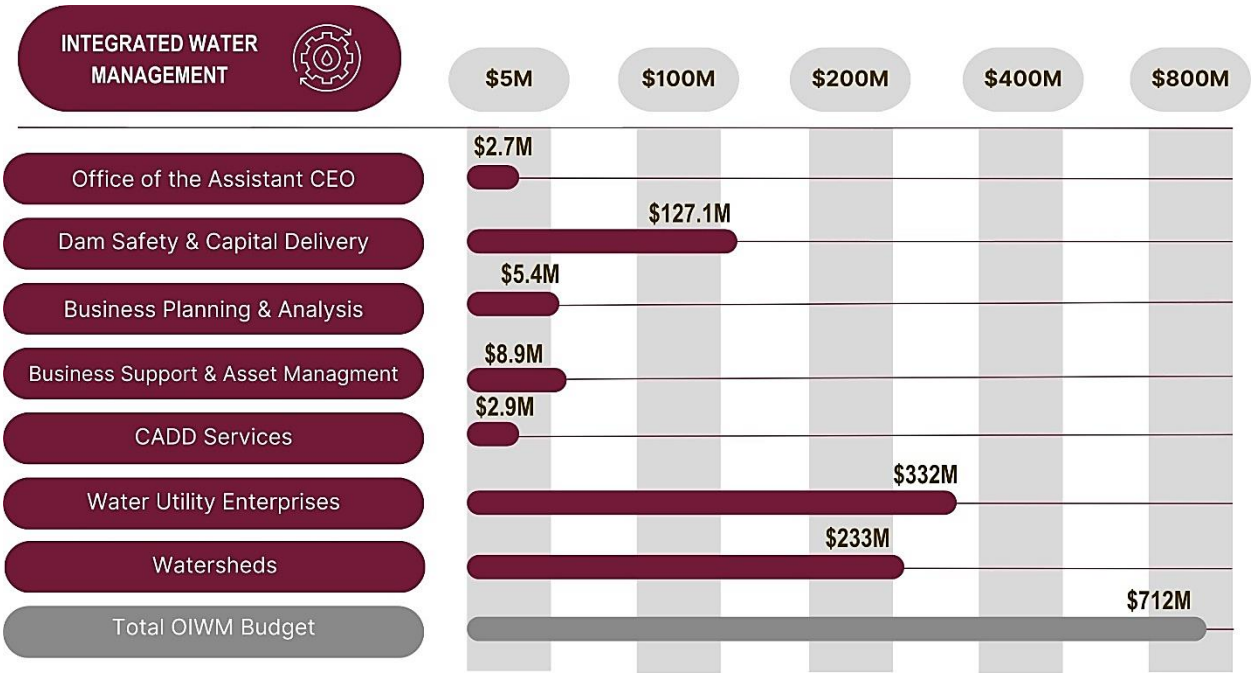
The Office of Integrated Water Management provides focused leadership to ensure a cohesive working relationship between its two major business areas—Watersheds and Water Utility Enterprises—and several cross-functional units, all with the aim of achieving the Board's Ends Policies and goals.

In Fiscal Year 2023-24, Integrated Water reported numerous accomplishments across various business areas. This includes developing the Funding Filters for Prioritization, a tool that aided the Board in making decisions regarding capital project funding; analyzing and prioritizing over 15 creeks for the Safe, Clean Water Project; completing 295 Computer-Aided Design (CADD) requests, nearly 50 percent more than was completed in Fiscal Year 2022-23; maintaining 64.85 acres of mitigation sites; implementing a new project

management software solution for use by the Capital Improvement Program (CIP) and capital project delivery teams; initiating numerous process improvements in conjunction with the recent completion of a performance audit of the CIP process; and, most importantly, meeting or exceeding drinking water standards, ensuring that all treated water delivered to customers surpassed all applicable primary drinking water requirements.

Integrated Water is organized into two primary business areas and several smaller units that support these two business areas. Specifically, Integrated Water includes Valley Water's Watersheds and Water Utility Enterprise business areas, as well as several units that support Valley Water's capital infrastructure development: the Business Planning & Analysis Unit, CADD Unit, Business Support & Asset Management Unit, and the Dam Safety & Capital Delivery Division. Exhibit 21 below is a breakdown of the budget appropriations to each program area for Fiscal Year 2023-24.

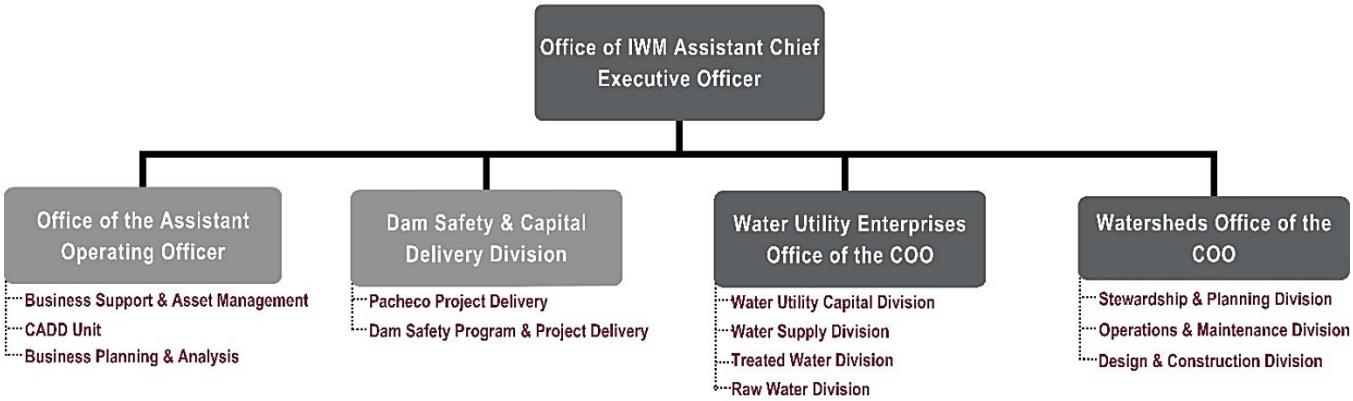
EXHIBIT 21. BUDGET BREAKDOWN BY BUSINESS AREA / UNIT



Source: FY 2022-23 & Fiscal Year 2023-24 Operating and Capital Rolling Biennial Budget

The organizational structure of Integrated Water is depicted in Exhibit 22.

EXHIBIT 22. OFFICE OF INTEGRATED WATER MANAGEMENT DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

Integrated Water plays a pivotal role in managing, safeguarding, and enhancing the region's water resources and infrastructure. It encompasses a wide range of divisions, units, and programs, each with its unique roles and responsibilities. However, this diversity also brings about a complex web of inherent risks that demand careful assessment and mitigation strategies to ensure Valley Water's continued success in its mission. Below, we present the key business areas, divisions, and units administered by Integrated Water, the core responsibilities of each, and key factors contributing to its programs' risk rating.

OFFICE OF ASSISTANT CHIEF EXECUTIVE OFFICER	
The Office of the Assistant Chief Executive Officer leads and manages the Office of Integrated Water Management and facilitates coordination between the Watersheds and Water Utility business areas to achieve the Board's Ends Policies and goals. This Office provides managerial support to ensure Valley Water's projects and programs are achieved in an efficient and effective manner.	**Budget:** $ 2,704,478 **FTE:** 4 **Inherent Risks:** Challenges related to financial planning and program implementation, the planning and execution of capital projects, the maintenance of existing infrastructure assets, compliance with regulatory requirements, and the efficient operation of both Watersheds and Water Utility programs.

BUSINESS SUPPORT & ASSET MANAGEMENT UNIT

The Business Support and Asset Management Unit implements and continually improves asset management standards and information systems based on industry best practices. The unit manages Valley Water's water utility, watershed, and administration asset management programs, and supports the users of Valley Water's Computerized Maintenance Management System (CMMS), Maximo. In addition, the unit manages three Water Utility infrastructure master planning projects: The Water Treatment Plant, SCADA System, and Distribution System Master Plan Implementation Projects. The unit also manages a Safe, Clean Water project, F-8: Sustainable Creek Infrastructure for Continued Public Safety.	**Budget:** $ 8,924,059 **FTE:** 11 **Inherent Risks:** Facilitating efficient and effective asset management by ensuring accurate and reliable records of all District infrastructure assets, the condition of all assets, and a reliable plan to maintain all assets to optimize useful life.

CADD UNIT

The CADD Services unit is responsible for producing engineering drafting and design work, plan production standards, and managing computer-aided design (CAD) software in support of Valley Water's water resources facilities, flood management, pipeline infrastructure, and watershed management facilities. The unit develops in-house project design drawings for construction. Services include creating 2D and 3D designs that combine information from different departments such as Survey, GIS, Right-of-Way, and Engineering. Additionally, the unit maintains current CADD Standards for Contractors and Engineers, assists in the quality control of all project drawings for construction, and verifies that CADD Record As-built drawings are completed per Valley Water standards for future project work.	**Budget:** $ 2,891,420 **FTE:** 9 **Inherent Risks:** If the CADD Services unit fails to produce plans or review the CADD work produced by consultants and contractors in a manner consistent with Valley Water's plan production standards, it could affect the delivery and accuracy of construction and future maintenance efforts, and unnecessarily increase the cost of future capital projects, specifically during the planning phases.

BUSINESS PLANNING & ANALYSIS UNIT

The Business Planning and Analysis unit manages, plans, and oversees four major Valley Water-wide programs. This unit is responsible for Valley Water's implementation of the Five-Year planning process for the Capital Improvement Program (CIP); Capital Project Management and Project Controls (CPMPC) Program; the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program); and the District Lands Management Program, which was designed to establish and maintain a centralized framework to integrate the management of maintenance obligations on Valley Water-owned lands and easements, as well as those made through contractual commitments.	**Budget:** $ 5,459,489 **FTE:** 12 **Inherent Risks**: The cost-effective planning, analysis, and reporting related to a wide range of District capital projects; the ability to coordinate with a large number of divisions and units within Integrated Water, Finance, and Administrative Services to ensure accurate reporting and analysis; and the ability to ensure adequate administration of special funded programs to demonstrate that funds were expended in a manner compliant with program requirements.

Capital Improvement Program

The Capital Improvement Program (CIP) serves as the steward of Valley Water's capital funding requirements for projects spanning Fiscal Year 2023/24 through Fiscal Year 2027/28. It plays a crucial role in documenting planned initiatives and aligning Valley Water's planning with the community. This program oversees various infrastructure projects totaling $9.52 billion, with an estimated $1.3 billion in external funding through partnerships and reimbursements. Additionally, the CIP requires the accurate management of financial records. Inherent risks associated with CIP programs include financial uncertainty due to reliance on external funding, potential project delays, the reliability of resources to meet project demands, the availability of project financing, and ensuring CIP plans are achievable—all of which could result in capital project costs that exceed District plans, raising sustainability questions.

Safe, Clean Water and Natural Flood Protection Program

The Safe, Clean Water and Natural Flood Protection Program, approved through Measure S in 2020, allocates $47 million annually for six core priorities: ensuring a safe water supply, reducing waterway toxins, protecting against natural disasters, restoring habitats, providing flood protection, and supporting public health. It operates with oversight from an Independent Monitoring Committee and mandatory audits to assess cost-efficient outcomes.

