



Santa Clara Valley Water District Board Audit Committee Meeting

Via Zoom Teleconference

2:00 PM REGULAR MEETING AGENDA

**Wednesday, December 15, 2021
2:00 PM**

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

BOARD AUDIT COMMITTEE
Barbara Keegan, Chair - District 2
Gary Kremen, Vice Chair - District 7
Richard P. Santos - District 3

During the COVID-19 restrictions, 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) 265-2600.

DARIN TAYLOR
Committee Liaison

MAX OVERLAND
Assistant Deputy Clerk II
Office/Clerk of the Board
(408) 630-2749
moverland@valleywater.org
www.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.

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Santa Clara Valley Water District
Board Audit Committee
2:00 PM REGULAR MEETING
AGENDA

Wednesday, December 15, 2021

2:00 PM

Via Zoom Teleconference

*****BY VIRTUAL TELECONFERENCE ONLY*****

Pursuant to California Government Code section 54953(e), this meeting will be held by teleconference only. No physical location will be available for this meeting; however, members of the public will be able to participate in the meeting as noted below.

In accordance with the requirements of Gov. Code Section 54954.3(a), members of the public wishing to address the Board/Committee at a video conferenced meeting, during public comment or on any item listed on the agenda, should use the "Raise Hand" tool located in the Zoom meeting link listed on the agenda, at the time the item is called. Speakers will be acknowledged by the Board Chair in the order requests are received and granted speaking access to address the Board.

Santa Clara Valley Water District (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 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.

Join Zoom Meeting:
<https://valleywater.zoom.us/j/91608079873>
Meeting ID: 916 0807 9873
Join by Phone:
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 Committee on any item not listed on the agenda should access the "Raise Hand" tool located in Zoom meeting link listed on the agenda. Speakers will be acknowledged by the Committee Chair in order requests are received and granted speaking access to address the Committee. Speakers comments should be limited to three minutes or as set by the Chair. The law does not permit Committee action on, or extended discussion of, any item not on the agenda except under special circumstances. If Committee action is requested, the matter may be placed on a future agenda. All comments that require a response will be referred to staff for a reply in writing. The Committee may take action on any item of business appearing on the posted agenda.

*2.1. Handouts - SBCCC Partnership #33144 Check In (Valley Water/SBCCC).

[22-0013](#)

ATTACHMENTS:

Handout 2.1-A: S. Holmes Comments

*Handout 2.1-B: SCVWD Comments

Attachments: [Handout 2.1-A: S. Holmes Comments](#)

[*Handout 2.1-B: SCVWD Comments](#)

3. APPROVAL OF MINUTES:

3.1. Approval of Minutes.

[21-1273](#)

Recommendation: Approve the minutes.

Manager: Michele King, 408-630-2711

Attachments: [Attachment 1: 102021 BAC Minutes](#)

4. REGULAR AGENDA:

- 4.1. Valley Water Draft Annual Comprehensive Financial Report for the Fiscal Year Ending on June 30, 2021. [21-1206](#)
Recommendation: Discuss the Valley Water Annual Comprehensive Financial Report (ACFR) for the Fiscal Year (FY) Ending on June 30, 2021, that staff will be recommending for Board acceptance.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: FY21 Draft Annual Comprehensive Financial Report](#)
- 4.2. First Quarter Fiscal Year 2021-22 Financial Status Update. [21-1207](#)
Recommendation: Receive the first quarter Fiscal Year 2021-22 financial status update as of September 30, 2021.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: PowerPoint](#)
- 4.3. The 2021 Risk Assessment Report and 2022-2024 Annual Audit Work Plan. [21-1209](#)
Recommendation: A. Receive and discuss the 2021 Risk Assessment Report and 2022-2024 annual Audit Work Plan; and
B. Authorize staff to present the 2022-2024 Annual Audit Work Plan to the Board.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: 2021 Risk Assessment Report](#)
[Attachment 2: 2022-2024 Annual Audit Work Plan](#)
[Attachment 3: 2021 Risk Assessment Feedback Summary](#)
[Attachment 4: 2021 Risk Assessment Update](#)
- 4.4. Receive a Verbal Status Update Regarding the INFOR Project Implementation. [21-1245](#)
Recommendation: Receive a verbal status update regarding the INFOR Project implementation.
Manager: Mike Cook, 408-630-2424
Est. Staff Time: 5 Minutes
- 4.5. Review and Discuss the 2021 Board Audit Committee Work Plan. [21-1203](#)
Recommendation: Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: 2021 BAC Work Plan](#)

- 4.6. Discuss the 2019-2021 Annual Audit Work Plan and Authorize Staff to Transition to the 2022-2024 Annual Audit Work Plan When Approved by the Board. [21-1202](#)

Recommendation: A. Discuss the 2019-2021 Annual Audit Work Plan; and
B. Authorize staff to transition to the 2022-2024 Annual Audit Work Plan when approved by the Board.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: 2019-2021 Annual Audit Work Plan](#)
[Attachment 2: Proposed 2022-2024 Annual Audit Work Plan](#)

- 4.7. Receive Information Regarding the New Chief Audit Executive, Sjoberg Evashenk Consulting, Inc. and Acknowledge TAP International's Accomplishments During Their Time as Chief Audit Executive. [21-1300](#)

Recommendation: Receive information regarding the new Chief Audit Executive, Sjoberg Evashenk Consulting, Inc. and acknowledge TAP International's accomplishments during their time as Chief Audit Executive.

Manager: Darin Taylor, 408-630-3068

- 4.8. Receive the 2021 Annual Audit Training from the Board's Chief Audit Executive. [22-0014](#)

Recommendation: Receive the 2021 Annual Audit Training from the Board's Chief Audit Executive.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: PowerPoint](#)

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 to Regular Meeting at 2:00 p.m., on January, 19, 2022.



Santa Clara Valley Water District

File No.: 22-0013

Agenda Date: 12/15/2021
Item No.: *2.1.

PUBLIC COMMENT
Board Audit Committee

SUBJECT:

Handouts - SBCCC Partnership #33144 Check In (Valley Water/SBCCC).

ATTACHMENTS:

Handout 2.1-A: S. Holmes Comments

*Handout 2.1-B: SCVWD Comments

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From: Gary Kremen <GKremen@valleywater.org>
Sent: Tuesday, December 07, 2021 4:38 PM
To: Michele King <MKing@valleywater.org>
Subject: Fwd: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Please distribute to audit committee

Gary Kremen

Begin forwarded message:

From: Steve Holmes <s.holmes@sbccleancreeks.com>
Date: December 7, 2021 at 1:05:40 PM PST
To: Gary Kremen <GKremen@valleywater.org>, Richard Santos <rsantos@valleywater.org>
Cc: Rick Callender <rcallender@valleywater.org>
Subject: Fwd: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

To: Dick Santos & Gary Kremen

From: Steve Holmes, South Bay Clean Creeks Coalition

Subject: Partnership Grant #33144

Attached you will find the past couple months of correspondence with VW Staff as we have been asked to revisit an executed grant from 2019. This review/overhaul has been on-going since April 2021 and been fraught with delays and reworks. At this point, my staff has told me that they refuse to administer Valley Water Grants. I'm pretty sure that modifying an executed contract is not a unilateral decision. I was hesitant to share these issues out of concern for repercussions with the many staff members I interface with at the District but this grant situation is toxic, robbed our group of the limited working hours available and ultimately been a fiscal drain on our monetary resources.

SBCCC has secured several grants via Clean, Safe Creeks Grants funding and has demonstrated our ability to execute all aspects of those previous grants. We also have numerous grants through other entities including County of Santa Clara, City of San Jose, Google, Knight Foundation, Sharks Foundation. This VW grant process is broken. I along with many of my partners are reluctant/ unlikely to submit grant requests due to how difficult and time consuming it is to finalize and receive funding. Valley Water has lost sight of how beneficial and necessary these funds are to NGO's as

we mutually struggle to clean our trash clogged waterways and educate community members. I can say that Staff has good intentions but has lost sight of the bigger picture.

So that you have a clear understanding of the struggles we have faced I have included several of the pain points below.

-Grant was to be awarded March 2018; one stipulation was we provide Workers Comp Insurance even though our work was covered under the City of San Jose. We purchased that insurance costing \$835 monthly then after no response from VW for 90 days and \$2505 paid out we canceled the policy. I met with Norma in August and explained once VW executed the grant we would secure a policy. In Sept, our contact reached out to inform us that due to not having an active policy that the grant would be handed over to the second place finisher. I explained my conversation with Norma which led to an internal review and grant ultimately awarded in Jan 2019. By stopping then restarting the insurance policy, we learned that this put us in a bad light with the insurer as premiums increased to \$1445 monthly with an addt. one time charge of \$15,437. And \$2900 paid out over Oct-Dec as we continued to wait. **So over \$5,000 wasted as we waited for a grant award 9 months after the posted March award date.**

-Since the work would be occurring in the field on Valley Water property, we were required to secure an Encroachment Permit. We submitted renewal forms into this Dept and emails defining the work area requesting a Permit. This required numerous emails requesting updates, **it took us ONE YEAR to secure, preventing our work from moving fwd.**

-Our first invoice review was delayed and stretched from one fiscal year into the next. Once the invoice was opened, several of the deliverable items were not accepted. Had we been notified in a timelier manner we could have shifted them to other grants but the delay due to turnover in the Dept meant we had to discard the work, receiving no credit.

-Due to all the starts and stops, Staff put in a request to extend the grant out 3 yrs. In April, we were notified and then asked to enter a deep dive of the grant having to provide definitions of work, schedules, clarify activities and this has gone on till now. You can see the level of granularity in the email stream that only dates back to Sept. Keep in mind that we already have an executed grant in place.

At this point, I feel the best path forward would be for us to prepare an invoice for all this extra work and development of materials, submit and receive payment then close out the grant. It is telling that the three most active groups along our waterways aren't seeking grants from Valley Water. I hope this shines light on a grant process that in essence tortures the grantees.

South Bay Clean Creeks Coalition just eclipsed 1,000,000 pounds of trash cleared from our waterways with over 15,000 volunteers hours logged. Our support for Valley Water had us invite a staff member to our recent Chinook Monitoring event. We share our findings with your Biology group on wildlife like our Chinook salmon. We regularly post on the good work Valley Water is accomplishing through our Social Media. We do need financial support from Valley Water, one solution would be to re-establish a new Partnership Grant between Valley Water and City of San Jose and have us work as agents as this was an effective approach in the past.

Sincerely,

Steve Holmes

----- Forwarded message -----

From: **Kristen Yasukawa** <KYasukawa@valleywater.org>

Date: Fri, Dec 3, 2021, 1:36 PM

Subject: RE: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

To: Steve Holmes <s.holmes@sbccleancreeks.com>, Carol Symkiewicz <c.szymkiewicz@sbccleancreeks.com>, Philip

Bair <p.bair@sbccleancreeks.com>

Cc: Sherilyn Tran <STran@valleywater.org>, Grants <Grants@valleywater.org>, Amy Fonseca <AFonseca@valleywater.org>

Hi SBCCC Team:

In preparation for our meeting next week, here are some follow up items. We can discuss these further and provide any clarification when we meet.

Thanks and have a great weekend!

Kristen

Updated Project Area Map (includes all red and black shaded areas)

<https://www.google.com/maps/d/u/0/edit?mid=1saCODhwwwyREkGLK8xb5S72ypb-7nUt&usp=sharing>

Translation Services

Our agency uses these professional translation services and then follows up with an internal translation review.

- AVANTPAGE – Emma Vargas, emma@avantpage.com, 530-750-2040 x16
- ANDESTRANSLATION – Isabel Oh, info@andestranslations.com, 408-515-5181

Translation guidelines:

1. Keep the organization Valley Water or Santa Clara Valley Water District in English.
2. Keep the city and street names in English.
3. Keep all webpage URLs and links the same in English.
4. For Chinese translation, Simplified Chinese is preferred over Traditional Chinese.

PPT Feedback

Our subject matter experts provided the following feedback on the PowerPoint presentations:

- Suggest clearly identifying the objective and call to action for each PPT
- Suggest aligning the PPT language and concept with the grade level (ex: some of the PPTs for elementary grades use the terminology for high school grade levels, or vice versa)
- Suggest aligning the presentations to learning standards such as Next Generation Science Standards or Common Core Standards
- Suggest incorporating engagement and interactive elements
- Suggest ensuring all text and graphics are legible, and complexity matches the grade level audience
- Recommend correcting grammar and misspellings (ex: Riparian Corridor PPT, slide 7 says “subsistence” should be subsidence)

KRISTEN YASUKAWA

COMMUNITY BENEFITS PROGRAM ADMINISTRATOR
Office of Civic Engagement
Tel. (408) 630-2876 / Cell. (408) 604-5356
[Schedule a meeting with me!](#)



SANTA CLARA VALLEY WATER DISTRICT
5750 Almaden Expressway, San Jose CA 95118
www.valleywater.org

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From: Amy Fonseca <AFonseca@valleywater.org>
Sent: Wednesday, November 24, 2021 9:48 AM
To: Steve Holmes <s.holmes@sbcleancreeks.com>
Cc: Philip Bair <p.bair@sbcleancreeks.com>; Carol Symkiewicz <c.szymkiewicz@sbcleancreeks.com>; Kristen Yasukawa <KYasukawa@valleywater.org>; Sherilyn Tran <STran@valleywater.org>; Grants <Grants@valleywater.org>
Subject: RE: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Yes, that works!

Just sent out the Zoom invite.

Thanks,

AMY FONSECA

COMMUNITY BENEFITS SENIOR MANAGEMENT ANALYST
Office of Civic Engagement
Tel. (408) 630-3005 / Cell (408) 691-8889



Clean Water • Healthy Environment • Flood Protection

5750 Almaden Expressway, San Jose CA 95118
www.valleywater.org

From: Steve Holmes <s.holmes@sbcleancreeks.com>
Sent: Wednesday, November 24, 2021 9:41 AM
To: Amy Fonseca <AFonseca@valleywater.org>
Cc: Philip Bair <p.bair@sbcleancreeks.com>; Carol Symkiewicz <c.szymkiewicz@sbcleancreeks.com>; Kristen Yasukawa <KYasukawa@valleywater.org>; Sherilyn Tran <STran@valleywater.org>; Grants <Grants@valleywater.org>
Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Amy,

Can we reserve the 12/7 Tues at 2:00 time slot?

Steve

On Fri, Nov 19, 2021, 10:18 AM Amy Fonseca <AFonseca@valleywater.org> wrote:

Thanks, Steve. Right now, the following times are looking good:

Thurs 12/2 – 11:00 am

Mon 12/6 – 4:00 pm

Tues 12/7 – 2:00, 2:30, or 3:00 pm

Please let me know if any of those will work for you.

Thanks,

AMY FONSECA

COMMUNITY BENEFITS SENIOR MANAGEMENT ANALYST
Office of Civic Engagement
Tel. (408) 630-3005 / Cell (408) 691-8889

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From: Steve Holmes <s.holmes@sbcleancreeks.com>
Sent: Thursday, November 18, 2021 3:30 PM
To: Amy Fonseca <AFonseca@valleywater.org>
Cc: Philip Bair <p.bair@sbcleancreeks.com>; Carol Symkiewicz <c.szymkiewicz@sbcleancreeks.com>; Kristen Yasukawa <KYasukawa@valleywater.org>; Sherilyn Tran <STran@valleywater.org>; Grants <Grants@valleywater.org>

Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Amy,

Apologize for the slow response. We've had 3 cleanups since Monday and several of my staff are away on vacation thru the 30th. Can we look at week of Dec 6th?

On Thu, Nov 18, 2021, 3:16 PM Amy Fonseca <AFonseca@valleywater.org> wrote:

Thanks, Philip.

Steve – is there any time next week that will work for you? If you could provide some options, I can see what we can arrange.

Thanks,

AMY FONSECA

COMMUNITY BENEFITS SENIOR MANAGEMENT ANALYST
Office of Civic Engagement
Tel. (408) 630-3005 / Cell (408) 691-8889

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www.valleywater.org

From: Philip Bair <p.bair@sbcleancreeks.com>

Sent: Tuesday, November 16, 2021 12:18 PM

To: Amy Fonseca <AFonseca@valleywater.org>

Cc: Steve Holmes <s.holmes@sbcleancreeks.com>; Carol Symkiewicz <c.szymkiewicz@sbcleancreeks.com>

Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

I can meet on Tuesdays/Thursdays after 12 and Wednesdays anytime (unfortunately not free on Mondays) - whatever ends up being decided.