Notably, a Safe, Clean Water Program Grant Management Audit was recently performed in 2020 that identified delays in grant agreement execution, reimbursement processing, and extensive reporting requirements, along with staffing challenges, prompting recommendations for tailored guidelines, mandatory orientation, streamlined reporting, customized grant requirements, integrity checks, feedback solicitation, goal setting, an operations manual, and potential job assignment reconfiguration to enhance the District's grants management program. Beyond the risks identified by the recent audit, inherent risks include substantially increasing capital project costs, effective project management and delivery protocols, and compliance with Program requirements.

District Lands Management

The District Lands Management Program handles Santa Clara Valley Water District property matters. This includes acquiring properties needed for current and future district projects and programs, establishing clear lands rights and obligations associated with all District real estate, establishing wildfire resiliency plans and policies, and establishing policies and plans for the long-term use of Valley Water properties.

Before projects commence, the program ensures that some properties are leased at fair market rates to external parties. When District purposes require the use of a leased property, the program provides appropriate termination notices as mandated by law to make the property available for District use. Additionally, the program may oversee public auctions to sell District properties. To prevent conflicts of interest, it strictly prohibits leasing District real property to District employees, Board members, or immediate family members. Individuals can contact designated personnel for inquiries about the property leasing program or surplus properties.

Further, recent legislation AB 1469 impacted the District Lands Management Program, which grants the district the authority to take actions in consultation with local entities to assist unsheltered people living within the District's jurisdiction and establishes specific rules for surplus land disposal in such cases.

Inherent risks associated with the District Lands Management Program encompass strategic planning as it relates to the Program's activities, and compliance with conflict-of-interest policies, and potential legal and regulatory obstacles in managing property acquisitions, leases, and sales, which may lead to delays or complications. The program also faces public scrutiny regarding property disposition decisions and must consider the financial implications of property transactions, including revenues from leases or sales. Managing land rights, obligations, and properties, particularly concerning wildfire resilience planning and policy development, is an ongoing risk, and the associated risk assessments can have implications for communities and real estate transactions. Effectively mitigating these risks requires strict adherence to legal requirements, transparent decision-making processes, and proactive measures to address disputes and ensure compliance in the responsible management of District lands.

Capital Project Management & Project Controls Program

Capital Project Management & Project Controls Program is responsible for facilitating integration and configurations of ProjectMates with other systems—Okta, Vena, and Infor—or with a customized training of ProjectMates for project teams and management. The Program is also responsible for delivering the biennial training of workflows related to the Capital Improvement Program (CIP) and Quality and Environmental Management System (QEMS) policies and procedures, as well as maintaining transparent communication through circulating a Quarterly Office of Integrated Water Management Newsletter. Inherent risks include risks associated with the planning and execution of capital projects, including budget control and adherence to project timelines, and the need to strike a balance between internal controls (as defined in QEMS) and efficient project management.

DAM SAFETY & CAPITAL DELIVERY DIVISION	
The Dam Safety and Capital Delivery Division is responsible for planning, implementation, and management of the portion of Valley Water's 5-year Capital Improvement Program (CIP) associated with dam construction and maintenance. This Division consists of two units—the Pacheco Project Delivery Unit and the Dam Safety Program Project Delivery Unit—which are responsible for capital project delivery and maintenance of Valley Water's dams. The Division was moved under the Office of Integrated Water Management in Fiscal Year 2020-21 from the Water Utility Enterprise business area, but Water Utility continues to operate and control the assets.	**Budget:** $ 127,068,630 **FTE:** 21 **Inherent Risks:** Cost-effective contract, construction, and project management; maintaining the system in a cost-effective manner; aging infrastructure; significant deferred maintenance and workorder backlogs; managing consultants and contractors and controlling project costs; health and safety risks and high level of public interest and visibility; maintaining sufficient staffing resources; compliance and regulatory risks associated with environmental standards, and operational risks related to project execution; and completing projects on-time and within budget.

Pacheco Project Delivery

The Pacheco Project Delivery Unit is responsible for managing the Pacheco Reservoir Expansion Project. This includes overseeing the expansion of Pacheco Reservoir to increase emergency water supplies, improve water quality, and provide ecosystem benefits to the region and the Sacramento-San Joaquin Delta. The unit collaborates with project partners, including San Benito County Water District and Pacheco Pass Water District, to secure funding and ensure successful project delivery. Their role involves project planning, environmental assessments, permitting, and coordination with state and federal regulators. The Pacheco Project is part of Valley Water's efforts to increase overall water supply but faces numerous challenges, including environmental, legal, and financial challenges, as well as project delays. One such challenge relates to compliance with the California Environmental Quality Act (CEQA), which has led to project delays. To be viable, Valley Water must secure sufficient funding, address legal concerns, and navigate regulatory requirements before construction and overall project delivery can be considered.

Dam Safety Program & Project Delivery

The Dam Safety Program & Project Delivery Unit focuses on ensuring the safety and reliability of the water District's 10 major dams. The Unit conducts periodic special engineering studies, surveillance and monitoring, dam inspections and maintenance, and emergency response and preparedness to safeguard the public from potential dam failures. This unit works closely with regulatory authorities and emergency response partners to meet dam safety goals. Inherent risks include the potential for dam safety issues, such as unexpected dam failures or structural problems, which can have catastrophic consequences. Environmental factors, including climate change and seismic activity, can also pose risks to dam safety. Ensuring a cost-effective maintenance program is essential, including assessing the condition of each asset, ensuring all preventative maintenance, and avoiding the deferral of required maintenance.

WATER UTILITY ENTERPRISES BUSINESS AREA

The Water Utility Enterprise (Water Utility) is primarily responsible for carrying out the core services related to the Board's Ends Policy 2; that is, to provide a reliable, safe, and affordable water supply for current and future generations in all communities served. Directed by a Chief Operating Officer (COO), Water Utility is comprised of four divisions, each of which includes functional units that carry out the work of the division and the enterprise. The Office of the Chief Operating Officer, Water Utility, oversees the Water Utility Capital, Water Supply, Raw Water, and Treated Water divisions. The Office of the COO was allocated a budget of $2,208,942 for a total of three (3) FTE. The COO provides for management activities that promote communication, human resources development, budgeting, project efficiencies and process improvement, mentoring and recruitment, and supporting district-wide and special events/efforts that benefit the whole organization.	**Budget:** $ 332,304,101 **FTE:** 308 **Inherent Risks:** Inherent risks include the potential that Valley Water's infrastructure could fail, impacting the quantity or quality of water available for Valley Water customers. While providing high-quality drinking water to Valley Water customers is regulated by county and state agencies, the delivery and maintenance of the capital infrastructure required to do so is not. Because of this, risks include cost-effective contract, construction, and project management; maintaining the system in a cost-effective manner; aging infrastructure; the potential for deferred maintenance and workorder backlogs; managing consultants and contractors control costs; health and safety risks and high level of public interest and visibility; maintaining sufficient staffing resources; compliance and regulatory risks associated with environmental standards; and completing projects on-time and within budget.

WATER UTILITY CAPITAL DIVISION	
The Water Utility Capital Division oversees the planning, management, and execution of crucial capital projects related to water infrastructure. This Division's responsibilities include project management and design, construction oversight, asset management, financial planning, environmental compliance, and community engagement. It is responsible for ensuring the efficient operation of water treatment plants, pipelines, and pumping stations, playing a vital role in delivering safe and clean water to the community. This includes managing and designing capital projects, providing districtwide construction management and inspection services, and implementing asset management programs to optimize asset performance and minimize maintenance costs. Additionally, the Division is tasked with navigating complex environmental regulations, obtaining permits, and engaging with the community to address concerns and obtain necessary approvals.	**Budget:** $ 86,604,273 **FTE:** 68 **Inherent Risks:** Capital project delivery responsibilities are carried out by several divisions within Valley Water—Dam Safety, Watersheds, and Water Utility. The inherent risks remain the same for each: cost-effective contract, construction, and project management; managing consultants and contractors and controlling project costs; health and safety risks and high level of public interest and visibility; maintaining sufficient staffing resources; compliance and regulatory risks; and operational risks related to project execution and the ability to complete projects on-time and within budget. Further, the Division provides construction management and inspection services to all capital project delivery units, creating the potential that interdepartmental silos could create an impediment to efficient project delivery.

Construction Services Unit

Construction Services Unit is responsible for managing and overseeing the physical execution of capital projects related to water infrastructure, coordinating and supervising the construction activities, and ensuring all construction activities properly align with approved designs and project plans. The role of this Unit involves managing contracts with construction companies; overseeing contractors' work; and ensuring that projects are executed on time, within budget, and according to the required quality standards. This includes scheduling, cost control, safety compliance, and ensuring construction projects meet all regulatory and environmental requirements. Construction Services are essential in translating the designs and plans into tangible, functional water infrastructure, ensuring Valley Water's water supply remains reliable and resilient.

Inherent risks include construction delays due to unforeseen issues, such as weather events or unexpected site conditions, which can impact project timelines and budgets; concerns related to contractor performance, quality control, and safety compliance; ensuring construction activities align with complex environmental regulations and permitting requirements; and establishing robust protocols to monitor contractor activity, review costs for compliance with contract provisions, and ensure contractor accountability.

Construction Inspection Services

The Construction Inspection Services Unit ensures the quality, safety, and compliance of construction activities related to water infrastructure projects. This Unit is critical in conducting inspections, verifying that contractors adhere to project specifications, and addressing any deviations or issues that may arise during construction. Inspectors are tasked with monitoring work progress, conducting tests and quality checks,

and verifying that the construction process aligns with environmental regulations and permits. They serve as a bridge between the district, contractors, and regulatory bodies, providing real-time oversight to safeguard project integrity and ensure that construction work meets the required standards.

Inherent risks include those associated with the dynamic nature of construction projects and the need for ongoing and thorough. The potential for disputes with contractors, schedule delays, and cost overruns due to unforeseen issues or changes in project scope is a significant concern. Environmental and safety compliance issues could lead to regulatory penalties or legal challenges, emphasizing the importance of thorough inspections and documentation. Staff turnover, staffing shortages, or fluctuations in workload can impact the division's ability to maintain consistent oversight across projects; this is true as it relates to Valley Water's in-house personnel as well as contracted professional services firm.

Treatment Plants Project Delivery

This program is responsible for planning, designing, and implementing projects to improve, expand, or maintain Valley Water's water treatment facilities. This includes potable water treatment plants, purification centers, and recycling facilities. The program manages the entire project life cycle, from initial feasibility studies and design phases to the construction and commissioning of treatment plants. Their role involves coordinating with various internal and external stakeholders, including engineers, contractors, environmental planners, and regulatory agencies to ensure treatment facilities meet water quality standards, environmental regulations, and safety requirements. Additionally, the program is responsible for optimizing treatment processes, responding to changing water quality conditions, and addressing challenges related to droughts, climate change, and evolving water quality regulations.