On Mon, Nov 15, 2021 at 1:24 PM Amy Fonseca <AFonseca@valleywater.org> wrote:

Thanks, Steve.

If possible, we would like to meet before the holiday to get everything sorted out. The soonest time we can all meet after 11/24 would be Thurs 12/2.

Would any of the following days/times work?

Tues 11/16 – 4:30 pm

Thurs 11/18 – 9:00 am, 1:30 pm or 2:00 pm

Mon 11/22 – Anytime after 2:00 pm

Tues 11/23 - 8:30 am or 11:00 am

Wed 11/24 – 10:00 am or 2:00 pm

Please let us know.

Thanks,

AMY FONSECA

COMMUNITY BENEFITS SENIOR MANAGEMENT ANALYST
Office of Civic Engagement
Tel. (408) 630-3005 / Cell (408) 691-8889

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www.valleywater.org

From: Steve Holmes <s.holmes@sbcleancreeks.com>
Sent: Monday, November 15, 2021 12:55 PM
To: Amy Fonseca <AFonseca@valleywater.org>
Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Whats available week after Thanksgiving and after the 30th is best.

On Mon, Nov 15, 2021, 12:52 PM Amy Fonseca <AFonseca@valleywater.org> wrote:

Hi everyone,

Would any of the following days/times work?

Tues 11/16 – 4:30 pm

Thurs 11/18 – 9:00 am, 1:30 pm or 2:00 pm

Mon 11/22 – Anytime after 2:00 pm

Let me know if you prefer another time.

Thanks,

AMY FONSECA
COMMUNITY BENEFITS SENIOR MANAGEMENT ANALYST
Office of Civic Engagement
Tel. (408) 630-3005 / Cell (408) 691-8889

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www.valleywater.org

From: Sherilyn Tran <STran@valleywater.org>
Sent: Sunday, November 14, 2021 8:20 PM
To: Philip Bair <p.bair@sbcleancreeks.com>; Kristen Yasukawa <KYasukawa@valleywater.org>
Cc: Grants <Grants@valleywater.org>; Amy Fonseca <AFonseca@valleywater.org>; Carol Symkiewicz <c.szymkiewicz@sbcleancreeks.com>; Steve Holmes <s.holmes@sbcleancreeks.com>
Subject: RE: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Hi Steve,

Per our conversation last week, I'll request for Amy to set up some time for all of us to be on a call together so we can sort out some of these issues. I appreciate you getting on a call to discuss with me on ways we can come to a compromise on some of these issues, as you are aware of the responsibilities my team has as stewards of public funds and the expectations your staff may have in terms of acceptable deliverables. But as you and I discussed, I think there is a path forward. However, to avoid further miscommunication and out of mutual respect for the work that both of our teams are doing, I think it's best that we all, including you and I, be a part of the next conversation, and hopefully, final conversation to clarify these items so we can move forward. Looking forward to resolving these issues soon.

SHERILYN TRAN
CIVIC ENGAGEMENT MANAGER

Office of Civic Engagement
Ofc. (408) 630-2772 / Cell (408) 604-5836

Santa Clara Valley Water District is now known as:

Clean Water • Healthy Environment • Flood Protection

5750 Almaden Expressway, San Jose CA 95118
www.valleywater.org

From: Philip Bair <p.bair@sbcleancreeks.com>
Sent: Thursday, November 11, 2021 1:25 PM
To: Kristen Yasukawa <KYasukawa@valleywater.org>
Cc: Grants <Grants@valleywater.org>; Sherilyn Tran <STran@valleywater.org>; Amy Fonseca <AFonseca@valleywater.org>; Carol Symkiewicz <c.szymkiewicz@sbcleancreeks.com>; Steve Holmes <s.holmes@sbcleancreeks.com>
Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Attention Valley Water team,

Steve, Carol, and I have gone through the items from the previous email and have outlined our responses below.

This email request for additional information represents the final review of outstanding deliverables. We would like to inform you that we will submit an invoice for the additional work that has been created as a result of the response to the agreement (e.g. meetings, reworks, creation of additional materials, etc.). Any additional materials provided to Valley Water will be uploaded to the Google Drive folder shared specifically with Valley Water (link provided in previous meetings/emails to be bookmarked and saved). We have added some videos for your approval, along with the maps.

Past experiences have resulted in long delays from receipt of documents by Valley Water from SBCCC for review, which have hindered progress on this grant. We request a five business day review time with response. In the event we receive no response, those tasks will be deemed approved by Valley Water and we will proceed with the grant. Through the course of this grant, if this situation occurs three times, we will collectively agree for the review process to be canceled. We are creating a "for review" folder within the shared google drive folder we provided. Upon sending notification of items being added to this folder, they will remain there for five days for review. After this point, they will be considered approved if no response is provided.

We would like to know the best practice for how to submit invoices to Valley Water, if you could provide that.

Below are our responses to your email's bullet points:

- Per our meeting on 10/27/21, could you provide one map that shows the full project area?
Could you provide this map within the coming week by 11/12/21?

I think it is unreasonable for us to hand trace a portion of the underserved community map just to add it to our existing map. We will provide two maps, the original expanded team map and the additional underserved area in San Jose that we agreed to. We appreciate the flexibility in expanding the range of the map. Both maps are in the shared folder awaiting your review.

Outreach Plan

Specific outreach activities: "These outreach activities will need to be documented as they are confirmed and scheduled."

In the spirit of following the terms of the original contract, SBCCC is not required to provide these additional details.

Final schedule – **Given delays in response times, it is unreasonable to expect specific days and times laid out in a schedule in advance and prior to grant approval. Creation of this**

document will have little value until we begin working in the areas to establish partnerships.

List of key stakeholders signed on to partner in activities – **We have already provided a list of stakeholders in the original agreement, and a list of schools/parks has been provided within the currently agreed-upon grant areas. Related to the updated grant areas, a list of parks and schools can be found in the Communication Plan in the shared folder.**

Culturally relevant outreach materials - **We will not develop translated materials for k-12 english-learning schools. Outreach materials will be translated when stakeholder's preferred language dictates it (i.e. In canvassing neighborhoods, we will create a flyer in multiple languages). We will first create outreach materials in English and submit to Valley Water for approval. Once approved, we will create multi-language flyers using google translation and then forward it to a translation service for review. If Valley Water can provide us info about their translation services, that would be appreciated. We will not be translating PPT's into other languages - please note that we are still waiting on a response on the original PPT's, and it is a concern of turnaround time as well.**

BioBlitz events will count as presentation deliverable – **Details and materials were provided to Sherilyn by Steve, we would just like a response on that. We have provided you with two handouts that are presented to participants on the day of the event, along with visuals that tell the story of our living streams (thus creating value in protecting them and our environment). We have a poster provided by San Jose ESD by how trash gets into waterways that we also use. We typically have a small cleanup alongside the bioblitz that reinforces the importance of caring for our urban streams. We have videos of local wildlife that we also provide to attendees during tabling at bioblitz events. See shared folder for aforementioned documents.**

Post-educational outreach survey results – **We would like more clarity on how to administer a survey to k-12 students. Pencil and paper surveys are best suited for this age demographic, but turning this in as a deliverable will pose unrealistic challenges. We cannot administer individual online surveys given that students do not all have access to a device in school. We propose a group survey facilitated by the teacher that covers the efficacy of the presenter and information. We would like to remove the questions regarding demographics from the forms for the post-presentation educational survey results, as they are inappropriate.**

Cleanup plan – **We will provide site location two weeks in advance of a cleanup. We have provided a detailed plan of how we conduct cleanups in the past. Post-cleanup details will be shared with Valley Water, including # of volunteers, what schools or community groups they're from, pictures, and weight estimate.**

Youth Eco Stewards YES Program – **The YES program's scope is aligned with the educational outreach plan already in place - it is explained in both the proposal and the agreement.**

Link for drive once

more: <https://drive.google.com/drive/folders/1bk3rKtCk4iYY0uuAbvPmlXww7VtlcKcZ?usp=sharing>

Thank you for your help,

-SBCCC

On Thu, Nov 4, 2021 at 5:08 PM Kristen Yasukawa <KYasukawa@valleywater.org> wrote:

Hi Philip:

Thanks for your patience as we reviewed the updated documents you sent over. Our feedback is outlined below.

We also compared the plan with the scope and deliverables in the agreement and with what's been completed to date (see attached for the information in a table format).

Please let us know if you have any questions or if we can provide further clarification. We are available for a follow up meeting to further discuss any of these items as well.

I'll be out of the office starting tomorrow, so Amy will be available to work with you to keep these items moving forward.

Thank you!
Kristen

Project Location – Valley Water agrees with SBCCC's proposed project location to include the original project area + the expanded boundaries + the disadvantaged communities areas on the CalEnviroScreen map in Coyote/Guadalupe watersheds in San Jose (red areas of the map).

- Per our meeting on 10/27/21, could you provide one map that shows the full project area? Could you provide this map within the coming week by 11/12/21?

Outreach Plan – SBCCC provided a communication plan and schedule. Valley Water reviewed the plan and would like the following items to be addressed:

- **Specific outreach activities** – SBCCC explained that the specific outreach activities may vary as community groups, schools, stakeholders, etc. confirm availability. These outreach activities will need to be documented as they are confirmed and scheduled.
- **Final schedule** – As explained in the above first bullet, please notify Valley Water of the confirmed activities as far in advance as possible, when they are finalized and scheduled.
- **List of key stakeholders signed on to partner in activities** – The communication plan includes the list of schools that will be outreached to, but could you also include a list of the local businesses, community centers and community organizations that will be outreached to? The original agreement also mentions neighborhood associations, social clubs, local corporations and local elected official offices.
- **Culturally relevant outreach materials** – Thanks for noting that you will be using a professional translation service. Could you provide the name of your translation vendor? We would like our internal translation reviewers to review the translated materials in advance to ensure quality translations.
 - We'd like to note that in the communication plan, you mentioned that flyers will be translated but PPTs will not. It is industry best practice that if you invite participants to engage in another language, that that activity/presentation is also available in the same language.
- **List of educational outreach events** - As explained in the above first bullet, please notify Valley Water of the confirmed activities as far in advance as possible, when they are finalized and scheduled.

PPT presentations – We sent the PPTs to our graphics team for logo approval, and to our

internal subject matter experts for content accuracy. We let them know that you want to use these as soon as possible and we will follow up with their feedback as soon as we receive it, hopefully within the coming week.

BioBlitz events will count as presentation deliverable – Valley Water agrees to count BioBlitz events as a presentation, as long as at the beginning of the BioBlitz event, a verbal presentation covering the talking points and with other visuals (video, display boards, etc) are provided that align with the PPT presentation content.

Post-educational outreach survey results – Please share the survey questions, which should include optional demographic data collection (age, language spoken, ethnic background, etc.). The survey must be reviewed and approved by Valley Water

Cleanup plan – Please develop a cleanup plan that includes proposed cleanup sites, # of volunteers targeted and actual, list of participating collaborating partners in the community, and a timeline/schedule of activities. This clean up plan must be reviewed and approved by Valley Water.

Youth Eco Stewards YES Program – The original scope of work mentions implementation of a Youth Eco Stewards YES Program. Could you provide more information about this program?

KRISTEN YASUKAWA
COMMUNITY BENEFITS PROGRAM ADMINISTRATOR
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From: Philip Bair <p.bair@sbcleancreeks.com>
Sent: Thursday, October 28, 2021 1:20 PM
To: Amy Fonseca <AFonseca@valleywater.org>
Cc: Grants <Grants@valleywater.org>; Kristen Yasukawa <KYasukawa@valleywater.org>; Sherilyn Tran <STran@valleywater.org>; Carol Symkiewicz <c.szymkiewicz@sbcleancreeks.com>; Steve Holmes <s.holmes@sbcleancreeks.com>
Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Hello,

All the updates and changes have been made as per yesterday's meeting notes, see the link here: <https://drive.google.com/drive/folders/1bk3rKtCk4iYY0uuAbvPmIXww7VtlcKcZ?usp=sharing>

This folder is for your viewing and has all PPT's and supporting documents (including the supplemental communication plan - grant document that contains all the elaborative details). Let me know if you have any questions. Could we get a time estimate on when it could get looked at and approved?

Thank you,

-Philip

On Tue, Oct 26, 2021 at 2:05 PM Amy Fonseca <AFonseca@valleywater.org> wrote:

OK, just sent the zoom link.

Thanks,

AMY FONSECA
COMMUNITY BENEFITS SENIOR MANAGEMENT ANALYST
Office of Civic Engagement
Tel. (408) 630-3005 / Cell (408) 691-8889

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From: Philip Bair <p.bair@sbcleancreeks.com>
Sent: Tuesday, October 26, 2021 11:25 AM
To: Amy Fonseca <AFonseca@valleywater.org>
Cc: Grants <Grants@valleywater.org>; Kristen Yasukawa <KYasukawa@valleywater.org>;
Sherilyn Tran <STran@valleywater.org>
Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Tomorrow at 10AM works for me, thank you. Could you also invite Carol S. from our group as well for that time?

On Tue, Oct 26, 2021 at 10:15 AM Amy Fonseca <AFonseca@valleywater.org> wrote:

Hi Philip,

Sorry about that!

Kristen is out today. I can set something up for the following times:

Wed 10/27 (tomorrow) at 9:30 am, 10:00 am, 2:30 pm or 3:00 pm
Thurs 10/28 anytime after 1:30 pm
Friday 10/29 between 10:30 am and 12:00 pm

Let me know and I will set something up right away.

Thanks,

AMY FONSECA
COMMUNITY BENEFITS SENIOR MANAGEMENT ANALYST
Office of Civic Engagement
Tel. (408) 630-3005 / Cell (408) 691-8889

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From: Philip Bair <p.bair@sbcleancreeks.com>
Sent: Tuesday, October 26, 2021 10:06 AM
To: Kristen Yasukawa <KYasukawa@valleywater.org>
Cc: Amy Fonseca <AFonseca@valleywater.org>; Grants <Grants@valleywater.org>
Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Hello, are we meeting today? I haven't received a zoom link. Just called and left a voicemail as well.

On Oct 22, 2021, at 12:37 PM, Philip Bair <p.bair@sbcleancreeks.com> wrote:

Hi Kristen,

I can meet for a half hour at 11:30 AM on Tuesday if we would like to meet over zoom. Could we invite Carol S. from our group as well for that time?

An item we'd like to address and have in writing is an acknowledgement that we are able to keep the original grant area (as identified in the proposal) in addition to the underserved communities map that you have shared with us. We are okay with expanding our boundaries to include the areas identified in your map - we just want to keep our original project from the agreement as well.

I have updated the logos in the PPT's as well.

Thank you,

Philip

On Fri, Oct 22, 2021 at 12:24 PM Kristen Yasukawa
<KYasukawa@valleywater.org> wrote:

Hi Philip:

I just called you and left a voicemail. Due to scheduling, it might be easier to set a meeting time. Here's my availability for early next week:

- Mon 10/25 any time between 1-3 p.m. or after 4 p.m.
- Tues 10/26 any time before noon

Let me know what date/time works best for you. I understand the urgency for us to connect so you can move forward with the work.

Thanks!
Kristen

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From: Philip Bair <p.bair@sbcleancreeks.com>
Sent: Friday, October 22, 2021 10:48 AM
To: Kristen Yasukawa <KYasukawa@valleywater.org>
Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Hi Kristen,

You can call me today at your convenience, I'm working from home.

On Fri, Oct 22, 2021 at 10:03 AM Kristen Yasukawa
<KYasukawa@valleywater.org> wrote:

Hi Philip:

I apologize for not responding sooner. I did receive your voicemail but had not yet had a chance to re-review the items you sent. Do you have time today for a phone call to further discuss? It would be helpful if we could walk through the documents together to ensure we are on the same page.