In addition to the inherent risks associated with capital project delivery, risks also include challenges associated with the water treatment infrastructure's complexity and critical nature. Delays in project timelines due to permitting issues, design changes, or unexpected challenges can impact the District's capacity to provide clean and safe drinking water. Compliance with evolving water quality regulations and adapting treatment processes to changing environmental conditions pose ongoing challenges.

Pipelines Project Delivery

This program focuses on the planning, design, and execution of projects related to water conveyance through pipelines, and oversees the development of new pipelines, rehabilitating existing pipelines, and constructing pumping stations to ensure efficient water distribution throughout the District's service area. Responsibilities include conducting feasibility studies, hydraulic modeling, design and engineering, and project management. The program collaborates with multiple internal and external partners, including engineers, construction contractors, and environmental planners, to meet water supply demands, improve infrastructure resilience, and address the impacts of droughts and climate change.

In addition to the inherent risks associated with capital project delivery associated with Valley Water's critical water conveyance infrastructure, there is the potential for pipeline failures, which can lead to water supply disruptions, property damage, and costly repairs; aging pipelines, which can impact effectiveness, safety, and water quality; permitting delays and environmental concerns; and challenges related to multijurisdictional coordination.

WATER SUPPLY DIVISION	
The Water Supply Division is responsible for overseeing various aspects of water supply, including sourcing, treating, and distributing water to meet the demands of the region, as well as identifying future water supply needs, managing imported water supplies, and implementing water conservation and recycled water programs. It manages a diverse portfolio of water resources, including surface water from reservoirs, groundwater, and imported water supplies. The division collaborates with other internal departments and external agencies to ensure a sustainable water supply for the future, especially in the face of challenges like droughts and climate change. Responsibilities also encompass water quality monitoring, water rights compliance, and the development of policies and programs aimed at promoting water conservation and efficient use.	**Budget:** $ 123,879,047 **FTE:** 36 **Inherent Risks:** Ensuring water availability and quality and mitigating the potential for contamination; prolonged droughts that lead to reduced water availability from local sources like reservoirs and groundwater basins; potential supply interruptions and increased costs relating to the District's reliance on imported water; inaccurate water supply forecasting; unforeseen economic consequences resulting from revenue shortfalls caused by inaccurate water supply forecasts and the need for expensive emergency water purchases.

Imported Water

The Imported Water Unit protects, manages, and develops Valley Water's imported water assets. Imported Water meets the operational needs for imported supplies by securing reliable contracts with water agencies, overseeing the conveyance and treatment of imported water, and coordinating the allocation and distribution of imported water to the region's water treatment facilities. The Santa Clara Valley Water District relies on imported water sources, such as the State Water Project and the Central Valley Project, to meet a portion of the region's water demands. Imported Water also involves compliance with regulatory requirements, monitoring water quality, and addressing potential risks associated with delivery interruptions, water quality issues, and changes in state and federal water policies.

Inherent risks include supply reliability, regulatory compliance, potential disruptions caused by drought conditions, competing demands from other regions, and environmental restrictions that can limit water deliveries. Moreover, imported water contracts and agreements are subject to changes in state and federal policies, which can impact the availability and cost of imported water supplies.

Recycled & Purified Water Program

The Recycled & Purified Water Program develops and expands recycled and purified water program as well as leads planning and research studies. This program is responsible for managing and promoting the use of recycled and purified water resources within the District's service area. This program plays a role in diversifying the water supply portfolio and reducing reliance on traditional water sources. The Program is responsible for overseeing the treatment and distribution of recycled and purified water, managing infrastructure needs, ensuring compliance with water quality standards, and engaging in ongoing planning and research studies. The program works to expand the use of recycled water for various non-potable purposes, such as landscape irrigation, industrial processes, and groundwater recharge. Additionally, the Program actively engages with the community and stakeholders to promote water conservation practices

and raise awareness about the benefits of recycled water. Inherent risks include public perception, infrastructure management, and ensuring the safety and quality of recycled and purified water.

Water Supply Planning & Conservation

The Water Supply Planning & Conservation Unit is responsible for long-term water supply planning, demand forecasting, and implementing conservation initiatives. Their responsibilities include assessing current and future water demands, evaluating available water resources, and developing comprehensive water supply plans to meet the region's needs. Additionally, the Unit actively promotes water conservation efforts to reduce water consumption, protect water quality, and minimize the environmental impact of water use. Inherent risks include uncertainty in water availability due to factors like droughts and climate change, inaccurate demand forecasts, or the failure to consider potential supply constraints, leading to water shortages. The success of conservation initiatives depends on public participation and behavioral changes, which can be challenging to achieve. Additionally, external factors, such as regulatory changes and funding limitations, can impact the implementation of conservation programs.

RAW WATER DIVISION	
The Raw Water Division maintains the Water Utility infrastructure, operates the Raw Water System, and ensures continued groundwater sustainability. The Division maintains Valley Water's three potable water treatment plants, Advanced Water Purification Center, Campbell Well Field, recycled water pipelines in South County, and over 40 miles of large diameter treated water transmission pipelines. The Division provides civil engineering and corrosion control services in support of maintenance of these facilities, prepares the Annual Water Supply Operations Plan for the water supply of the County, performs planning and analysis for the operations of the Raw Water System, manages Valley Water's groundwater basins and local water rights, and submits the regulatory reports needed for operation of the Raw Water System and Sustainable Groundwater Management Act (SGMA) compliance.	**Budget:** $62,789,879 **FTE:** 105 **Inherent Risks:** Maintaining the system in a cost-effective manner; managing consultants and contractors and controlling operating costs; aging infrastructure; the potential for deferred maintenance and workorder backlogs; and ensuring sufficient staffing resources. The Division's responsibilities, such as permitting private and municipal wells, can be affected by uncertainties in water usage, and the need for expanded metering creates logistical challenges.

Raw Water & Pipeline Maintenance Engineering

The Raw Water & Pipeline Maintenance Engineering team is responsible for ensuring the reliability and integrity of the water distribution system by providing engineering and support services for raw water and pipeline maintenance projects and programs. This team supports the overall maintenance efforts by monitoring ongoing corrosion control services, employing acoustic fiber optics for pipe integrity assessments, and leveraging technical expertise. It is also responsible for assessing the condition of critical assets, implementing predictive and preventative maintenance strategies, and responding promptly to any issues that could compromise the pipeline infrastructure's functionality. Inherent risks include challenges related to the aging infrastructure, the ability to accurately assess the condition of the District's pipeline

infrastructure, and plan maintenance activities to ensure cost-effective and timely maintenance of District assets and the continued functionality and structural integrity of its pipelines.

Raw Water Operations

The Raw Water Operations Unit ensures the effective conveyance and management of water from various sources. This team operates 24/7, monitoring water levels, making real-time decisions on water allocation, and responding to changing conditions by operating the reservoirs, pump stations, and transmission pipelines to effectively manage water supplies. Their work is guided by forecasting and modeling, allowing for efficient water supply management and allocation. Additionally, the Unit is responsible for reporting on water rights to county and state authorities to maintain regulatory compliance and safeguard water resources for the region.

Inherent risks include those primarily related to the region's climate variability and the potential for extreme weather events such as prolonged droughts or severe storms. These weather patterns can significantly impact water availability and necessitate rapid decision-making to meet supply demands while adhering to regulatory obligations. The reliance on imported water sources and surface water introduces challenges associated with supply interruptions and balancing water supply purchases with demand, especially during periods of high-water usage.

Ground Water Management

The Ground Water Management team is responsible for the oversight, protection, and sustainable management of groundwater resources within the region to provide accurate and timely information on current and forecasted groundwater conditions. Through monitoring and regulating groundwater usage, the Unit is responsible for ensuring compliance with state and local regulations, and managing the critical groundwater basins. This Unit is tasked with implementing the Sustainable Groundwater Management Act (SGMA) and developing Groundwater Sustainability Plans (GSPs) to maintain the long-term health and sustainability of groundwater resources. In doing so, the Unit collaborates with other Valley Water divisions and external agencies to address groundwater quality issues and mitigate the risks associated with over-extraction, land subsidence, and declining water tables.

Inherent risks include those associated with water resource sustainability. Over-extraction of groundwater can lead to adverse consequences such as land subsidence, saltwater intrusion, and reduced water quality. Managing groundwater basins to achieve sustainability under SGMA regulations can be challenging, especially during extended drought periods when demand for groundwater increases.

Wells & Water Measurement

The Wells and Water Measurement Unit oversees the regulatory aspects of wells within the region, and is responsible for permitting and inspecting domestic, municipal, and large organization wells to ensure compliance with regulations. This Unit also manages the metering of wells, which is essential for monitoring water usage and maintaining accurate records; oversee the installation and maintenance of meters, ensuring that water users report their usage accurately, particularly for larger users; and manages the notification process for new well drilling and conducts inspections to verify that wells are used as permitted.

This unit also incorporates the responsibility of ensuring that wells/deep excavations do not harm the ground water resources and provides accurate measurements of water production.

Inherent risks include the accurate measurement and reporting of water usage by various stakeholders. Ensuring that wells are metered correctly and that water users comply with reporting requirements can be challenging, particularly for domestic and small-scale users where the District is reliant on self-reported water usage data.

Field Operations & Pipeline Maintenance

The Field Operations & Pipeline Maintenance Unit is responsible for the reliable conveyance of raw water from various sources to treatment plants and other destinations. This division operates 24/7, overseeing the daily pumping and discharge of water, monitoring reservoir levels, reporting on water rights to regulatory authorities and ensuring compliance, and ensuring that water is efficiently moved to recharge basins, treatment plants, and reservoirs. Its work is guided by real-time data, forecasts, and modeling of storm events. Additionally, this division is involved in maintenance activities related to the water supply infrastructure that includes completing all mechanical, electrical, and control system maintenance of the distribution system infrastructure. Inherent risks are generally associated with the availability of reliable and accurate data to inform timely decision making, particularly when faced with extreme weather events that can impact the availability and quality of raw water.

Treatment Plan Maintenance

The Treatment Plan Maintenance Unit is responsible for the upkeep and efficient operation of treatment plants and treated water turnout facilities. This involves ensuring that treatment plants, which aid in the purification of raw water, are well-maintained to deliver high-quality treated water to customers. Maintenance activities include inspecting, repairing, and servicing various components of treatment plants, such as pumps, filters, chemical dosing systems, and control systems. Additionally, the unit monitors plant performance, conducts preventive maintenance to prevent breakdowns, and responds swiftly to address any operational issues. Inherent risks include the potential for equipment failures or malfunctions, which could disrupt the treatment process and impact the quality of treated water, as well as cause cost overruns. Such failures may result in service interruptions or compromised water quality, leading to public health concerns and regulatory violations.

TREATED WATER DIVISION	
The Treated Water Division is responsible for ensuring the high-quality treatment and distribution of potable water to the community. This division oversees the operation and maintenance of three potable water treatment plants and one purification center, as well as the Campbell Well Field to provide emergency backup supply to the treated water system. These facilities treat and purify surface water from reservoirs, ensuring it meets strict water quality standards. The Division works continuously to optimize water treatment processes, maintain equipment, and monitor water quality parameters to provide safe and reliable drinking water to the region. The Division provides technical expertise and leadership for all commissioning-related work to improve overall safety, quality, and reliability upon capital construction handover to Operations and Maintenance (O&M). In addition, the Division communicates regularly with water retailers, and maintains communication and conducts annual check-ins for ongoing and annual updates of drinking and recycled water regulations with the State Water Resources Control Board.	**Budget:** $56,821,960 **FTE:** 93 **Inherent Risks:** Ensuring the quality and reliability of the drinking water supply, compliance with stringent and evolving water quality standards; and ensuring the resilience of the water treatment facilities.