Thank you,
Kristen

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From: Philip Bair <p.bair@sbccleancreeks.com>
Sent: Friday, October 22, 2021 9:27 AM
To: Kristen Yasukawa <KYasukawa@valleywater.org>
Cc: c.szymkiewicz@sbccleancreeks.com; Sherilyn Tran
<STran@valleywater.org>; Steve Holmes
<s.holmes@sbccleancreeks.com>; Grants <Grants@valleywater.org>;
Amy Fonseca <AFonseca@valleywater.org>; Dannette Lewis
<DLewis@valleywater.org>
Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Hello,

I have tried contacting Kristen via phone several times this week (both phone #'s) and have left two voicemails in hopes of a call back. I'm writing here to confirm that all of the concerns about the communication plan were addressed in a separate document entitled "Communication Plan Grant." This had all of the details that were requested prior - perhaps it was overlooked. If there's a way you'd like documents sent in a way that they won't be overlooked, let me know.

Thank you for providing the updated logo.

-Philip

On Fri, Oct 15, 2021 at 5:10 PM Kristen Yasukawa
<KYasukawa@valleywater.org> wrote:

Hi Philip:

Thanks for sending over these items for the partnership agreement. We've reviewed what you shared and also have an update on the project area, see below.

If it's helpful, we are available for a follow up meeting to further discuss any of these items.

Thank you!
Kristen

Project Area

After our previous discussions, we discussed the project area internally. We would like to see if you could expand your proposed project area to align with the disadvantaged communities in the Guadalupe and Coyote Watersheds, as indicated on the [Cal EnviroScreen map](#) (screenshot below). Since you requested an expanded project area due to lack of involvement and engagement in the initial project area described in the proposal, we hope that a broader area will help even more with that concern and increase engagement and awareness with disadvantaged communities.

Communication Plan

It looks like you might've sent the old plan over accidentally. Could you send over the updated plan that incorporates our feedback and discussion items from our last meeting? See our comments in the last email chain below. The plan may also need to be expanded to correspond to the broader project area as described above.

9/23/21 email recap - Philip presented a draft project plan and timeline for Valley Water staff review. Initial staff feedback includes:

- **Due to the continued uncertainties of the pandemic impacts, identify the original activities and alternate activities for each task that could be performed in compliance with any public health ordinances (shelter in place, social distancing, etc.). This way, no matter what happens in the coming months, you will have approved activities to perform and that will minimize any delays.**
- **Include the updated creek cleanup protocols**
- **Add detail, description and explanation for the outreach and education materials**

Outreach Materials

At first glance we noticed that the Valley Water/Safe, Clean Water logo needs to be updated. Please see the attached logo file (we also have other file formats, upon request). Friendly reminder that we need to review all items that include the Valley Water/Safe, Clean Water logo.

We will be able to review the outreach materials for content once they are described in the updated communication plan and we can understand how it all fits together.

- Will all of these materials be translated into multiple languages?
Will the translations be conducted and/or reviewed by professional translators?
- How is the SBCCC BioBlitz event incorporated into the project?

KRISTEN YASUKAWA

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From: Philip Bair <p.bair@sbcleancreeks.com>

Sent: Wednesday, September 29, 2021 10:17 AM

To: Kristen Yasukawa <KYasukawa@valleywater.org>

Cc: c.szymkiewicz@sbcleancreeks.com; Sherilyn Tran

<STran@valleywater.org>; Steve Holmes

<s.holmes@sbcleancreeks.com>; Grants <Grants@valleywater.org>;

Amy Fonseca <AFonseca@valleywater.org>; Dannette Lewis

<DLewis@valleywater.org>

Subject: Re: SBCCC Partnership #33144 Check In (Valley Water/SBCCC)

Hello,

Following up to provide PPT presentations, an event flyer (2 pages), and a write-up to complement the communication plan. I'm including a link to the PPT's we are looking to get approved before proceeding, viewable

here: <https://drive.google.com/drive/folders/1bk3rKtCk4iYY0uuAbvPmlXww7VtlcKcZ?usp=sharing>

-Philip

On Thu, Sep 23, 2021 at 9:18 PM Kristen Yasukawa
<KYasukawa@valleywater.org> wrote:

Hi Carol and Philip:

It was nice to meet you, Philip, and to connect on the status of the partnership project.

Per our conversation, here are the responses to your initial questions and the next steps we discussed. Please let me know if you have anything to add/update.

I will be out of the office until October. Please continue to work with Amy and Dannette in my absence.

Thank you – and may the force be with you!

Kristen

1) In regards to presentations to the Neighborhood Associations – most are now meeting on Zoom and don't plan on returning to in-person meetings.

Suggested solution: Screen shot of meeting

Forgo the survey and ask for a follow up letter from the Association regarding our participation in which they could provide feedback on our content.

As we discussed, we would prefer not to forgo the survey, especially since there are many successful virtual options. We recommend sending out the online survey via email after the meeting, or in the chat in the Zoom before the meeting ends. The survey would be in addition to the screen shot of the meeting and participant sign up/sign in list.

2) The project area has many commercial elements but few parks, schools or libraries. Can we expand the boundaries of the project by ½ mile to include more parks, schools etc? Here is the link to our proposed expansion of the project area:

<https://www.google.com/maps/d/edit?mid=1GwUUw4LYH1kXrWbTU8L4822agr7256Ue&usp=sharing>

Our team will discuss the project area and get back to you. The project area described in the RFP is the Guadalupe and Coyote Watersheds, specifically in underserved and other communities.

The watersheds map boundaries are accessible here:
<https://www.valleywater.org/learning-center/watersheds-santa-clara-valley>

For the disadvantaged communities boundaries, we use the Cal EnviroScreen map, which is accessible here:

.....ValleyWater A Valley Water

From: Rachael Gibson <rgibson@valleywater.org>
Sent: Tuesday, December 14, 2021 12:14 PM
To: Michele King <MKing@valleywater.org>
Cc: Rick Callender <rcallender@valleywater.org>; Darin Taylor <DTaylor@valleywater.org>; Melanie Richardson <mrichardson@valleywater.org>; Marta Lugo <MLugo@valleywater.org>; Sherilyn Tran <STran@valleywater.org>
Subject: SBCCC Partnership #33144 - Failure to meet agreement requirements
Importance: High

Good afternoon Michele, would you please add the response (below) to Item 2.1 that appears on the Board Audit Committee's agenda, and kindly share it with the Board Audit Committee? The issue will be agendized for an update and discussion at their next meeting. Thank you!

--Rachael

RACHAEL GIBSON

CHIEF OF EXTERNAL AFFAIRS
External Affairs Division
rgibson@valleywater.org
Tel. (408) 630-2884 / Cell. (408) 781-4739



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From: Marta Lugo <MLugo@valleywater.org>

Sent: Tuesday, December 14, 2021 10:33 AM

To: Steve Holmes <s.holmes@sbcleancreeks.com>

Cc: Rick Callender <rcallender@valleywater.org>; Melanie Richardson <mrichardson@valleywater.org>; Rachael Gibson <rgibson@valleywater.org>; Sherilyn Tran <STran@valleywater.org>; Kristen Yasukawa <KYasukawa@valleywater.org>

Subject: SBCCC Partnership #33144 - Failure to meet agreement requirements

Importance: High

Hello Steve,

I hope this finds you well. Sherilyn invited me to the meeting scheduled on Tuesday, Dec. 7, between our Grants team and you and your South Bay Clean Creeks Coalition (SBCCC) team to help move the partnership project forward. I was disappointed that you canceled the meeting at the last-minute last week because I wanted to discuss several serious issues regarding the partnership agreement between Valley Water and (SBCCC). Since you canceled last week's meeting, I am sending this email to highlight our concerns, outlined below, including SBCCC's failure to meet the agreement's requirements to increase education and community engagement for stewardship activities, specifically in underserved communities.

1. SBCCC's failure to provide sufficient evidence of progress made towards meeting Partnership deliverables

As you know, Valley Water is responsible for ensuring that the contract terms and deliverables outlined in the partnership are honored and performed in good faith. This partnership agreement, executed December 7, 2018, for approximately \$200,000, is to carry out critical work in communities that have been historically underrepresented in environmental stewardship efforts. Valley Water issued a formal Request for Proposal (RFP) for this partnership agreement to enlist a qualified entity *to: specifically engage underserved groups and disadvantaged communities.*

In the process of reviewing the first invoice for this partnership agreement, our grants staff noted that very little, if any, progress has been made on the tasks relative to engaging with underserved communities. Your staff member only recently shared with our grants team that SBCCC had been unsuccessful in its limited engagement efforts

with underserved communities and requested the grants team to provide him with additional tools and resources, which they did immediately. That included providing your team with best practices such as a list of certified professional translators, a more comprehensive outreach map targeting underserved/ disadvantaged communities, and review of materials and other resources, all as requested.

2. SBCCC's failure to authentically engage with underserved communities of color

SBCCC has made little effort to authentically engage or reach out to underserved communities or provide satisfactory evidence of doing so, as required by the agreement. It appears that there is a clear resistance and/or unwillingness from South Bay Clean Creeks Coalition to meaningfully engage with underserved communities and provide equitable services in our creeks for communities of color, which not only violates the terms of this partnership agreement, but also fails to meet Valley Water's commitment to and expectations relative to racial equality, diversity, and equitable treatment of all our diverse communities in its efforts to advance environmental justice. Here are two examples:

- SBCCC's Communication Plan submitted on November 1 indicated that PowerPoint presentations—which are an important outreach tool for presentations—would not be translated into other languages.
- SBCCC attempted to be reimbursed for outreach activities with other groups that were not included in the agreement, nor considered as historically underserved groups, including:
 - Presentation to the Valley Water Homeless Ad Hoc Committee
 - Presentation at a San Francisco Estuary meeting
 - Tabling event at Google for their employee Earth Day

3. SBCCC's failure to meet with Valley Water staff to provide necessary information and work together in good faith to resolve issues

I am also deeply concerned about your and your staff's refusal to meet with Valley Water staff to resolve these critical issues. In fact, you canceled the last scheduled meeting on Dec. 7 only a few hours prior, with no further explanation and no mention of rescheduling. This was after Valley Water staff attempted to meet with you directly to resolve the issues several times over the last few months. To recap:

- September 23: Valley Water met with your staff to discuss these deliverables and reporting.
- October 27: Valley Water met again with your staff to check-in on the status.
- November 4: Valley Water sent you and your staff an email requesting the follow up items from the last meeting.
- November 4: Phone conversation between you and the Civic Engagement Manager, where you agreed to a team meeting to get on the same page.
- November 5: Grants staff emailed SBCCC to set that meeting up.
- November 11: SBCCC staff emailed grants staff but did not respond to the meeting request.
- November 14: The Civic Engagement Manager reminded SBCCC staff that you

had agreed to meet with our team soon.

- November 18: You emailed to request that meeting occur the week of December 6; the meeting was set for December 7.
- December 3: Valley Water staff emailed some information in advance of the December 7 meeting.
- December 7: You canceled the meeting with no explanation and no offer to reschedule.

Further, I am troubled by SBCCC attempting to invoice Valley Water for SBCCC's time to perform and submit the required documentation, for example, attempting to characterize the work required for the agreement as "additional work" when in fact it is nothing more than doing what SBCCC is contractually obligated to do under the agreement.

4. SBCCC's failure to meet contractual obligations stipulated in partnership agreement

To be clear, your organization has a contractual obligation to provide meaningful engagement with underserved communities of color as outlined in the scope of the agreement, and this requires providing sufficient evidence and satisfactory documentation. That has not occurred to date, which raises serious questions about whether SBCCC wants to meaningfully engage with these underserved communities at all. Our expectation is that SBCCC please adhere to the contract terms and agreed-upon deliverables. As you know, Valley Water has an obligation as stewards of public funds to be accountable in ensuring agreements are carried out and funds are spent as promised to the taxpayers, and SBCCC has not done so thus far.

Valley Water requests that you abide by the terms of the partnership and submit proper documentation and evidence of meeting deliverables relative to outreach and engagement with underserved communities, so that this agreement may continue forward, as committed to by SBCCC. Our offer to meet to resolve these issues still stands; if you have any questions or would like to discuss any aspect of this agreement, I encourage you to please contact me and/or Sherilyn Tran for a meeting right away.

Thank you for your attention to this matter.

MARTA M. LUGO, MPH (*She/ Her*)

EXTERNAL AFFAIRS ASSISTANT OFFICER

Office of Racial Equity, Diversity & Inclusion

Office of Civic Engagement

Division of External Affairs

District Mobile (408) 613-9129

mlugo@valleywater.org

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Santa Clara Valley Water District

File No.: 21-1273

Agenda Date: 12/15/2021

Item No.: 3.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Approval of 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.

ATTACHMENTS:

Attachment 1: 102021 BAC Minutes

UNCLASSIFIED MANAGER:

Michele King, 408-630-2711

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BOARD AUDIT COMMITTEE MEETING

MINUTES

**REGULAR MEETING
WEDNESDAY, OCTOBER 20, 2021
2:00 PM**

(Paragraph numbers coincide with agenda item numbers)

1. CALL TO ORDER:

A Regular meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee), conducted by Zoom teleconference, was called to order in the District Headquarters Conference Room A-124, 5700 Almaden Expressway, San Jose, California, at 2:00 p.m.

1.1 Roll Call.

Committee members in attendance were District 3 Director Richard P. Santos, and District 2 Director Barbara Keegan, Chairperson presiding, with District 7 Director Gary Kremen participating by teleconference, constituting a quorum of the Committee.

District 4 Director Linda LeZotte attended via teleconference.

Staff in attendance were E. Sans. Staff members participating by teleconference were M. Cook, A. Gordon, B. Hopper, A. Mendiola, C. Orellana, D. Taylor, D. Wickman, K. Wong, and T. Yoke

Also, in attendance by teleconference was Ms. Denise Callahan, TAP International, Inc. (TAP).

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

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

3. APPROVAL OF MINUTES:

3.1 Approval of Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of the September 15, 2021, Regular Committee meeting.

Move to Approve: R. Santos
Second: B. Keegan
Yeas: R. Santos, B. Keegan
Nays: None
Abstains: G. Kremen
Recuses: None
Absent: None
Summary: 2 Yeas; 0 Nays; 1 Abstains; 0 Absent.

4. ACTION ITEMS:

4.1 Receive and Discuss the Draft 2021 Risk Assessment Report.

Recommendation: Receive and discuss the Draft 2021 Risk Assessment Report.

Ms. Denise Callahan, TAP International, reviewed the information on this item, per the attached Committee Agenda Memo.

The Committee received the information without formal action, and noted the following:

- In the Financial Management Risk Area, Committee expressed concern on locating an asset due to a decentralized inventory; equipment in inventory that are in Y2K category; support of adoption of current technology to maximize use of physical space and storage; necessity of locating an inventoried equipment in case of emergency; and consider inventoried items not only for material cost, but for material function that adds to staff efficiency. Ms. Callahan added that Valley Water's has no division responsible for all the inventory within the organization.
- In the Data Management and Accuracy Risk Area, the Committee requested to add "Data Integrity" under the Issues Identified column referring to accuracy as well as a systems audit to integrate master data with other databases with the same information.
- In response to TAP International, the Committee expressed preference to organize the audit list by operational simplicity and by highest risk or most value on recommendations made. Ms. Callahan announced that TAP International will welcome any audit suggestions or concerns until tomorrow after this meeting for consideration in the risk assessment report.
- The Committee requested to include reputational risk on community satisfaction with Valley Water's operations and services.

4.2 Review and Discuss the 2021 Board Audit Committee Work Plan.

Recommendation: Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan.

Chairperson Keegan announced that after a discussion with the District Counsel, the risk management unit discussion topic can be delayed for a few months.

Mr. Darin Taylor, Chief Financial Officer, informed the Committee about the following items planned for the regular Committee November meeting: presentation of a draft FY21 Annual Financial report unless INFOR implementation takes time from staff, and in that case, this will moved to the December meeting; presentation of Q1 FY22 Financial Audit status; and discussion on audit ranking and weighing.

The Committee inquired on a mechanism to bring this to the full Board. Staff recommended a report out at the next BAC meeting to review, discuss, and seek CEO input.

Chairperson Keegan requested staff to wait until after discussion with the CEO before they put together the agenda for the next BAC meeting.