Plant Maintenance Engineering & Commissioning

Plant Maintenance Engineering and Commissioning is responsible for overseeing the commissioning of new facilities and equipment, ensuring they meet design specifications and function correctly. The Unit also provides ongoing engineering support for maintenance activities, helping to plan and execute maintenance projects to keep treatment plants in optimal condition. Inherent risks include ensuring compliance with stringent regulations and ensuring data used to evaluate and report on compliance is accurate and reliable.

Water Quality

The Water Quality Unit is responsible for ensuring that treated water meets or exceeds stringent water quality standards and regulations set by state and federal agencies. This Unit conducts in-depth water quality analyses, monitors critical parameters, oversees the disinfection and chemical treatment processes at treatment plants, and provides recommendations and tracks drinking water-related regulatory development. Similar to the Plant Maintenance Engineering and Commissioning Unit, inherent risks include ensuring compliance with stringent regulations and ensuring data used to evaluate and report on compliance is accurate and reliable. Any deviation from these standards, whether due to source water changes, equipment malfunctions, or human error, can have serious public health consequences and regulatory implications.

Laboratory Services

The Laboratory Services Unit conducts extensive water quality testing and analysis to monitor various parameters, assess the effectiveness of treatment processes, and detect any contaminants or anomalies. It

provides valuable data and insights through analytical and sampling services that inform treatment plant operations and support compliance with regulatory requirements, and manages the laboratory that tests water from the treatment plants, Silicon Valley Advance Water Purification Center, surface water reservoirs, and groundwater basins.

Inherent risks relate to factors that could diminish the accuracy or reliability of reported results, such as failure to follow established protocols or laboratory contamination. Any errors or inconsistencies in the testing process can lead to incorrect assessments of water quality, potentially compromising public health. The unit must also keep pace with evolving water quality standards, emerging contaminants, and advances in analytical methods. Additionally, resource constraints can impact the capacity to conduct extensive testing and analysis, particularly during periods of increased demand or emergencies.

Utility Electrical & Control Systems Engineering

The Utility Electrical & Control Systems Engineering Unit is responsible for managing the electrical and control systems that govern the operation of treatment plants and water distribution facilities within the Santa Clara Valley Water District. This unit ensures the reliable and efficient functioning of critical infrastructure by overseeing electrical systems, instrumentation, and control systems, and plays a key role in optimizing energy usage, enhancing system automation, and ensuring that water treatment and distribution processes run smoothly. Inherent risks include risks associated with the reliable operation of electrical and control systems. Failures or disruptions in these systems can lead to operational inefficiencies, downtime, and potential impacts on water quality and supply.

North and South Water Treatment Operations

The North Water Treatment Operations and South Water Treatment Operations Units are responsible for the day-to-day operation and maintenance of water treatment facilities located in the northern region of the Santa Clara Valley Water District, including Penitencia Water Treatment Plant, Silicon Valley Advanced Water Purification Center, San Fransisco Public Utilities Commission-Valley Water Intertie facility, Santa Teresa Water Treatment Plant, Rinconada Water Treatment Plant, Campbell Well Field, the West and Snell/East Pipeline turnouts, and the East/Milpitas Pipeline turnouts. These facilities are essential for treating raw water from various sources and ensuring its quality before distribution to consumers. Both units operate around the clock to provide a consistent and reliable supply of treated water to the community.

Inherent risks include risks associated with the consistent delivery of treated water to a dynamic and growing region. Variations in raw water quality, natural disasters, or equipment failures can disrupt the treatment process and impact water quality and supply. Ensuring that the treatment process consistently meets stringent water quality standards is essential, as any lapses can pose public health risks. The units must also manage the challenges of maintaining aging treatment infrastructure and adapting to changing regulatory requirements. Balancing the need for operational efficiency with emergency preparedness is crucial.

WATERSHEDS BUSINESS AREA

The Watersheds Business Area is responsible for the stewardship and management of the region's watersheds and associated natural resources. The responsibilities include watershed protection, environmental conservation, flood risk reduction, and ecosystem restoration. Watersheds actively manages and maintains the region's creeks, rivers, and reservoirs to mitigate flood risks, promote water conservation, and preserve the ecological health of the area. This division also plays a role in ensuring water quality and availability for the community by managing source watersheds and undertaking projects that enhance the sustainability and resilience of the local ecosystem. The Office of the Chief Operating Officer leads and manages Watersheds to achieve the Board's Ends, Goals, and Objectives. This includes providing Watersheds the leadership, staff, and funding to conduct the administrative aspects of Watersheds functions. In general, this provides for management activities that promote communication, human resources development, budgeting, project efficiencies and process improvement, mentoring and recruitment, and supporting Valley Water-wide special events/efforts that benefit the whole organization.	**Budget:** $ 1,365,782 **FTE:** 2 **Inherent Risks:** The management and conservation of natural resources and the mitigation of flood risks. Climate change, including the increasing frequency and intensity of extreme weather events, presents a significant challenge in terms of flood control and watershed management. Balancing the ecological health of watersheds with flood risk reduction efforts can be complex, as it requires careful planning to minimize adverse environmental impacts. Additionally, competing demands for water resources, land use changes, and habitat degradation pose ongoing challenges. Ensuring the long-term sustainability of water sources, maintaining infrastructure, and addressing water quality concerns within watersheds are essential tasks.

OFFICE OF WATERSHEDS STEWARDSHIP & PLANNING DIVISION

The Office of Watersheds Stewardship & Planning Division is responsible for maintaining and preserving the ecological health of watersheds, ensuring flood risk reduction, and facilitating sustainable water resource management. It collaborates with various teams to conduct comprehensive environmental analyses, assess hydrological and hydraulic factors, and implement mitigation measures. Additionally, the division is responsible for reviewing community projects to ensure compliance with environmental regulations and the conservation of natural resources.

The Division provides project and long-range planning for flood protection and stewardship; develops and oversees the integration of biological, hydrological, water quality, and geomorphological data into the planning, design, and construction of capital projects and operational programs; provides environmental planning, permitting, and monitoring services; ensures Valley Water's compliance with the regional stormwater quality permit; protects Valley Water's streams and other assets through implementation of the Water Resources Protection Ordinance, and collaborates with municipalities in the County to ensure development projects minimize impacts to Valley Water's mission. In addition, the Division co-leads the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE) and the Climate Change Action Plan, and ensures timely completion of Key Performance Indicators for the Safe, Clean Water and Natural Flood Protection Program's surface water quality, environmental monitoring, and habitat enhancement and restoration priorities.

Budget: $ 47,484,824 **FTE:** 82

Inherent Risks: The management of environmentally sensitive areas, flood risk reduction, and the conservation of natural resources. Environmental planning and mitigation require navigating complex regulatory frameworks, including the California Environmental Quality Act (CEQA), ensuring compliance with various state and federal environmental regulations, and managing and mitigating the impact of climate change, extreme weather events, and natural disasters on watersheds.

In addition to the environmentally-focused work of the Division, the Division is also responsible for the Community Projects program, which requires the evaluation of land use permit applications. The Program must review permits in a manner that safeguards environmental integrity, which can lead to potential conflicts with stakeholders and regulatory authorities.

The changing dynamics of climate patterns and increasing environmental pressures further amplify the risks associated with watershed management. Additionally, resource allocation and budget constraints may impact the ability to implement comprehensive watershed management plans and projects.

Environmental Planning

The Environmental Planning Unit is responsible for conducting environmental impact assessments, environmental reviews (including Environmental Impact Reports or EIRs), and managing the permitting process for various projects. Environmental planners are tasked with ensuring that all activities within the jurisdiction of the Santa Clara Valley Water District comply with environmental regulations, particularly CEQA. They work closely with regulatory agencies, stakeholders, and project proponents to evaluate the potential impacts of projects, develop mitigation measures, and provide recommendations to minimize adverse environmental effects.

Inherent risks relate to the complexity of environmental regulations and the potential for disputes and legal challenges. Projects in environmentally sensitive areas or those with the potential to impact natural resources can face scrutiny and opposition from concerned communities or environmental organizations. Ensuring the accuracy and thoroughness of EIRs is essential to avoid legal complications and regulatory

setbacks which can result in increased costs, and further construction delays. In light of recent events of the failure to adequately perform and assess the need for an environmental review, there is a risk of delayed construction, increased project costs, and the possibility of undue damage to the environment, contrasting the District's mission "to provide Silicon Valley safe, clean water for a healthy life, environment, and economy."

Hydrology, Hydraulics, & Geomorphology

The Hydrology, Hydraulics, & Geomorphology Unit specializes in the scientific assessment of water inflow and outflow patterns within watersheds. It is responsible for conducting hydrological and hydraulic analyses to predict and manage flooding events, support the water utility's functions, and calculate water capacity in reservoirs. Furthermore, this unit plays a significant role in studying geomorphological features, such as river channels and landforms, to understand their evolution and impact on water flow. By employing data-driven methods and models, it contributes to informed decision-making and long-term planning to ensure the efficient management of water resources and the protection of communities from flooding.

Inherent risks include risks related to the accuracy of predictions, the unpredictability of weather events, and evolving regulatory requirements. Incorrect predictions or incomplete assessments can lead to inadequate flood protection measures, potentially putting communities at risk during extreme weather events, which can increase costs associated with unplanned mitigation efforts. Additionally, climate change introduces uncertainties in precipitation patterns and water flow, which can challenge existing models and flood management strategies.

Environmental Mitigation & Monitoring

The Environmental Mitigation & Monitoring Unit consists of biologists and specialists responsible for overseeing and implementing mitigation efforts to offset the environmental impacts of various projects undertaken by the Santa Clara Valley Water District. It conducts comprehensive surveys, monitor mitigation efforts, and report their findings to regulatory agencies and other stakeholders. Inherent risks relate to ensuring the effectiveness of mitigation measures, meeting regulatory obligations, and addressing unexpected ecological changes. If mitigation measures are not adequately planned or executed, there is a risk of not achieving the desired ecological outcomes. The unit must also navigate a complex web of environmental regulations, and non-compliance can lead to regulatory sanctions, increased costs, and project delays.

Community Projects Review

The Community Projects Review Unit is responsible for evaluating and processing requests from various entities to work on properties within the jurisdiction of the Santa Clara Valley Water District. These requests often involve land use changes, permits for working on district-owned properties, or projects that may impact watersheds and water resources. The unit assesses the proposed projects to ensure they align with environmental regulations, land management policies, and the District's conservation objectives. They also engage in discussions with project proponents, regulatory agencies, and stakeholders to address potential issues and ensure that projects adhere to established guidelines. Notably, an Opportunities to Improve Permit Processing Audit was recently performed in 2021 that identified challenges in the Community

Projects Review Unit's permit processing and recommended several measures to streamline related services, enhance customer communication, and optimize workflow processes.