The Committee noted the information without formal action.

4.3 Discuss and Approve any Updates to the Annual Audit Work Plan.

Recommendation: Discuss and approve any updates to recommend to the full Board, if necessary.

Mr. Taylor reviewed the information on this item, per the attached Committee Agenda Memo.

The Committee noted the information without formal action.

5. INFORMATION ITEMS:

None.

6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS:

None.

7. ADJOURN:

- 7.1 Adjourn to Regular Meeting at 2:00 p.m., on November 17, 2021, to be called to order in compliance with the Brown Act as currently in effect and Santa Clara Valley Water District Resolution 21-85, adopted on September 28, 2021, in compliance with the provisions of AB361 (Rivas).

Chairperson Keegan adjourned the meeting at 3:20 p.m., to the 2:00 p.m. Regular Meeting on November 17, 2021, to be called to order in compliance with the Brown Act as currently in effect and Santa Clara Valley Water District Resolution 21-85, adopted on September 28, 2021, in compliance with the provisions of AB361 (Rivas).

Max Overland
Assistant Deputy Clerk II



Santa Clara Valley Water District

File No.: 21-1206

Agenda Date: 12/15/2021

Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Valley Water Draft Annual Comprehensive Financial Report for the Fiscal Year Ending on June 30, 2021.

RECOMMENDATION:

Discuss the Valley Water Annual Comprehensive Financial Report (ACFR) for the Fiscal Year (FY) Ending on June 30, 2021, that staff will be recommending for Board acceptance.

SUMMARY:

The ACFR for the fiscal year ending on June 30, 2021 was audited by Valley Water's external auditor, Maze and Associates. During the audit, no material financial findings or internal control weaknesses were reported. It is anticipated that the auditor will issue an unmodified ("clean") opinion stating that Valley Water's financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP), as established by the Governmental Accounting Standards Board (GASB). The Draft ACFR is provided as Attachment 1.

ATTACHMENTS:

Attachment 1: FY21 Draft Annual Comprehensive Financial Report

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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Valley Water
San Jose, California

Annual Comprehensive Financial Report
For the Fiscal Year Ended June 30, 2021

Prepared by the General Accounting Services Unit

Darin Taylor, Chief Financial Officer
Jimmy Salandanan, Accounting Manager

DRAFT

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January 13, 2022

TO THE BOARD OF DIRECTORS OF VALLEY WATER:

It is our pleasure to submit the Annual Comprehensive Financial Report (ACFR) for the Santa Clara Valley Water District, now referred to as Valley Water, for the fiscal year ended June 30, 2021. The ACFR is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with Valley Water. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities of Valley Water. All disclosures necessary to enable the reader to gain an understanding of Valley Water's financial activities have been included.

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

Valley Water's financial statements have been audited by Maze and Associates, a firm of licensed certified public accountants. The purpose of the independent audit was to provide reasonable assurance that the financial statements of Valley Water for the fiscal year ended June 30, 2021, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on Valley Water's financial statements for the fiscal year ended June 30, 2021. The opinion rendered concluded that the financial statements are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Letter of Transmittal (continued)

The independent audit of the financial statements of Valley Water is part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements but also on Valley Water’s internal controls and compliance over the administration of federal awards. The single audit review is applicable when Federal funded expenditures equal \$750 thousand or more. This audit is typically completed after the audit of the financial statements and will be issued separately for the Board’s acceptance.

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

District Profile

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

Valley Water operates as a State of California special district under the authority of the District Act (Wat. Code, § Ch. 60, Refs & Annos). Valley Water is the primary water resource agency for Santa Clara County, California. It is the largest multi-purpose water supply, watershed stewardship, and flood management special district in California. It acts not only as the County’s primary water wholesaler but also as its flood protection agency and is the steward for its streams and creeks, underground aquifers, and district-built reservoirs. The District Act governs the structure, function, and operations of the Valley Water’s Board of Directors (Board), which governs Valley Water and directs the Chief Executive Officer.

Valley Water is the primary water resource agency for the two million residents of the County. It encompasses all of the county’s approximately 1,315 square miles and serves the area’s 15 cities and towns: Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale. Valley Water also serves certain unincorporated areas of the County.

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

To ensure an adequate and reliable supply of high-quality water, Valley Water has partnered with cities and water retailers in the county to develop recycled water supplies. About 5% of the County’s total water use currently consists of recycled water, limited primarily to landscaping and industrial uses. Recycled water use is expected to expand in the coming years.

Letter of Transmittal (continued)

In 2010, the Board approved agreements with the City of San Jose to partner and build the Silicon Valley Advanced Water Purification Center (SVAWPC), a facility designed to produce about eight million gallons per day (MGD) of highly purified water. Valley Water and the City of San Jose entered into a ground lease and property use agreement (the “Ground Lease”) with respect to the City of San Jose owned site in North San Jose on which the SVAWPC is located. In addition, Valley Water and the City of San Jose entered into an integration agreement (the “Integration Agreement”) with respect to the operation of the SVAWPC. Valley Water and the City of San Jose each have the annual option to terminate the Integration Agreement on or after June 30, 2021, in accordance with its terms. The Ground Lease provides that if the Integration Agreement is terminated, the Ground Lease will simultaneously terminate and upon such termination, Valley Water would be required to surrender the facilities of the SVAWPC to the City of San Jose. The option to terminate the Integration Agreement provides an opportunity for the City of San Jose and Valley Water to re-evaluate the continued need for integrated management of their respective facilities (i.e., Valley Water’s SVAWPC and City of San Jose’s Regional Wastewater Facility), financial support, and opportunities for the use of recycled water. Both parties would be required to meet and discuss potential amendments to the Integration Agreement in lieu of terminating the Integration Agreement to address the parties’ concerns.

The SVAWPC in North San Jose commenced full operation in March 2014. Currently, purified water produced by the SVAWPC is not used for potable (drinking) purposes and is instead blended with existing recycled water to enhance its quality for non-potable purposes such as irrigation, cooling towers and industrial applications.

In December 2019, Valley Water’s Board of Directors approved a 76-year agreement with the cities of Palo Alto and Mountain View to secure a minimum of 9 MGD of wastewater effluent through an effluent transfer option. Under the agreement, Valley Water will pay \$0.2 million per year for the option to receive the wastewater effluent until June 1, 2033 or the point in time when Valley Water begins to receive the wastewater effluent, whichever occurs first. If Valley Water exercises its option, 9 MGD of effluent would be delivered to a regional purification facility to be constructed and owned by Valley Water. The purified water, which would be a locally controlled drought resilient supply, could be used for either indirect potable reuse (e.g., recharge local groundwater basins) or direct potable reuse (raw water or treated water augmentation, subject to future regulatory requirements). If Valley Water exercises the option, Valley Water would pay \$1.0 million per year for the effluent plus an inflation escalator for the 76-year term of the agreement. Valley Water has not made a decision as to whether it will exercise the option to receive wastewater effluent under the agreement. In addition to the foregoing option, Valley Water will contribute \$16.0 million to be used to fund either: (1) a portion of the costs of a local salt removal facility in the City of Palo Alto to provide a higher quality of recycled water for irrigation and cooling towers or (2) in the event that the cities of Palo Alto and Mountain View decide not to construct the local plant within 13 years of the effective date of the agreement, to fund other recycled water or water supply projects.

Valley Water also provides stream stewardship that encompasses managing flood and storm waters within the County. The 1929 Santa Clara Valley Water District Act requires Valley Water to uphold the safety of the Santa Clara County residents from floods and storm waters, monitor the condition affecting watersheds and riparian corridors, and provide for the protection of property and the natural

Letter of Transmittal (continued)

environment along creeks and rivers, and at the edge of the San Francisco Bay. For fiscal year 2021, total budgeted outlays for watershed management and flood protection totaled \$215.8 million¹.

Factors Affecting Financial Condition

Local Economy

Located south of San Francisco Bay, Santa Clara County is the sixth largest county in California, with a population of over 1.9 million² and measures approximately 1,315 square miles. The northwest portion of the County, known as Silicon Valley, is home to many leading computer and electronic companies such as Apple, Google, Facebook, Cisco, Intel, VMware, HP, Applied Materials, Adobe, and several Fortune 500 companies³.

The COVID-19 pandemic has created a level of economic uncertainty worldwide that is unprecedented. Around Santa Clara County, the pandemic had the most significant economic impact on the leisure and hospitality sectors. The County's technology and professional sectors fared better by employing a work-at-home strategy to mitigate the crippling effect of the pandemic on businesses.

As distribution of vaccines increased and became more readily available by April 2021, COVID-19-related hospitalizations started to decline. This improved condition allowed business sectors that were previously forced to limit capacity to reopen⁴. The Employment Development Department reported in June 2021 that the County's unemployment rate has improved to 5.2% from 10.7% in the prior year⁵.

To adopt to the challenges of COVID-19, Valley Water has been refining project plans, prioritizing business continuity, and maintaining the operation of essential services to provide safe, clean water to Santa Clara County. The COVID-19 outbreak is still ongoing, and the economic impact remains uncertain. Despite Governor Newsom's executive order issued on March 4, 2020 that restricts water shutoffs to homes and small businesses while the state deals with the pandemic, Valley Water remains resilient and has not been notified by any retail water purveyor served by Valley Water of material delinquencies in the payment of water utility bills by customers of such retail water purveyors.

The relatively low level of rainfall during fiscal year 2021 has brought another set of challenges for Valley Water. On May 10, 2021, the Governor of the State of California proclaimed a state of emergency due to severe drought conditions that continue to worsen throughout the state. As the condition of the drought continues to evolve, Valley Water put forth a plan to prioritize its drought response and preparedness resources, increase resilience of its water supplies and systems, and ensure that the potential impacts of the drought on communities are anticipated and proactively addressed. To reduce water use, Valley Water has increased its water conservation efforts through public outreach and continuous dialogue with water retailers, cities, and the County.

¹ Valley Water FY2020-21 Operating and Capital Budget

² State of California – Department of Finance, Demographics and Research Unit

³ Silicon Valley Business Journal, July 2021

⁴ San Francisco Chronicle, May 2021

⁵ State of California – Employment Development Department

Long-term Financial Planning

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

Valley Water funds activities that carry out its mission through the following three highest-level policies⁶.

- E2 - Valley Water provides a reliable, clean water supply for current and future generations in all communities served
- E3 - There is a healthy and safe environment for residents, businesses, and visitors, as well as for future generations
- E4 - Water resources stewardship to protect and enhance ecosystem health

Valley Water's largest revenue source is water charges, acting as a wholesaler for numerous water supply retailers in Santa Clara County. Water revenues for fiscal year 2021 were \$289.7 million. In May 2021, the Board of Directors adopted a modest increase to water rates for fiscal year 2022 to help fund drought preparation, water supply reliability investments, and infrastructure repair and replacement investments.

The State has placed operating restrictions on five of Valley Water's ten dams due to Seismic safety conditions. As of June 30, 2021, total local reservoir storage was 23,688 acre-feet. The estimated cost to fix all dams with seismic safety concerns is approximately \$908.0 million according to the FY22-26 Capital Improvement Program. Valley Water's Semitropic groundwater bank reserves were at 92% or 321,974 acre-feet as of June 30, 2021. Semitropic Water Storage District has reported elevated concentration of 1, 2, 3 trichloropropane in some of its underground wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery and treatment costs, and possible impaired recovery of banked water supplies.

The Five-Year Capital Improvement Plan (CIP) includes 68 projects totaling \$8.0 billion. Approximately 16% of this amount, \$1.3 billion, is anticipated to be funded by outside sources through reimbursements and cost-sharing partnerships. Projects in the CIP will improve, repair, replace, or construct the following infrastructures⁷:

- 31 water supply projects - \$5.4 billion
- 17 projects to increase flood protection - \$1.9 billion
- 12 environmental projects - \$215 million
- 2 projects to repair or maintain District building and grounds - \$59 million
- 6 projects to upgrade or expand existing information technology - \$50 million

⁶ www.valleywater.org/how-we-operate/board-governance-policies

⁷ Valley Water FY2022-26 Capital Improvement Program

Letter of Transmittal (continued)

On November 3, 2020, the Measure S (Safe, Clean Water and Natural Flood Protection) parcel tax met the two-thirds super majority vote required for approval with a voter passing result of 75.64%. The measure renews Valley Water's existing parcel tax, without increasing rates, and will average \$0.006 per square foot of parcel size for fiscal year 2022. The voter-approved special parcel tax will fund projects addressing the following community priorities:

- Ensure a safe reliable water for the future
- Reduce toxins, hazards, and contaminants in our waterways
- Protect our water supply and dams from earthquakes and other natural disasters
- Restore wildlife habitat and providing open space
- Provide flood protection to homes, businesses, schools, streets, and highways
- Support public health and public safety for our community

Safe, Clean Water and Natural Flood Protection builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000, as well as the Safe, Clean Water and Natural Flood Protection Program that replaced the Clean, Safe Creeks measure, which was approved by voters in November 2012. The program is funded by a combination of revenues from the continuation of an annual special tax, reserves carried forward from the 2012 program, and state and federal funding. Passage of this measure is estimated to generate \$45.5 million per year.

Relevant Financial Policies

End of Year Balances

Valley Water policies for end-of-year balance re-appropriations are as follows:

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

Valley Water, through the Public Facilities Financing Corporation, also maintains a commercial paper program for funding capital projects. Commercial paper is used to provide low-cost interim financing during construction. Valley Water issues long-term debt obligations with over a 30-year term to repay principal outstanding on the commercial paper. In October 2020, Valley Water established a \$170 million syndicated bank line of credit to ensure that Valley Water will have ample liquidity to continue funding ongoing capital projects and meet general financing needs despite the economic uncertainties related to the ongoing COVID-19 pandemic.

Letter of Transmittal (continued)

Budgetary Controls

Valley Water maintains budgetary controls, the objectives of which are to ensure compliance with legal provisions, embodied in the annually appropriated budget approved by the Board. Activities of the governmental funds and proprietary funds are included in the annual appropriated budget. Additionally, as a management tool, project-length financial plans are included in the annual Capital Improvement Plan. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, further limited by two categories - the operating budget (consisting of total operations, operating projects, and debt service) and the capital budget (consisting of capital project expenditures).

Valley Water also maintains an encumbrance accounting system as one process to accomplishing budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund require Board approval. Budget and actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For governmental funds, this comparison is presented starting on page 114 as part of required supplementary information and selected watershed activities starting on page 122 as part of supplemental information. For proprietary funds, this comparison is presented starting on page 126 as part of the combining and individual fund statements and schedules.

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

Reserve Requirements

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

Major Initiatives

Highlights of activities and accomplishments for the fiscal year ended June 30, 2021 include the following⁸:

- ◆ On October 14, 2020, Valley Water closed on a debt issuance to finance capital improvement costs for the water utility system. Total debt proceeds of \$216 million, plus \$20 million of original issue premium were used to repay \$99.3 million of commercial paper that was issued as an interim financing for previously incurred costs and generate \$135 million of new money proceeds to fund eligible capital costs over the next 1-2 years. Valley Water received AA+ and Aa1 credit ratings on the debt from Fitch and Moody's, respectively. The debt obligations will be repaid over 30 years at fixed rates. Valley Water achieved very favorable pricing with an aggregate, all true interest cost of 2.69% and achieved budgetary debt service savings of approximately \$5 million for fiscal year 2021.