Inherent risks include risks related to balancing land use needs, environmental protection, and regulatory compliance. Conflicting interests among project proponents, environmental advocates, and regulatory authorities can create challenges in reaching consensus and obtaining necessary approvals. Moreover, processing a large volume of project requests may strain available resources and potentially lead to delays in project reviews and increased project costs. The team must also remain vigilant in evaluating the potential ecological impacts of proposed projects and ensuring that mitigation measures are implemented effectively.

WATERSHEDS OPERATIONS & MAINTENANCE DIVISION	
The Watersheds Operations &Maintenance Division provides field maintenance, engineering support, vegetation management, and environmental services management for Water Utility Facilities and the Stream Maintenance Program (SMP) in the Lower Peninsula, West Valley, Guadalupe, Coyote, and Uvas/Llagas watersheds. The Office of Watersheds Operations and Maintenance provides administrative leadership and support for the four units that comprise the Division. The Division objective is to ensure that maintenance work is performed in accordance with regulatory permits and maintenance guidelines and is coordinated and consistent throughout the Division.	**Budget:** $ 64,544,832 **FTE:** 120 **Inherent Risks:** Infrastructure risks associated with the maintenance and upkeep of watershed facilities, such as dams, reservoirs, and flood control structures; safety risks due to potential hazards during operations and maintenance activities.

Watersheds Field Operations

The Watersheds Field Operations Unit is responsible for a wide range of outdoor tasks, including clearing small debris, adding vegetation, and performing other essential activities to preserve the health and integrity of the watershed environment. By ensuring that the watersheds are well-maintained, this unit contributes to the protection of water quality, flood control, and overall ecosystem health. They often work on-site, directly interacting with the natural landscape to keep it in optimal condition.

With these roles and responsibilities, inherent risks involve exposure to environmental elements, physical hazards, and potential weather-related challenges. Employees working outdoors may encounter wildlife, unpredictable weather conditions, and rugged terrain, posing risks to their safety. Ensuring that workers have the necessary training and safety equipment is crucial to mitigate these risks. Moreover, the team must be attentive to potential environmental impacts of their activities, such as unintentional disturbances to sensitive habitats. Careful planning, adherence to best practices, and ongoing environmental monitoring are essential for minimizing these impacts.

Operations & Maintenance Environmental Support

The Operations & Maintenance Environmental Support Unit assists the field operations staff in ensuring that maintenance activities within Watersheds align with environmental regulations and standards. This unit

conducts surveys, gathers data, and offers support in assessing the environmental impact of maintenance projects. They also collaborate with regulatory agencies, monitor mitigation efforts, and help maintain the ecological balance of watershed areas, making sure that maintenance activities are carried out responsibly and sustainably.

With these roles and responsibilities, inherent risks involve navigating complex regulatory frameworks, assessing potential environmental impacts, and ensuring compliance with ecological guidelines. Failing to adhere to environmental regulations or properly assessing the environmental consequences of maintenance activities can lead to regulatory violations and potential harm to the environment, as well as increased costs due to unplanned delays. Therefore, the team faces the inherent risk of regulatory non-compliance and environmental damage.

Operations & Maintenance Engineering Support

The Operations & Maintenance Engineering Support Unit plays a critical role in providing engineering assistance and guidance to the operations and maintenance staff within the watershed areas. They help plan and execute maintenance projects, ensuring that they are carried out efficiently and effectively. By leveraging engineering expertise, this unit contributes to the long-term sustainability of watershed assets and infrastructure.

With these roles and responsibilities, inherent risks include those primarily related to the successful execution of maintenance projects. These risks include project delays, cost overruns, and potential disruptions to watershed operations. Inaccurate project planning or engineering assessments can lead to unforeseen issues during project implementation, which may affect both the environment and operational efficiency.

Vegetation Field Operations

The Vegetation Field Operations Unit specializes in managing vegetation within watershed areas to reduce the risk of wildfires and ensure the overall health of the ecosystem. Their responsibilities include clearing and managing vegetation, particularly in high-risk areas where wildfires could pose a threat to water resources and infrastructure. By implementing effective vegetation management strategies, this team helps safeguard the watershed environment and minimize the risk of wildfire events that could impact water quality and availability.

With these roles and responsibilities, inherent risks include risks related to the use of equipment like chainsaws, herbicides, and prescribed burns. There is a risk of physical injury to personnel during field operations, as well as potential environmental risks if herbicides are not used properly or if prescribed burns are not carefully controlled. Additionally, the team must consider the ecological impacts of vegetation management and ensure that it aligns with conservation objectives. To mitigate these risks, the team must follow strict safety protocols, conduct regular training, and employ environmentally responsible practices to manage vegetation effectively while safeguarding both personnel and the environment.

WATERSHEDS DESIGN & CONSTRUCTION DIVISION	
The Design & Construction Division within the Office of Watersheds is responsible for planning, designing, and overseeing construction projects aimed at enhancing and maintaining the Santa Clara Valley Water District's watershed infrastructure. This includes delivery of projects in Valley Water's rolling 5-year Capital Improvement Program (CIP) and Safe, Clean Water and Natural Flood Protection Program. This division manages various units that focus on different geographic regions and aspects of design and construction. Their responsibilities encompass project planning, design development, cost estimation, contractor management, and project execution. They work closely with multiple stakeholders to ensure that watershed projects meet environmental, regulatory, and operational requirements. The objectives of the Watersheds Design and Construction Division are to provide natural flood protection for residents, businesses, and visitors; and to protect and restore creek, bay, and other aquatic ecosystems. This Division also provides organization-wide support services for Surveying and Real Estate needs.	**Budget:** $ 119,509,222 **FTE:** 65 **Inherent Risks:** Include those related to project delays, cost overruns, environmental compliance, and regulatory approvals. The division must effectively manage complex construction projects that may involve various contractors, designs, and environmental considerations. Delays in project completion or unexpected issues during construction can result in increased costs and potential regulatory non-compliance. There is the possibility of environmental risks related to mitigating potential impacts on natural ecosystems during construction. Additionally, the division must navigate regulatory agencies and meet stringent environmental standards to ensure that projects do not harm sensitive ecosystems within the watershed areas.

Design & Construction Unit

The Design & Construction Unit is divided into six distinct units, each responsible for specific geographic regions and aspects of watershed design and construction. These units handle a wide range of projects, from infrastructure improvements to environmental enhancements, within their designated areas. They manage the entire project lifecycle, from initial planning and design to construction oversight and project completion. Each unit collaborates with local communities, regulatory agencies, and other stakeholders to ensure that projects are executed effectively and in compliance with relevant standards.

With these roles and responsibilities, inherent risks for all Design & Construction Units include risks related to project complexity, resource allocation, and compliance with environmental regulations. Managing a diverse portfolio of projects across different geographic regions requires effective resource allocation and coordination. Delays, budget overruns, or issues with project execution can pose risks to project success. Moreover, ensuring that projects align with environmental standards and community expectations is a constant challenge. Failure to meet these requirements can result in regulatory penalties, environmental harm, and reputational damage.

Notably, a performance audit of the Lower Silver Creek Flood Protection Project Consultant Agreement with RMC (A3277G) and its related amendments was recently performed in 2018. This audit addressed issues related to conflicts of interest, financial review, fund reallocation, sole sourcing, and performance; and it included recommendations for improvements in disclosure and management of conflicts of interest, enhancing financial and fund reallocation procedures, formalizing and documenting review processes,

strengthening project document controls and change management practices, and adopting best practices for firewall and background checks.

Land Surveying & Mapping

The Land Surveying & Mapping Unit provides essential support for accurate surveying, mapping, and geospatial data management. This unit is responsible for ensuring that project designs are based on precise spatial information and that construction activities are executed with accuracy. They are also responsible for maintaining up-to-date land records, property boundaries, and geospatial data, which are essential for project planning and execution.

With these roles and responsibilities, inherent risks primarily include the accuracy and integrity of spatial data. Errors or inconsistencies in surveying and mapping can lead to costly design modifications, construction issues, and disputes over property boundaries. Moreover, keeping geospatial data up to date is a continuous challenge, as environmental changes and new developments can impact the accuracy of existing records.

Real Estate Services

Real Estate Services Unit is responsible for managing land acquisition, easements, property rights, and other real estate-related matters for watershed projects. This unit is responsible for acquiring the necessary land and property rights to carry out construction and environmental initiatives within the watershed areas. They work closely with property owners, negotiate agreements, conduct appraisals, and oversee land transactions to ensure that projects have the required access and rights to carry out work. Notably, a Real Estate Audit was recently performed in 2020 that identified challenges in property acquisition timelines, fiscal sustainability assessment, and operational efficiency and recommended enhancing transparency, accountability, and property management practices, providing more training on real estate acquisition processes, improving performance measurement, risk assessment, and financial analysis, facilitating communication with property owners, and expanding public information about real estate services.

With these roles and responsibilities, inherent risks include those that primarily relate to property negotiations, legal complexities, and budget considerations. Acquiring land and property rights can be a time-consuming process, and negotiations may encounter resistance from property owners or regulatory hurdles. Budget overruns can occur if property values are higher than anticipated or if negotiations stall. Additionally, legal challenges related to eminent domain or property disputes can pose significant risks.