⁸ Valley Water FY2021-22 Operating and Capital Budget

Letter of Transmittal (continued)

- ◆ On April 6, 2021 Valley Water's Pacheco Reservoir Expansion Project was selected by the U.S. Environmental Protection Agency (EPA) to submit an application for credit assistance for up to \$692 million, or not to exceed 49 percent of total eligible project costs under its Water Infrastructure Finance and Innovation Act (WIFIA) loan program.
- ◆ On June 4, 2021, Valley Water hosted a virtual ribbon cutting on the completed Rancho-San Antonio Detention Basin project. This project was the last remaining element of the greater Permanente Creek Flood Protection Project, which will provide flood protection for at least 2,200 properties in Mountain View and Los Altos.
- ◆ On June 30, 2021, Valley Water released the draft Environmental Impact Report (EIR) for the fish and aquatic habitat collaborative effort (FAHCE) program for a 45-day public review. The proposed project implements a Fish Habitat Restoration Plan and includes restoration measures specified in a 2003 FAHCE settlement agreement intended to resolve a water rights complaint filed with the State Water Resources Control Board.
- ◆ Throughout the course of fiscal year 2021, Valley Water completed the following capital project work:
 - Phase 1 (Geotechnical Field Investigations) of the Pacheco Reservoir Expansion Project
 - 60% design of the Anderson Dam Seismic Retrofit Project and 100% design of the Anderson Dam Tunnel Project
 - Design of the Lower Calera Creek Flood Protection Project, Upper Llagas Creek Flood Protection – Phase 2A, Lower Penitencia Creek Improvements Project, and Upper Guadalupe River Aquatic Habitat Project
 - Lower Silver Creek Flood Protection and Creek Restoration Project revegetation and plant establishment phase
 - Cross Valley and Calero Pipelines to rehabilitate and improve the raw water transmission pipeline infrastructure and associated appurtenances
 - Central Pipeline and Parallel East Pipeline Rehabilitation Project to extend their useful life and improve reliability
 - Almaden Valley Pipeline Emergency Response Project to repair a distressed pipeline section

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Water for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2020. This was the 24th consecutive year that Valley Water has received this prestigious award. To be awarded a Certificate of Achievement, Valley Water must publish an easily readable and efficiently organized comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Letter of Transmittal (continued)

The preparation of this ACFR represents the culmination of months of concerted team effort by diverse Valley Water staff, including team members from Financial Planning and Management Services Division, Water Supply Division, Information Management Services Division, General Services Division, Human Resources Division, and Office of the District Counsel. Many team members demonstrated a high degree of personal dedication and determination in producing this exemplary document. In addition, special thanks to Valley Water staff in all groups for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Maze and Associates is also acknowledged for their significant technical contribution and assistance.

Special thanks go to Jaime Salandanan, General Accounting Unit Manager; the following Accounting staff: Christine Hernandez, Ofelia Hsieh, Gloria Chou, Oliva Manaloto, Fanny Chan, Trisha Cheung, Leticia Rocha, Veronica Martinez, Kim Burke, Christina Madden, and Gloria del Rosario, former General Accounting Unit Manager; and the Budget and Financial Planning staff, Chenlei Yao, for their talent and dedication in preparing this financial report.

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

Darin Taylor
Chief Financial Officer

Rick Callender
Chief Executive Officer



Government Finance Officers Association

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Achievement
for Excellence
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Presented to

**Santa Clara Valley Water District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

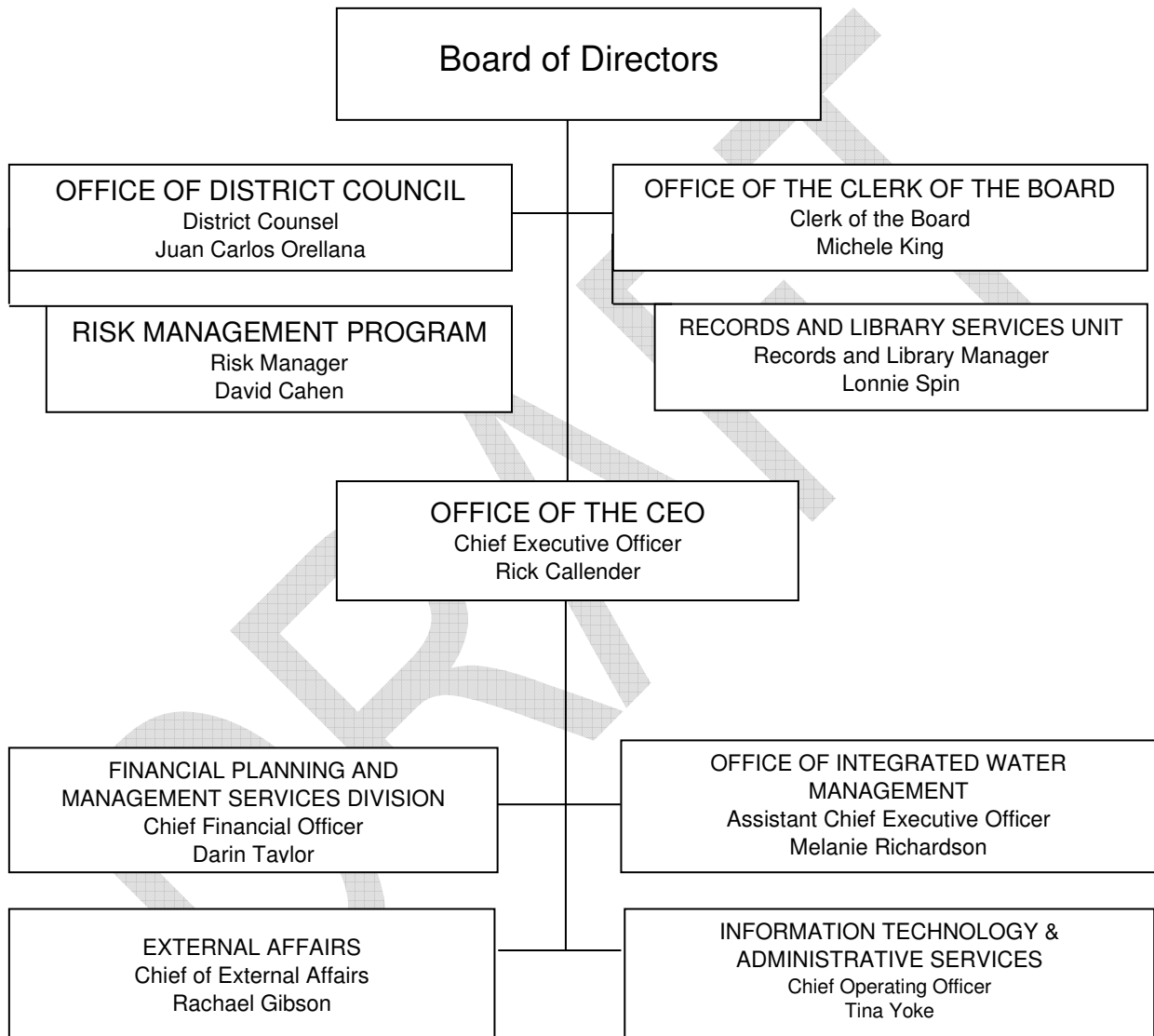
June 30, 2020

Christopher P. Morill

Executive Director/CEO

VALLEY WATER

Board of Directors & Executive Management



VALLEY WATER 2020 – 2021 BOARD OF DIRECTORS



John L. Varela
District 1



Barbara Keegan
District 2



Richard P. Santos
District 3



Linda J. LeZotte
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Nai Hsueh
District 5



Tony Estremera
District 6



Gary Kremen
District 7



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Water District (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 15, the District restated the net position of the Water Enterprise Fund related to the accounting for water inventory. The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental 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 auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Maze + Associates

Pleasant Hill, California
January 13, 2021

Management's Discussion and Analysis

Our discussion and analysis of Valley Water's financial performance provides an overview of Valley Water's financial activities for the fiscal year ended June 30, 2021. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- The net position of Valley Water was \$2.8 billion as of June 30, 2021. Of this amount, \$351.4 million (unrestricted, but committed and assigned net position) may be used to meet Valley Water's ongoing obligations to citizens, businesses, stakeholders, and creditors.
- Valley Water's net position increased by \$111.9 million during the current fiscal year. The net position for governmental activities increased by \$90.7 million, of which \$68.0 million came from the transfer of the net proceeds from the Water Utility 2020 Revenue Bonds series C and D. Net position for business-type activities increased by \$21.2 million.
- As of the close of the current fiscal year, Valley Water's governmental funds reported combined ending fund balances of \$379.1 million, an increase of \$29.0 million from the prior fiscal year fund balances of \$350.1 million.
- The fund balance for the general fund was \$14.2 million, which is the same as the prior fiscal year. Committed and assigned fund balances were \$14.2 million or 100% of the total fund balance.
- The fund balances of the Watershed & Stream Stewardship and Safe, Clean Water & Natural Flood Protection funds were \$291.5 million, a decrease of \$39.0 million from the prior fiscal year balance of \$330.5 million.

OVERVIEW OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

The ACFR is presented in six sections:

- The Introductory section that includes the Transmittal and general information
- Management's Discussion and Analysis
- The Basic Financial Statements that include the Government-wide and Fund Financial Statements, along with the accompanying Notes to the statements
- Required and Other Supplementary information
- Statistical Information

Basic Financial Statements

The Basic Financial Statements contain the Government-wide Financial Statements, the Fund Financial Statements, and the Notes to the financial statements. The financial statements presented herein include all the activities of Valley Water and its component units using the integrated approach as prescribed by Generally Accepted Accounting Principles (GAAP). This report also includes supplementary information intended to furnish additional detail to support the Basic Financial Statements.

Management's Discussion and Analysis (continued)

Government-wide Financial Statements

The government-wide financial statements present the financial picture of Valley Water from an economic resources' measurement focus using the accrual basis of accounting.

They include the Statement of Net Position and the Statement of Activities:

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

The Statement of Activities. The Statement of Activities presents information showing how Valley Water's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues earned, and expenses incurred are reported in this statement even if the resulting cash flows will occur in future fiscal periods (e.g., earned but uncollected taxes and earned but unused vacation leave).

The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental and Business-type activities.

Governmental activities are principally supported by taxes and intergovernmental revenues and include general government, watershed management, and construction and debt service funding.

Business-type activities are those that are intended to recover all of a significant portion of their costs through user fees and charges and include the water utility operation fund.

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

The Government-wide Financial Statement can be found starting on page 34 of this report.

Fund financial statements

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

Management's Discussion and Analysis (continued)

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

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

Proprietary funds. Valley Water maintains two-different types of proprietary funds: enterprise funds and internal service funds.

Proprietary funds are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements but provide more detail and additional information. Valley Water uses enterprise funds to account for its water utility operations fund.

Internal service funds are used to accumulate and allocate costs internally among the Valley Water's various functions. Valley Water uses internal service funds to account for its fleet of vehicles and computer equipment, risk management, and information technology activities. The internal service funds have been included within governmental and business-type activities in the government-wide financial statements.

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

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found starting on page 48 of this report.

Other Information

The "Required Supplementary Information" related to Valley Water's pension and OPEB plans is included after the Notes to the Financial Statements and can be found starting on page 110 of this report.

Management's Discussion and Analysis (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The balance in net position is a useful indicator of a government's ability to finance its operations. In the case of Valley Water, assets and deferred outflows exceeded liabilities and deferred inflows by \$2,815.8 million at the end of the current fiscal year.

Valley Water						
Condensed Statement of Net Position						
(in Millions)						
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Cash and investments	\$ 460.5	\$ 427.8	\$ 391.8	\$ 288.2	\$ 852.3	\$ 716.0
Other assets	9.6	15.2	172.2	179.3	181.8	194.5
Capital assets	1,622.4	1,553.8	1,350.3	1,266.3	2,972.7	2,820.1
Total assets	<u>2,092.5</u>	<u>1,996.8</u>	<u>1,914.3</u>	<u>1,733.8</u>	<u>4,006.8</u>	<u>3,730.6</u>
Deferred amount on refunding	(0.1)	-	0.5	0.6	0.4	0.6
Pension and OPEB related	19.4	32.9	46.7	25.4	66.1	58.3
Total deferred outflows of resources	<u>19.3</u>	<u>32.9</u>	<u>47.2</u>	<u>26.0</u>	<u>66.5</u>	<u>58.9</u>
Net pension and OPEB liabilities	180.0	167.2	136.1	126.3	316.1	293.5
Long-term debt	84.3	65.5	732.5	458.0	816.8	523.5
Other liabilities	46.9	81.3	66.8	166.5	113.7	247.8
Total liabilities	<u>311.2</u>	<u>314.0</u>	<u>935.4</u>	<u>750.8</u>	<u>1,246.6</u>	<u>1,064.8</u>
Pension and OPEB related	6.0	11.8	4.9	9.0	10.9	20.8
Deferred inflow of resources	<u>6.0</u>	<u>11.8</u>	<u>4.9</u>	<u>9.0</u>	<u>10.9</u>	<u>20.8</u>
Net position						
Net investment in capital assets	1,624.9	1,478.4	624.5	689.2	2,249.4	2,167.6
Restricted	136.5	153.7	78.5	84.7	215.0	238.4
Unrestricted	33.2	71.8	318.2	226.1	351.4	297.9
Total net position	<u>\$ 1,794.6</u>	<u>\$ 1,703.9</u>	<u>\$ 1,021.2</u>	<u>\$ 1,000.0</u>	<u>\$ 2,815.8</u>	<u>\$ 2,703.9</u>

The largest portion of Valley Water's net position (79.9%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment) less any related debt used to acquire those assets still outstanding. Investment in capital assets are *not* available for future spending. Although Valley Water's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For governmental activities, net investment in capital assets increased by \$146.5 million or 9.9% compared to the prior fiscal year. Capital assets, net of depreciation, increased by \$68.6 million. Long term liabilities, which include related debt outstanding, went up by \$18.8 million.

Management's Discussion and Analysis (continued)

For business type activities, net investment in capital assets decreased by \$64.7 million or 9.4% over the previous fiscal year. Capital assets, net of depreciation, increased by \$83.9 million, reflecting the increase in work in progress for the following main four projects: Rinconada Water Treatment Plant Reliability Improvement (\$32.8), Anderson Dam Seismic Retrofit (\$30.7 million), Pacheco Reservoir Expansion (\$16.5 million), and 10-year Pipeline Rehabilitation (\$13.2 million). Long term liabilities, which include related debt outstanding, went up by \$276.2 million. In September 2021, Valley Water issued \$92.6 million of Water system Refunding Revenue Bonds and \$123.3 million of Water Utility Revenue Certificates of Participation. Proceeds of the Revenue Bonds were used to repay \$99.3 million of outstanding taxable commercial paper notes and costs of issuance. The remaining net proceeds of the Revenue Bonds and Certificates of Participation will be used to finance capital construction projects in the Water Utility Enterprise.

The balance of 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 unrestricted net position increased by \$53.5 million to \$351.4 million.

Management's Discussion and Analysis (continued)

Valley Water Condensed Statement of Activities (in Millions)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Water charges	\$ -	\$ -	\$ 289.7	\$ 266.9	\$ 289.7	\$ 266.9
Operating grants and contributions	-	-	4.0	3.7	4.0	3.7
Capital grants and contributions	25.9	42.9	6.4	4.3	32.3	47.2
General revenues:						
Property taxes	154.5	148.4	30.2	30.2	184.7	178.6
Investment earnings	-	12.9	1.6	8.8	1.6	21.7
Miscellaneous	2.6	3.9	2.7	2.8	5.3	6.7
Total revenues	183.0	208.1	334.6	316.7	517.6	524.8
Expenses:						
General government	18.6	10.9	-	-	18.6	10.9
Watersheds	145.3	134.1	-	-	145.3	134.1
Interest on long-term debt	2.5	2.5	-	-	2.5	2.5
Water enterprise	-	-	239.3	226.9	239.3	226.9
Total expenses	166.4	147.5	239.3	226.9	405.7	374.4
Increase in net position before transfers	16.6	60.6	95.3	89.8	111.9	150.4
Transfers	74.1	1.6	(74.1)	(1.6)	-	-
Change in net position	90.7	62.2	21.2	88.2	111.9	150.4
Net position, beginning	1,703.9	1,641.7	1,000.0	778.6	2,703.9	2,420.3
Prior period adjustment	-	-	-	133.2	-	133.2
Net position, ending	\$1,794.6	\$1,703.9	\$1,021.2	\$1,000.0	\$2,815.8	\$2,703.9

Governmental activities

Net position in governmental activities increased by \$90.7 million during the fiscal year. Net revenues of \$16.6 million, and transfers in of \$74.1 million, resulted in the increase in net position.

The fiscal year net revenue of \$16.6 million came from property tax of \$154.5 million, capital grants of \$25.9 million, and other revenues of \$2.6 million, less operating expenses of \$166.4 million.