Risk Summary

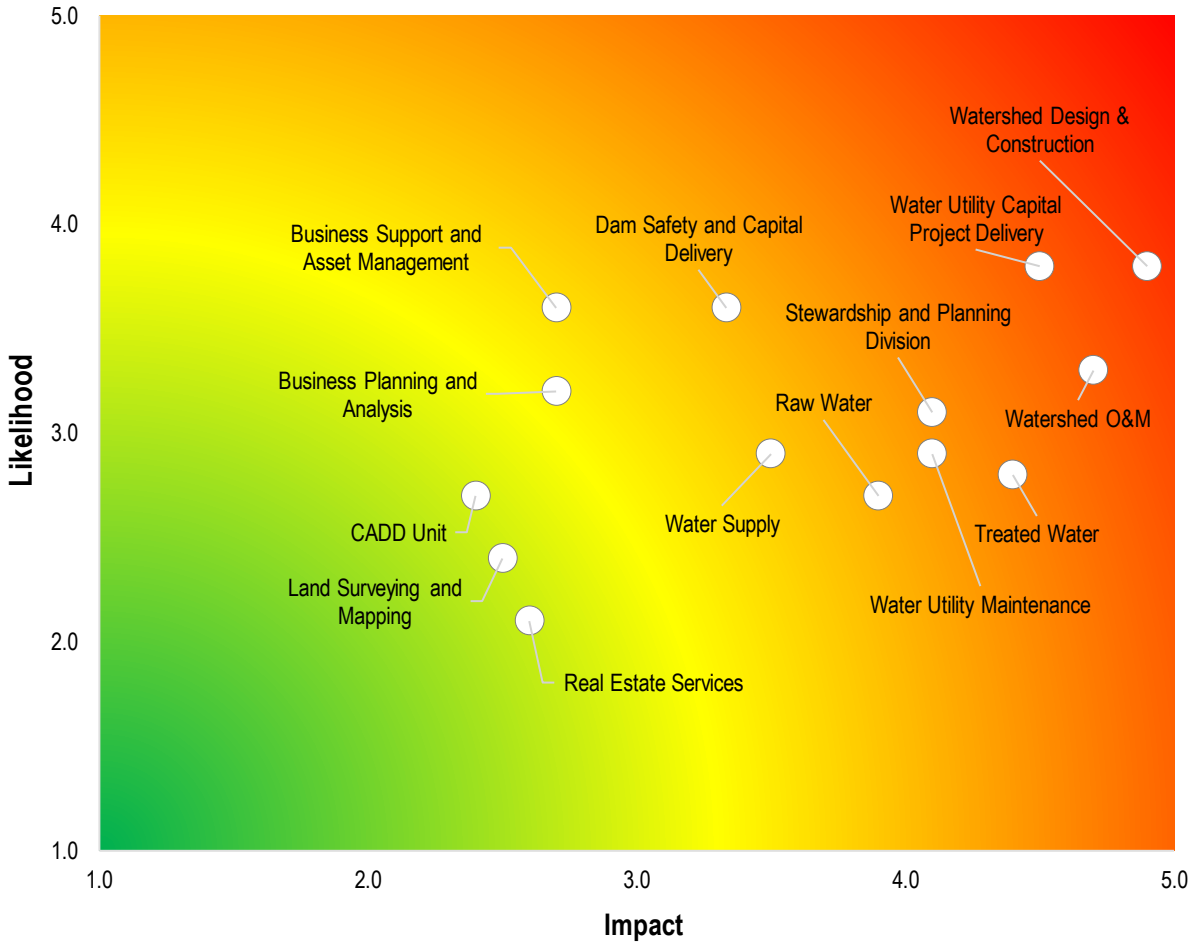
Most of the divisions and programs within Integrated Water perform functions that are central to the mission and purpose of Valley Water, and would be characterized as moderate- to high-risk. Ultimately, this risk assessment identified a small number of audit topics that would cover the bulk of Integrated Water's operations. Integrated Water consumes 80 percent of Valley Water's budget, with substantial resources dedicated to the District's capital infrastructure, including capital project delivery and maintenance. Specifically, capital project delivery encompasses six distinct organizational units within Integrated Water and maintenance operations encompass three organizational units. Decentralization can prove problematic in a variety of ways: project management practices could be inconsistent; parties fulfilling different roles,

such as construction managers and project managers, may not be on the same page in working with contractors; communication could falter; and it could constrain flexibility in assigning personnel across functional lines.

Further, with substantial resources dedicated to capital project delivery, a 2023 performance audit of the Capital Improvement Program raised concerns regarding the availability of staffing resources to carry out the capital projects planned for the District. Hiring substantial project delivery personnel will require additional support and administrative personnel (Human Resources, Facilities, Information Technology), and even if Valley Water outsources project delivery activities, additional in-house staffing resources may be required to manage and oversee the consultants to ensure cost and quality control.

Finally, Integrated Water is responsible for achieving Valley Water's core mission and goals. The Office of Integrated Water Management faces a range of interconnected risks that stem from the complexity of its responsibilities, regulatory compliance demands, and financial considerations. Addressing these risks requires a holistic approach that emphasizes effective communication, robust project management, environmental stewardship, and sound financial planning. Because of this, we find it prudent to prioritize performance audits related to the operations of Integrated Water. With this in mind, we illustrate below the risk rankings of each division or program area in relation to one another.

EXHIBIT 24. PROGRAM RISK RATINGS



Based on this assessment, there are several potential audit topics that warrant consideration for future audit planning.

1) Valley Water's captial project delivery activities, including the District's overall approach to project and construction management, the contract vehicles employed on capital projects, methods for monitoring contractors and evaluating contract compliance, and execution. The factors may include project timelines, budget management, staffing resources, inter-departmental coordination, contractor performance, and compliance with environmental and regulatory requirements for capital projects within the watersheds.

2) Valley Water's infrastructure maintenance programs, including assessing Valley Water's methods for developing and maintaining asset inventories; determining the condition of existing assets; scheduling predictive and preventative maintenance; monitoring maintenance backlogs; work order scheduling; the extent to which Valley Water relies on outsourced service providers to augment in-house resources; how well inventories are planned, maintained, and optimized to enhance overall operational efficiencies; the use of asset management software or systems to extend the lifespan

of critical infrastructure while minimizing operational costs; and the allocation of resources for ongoing maintenance to ensure the continued functionality and safety of infrastructure assets.

3) The Community Projects Unit's processes for receiving applications for permits, processing and issuing permits, and measuring performance in meeting established goals.

4) Valley Water's real estate management activities, including the responsibilities of both the Real Estate Unit within Watersheds and the District Lands Management Program within Integrated Water Management, with the intent to evaluate Valley Water's overarching approach to managing real estate assets.

5) Valley Water's Watershed management practices, including the effectiveness of Watersheds in managing and preserving natural resources within the region's watersheds. This may cover evaluating the impact of environmental conservation efforts, flood risk reduction measures, and ecological restoration initiatives.

6) Valley Water's flood control infrastructure, focusing on the maintenance and performance of flood control infrastructure such as dams, reservoirs, and levees. This could involve assessing the condition of these structures, compliance with safety standards, and preparedness for extreme weather events.

7) Valley Water's environmental compliance may include examining the District's adherence to environmental regulations and permits concerning watershed management. This might involve evaluating how well Valley Water manages ecological preservation, land use, and habitat protection within the watersheds.

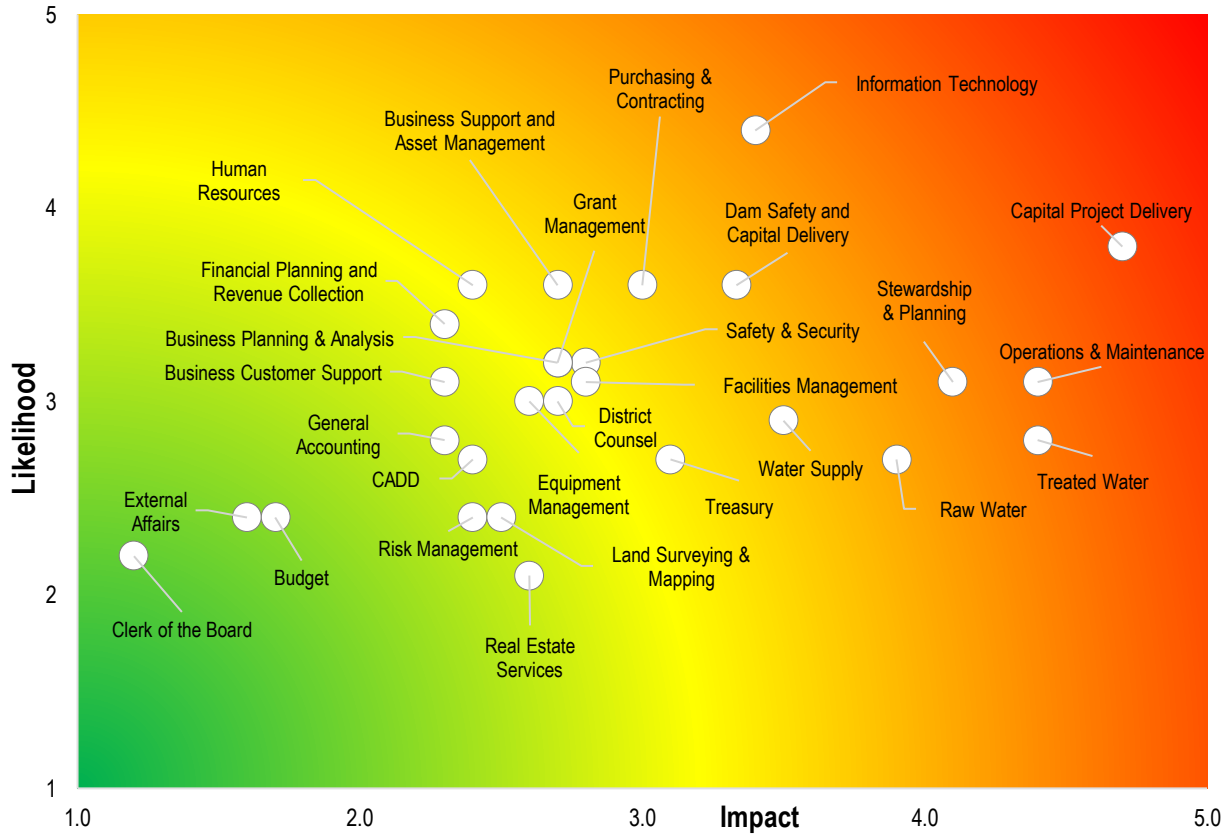
8) Valley Water's emergency response and preparedness, concentrating on the readiness and effectiveness of Water Utility Enterprises' emergency response and preparedness plans. It would assess the procedures in place to respond to natural disasters, water supply disruptions, and other emergencies, such as COVID-19, including communication protocols, resource allocation, and coordination with local authorities to ensure uninterrupted service during crises.

Risk Assessment Results

A Risk Assessment for audit planning purposes is intended to identify ways to optimize the value of limited audit resources. This includes identifying "high-risk" programs or operations—e.g., those involving the most resources, impacting the most residents, experiencing the greatest challenges, etc.—but it is not limited to identifying "high-risk" programs or operations. In addition to identifying Valley Water programs that are considered to be high- or moderate-risk for inclusion in the audit plan, consideration must also be given to ensuring broad coverage over a defined period of time. Below, we provide recommendations for the consideration of the Valley Water Board of Directors in the development of the Fiscal Year 2023-24 through Fiscal Year 2025-26 Three Year Audit Plan.

In considering the departmental profiles described in the prior section, we shift to a broader view of our assessment of risk throughout the District. In Exhibit 25 we provide a districtwide heat map, differentiating our assessment of risk among each of Valley Water's key programs and operations. In the lower left corner, we have several units or programs that present relatively low risk, including certain departmental administrative operations, the Office of the Clerk of the Board, the Office of the District Counsel, and other lower-risk operations. In the upper right corner, where the yellow meets the red, we find several divisions or programs for which we find reason to prioritize a performance audit. These include those programs or operations involving the most resources and having a substantial impact on Valley Water. The District's internal service programs tend to fall within the moderate-risk category.

EXHIBIT 25. DISTRICTWIDE PROGRAM RISK RATINGS



It is important to recognize, however, that effective audit plans do not solely focus on program areas that fall into the high-risk category. If this were the case, the same programs would be audited year after year. Rather, an effective audit plan ensures adequate coverage throughout the Valley Water's departments and programs. To achieve this, we recommend establishing an auditing cycle that ensures that the performance, programs, and/or activities of every department or office are audited, at least in part, on a periodic basis—such as on a three- to five-year cycle.

This risk assessment identified a total of 33 potential audit topics, which are presented in **Appendix A** of this report, which we present as the complete Fiscal Year 2023-24 through Fiscal Year 2025-26 Three Year Audit Plan. This list of audit engagements addresses every department within Valley Water, and provides a balance between internal service programs and those departments that fulfill Valley Water's core responsibilities—the Integrated Water, Watershed, and Water Utility business areas.