Compared to the prior fiscal year, revenues decreased by \$25.1 million and expenses increased by \$18.9 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Capital grants and contributions were \$25.9 million or \$17.0 million lower in the current fiscal as a result of decreases in both capital reimbursements and benefit assessments, \$16.0 million and \$1.0 million, respectively. More funding was received last fiscal year from the San

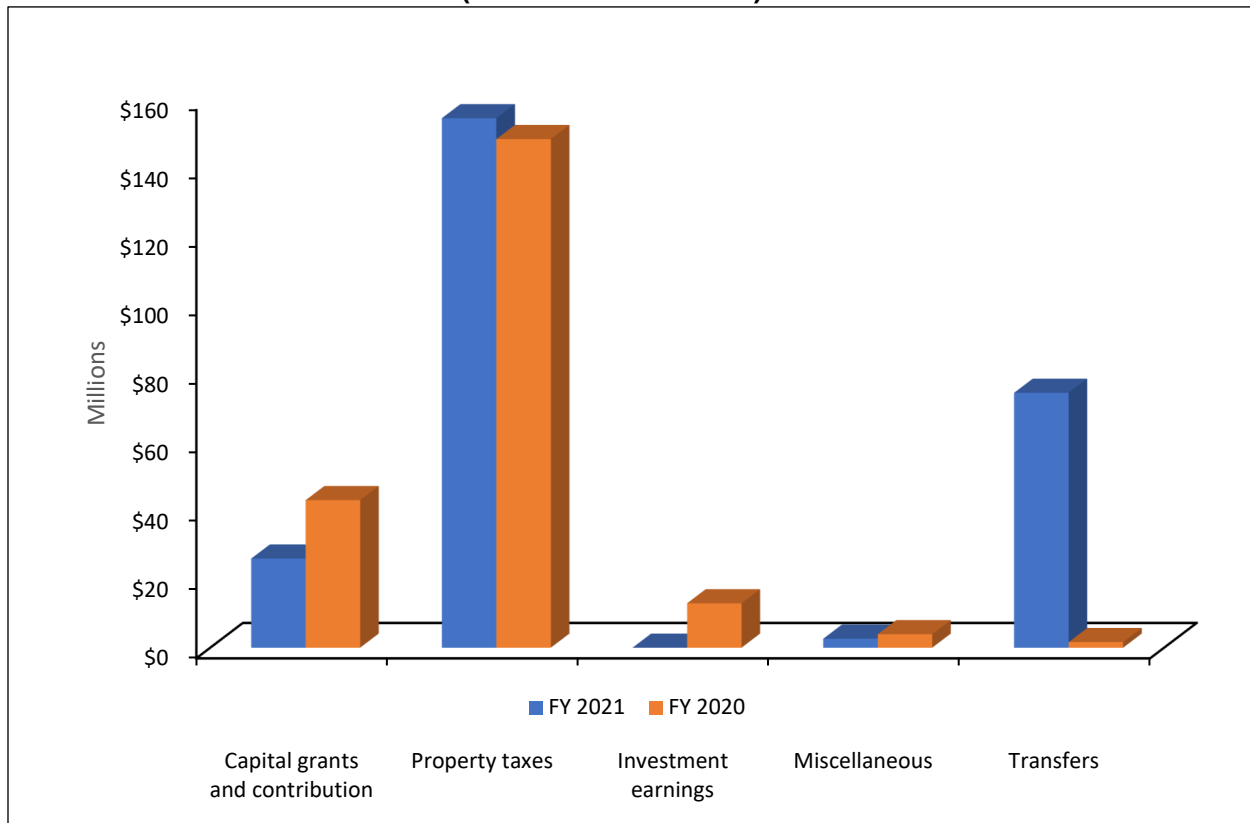
Management's Discussion and Analysis (continued)

Francisco Bay Area Restoration Authority (for the South San Francisco Bay Shoreline Project) and the State of California Department of Water Resources for flood management programs.

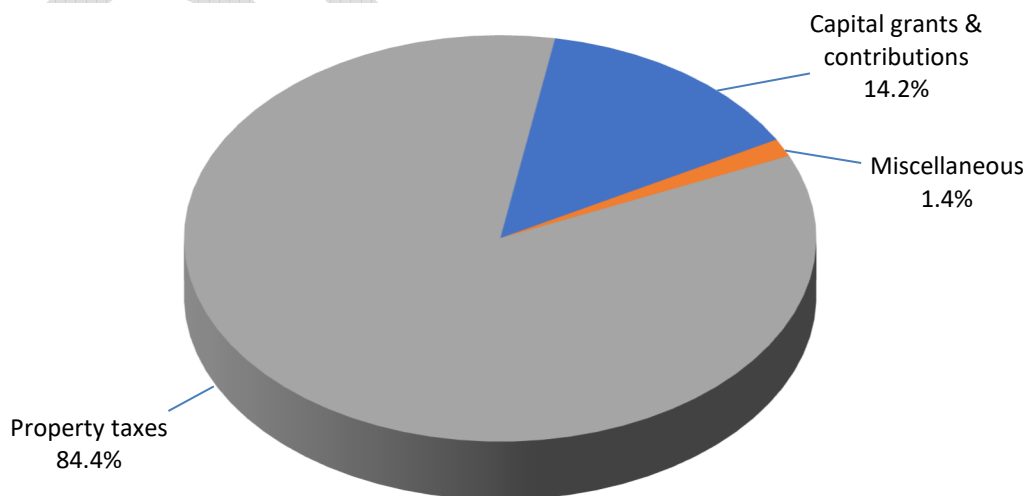
- Property taxes, the largest source of revenue at \$154.5 million or 84.4% of total revenues, increased by \$6.1 million, and is an indication of the strong property values in the Santa Clara county and the surrounding bay area.
- Investment earnings dropped by \$12.9 million from last fiscal year as interest rates continue to decline in fiscal year 2021. In addition, the uncertainty of the on-going COVID-19 pandemic is causing Valley water to hold unto more cash for liquidity and operational flexibility.
- General government expenses were \$18.6 million, which was \$7.7 million higher compared to the prior fiscal year due to increases in salaries, CalPERS contributions, and Internal Service Fund allocations for computer equipment charges. In addition, Valley Water also contributed \$3.3 as part of a cost-sharing arrangement with the County of Santa Clara for the November 13, 2020 elections.
- Watersheds expenditures were \$145.3 million, which was \$11.2 million more than the previous fiscal year. Accrued pension expenses of \$24.1 million was \$17.6 million higher in fiscal year 2021 when compared with the prior year.

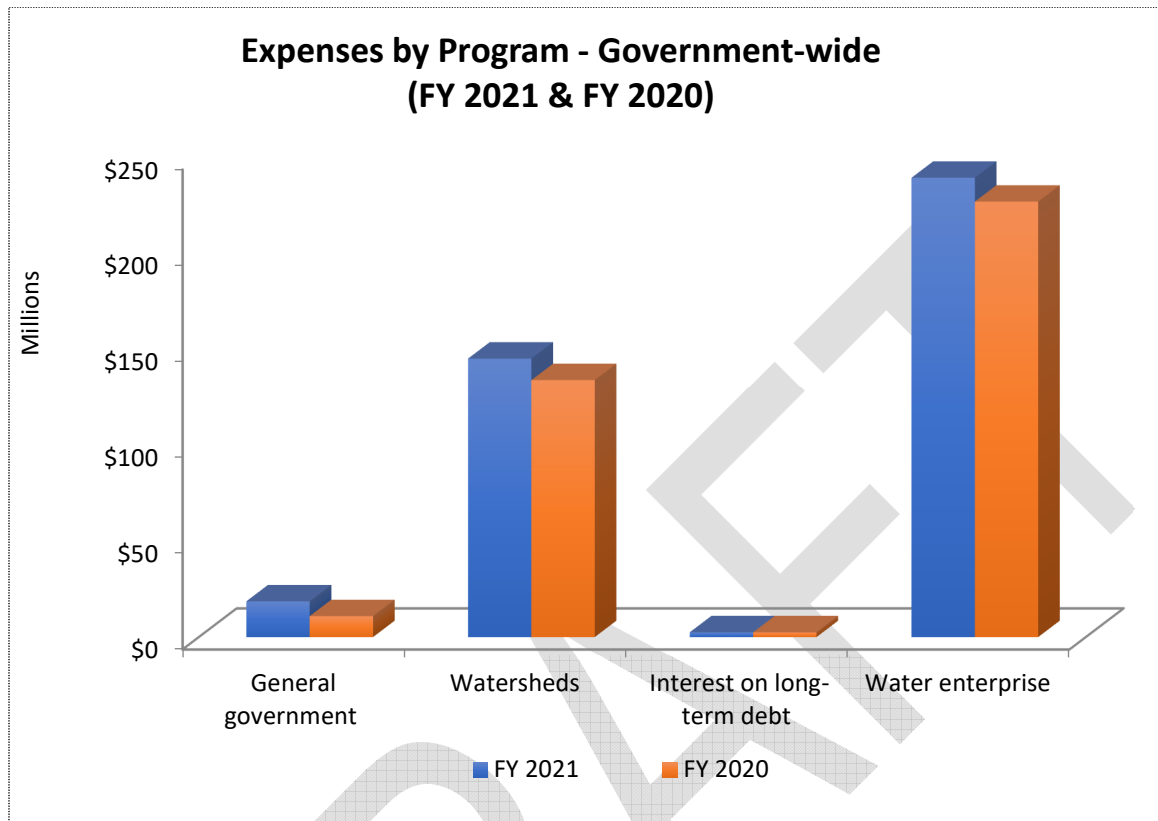
Net transfers during fiscal year 2021 were \$74.1 million. Net transfers in the prior fiscal year amounted to only \$1.6 million. Net transfers in of \$68.1 million, mainly from the Water Utility 2020 series A, B, C, and D Bond proceeds, accounted for 91.9% of the net transfers made in fiscal year 2021. A detailed listing of the transfers made during fiscal year 2021 is shown in Note 14 of the basic financial statements.

Revenue by Sources – Governmental Activities
(FY 2021 & FY 2020)



Revenues by Sources – Governmental Activities
(FY 2021)





Business-type activities

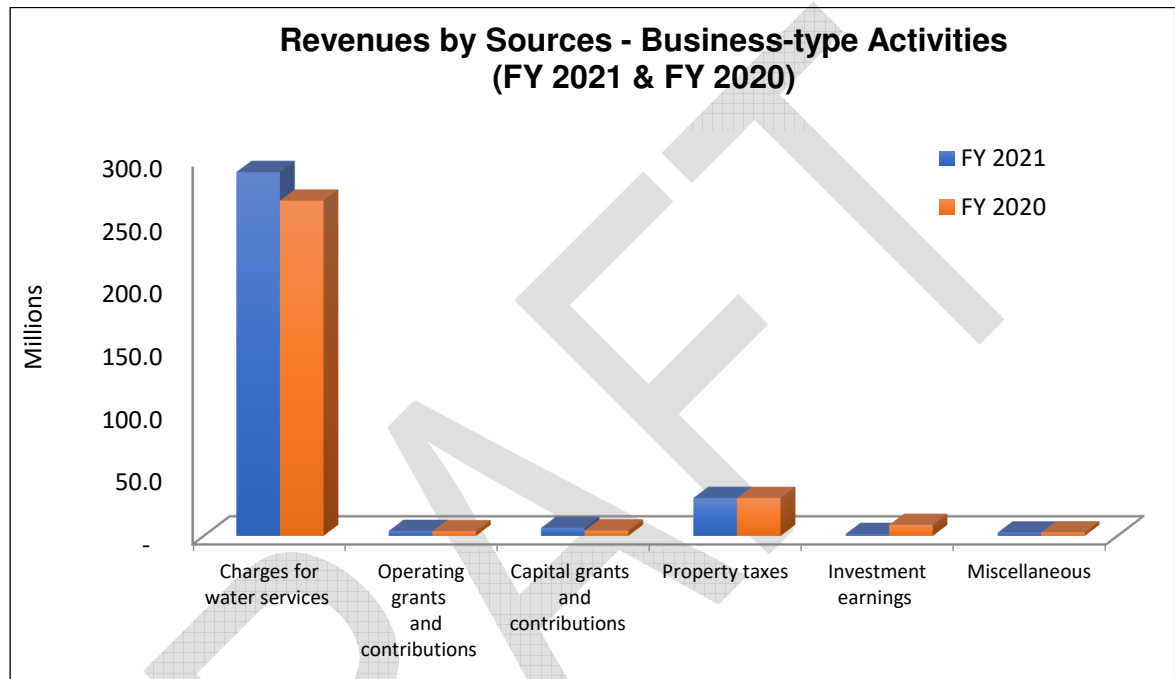
Net position in business-type activities increased by \$21.2 million during the fiscal year. Fiscal year revenue included water charges of \$289.7 million, property taxes of \$30.2 million, investment earnings of \$1.6 million, operating grants and contributions of \$4.0 million, capital grants and contributions of \$6.4 million, and miscellaneous revenue of \$2.7 million. Operating expenses related to water purchases were \$239.3 million. Net revenue before transfers was \$95.3 million. Net transfers out for the current fiscal year was \$74.1 million.

Compared to the prior fiscal year, total revenues increased by \$17.9 million and expenses increased \$12.4 million. Key elements of the changes in revenues and expenses from prior year are as follows:

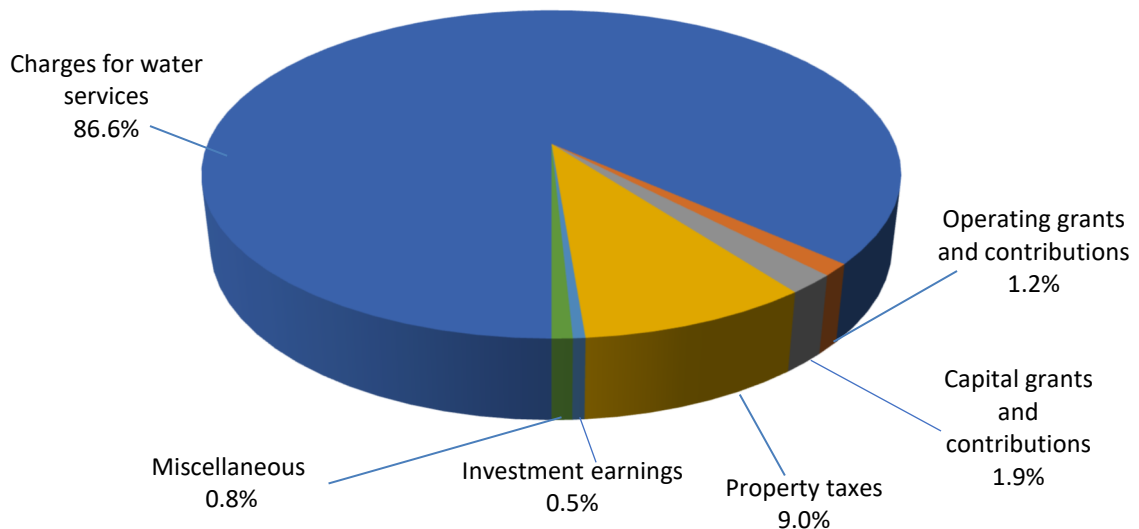
- Total water charge revenue of \$289.7 million was at \$22.8 million or 8.5% higher from the prior fiscal year. Groundwater and treated water revenues were up \$19.5 million and \$2.3 million, respectively, due to higher sales volume generated during the fiscal year.
- Operating grants and contributions increased slightly by \$0.3 million over the prior fiscal year.

Management's Discussion and Analysis (continued)

- Capital grants and contributions increased \$2.1 million compared to the last fiscal year as more capital costs reimbursements from the Department of Water Resources was received for flood management programs.
- Water enterprise expenses increased by \$12.4 million or 5.5% over the prior fiscal year. The higher cost of water purchases made of \$12.8 million, partly in anticipation of the upcoming drought, was the driving force in the increased expenses experienced during the current fiscal year.



**Revenues by Source – Business-type Activities
(FY 2021)**



Management's Discussion and Analysis (continued)

Cash flow for the government-wide activities shows a net increase of \$45.6 million for the current fiscal year. The following table shows the comparative breakdown of cash flow activities for the current and prior fiscal years for governmental and business-type activities.

Valley Water Condensed Statement of Cash Flow For the year ended June 30, 2021 and 2020 (in Millions)

	June 30, 2021			June 30, 2020		
	Governmental	Business-type	Total	Governmental	Business-type	Total
Cash flow from operating activities						
Net income	\$ 90.7	\$ 21.2	\$111.9	\$ 62.2	\$ 88.2	\$ 150.4
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	11.2	32.2	43.4	11.0	34.0	45.0
(Increase) decrease in current assets	2.5	4.6	7.1	15.9	(10.3)	5.6
Net receivables	2.5	(5.5)	(3.0)	17.1	(12.0)	5.1
Inventory	-	4.4	4.4	-	(1.2)	(1.2)
Deposits and other assets	-	5.7	5.7	(1.2)	2.9	1.7
(Increase) decrease in internal charges	(2.4)	2.4	-	(4.2)	4.2	-
Increase (decrease) in current liabilities	(6.6)	(48.1)	(54.7)	4.0	56.1	60.1
Accounts payable	(15.5)	(21.3)	(36.8)	3.7	9.8	13.5
Accrued liabilities	9.0	51.7	60.7	(0.7)	(3.7)	(4.4)
Commercial papers	-	(72.7)	(72.7)	-	52.7	52.7
Deposits payable	(0.1)	(5.8)	(5.9)	1.1	(2.7)	(1.6)
Accrued interest payable	-	-	-	(0.1)	-	(0.1)
Increase (decrease) in unearned revenues	-	-	-	(7.0)	(1.2)	(8.2)
(Increase) decrease in deferred inflows/ outflows of resources	7.8	(25.3)	(17.5)	4.6	3.2	7.8
Net cash provided by operations	\$103.2	\$ (13.0)	\$ 90.2	\$ 86.5	\$ 174.2	\$ 260.7
Cash provided/(used) by the decrease/ (increase) in investments	(68.0)	0.1	(67.9)	2.1	0.1	2.2
Cash provided/(used) by the decrease/ (increase) in capital assets	(79.8)	(116.2)	(196.0)	(60.1)	(136.4)	(196.5)
Cash provided/(used) by the increase/ (decrease) in non current liabilities	3.8	232.7	236.5	(7.3)	(13.5)	(20.8)
Net increase/(decrease) in cash	\$ (40.8)	\$ 103.6	\$ 62.8	\$ 21.2	\$ 24.4	\$ 45.6

FINANCIAL ANALYSIS OF VALLEY WATER'S FUNDS

Valley Water uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following analysis refers to the Basic Financial Statements for the Governmental and Proprietary Funds beginning on page 36.

Management's Discussion and Analysis (continued)

Governmental funds

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of June 30, 2021, Valley Water's governmental funds reported combined ending fund balances of \$379.1 million, an increase of \$29.0 million for the fiscal year.

Total revenues of \$182.9 million is down by \$23.8 million when compared to the prior fiscal year. Receipts from capital reimbursements went down by \$16.0 million due to the lower receipts from the San Francisco Bay Area Restoration Authority and the State of California Department of Water Resources. Investment earnings also went down by \$11.6 million due to the declining interest rates and Valley Water's strategy to increase its liquidity position to counter the uncertainty brought about by the COVID-19 pandemic.

Meanwhile, expenditures of \$220.7 million went up by \$23.3 million from the previous fiscal year. Spending on capital improvement projects in the Watershed and Stream Stewardship fund of \$54.4 million was \$26.4 million higher than the prior fiscal year.

Approximately \$165.0 million or 43.5% of the total fund balance of \$379.1 million constitutes committed and assigned for specific purposes. The \$214.1 million remaining fund balance is restricted to indicate that it is not available for new spending because of the external enforceable limitations on its use for 1) Safe, Clean Water & Natural Flood Protection projects (\$140.7 million); 2) Capital projects (\$68.0 million); and 2) debt service payments (\$5.4 million).

General fund

The general fund is the chief operating fund of Valley Water supporting all administrative and strategic support services costs for the organization. It accounts for all financial resources except those required to be accounted for in another fund and is supported primarily by overhead reimbursements from other funds. At the end of the current fiscal year, the committed and assigned fund balance of the General Fund was \$14.2 million. The total fund balance remained relatively flat as net loss from operation of \$6.2 million was offset by net transfers in of \$6.2 million.

Special revenue funds

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular watershed functions or activities of Valley Water. The available fund balances at the end of the current fiscal year for the special revenue funds were \$291.5 million. This amount is \$39.0 million lower than that of the prior fiscal year.

The decrease in fund balance for the Watershed and Stream Stewardship fund was \$21.2 million. Net revenue of \$6.8 million was offset by net transfers out of \$28.0 million.

Compared to the prior fiscal year, current year revenues for the Watershed and Stream Stewardship fund went down by \$12.1 million. The biggest drop of \$10.2 million was the result of lower capital reimbursements received from the San Francisco Bay Area Restoration Authority and the State of California Department of Water Resources. In addition, total expenditures went up by \$31.9 million,

Management's Discussion and Analysis (continued)

of which \$26.4 million was due to higher spending incurred on capital improvement projects such as the San Francisco Shoreline.

Fund Balance for the Safe, Clean Water and Natural Flood Protection Program fund decreased by \$17.8 million. Revenues amounting to \$54.8 million was offset by expenditures of \$81.6 million for a net loss of \$26.8 million. Transfers in of \$9.0 million brought the net loss down to \$17.8 million.

Current fiscal year revenues for the Safe, Clean Water and Natural Flood Protection Program fund of \$54.8 million was \$11.8 million lower than the prior year. Similarly, current year expenditures of \$81.6 million was 15.9 million lower than last fiscal year. Capital projects, such as the construction of the Calabazas Erosion Repair, were not able to commence as scheduled due to delays in acquiring the required permits.

COP construction fund

The COP construction fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. At fiscal year-end, fund balance was \$68.0 million, the amount of net proceeds received from the Water Utility 2020 Revenue Bonds series C and D that was transferred to this fund.

COP debt service fund

The COP debt service fund is used to account for resources used for debt service payments. At fiscal year-end, fund balance was \$5.4 million.

Proprietary funds

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

Water Enterprise fund

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

Net position of the Water Enterprise fund at the end of the fiscal year was \$996.7 million, an increase of \$27.7 million from the prior year. Income from current year operation netted \$103.1 million, with operating revenues of \$289.8 million and operating expenses of \$186.7 million. Net non-operating expenses were \$7.7 million, due to the \$23.0 million in interest and debt service payments that more than offset the revenues from property taxes and operating grants. Capital contributions amounted to \$6.4 million. Net transfers out for the fiscal year was \$74.1 million.

Operating revenues for the current fiscal year was \$22.7 million higher than last year. Groundwater revenues, resulting from higher sales volume, increased by \$19.5 million to account for 85.9% of the total increase.

Management's Discussion and Analysis (continued)

Operating expenses went up \$6.1 million. The \$28.2 million increase in the cost of water sold was offset by \$16.4 million and 4.7 million drop in operating and capital project expenses, respectively. Lower pension and OPEB liability accrual was a significant factor in lowering operating project expenses in the current fiscal year.

State Water Project fund

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

Ending net position was \$27.8 million or \$4.1 million lower than the prior fiscal year. Operating expenses were \$27.2 million, of which \$26.3 million was cost associated with water purchases. Net non-operating revenues were \$23.1 million, with property taxes contributing \$21.3 million or 92.2% of the total.

Internal Service Funds

Valley Water has three internal service funds - the Equipment Fund, Risk Management Fund, and Information Technology Fund. Revenues of the funds are generated from fees charged for services provided to Valley Water operating programs.

The Equipment fund charges replacement and maintenance costs to all operations, operating, and capital projects based on equipment assignment and hourly usage of equipment on projects. The fund's annual reimbursement charge for the replacement and maintenance cost of equipment is determined during the budget process and varies yearly depending upon need. Ending net position for the fund was \$12.9 million, or \$2.7 million more than the prior fiscal year.

The Risk Management fund charges premiums based on exposure levels by project for liability, property, worker's compensation, and self-insurance costs. Revenues required to properly reimburse the Risk Management Fund are determined during the budget process and varies yearly depending upon need. Ending net position for the fund was \$4.7 million, or \$0.9 million more than the prior fiscal year.

The Information Technology fund was established on July 1, 2014 to account for the acquisition, installation, replacement, and maintenance costs of district-wide capital charges related to information technology projects. Beginning with fiscal year 2019, the fund also accounts for annual operations associated with information technology activities. The annual reimbursement charge to the Information Technology Fund is determined during the budget process and varies yearly depending upon need. Operating revenues were \$20.2 million and operating expenses were \$29.0 million. Net transfers in for the fiscal year was \$7.3 million. The fund's net position was \$19.0 million or \$1.5 million lower than the prior fiscal year.

Management's Discussion and Analysis (continued)

GENERAL FUND BUDGETARY HIGHLIGHTS

The summary table below shows a final budget of \$72.5 million for operating and capital expenditures for fiscal year 2021. The adopted budget was \$73.1 million. There was no budget carried forward from the prior year capital projects budget. The current fiscal year budget adjustments decreased the final budget by \$0.6 million.

Adopted Budget	+ Capital Projects Budget Remaining Carry-forward	+ Current Year Budget Adjustments	= Final Budget
\$73.1 million	\$0.0 million	(\$0.6 million)	\$72.5 million

Total expenditures (budgetary basis) in the General Fund for fiscal year 2021 was \$71.8 million, which is \$11.2 million higher than the prior year.

Beginning fiscal year 2019, all project expenditures relating to the Information Technology Department were moved to the Information Technology Fund. These expenditures were previously accounted for in the General Fund.

CAPITAL ASSETS

Valley Water's capital asset balance, net of accumulated depreciation, for governmental and business-type activities amounts to \$3.0 billion on June 30, 2021. Capital asset components include intangible rights and software, land, buildings, structures and improvements (which include the flood control improvement), machinery and equipment. During fiscal year 2021, the total increase in Valley Water's capital assets was \$152.7 million or 5.4%. Governmental and business-type activities increased by \$68.7 million and \$84.0 million, respectively.

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

Management's Discussion and Analysis (continued)

Valley Water Capitalized Assets at June 30, 2021 (Dollars in Millions)

	<u>2021</u>	<u>2020</u>	<u>Increase/ Decrease</u>
<u>Total - Government-wide Activities</u>			
Nondepreciable capital assets			
Land	\$ 191.8	\$ 191.7	\$ 0.1
Intangible - easements	28.3	27.4	0.9
Construction in progress			
Governmental Funds	726.6	668.1	58.5
Total nondepreciable	<u>946.7</u>	<u>887.2</u>	<u>59.5</u>
Depreciable capital assets			
Buildings	42.0	42.0	-
Structures and improvements	790.1	772.6	17.5
Equipment			
Governmental Funds	21.6	21.6	-
Internal Service Funds	33.7	31.4	2.3
Intangibles			
Governmental Fund	2.3	2.3	-
Internal Service Funds	2.0	2.0	-
Total depreciable	<u>891.7</u>	<u>871.9</u>	<u>19.8</u>
Accumulated depreciation			
Buildings	(17.0)	(16.1)	(0.9)
Structures & improvements	(153.4)	(146.6)	(6.8)
Equipment			
Governmental Funds	(20.6)	(20.2)	(0.4)
Internal Service Funds	(21.9)	(19.8)	(2.1)
Intangible - Software			
Governmental Funds	(2.3)	(2.3)	-
Internal Service Funds	(0.7)	(0.3)	(0.4)
Total accum depreciation	<u>(215.9)</u>	<u>(205.3)</u>	<u>(10.6)</u>
Total Governmental Activities	<u>\$ 1,622.5</u>	<u>\$ 1,553.8</u>	<u>\$ 68.7</u>
<u>Total- Business-type Activities</u>			
Nondepreciable capital assets			
Land	\$ 20.0	\$ 20.0	\$ -
Intangible - easements	3.7	0.2	3.5
Construction in progress	572.5	493.8	78.7
Total nondepreciable	<u>596.2</u>	<u>514.0</u>	<u>82.2</u>
Depreciable capital assets			
Contracted water rights	237.0	226.6	10.4
Buildings	97.8	97.2	0.6
Structures and improvements	962.6	939.6	23.0
Equipment	29.9	29.8	0.1
Total depreciable	<u>1,327.3</u>	<u>1,293.2</u>	<u>34.1</u>
Accumulated depreciation			
Contracted water rights	(201.0)	(188.2)	(12.8)
Buildings	(14.6)	(12.3)	(2.3)
Structures & improvements	(331.6)	(315.7)	(15.9)
Equipment	(26.0)	(24.7)	(1.3)
Total accum depreciation	<u>(573.2)</u>	<u>(540.9)</u>	<u>(32.3)</u>
Total Business-type Activities	<u>\$ 1,350.3</u>	<u>\$ 1,266.3</u>	<u>\$ 84.0</u>

Management's Discussion and Analysis (continued)

LONG-TERM OBLIGATIONS

At the end of the current fiscal year, Valley Water had total long-term obligations of \$1.1 billion. Valley Water's long-term obligations outstanding at the end of the fiscal year consisted of the following:

Valley Water Long-Term Obligations (in Millions)						
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Certificates of participation	\$ 57.0	\$ 65.5	\$ 230.1	\$ 79.1	\$ 287.1	\$ 144.6
Revenue bonds	-	-	429.8	378.9	429.8	378.9
Compensated absences	12.3	10.3	7.8	6.3	20.1	16.6
Litigation claim	-	-	-	-	-	-
Semitropic water banking	-	-	12.4	10.0	12.4	10.0
Bond discount	-	-	-	-	-	-
Deferred interest swap	-	-	-	-	-	-
Bond premium	8.4	9.9	54.1	37.0	62.5	46.9
Claims payable	6.6	7.5	-	-	6.6	7.5
Net pension liability	145.9	134.3	110.3	100.6	256.2	234.9
Other post employment benefits	34.1	33.0	25.8	25.7	59.9	58.7
Total	<u>\$ 264.3</u>	<u>\$ 260.5</u>	<u>\$ 870.3</u>	<u>\$ 637.6</u>	<u>\$ 1,134.6</u>	<u>\$ 898.1</u>

The credit ratings for Valley Water outstanding debt reflect a high-grade investment quality debt. They are based on Valley Water's positive fiscal policy and financial strengths. The bond ratings are either the highest or among the highest for a water related governmental entity in the State of California. Bonds issued at this credit rating result in lower interest rates and corresponding lower debt service payments. Valley Water's ratings are the same on a secured and unsecured basis pursuant to the rating methodologies of the respective rating agencies.

Please see table below for current ratings.

	Water Utility		Watershed
	Senior Debt	Parity Debt	Debt
Moody's	Aa1	Aa1	Aa1
Standard & Poor's	AA-	N/A	AAA
Fitch	N/A	AA+	AA+

Valley Water's total obligations increased by \$236.4 million during fiscal year 2021. \$3.8 million of the increase was in the governmental activities and \$232.6 million of the increase was in the business-type activities.