This, of course, is more than what can be achieved by Valley Water during any three-year period, both in terms of available audit resources and scheduling logistics. While the budget for Independent Board Audit Services will ultimately determine the number and scope of audits that can be completed in a given year, we understand that existing resources exist to perform up to three or four performance audits in a given year. With this in mind, we prioritize 12 audit engagements that we recommend for the three-year period between Fiscal Year 2023-24 and Fiscal Year 2025-26, as shown in Appendix B of this report. The ability to perform all 12, however, will be dependent on available resources and logistical considerations. Should the Board Audit Committee determine that it is not feasible to complete all 12 under current conditions, options available include reducing the number of priority audits, increasing budget resources, or extending the period to conduct the audits from three years to up to four or five years.

These audit topics are proposed as audit priorities for the Board Audit Committee's consideration. It is recognized, however, that prior to establishing each annual audit plan, the Independent Board Auditor will seek input from the Board Audit Committee and members of the Board to obtain input before determining the specific audits to be included in each annual audit plan. This allows for continued input and routine updating to the Three Year Audit Plan as a way to ensure it addresses current and emerging challenges faced by Valley Water.

Appendix A. Proposed Three-Year Audit Plan

This risk assessment resulted in the identification of 33 potential audits for consideration of the Valley Water Board of Directors. The Independent Board Auditor recommends the inclusion of these audit topics in the 2024-2026 Three-Year Audit Plan.

Office of the Chief Executive Officer

1) The District's **overall approach to performance measurement**, the purpose of which would be to identify ways to build upon exiting performance metrics in a manner that provides the Board reasonable assurances that metrics exist to evaluate progress to achieving Ends Policies, as well as to evaluate the overall efficiency and effectiveness of Valley Water operations.
2) The District's **overall compliance with Board policies**, including Board Governance Policies, Ends Policies, and Executive Limitations Policies.

Office of the Clerk of the Board

3) Evaluate the Office's **business processes, information systems, and workload management** practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Office of District Counsel

4) Evaluate the Office's **business processes and information systems** to identify potential inefficiencies or opportunities for improvement in the Office's administrative functions.
5) Evaluate **risk management practices**, including the District's reliance on third-party administrators and service providers, risk retention and transfer evaluations, claims processing, and workplace health and safety programs, as well as existing workload demands and future opportunities to enhance risk management operations in a growing District government.

Administrative Services

6) **Information technology** is generally considered to be a moderate- to high-risk function in any government organization, and recommended performance audits typically focus on:
    a. Cybersecurity and network hygiene;
    b. Data management protocols;
    c. Customer service efficiency;
    d. Disaster recovery planning;
    e. Cost-effectiveness of operations, including contracting and purchasing; and
    f. Information technology project management policies, processes, and practices, and the consistency of the IT Department's efforts with best practices.

7) Determine whether the District's **human resources management** activities are consistent with industry standards; sufficient to ensure compliance with federal, state, and local laws and regulations; effective in attracting, retaining, and motivating a highly talented, qualified, and effective workforce; and appropriately resourced and right-sized for Valley Water. This should include key elements of human resources management, such as policies and procedures related to and its administration of the following:
    a. Hiring and recruiting;
    b. Classification and compensation;
    c. Employee recordkeeping;
    d. Human Resources Information System functionality and system controls;
    e. Employee relations and performance management;
    f. Benefits administration;
    g. Workplace investigations;
    h. Professional and workforce development, training, and succession planning;
    i. State and federal compliance.
8) The **administration of compensation** practices to ensure employer costs are appropriately controlled by determining whether benefit enrollment processes appropriately control employee enrollment and cost-sharing, including the verification of dependent eligibility, and the recording of employee compensation within Infor to ensure compensation (including bonuses and other differential pay) are appropriately approved and authorized.
9) **Cashiering processes**, including those performed through differing information and cashiering systems, the impact that staff turnover has had on cashiering operations, and the role of Finance and Administration in ensuring adequate internal and system controls associated with each.
10) Valley Water's **facilities maintenance program**, including evaluating the Department's ongoing control, monitoring, assessment, and maintenance of Valley Water facilities and properties to identify opportunities to enhance efficiencies and protect District assets.
11) Valley Water's **equipment management program**, including determining the extent to which the acquisition, maintenance, and control of equipment and fleet vehicles are performed in a manner consistent with best practices, controls over sensitive assets are effective to prevent misuse, routine and preventive maintenance is performed in accordance to acceptable guidelines, the potential for abuse of District vehicles/fuel/equipment is appropriately mitigated, and practices are both efficient and effective.
12) The overall efficiency of the **Emergency, Safety, & Security Division**, and the extent to which the Division carries out its responsibilities in a manner consistent with best practices and regulatory requirements. As well as assessing the adequacy of emergency preparedness in the face of situations such as unusual weather events, COVID-19, strikes, recessions, and climate change.

13) **Warehouse operations**, including the processes and protocols for inventory acquisition and management, conducting inventory audits, and otherwise controlling assets held in inventory, and the efficiency and effectiveness of such processes.

14) The **practices of the Business Customer Support program**, including its business and workload management practices, to identify potential inefficiencies or opportunities for improvement in the program's operational activities and administrative functions.

15) **Procurement** activities, including General Services' practices relating to the following:

    a. Ensuring consistency with Valley Water policies, procedures, and other relevant guidance;

    b. Proper segregation of duties with accounts payable functions and operational activities;

    c. Consistency with best practices;

    d. Efficiency in executing procurements in a manner that meets districtwide needs;

    e. Timeliness of contracting and procurement practices, including the identification of potential bottlenecks;

    f. Evaluating the appropriateness of the procurement vehicles used for different types of procurements, including the purchases of goods and supplies, professional services, construction contractors, operations and maintenance contractors, and other types of procurements; and

    g. Benchmarking research, including the extent to which Valley Water's procurement practices compare with other public sector agencies.

External Affairs

16) Evaluate **the Office's business processes, information systems, and workload management practices** to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Finance

17) **Grant management activities**, including determining whether existing policies and procedures; systems of internal control related to the recording, tracking, and monitoring of grant funds to ensure full compliance and recovery; and staffing and system resources are sufficient to administer, optimize, and account for grant monies in an efficient and effective manner.

18) **Treasury operations**, including evaluating cash management, investment, treasury functions, and determining the extent to which investment and cash management activities adhere to best practices and established investment policies.

19) **Budget processes**, including evaluating budget and financial planning protocols and practices, the sufficiency of budgetary tools available to Valley Water management to monitor budget-to-actual performance, and the overall efficiency and effectiveness of the District's biennial budget cycle.

20) The efficiency and effectiveness of **system integration** between the Finance enterprise system, Infor, and other information systems utilized to manage Valley Water fiscal activity.

21) The **Completeness of policies and procedures**, including how they are maintained, updated, made available and communicated to all relevant parties.

22) **Accounts receivable**, including assessing the manual billing processes employed by Finance to bill and collect from utility customers.

23) **Financial analysis and forecasting** practices, including the extent to which revenue forecasting is consistent with best practices in an environment significantly impacted by the pandemic and climate change, particularly within Water Supply, and the extent to which forecasting models and fiscal policies provide an effective framework for ensuring long-term sustainability.

24) **Payroll and compensation** practices, including whether practices ensure total compensation and payments to employees, including executive management and Board members, comply with collective bargaining agreements and Board policies.

Integrated Water Management

25) Valley Water's **captial project delivery** activities, including the District's overall approach to project and construction management, the contract vehicles employed on capital projects, methods for monitoring contractors and evaluating contract compliance, and execution. The factors may include project timelines, budget management, staffing resources, inter-departmental coordination, contractor performance, and compliance with environmental and regulatory requirements for capital projects within the watersheds.

26) Valley Water's **infrastructure maintenance programs**, encompassing various elements related to **operations and maintenance**, including assessing Valley Water's methods for developing and maintaining **asset inventories**, determining the condition of existing assets, scheduling predictive and preventative maintenance, monitoring maintenance backlogs, work order scheduling, the extent to which Valley Water relies on outsourced service providers to augment in-house resources, and how well inventories are planned, maintained, and optimized to enhance overall operational efficiencies. As well as including evaluation of the use of asset management software or systems to extend the lifespan of critical infrastructure while minimizing operational costs. Maintenance assessments may include focusing on maintenance schedules, preventive maintenance programs, inspection procedures, and the allocation of resources for ongoing maintenance to ensure the continued functionality and safety of infrastructure assets.

27) The **Community Projects Unit's** processes for receiving applications for **permits**, processing and issuing permits, and measuring performance in meeting established goals.

28) Valley Water's **real estate management** activities, including the responsibilities of both the Real Estate Unit within Watersheds and the District Lands Management Program within Integrated Water Management, with the intent to evaluate Valley Water's overarching approach to managing real estate assets.

29) Valley Water's **Watershed management practices**, including the effectiveness of Watersheds in managing and preserving natural resources within the region's watersheds. This may cover

evaluating the impact of environmental conservation efforts, stewardship efforts, flood risk reduction measures, and ecological restoration initiatives.

30) Valley Water's **flood control infrastructure**, focusing on the maintenance and performance of flood control infrastructure such as dams, reservoirs, and levees. This could involve assessing the condition of these structures, compliance with safety standards, and preparedness for extreme weather events.

31) Valley Water's **environmental compliance** may include examining the District's adherence to environmental regulations and permits concerning watershed management. This might involve evaluating how well Valley Water manages ecological preservation, land use, and habitat protection within the watersheds.

32) Valley Water's **emergency response and preparedness**, concentrating on the readiness and effectiveness of Water Utility Enterprises' emergency response and preparedness plans. It would assess the procedures in place to respond to natural disasters, water supply disruptions, and other emergencies, such as COVID-19, including communication protocols, resource allocation, and coordination with local authorities to ensure uninterrupted service during crises.

33) Valley Water's operations of the **Raw and Treated Water Divisions**, including evaluating both Division's practices and strategies to maintain and ensure long-term sustainability, assessing the efficiency and effectiveness of core business operations, and adhering to leading industry practices.

Appendix B. Prioritized Audit Topics for the Board's Consideration

We recognize that the actual audit plan will be determined, in part, by the budgetary resources available for the Independent Board Auditor, which currently allow for a maximum of four audits per year. Nevertheless, for the Board's consideration, we present the following 12 audit engagements that we believe can be completed during the three-year period between Fiscal Year 2023-24 and Fiscal Year 2025-26.

1) Capital Project Delivery
    a. Valley Water's **captial project delivery** activities, including the District's overall approach to project and construction management, the contract vehicles employed on capital projects, methods for monitoring contractors and evaluating contract compliance, and execution. The factors may include project timelines, budget management, staffing resources, inter-departmental coordination, contractor performance, and compliance with environmental and regulatory requirements for capital projects within the watersheds.
2) Board Policies
    a. The District's **overall compliance with Board policies**, including Board Governance Policies, Ends Policies, and Executive Limitations Policies.
3) Clerk of the Board
    a. Evaluate the Office's **business processes, information systems, and workload management** practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.
4) Human Resources
    a. Determine whether the District's **human resources management** activities are consistent with industry standards; sufficient to ensure compliance with federal, state, and local laws and regulations; effective in attracting, retaining, and motivating a highly talented, qualified, and effective workforce; and appropriately resourced and right-sized for Valley Water. This should include key elements of human resources management, such as policies and procedures related to and its administration of the following:
        i. Hiring and recruiting;
        ii. Classification and compensation;
        iii. Employee recordkeeping;
        iv. Human Resources Information System functionality and system controls;
        v. Employee relations and performance management;
        vi. Benefits administration;
        vii. Workplace investigations;
        viii. Professional and workforce development, training, and succession planning;

ix. State and federal compliance.

5) Operations & Maintenance and Asset Management

a. Valley Water's **infrastructure maintenance programs**, encompassing various elements related to **operations and maintenance**, including assessing Valley Water's methods for developing and maintaining **asset inventories**, determining the condition of existing assets, scheduling predictive and preventative maintenance, monitoring maintenance backlogs, work order scheduling, the extent to which Valley Water relies on outsourced service providers to augment in-house resources, and how well inventories are planned, maintained, and optimized to enhance overall operational efficiencies. As well as including evaluation of the use of asset management software or systems to extend the lifespan of critical infrastructure while minimizing operational costs. Maintenance assessments may include focusing on maintenance schedules, preventive maintenance programs, inspection procedures, and the allocation of resources for ongoing maintenance to ensure the continued functionality and safety of infrastructure assets.

6) Information Technology

a. **Information technology** is generally considered to be a moderate- to high-risk function in any government organization, and recommended performance audits typically focus on:

i. Cybersecurity and network hygiene;

ii. Data management protocols;

iii. Customer service efficiency;

iv. Disaster recovery planning;

v. Cost-effectiveness of operations, including contracting and purchasing; and

vi. Information technology project management policies, processes, and practices, and the consistency of the IT Department's efforts with best practices.

7) Purchasing and Contracting

a. **Procurement** activities, including General Services' practices relating to the following:

i. Ensuring consistency with Valley Water policies, procedures, and other relevant guidance;

ii. Proper segregation of duties with accounts payable functions and operational activities;

iii. Consistency with best practices;

iv. Efficiency in executing procurements in a manner that meets districtwide needs;

v. Timeliness of contracting and procurement practices, including the identification of potential bottlenecks;

vi. Evaluating the appropriateness of the procurement vehicles used for different types of procurements, including the purchases of goods and supplies,

professional services, construction contractors, operations and maintenance contractors, and other types of procurements; and

vii. Benchmarking research, including the extent to which Valley Water's procurement practices compare with other public sector agencies.

8) Safety & Security

a. The overall efficiency of the **Emergency, Safety, & Security Division**, and the extent to which the Division carries out its responsibilities in a manner consistent with best practices and regulatory requirements. As well as assessing the adequacy of emergency preparedness in the face of situations such as unusual weather events, COVID-19, strikes, recessions, and climate change.

9) Raw and Treated Water

a. Assessing the infrastructure maintenance and sustainability within Valley Water's **Raw and Treated Water Divisions** would include a thorough evaluation of both Division's practices and strategies to maintain and ensure long-term sustainability of its critical infrastructures. This would assess the performance of the two Divisions in managing the aging infrastructure, assessing the risks associated with deferred maintenance, as well as the focus on optimizing the allocation of resources.

10) Stewardship and Planning

a. Valley Water's **flood control infrastructure**, focusing on the maintenance and performance of flood control infrastructure such as dams, reservoirs, and levees. This could involve assessing the condition of these structures, compliance with safety standards, and preparedness for extreme weather events.

11) Treasury

a. **Treasury operations**, including evaluating cash management, investment, treasury functions, and determining the extent to which investment and cash management activities adhere to best practices and established investment policies.

12) Water Supply

a. **Financial analysis and forecasting** practices, including the extent to which revenue forecasting is consistent with best practices in an environment significantly impacted by the pandemic and climate change, particularly within Water Supply, and the extent to which forecasting models and fiscal policies provide an effective framework for ensuring long-term sustainability.

Santa Clara Valley Water District

File No.: 26-0651

Agenda Date: 8/19/2026
Item No.: 4.4.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Discuss 2026 Annual Audit Plan (Risk Assessment, Asset Management, Pacheco Reservoir Project, and Investigations Process), Receive Status of Open Board-Directed Audit Engagements, and Provide Feedback as Needed.

RECOMMENDATION:

A. Discuss 2026 annual audit plan (Risk Assessment, Asset Management, Pacheco Reservoir Project, and Investigations Process),
B. Receive status of open Board-directed audit engagements, and
C. Provide feedback as needed.

SUMMARY:
The Board Audit Committee (BAC) has directed the initiation of eight audit engagements that remain open as of July 2026.

- The **Board Policy Compliance Audit** is in the reporting phase, and the draft report has been updated based on management's initial review, and an updated draft has been submitted to management in preparation for exit conferences.
- The **Water Usage and Demand Forecasting** audit has concluded the fieldwork and the draft report stage. The final report with management's responses will be presented to the full Board on 9/8/26.
- The **Contracting Practices** audit is in the reporting phase; the draft report has been submitted to management in preparation for an exit conference.
- The **Capital Project Delivery** audit commenced later than anticipated and has experienced delays in obtaining the final information necessary to complete audit fieldwork. Because of this, the project remains in the fieldwork stage, with completion projected for late Q3 2026.
- The **Asset Management** audit commenced in February 2026, and initial interviews have taken place. The draft report is expected to be submitted to management for initial review in Q3 of Calendar Year 2026.

- The **Investigations Process** audit commenced in April 2026 with an initial planning and a second scoping phase, and the draft report is expected to be submitted to management for initial review in Q1 of Calendar Year 2027. The initial planning phase is almost complete, and staff anticipate moving into Phase 2 in early Q3 of Calendar Year 2026.
- The **Pacheco Reservoir Project** audit is anticipated to commence in Q3 of Calendar Year 2026 with completion in Q1 2027.
- The **Districtwide Risk Assessment** is anticipated to commence in Q3 of Calendar Year 2026 with completion in Q4 of Calendar Year 2026.

The purpose of this agenda item is to discuss the 2026 Annual Audit Plan, provide status of other open audit engagements, and receive any feedback the Board deems appropriate.

ENVIRONMENTAL JUSTICE IMPACT:
There are no Environmental Justice impacts associated with this item. The Annual Audit Workplan serves as a tool for communicating audit priorities as determined by the BAC and the Board of Directors.

ATTACHMENTS:
None.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Santa Clara Valley Water District

File No.: 26-0653

Agenda Date: 8/19/2026
Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Review and Discuss 2026 Board Audit Committee (BAC) Work Plan.

RECOMMENDATION:
Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2026 BAC Work Plan.

SUMMARY:
Per the BAC's Charter, Article III, Paragraph 6.2, "The Committee shall, in coordination with Valley Water's Clerk of the Board, develop a proposed Annual Work Plan. Items shall be included in the Annual Work Plan based upon a majority vote of the Committee."

Under direction of the Clerk, Work Plans are used by all Board Committees to increase Committee efficiency, provide increased public notice of intended Committee discussions, and enable improved follow-up by staff. Work Plans are dynamic documents managed by Committee Chairs and are subject to change.

The 2026 BAC Work Plan (Attachment 1) identifies the planned discussion topics for the upcoming year and the anticipated meeting dates when those topics may be presented to the committee. Following the July 28, 2026 BAC meeting, the Water Utility Enterprise Funds Audit Report was moved from the September 2026 BAC meeting agenda to the August 2026 BAC meeting agenda.

Looking forward, the topics of discussion identified for September 16, 2026, BAC Meeting can be summarized as follows:

1. Receive 2023 CIP Performance Audit Status Update
2. Financial Status Periodic Update
3. Tri-Annual Risk Assessment Status
4. Discuss Topics for 2027 Annual Audit Plan
5. 2026 Annual Audit Plan

6. 2026 BAC Work Plan

Upon review, the BAC may make changes to be incorporated into the work plan.

ENVIRONMENTAL JUSTICE IMPACT:
The BAC Work Plan is not subject to environmental justice analysis. The BAC Work Plan serves as a tool utilized by the BAC to identify topics to be discussed during the public meeting and when that topic may be presented.

ATTACHMENTS:
Attachment 1: 2026 BAC Work Plan

UNCLASSIFIED MANAGER:
Wendy Ho, 408-630-3874

BOARD AUDIT COMMITTEE 2026 WORKPLAN
January 1, 2026 to December 31, 2026

#	DATE:	Jan-21	Feb-18	Mar-18	Apr-15	May-20	6/17/2026 Canceled	Jul-28	Aug-19	Sep-16	Oct-21	Nov-18	Dec-16
	No. of Topics:	8	5	6	5	4	0	6	5	6	6	3	3
#	Board Audit Committee Management												
1	Discuss and Conduct Annual Self-Evaluation	•			•								
2	Request and Discuss CAE Activity Report to Evaluate Performance	•		•									
3	Discuss Board Audit Committee Audit Charter			•									
4	Discuss Scope of Annual Audit Training			•									
5	Receive Annual Audit Training							•					
6	Review and Update BAC Work Plan	•	•	•	•	•		•	•	•	•	•	•
7	Provide Draft BAC Work Plan for Upcoming Year												•
	Board Audit Committee Special Requests												
8	Review of Joint Powers Authority (JPA) audits							•					
9	Discuss Initiating Chief Audit Executive RFP	•	•										
10	Discuss Plante Moran Contract (expires 07/05/26)	•											
	Board-directed Audits												
11	2021 Permitting Best Practices					•							
12	2023 CIP Performance									•			
13	2024 Human Resources Audit				•								
14	2024 Information Technology Audit (Closed-Session)				•								
15	2024 Board Policies and Compliance Audit												
16	2025 Water Conservation Audit	•											
17	2025 Centralized and Decentralized Contracting Practices												
18	2025 Capital Project Delivery Audit												
19	2025 Water Usage and Demand Forecasting Audit							•					
20	2026 Audit - TBD												
	Other Audits												
21	2024 SCW Program Performance Audit										•		
	CAE Standing Topics												
22	Review and Update Annual Audit Plan	•	•	•	•	•		•	•	•	•	•	•
23	Discuss next Annual Audit Plan								•	•			
24	Discuss Draft 2027 Annual Audit Plan										•		
25	Discuss Proposed 2027 Annual Audit Plan, Assign Audit Firms, and Recommend Proposed 2027 Annual Audit Plan with assignments for Board Approval											•	
	Miscellaneous 3rd-Party Financial Audits												
26	Financial Status - Periodic Updates		•			•				•			
27	Discuss Financial Audit for upcoming Fiscal Year (presented by Vasquez)							•					
28	Audit Report of the Water Utility Enterprise Funds								•				
29	Audited Financial Statements										•		
30	Single Audit Report			•									
	Staff Standing Topics												
31	Audit Recommendations Implementation Status		•						•				
32	Receive Audit Analysis Report from CAE	•									•		
	Committee Clerk Action Items (not included in count shown in Row 3 above)												
33	Provide BAC Summary Report to full Board	•	•	•	•	•		•	•	•	•	•	•
34	Election of BAC Chair and Vice Chair	•											
	BAC Topics for Future Work Plan												
35	Provide Report on Tri-annual Risk Assessment (Target CY 2026)									•			

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