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

Management's Discussion and Analysis (continued)

NEXT YEAR'S BUDGET

Valley Water's \$837.6 million net operating and capital budget for fiscal year 2021 will focus on the following work plan strategies:

- Protect and maintain existing assets and infrastructure and advance new infrastructure projects
- Pursue opportunities to improve internal capacity to acquire regulatory permits
- Engage and educate the community, elected officials, and staff on our management of water resources in Santa Clara County
- Actively Pursue New Water Supply and Storage Opportunities
- Actively Participate in decisions regarding the CA Delta Conveyance
- Lead Recycled and Purified Water Efforts with committed partners
- Advance Anderson Dam Seismic Retrofit Project
- Promote Making Water Conservation a California Way of Life in Santa Clara County
- Plan, design and maintain flood protection projects with multiple benefits, including protecting ecosystem functions and enhancing habitat
- Provide flood protection equitably in all regions of the County, prioritizing disadvantaged communities
- Attain net positive impact on the environment when implementing flood protection and water supply projects
- Promote the protection of creeks, bay, and other aquatic ecosystems from threats of pollution and degradation
- Continue the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE)
- Advance racial equity, diversity, and inclusion
- Maintain appropriate staffing levels and expertise and ensure the safety of our staff
- Provide affordable and cost-effective level of services
- Address future impacts of climate change to Valley Water's mission and operations

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 - jsalandanan@valleywater.org

BASIC FINANCIAL STATEMENTS

VALLEY WATER
Statement of Net Position
June 30, 2021
(Dollars in Millions)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments (Note 3)	\$ 387.0	\$ 391.8	\$ 778.8
Restricted cash and investments (Note 3)	73.5	-	73.5
Receivables (net):			
Accounts	0.8	44.1	44.9
Interest	1.8	-	1.8
Taxes	0.2	0.1	0.3
Inventory - water	-	130.0	130.0
Deposits and other assets	3.5	1.3	4.8
Total current assets	466.8	567.3	1,034.1
Internal balances	3.3	(3.3)	-
Capital assets (Note 6):			
Contract water and storage rights, net	-	36.1	36.1
Depreciable, net	675.7	718.0	1,393.7
Nondepreciable	946.7	596.2	1,542.9
Total assets	2,092.5	1,914.3	4,006.8
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	(0.1)	0.5	0.4
Deferred outflows of resources - pension activities (Note 11)	11.1	40.4	51.5
Deferred outflows of resources - OPEB (Note 12)	8.3	6.3	14.6
Total deferred outflows of resources	19.3	47.2	66.5
LIABILITIES			
Accounts payable	2.4	10.7	13.1
Accrued liabilities	9.5	53.5	63.0
Commercial paper, net of discount (Note 7)	30.0	-	30.0
Deposits payable	3.7	0.9	4.6
Accrued interest payable	1.3	-	1.3
Total current liabilities	46.9	65.1	112.0
Noncurrent liabilities (Note 7):			
Due within one year	14.8	23.9	38.7
Due in more than one year	249.5	846.4	1,095.9
Total liabilities	311.2	935.4	1,246.6
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension activities (Note 11)	1.3	1.3	2.6
Deferred inflows of resources - OPEB (Note 12)	4.7	3.6	8.3
Total deferred inflows of resources	6.0	4.9	10.9
NET POSITION (Note 10)			
Net investment in capital assets	1,624.9	624.5	2,249.4
Restricted:			
Debt service	4.1	-	4.1
Safe, Clean Water - other activities	132.4	-	132.4
Water Utility San Felipe emergency	-	3.3	3.3
GP5 Reserve	-	9.7	9.7
Water Utility rate stabilization	-	25.1	25.1
Water Utility state water project	-	13.6	13.6
Advanced water purification center	-	1.3	1.3
Supplemental water supply	-	15.5	15.5
Drought reserve	-	10.0	10.0
Unrestricted	33.2	318.2	351.4
Total net position	\$ 1,794.6	\$ 1,021.2	\$ 2,815.8

See accompanying notes to basic financial statements

VALLEY WATER
Statement of Activities
For the Year Ended June 30, 2021
(Dollars in Millions)

Description	Governmental Activities				Business-Type Activities	Total
	General Government	Watersheds	Interest on Long-term Debt	Total		
Expenses:						
Operations and operating projects	\$ 18.6	\$ 145.3	\$ 2.5	\$ 166.4	\$ -	\$ 166.4
Water cost of production	-	-	-	-	239.3	239.3
Program revenues:						
Charges for water services	-	-	-	-	289.7	289.7
Operating grants and contributions	-	-	-	-	4.0	4.0
Capital grants and contributions	-	25.9	-	25.9	6.4	32.3
Net program revenue (expense)	<u>\$ (18.6)</u>	<u>\$ (119.4)</u>	<u>\$ (2.5)</u>	<u>(140.5)</u>	<u>60.8</u>	<u>(79.7)</u>
General revenues:						
Property taxes (Note 8)				154.5	30.2	184.7
Unrestricted investment earnings				-	1.6	1.6
Miscellaneous				2.6	2.7	5.3
Transfers (Note 14)				<u>74.1</u>	<u>(74.1)</u>	<u>-</u>
Total general revenues and transfers				<u>231.2</u>	<u>(39.6)</u>	<u>191.6</u>
Change in net position				90.7	21.2	111.9
Net position, beginning of year				<u>1,703.9</u>	<u>1,000.0</u>	<u>2,703.9</u>
Net position, end of year				<u>\$ 1,794.6</u>	<u>\$ 1,021.2</u>	<u>\$ 2,815.8</u>

See accompanying notes to basic financial statements.

VALLEY WATER

Balance Sheet
Governmental Funds
June 30, 2021
(Dollars in Millions)

	<u>Special Revenue Fund</u>	
	General	Watershed & Stream Stewardship
ASSETS		
Cash and investments (Note 3)	\$ 14.4	\$ 151.8
Restricted cash and investments (Note 3)	-	0.1
Receivables:		
Accounts	-	0.1
Interest	1.8	-
Taxes	-	0.2
Deposits and other assets	0.2	-
Total assets	<u>\$ 16.4</u>	<u>\$ 152.2</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 0.5	\$ 0.3
Accrued liabilities	1.7	0.5
Commercial paper	-	-
Deposits payable	-	0.6
Total liabilities	<u>2.2</u>	<u>1.4</u>
Fund balances (Note 9):		
Restricted fund balance	-	-
Committed fund balance	7.1	131.5
Assigned fund balance	7.1	19.3
Total fund balances	<u>14.2</u>	<u>150.8</u>
Total liabilities and fund balances	<u>\$ 16.4</u>	<u>\$ 152.2</u>

See accompanying notes to basic financial statements.

<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	
Safe, Clean Water & Natural Flood Protection Program	COP Construction Fund	COP Debt Service	Total Governmental Funds
\$ 176.7	\$ -	\$ -	\$ 342.9
-	68.0	5.4	73.5
0.7	-	-	0.8
-	-	-	1.8
-	-	-	0.2
3.1	-	-	3.3
<u>\$ 180.5</u>	<u>\$ 68.0</u>	<u>\$ 5.4</u>	<u>\$ 422.5</u>
\$ 1.4	\$ -	\$ -	\$ 2.2
5.3	-	-	7.5
30.0	-	-	30.0
3.1	-	-	3.7
<u>39.8</u>	<u>-</u>	<u>-</u>	<u>43.4</u>
140.7	68.0	5.4	214.1
-	-	-	138.6
-	-	-	26.4
<u>140.7</u>	<u>68.0</u>	<u>5.4</u>	<u>379.1</u>
<u>\$ 180.5</u>	<u>\$ 68.0</u>	<u>\$ 5.4</u>	<u>\$ 422.5</u>

VALLEY WATER
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2021
(Dollars in Millions)

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

Fund balances of governmental funds	\$ 379.1
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of governmental funds.	1,609.4
Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	
Internal service funds included in governmental activities	36.6
Transfer of internal service funds from business-type activities	3.3
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.	(1.3)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds:	
Certificates of participation	(57.0)
Deferred amount on refunding	(0.1)
Net original issue premium	(8.4)
Compensated absences	(11.6)
Net pension liability and related deferrals	(127.7)
Net OPEB liability and related deferrals	(27.7)
	<hr/>
Net position of governmental activities	<u><u>\$ 1,794.6</u></u>

See accompanying notes to basic financial statements

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VALLEY WATER
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2021
(Dollars in Millions)

		<u>Special Revenue Fund</u>
	General	Watershed & Stream Stewardship
Revenues:		
Property taxes (Note 8)	\$ 9.8	\$ 98.6
Benefit assessments (Note 8)	-	12.4
Use of money and property:		
Investment income (Note 5)	-	-
Rental	-	1.5
Reimbursement of capital costs (Note 4)	-	5.0
Other	-	0.6
Total revenues	<u>9.8</u>	<u>118.1</u>
Expenditures:		
Current:		
Operations and operating projects	14.5	56.9
Capital improvement projects	1.5	54.4
Debt service:		
Principal repayment	-	-
Interest and fiscal agent fees	-	-
Total expenditures	<u>16.0</u>	<u>111.3</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6.2)</u>	<u>6.8</u>
Other financing sources (uses):		
Transfers in (Note 14)	7.0	1.2
Transfers out (Note 14)	(0.8)	(29.2)
Total other financing sources (uses)	<u>6.2</u>	<u>(28.0)</u>
Net change in fund balances	-	(21.2)
Fund balances, beginning of year	<u>14.2</u>	<u>172.0</u>
Fund balances, end of year	<u>\$ 14.2</u>	<u>\$ 150.8</u>

See accompanying notes to basic financial statements.

<u>Special Revenue Fund</u> Safe, Clean Water & Natural Flood Protection Program	<u>Capital Project Fund</u> COP Construction Fund	<u>Debt Service Fund</u> COP Debt Service	Total Governmental Funds
\$ 46.1	\$ -	\$ -	\$ 154.5
-	-	-	12.4
(0.2)	(0.1)	0.3	-
0.3	-	-	1.8
8.5	-	-	13.5
0.1	-	-	0.7
<u>54.8</u>	<u>(0.1)</u>	<u>0.3</u>	<u>182.9</u>
15.0	-	0.2	86.6
65.8	-	-	121.7
-	-	8.5	8.5
0.8	-	3.1	3.9
<u>81.6</u>	<u>-</u>	<u>11.8</u>	<u>220.7</u>
<u>(26.8)</u>	<u>(0.1)</u>	<u>(11.5)</u>	<u>(37.8)</u>
9.0	135.7	11.5	164.4
-	(67.6)	-	(97.6)
9.0	68.1	11.5	66.8
(17.8)	68.0	-	29.0
158.5	-	5.4	350.1
<u>\$ 140.7</u>	<u>\$ 68.0</u>	<u>\$ 5.4</u>	<u>\$ 379.1</u>

VALLEY WATER

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2021 (Dollars in Millions)

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

Net change in fund balances - total governmental funds	\$ 29.0
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays, net of depreciation.	
Capital Outlay	77.0
Depreciation	(8.1)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.	
Certificates of participation repayment	8.5
Deferred amount on refunding	(0.1)
Net original issue premium	1.5
Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The net revenue of internal service funds is reported with governmental activities.	
	4.5
Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds:	
Compensated absences	(1.8)
Change in net OPEB liability, deferred inflows and outflows	4.3
Change in net pension liability, deferred inflows and outflows	(24.1)
Change in net position of governmental activities	<u>\$ 90.7</u>

See accompanying notes to basic financial statements

VALLEY WATER

Statement of Net Position

Proprietary Funds

June 30, 2021

(Dollars in Millions)

	Business-type Activities			Governmental Activities
	Water	State Water	Total	Internal
	Enterprise Fund	Project Fund	Enterprise Funds	Service Funds
ASSETS				
Current assets:				
Cash and investments (Note 3)	\$ 377.8	\$ 14.0	\$ 391.8	\$ 44.1
Receivables:				
Accounts	44.1	-	44.1	-
Taxes	-	0.1	0.1	-
Inventory - water	130.0	-	130.0	-
Deposits and other assets	1.3	-	1.3	0.2
Total current assets	<u>553.2</u>	<u>14.1</u>	<u>567.3</u>	<u>44.3</u>
Non current assets:				
Capital assets (Note 6):				
Contract water rights, net	21.9	14.2	36.1	-
Depreciable, net	718.0	-	718.0	13.0
Nondepreciable	596.2	-	596.2	-
Total non current assets	<u>1,336.1</u>	<u>14.2</u>	<u>1,350.3</u>	<u>13.0</u>
Total assets	<u>1,889.3</u>	<u>28.3</u>	<u>1,917.6</u>	<u>57.3</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	0.5	-	0.5	-
Deferred outflows of resources - pension activities (Note 11)	40.4	-	40.4	4.8
Deferred outflows of resources - OPEB (Note 12)	4.8	-	4.8	0.5
Total deferred outflows of resources	<u>45.7</u>	<u>-</u>	<u>45.7</u>	<u>5.3</u>
LIABILITIES				
Current liabilities:				
Accounts payable	10.6	0.1	10.7	0.2
Accrued liabilities	53.1	0.4	53.5	2.0
Deposits payable	0.9	-	0.9	-
Claims payable (Note 13)	-	-	-	1.8
Bonds payable - current (Note 7)	22.2	-	22.2	-
Compensated absence (Note 7)	1.7	-	1.7	0.1
Total current liabilities	<u>88.5</u>	<u>0.5</u>	<u>89.0</u>	<u>4.1</u>
Non current liabilities:				
Bonds payable - net of discounts and premiums (Note 7)	691.8	-	691.8	-
Claims payable (Note 13)	-	-	-	4.8
Compensated absence (Note 7)	6.1	-	6.1	0.6
Net pension liability (Note 11)	110.3	-	110.3	13.2
Other post employment benefits liability (Note 12)	25.8	-	25.8	3.1
Other debt	12.4	-	12.4	-
Total non current liabilities	<u>846.4</u>	<u>-</u>	<u>846.4</u>	<u>21.7</u>
Total liabilities	<u>934.9</u>	<u>0.5</u>	<u>935.4</u>	<u>25.8</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension activities (Note 11)	1.3	-	1.3	-
Deferred inflows of resources - OPEB (Note 12)	2.1	-	2.1	0.2
Total deferred inflows of resources	<u>3.4</u>	<u>-</u>	<u>3.4</u>	<u>0.2</u>
NET POSITION (Note 10)				
Net investment in capital assets	610.3	14.2	624.5	13.0
Restricted:				
San Felipe operations	3.3	-	3.3	-
GP5 reserve	9.7	-	9.7	-
State water project	-	13.6	13.6	-
Rate stabilization	25.1	-	25.1	-
Advanced water purification center	1.3	-	1.3	-
Supplemental water supply	15.5	-	15.5	-
Drought reserve	10.0	-	10.0	-
Unrestricted	321.5	-	321.5	23.6
Total net position	<u>\$ 996.7</u>	<u>\$ 27.8</u>	<u>1,024.5</u>	<u>\$ 36.6</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			(3.3)	
Net position of business-type activities			<u>\$ 1,021.2</u>	

See accompanying notes to basic financial statements.

VALLEY WATER

Statement of Revenues, Expenses and Changes in Net Position Proprietary Funds For the Year Ended June 30, 2021 (Dollars in Millions)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
Operating revenues:				
Ground water production charges	\$ 132.1	\$ -	\$ 132.1	\$ -
Treated water charges	154.9	-	154.9	-
Surface and recycled water revenue	2.7	-	2.7	-
Charges for services	-	-	-	33.8
Other	0.1	-	0.1	-
Total operating revenues	289.8	-	289.8	33.8
Operating expenses:				
Sources of supply	78.8	26.3	105.1	-
Water treatment	47.3	-	47.3	-
Transmission and distribution:				
Raw water	17.2	-	17.2	-
Treated water	2.1	-	2.1	-
Administration and general	9.9	-	9.9	5.1
Equipment maintenance	-	-	-	30.9
Depreciation and amortization	31.4	0.9	32.3	3.1
Total operating expenses	186.7	27.2	213.9	39.1
Operating income (loss)	103.1	(27.2)	75.9	(5.3)
Nonoperating revenues (expenses):				
Property taxes (Note 8)	8.9	21.3	30.2	-
Investment income (Note 5)	1.6	-	1.6	-
Operating grants	4.0	-	4.0	-
Rental income	0.1	-	0.1	-
Other	0.7	1.8	2.5	0.1
Interest and fiscal agent fees	(23.0)	-	(23.0)	-
Net nonoperating revenues (expenses)	(7.7)	23.1	15.4	0.1
Income before capital contributions and transfers	95.4	(4.1)	91.3	(5.2)
Capital contributions (Note 4)	6.4	-	6.4	-
Transfers in (Note 14)	68.2	-	68.2	7.5
Transfers out (Note 14)	(142.3)	-	(142.3)	(0.2)
Change in net position	27.7	(4.1)	23.6	2.1
Net position, beginning of year	969.0	31.9	1,000.9	34.5
Net position, end of year	\$ 996.7	\$ 27.8	\$ 1,024.5	\$ 36.6
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.			(3.3)	
Net position of business-type activities			\$ 1,021.2	

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

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

Net change in net position - enterprise funds	\$ 23.6
Adjustment to the net effect of the current year activity between the internal service funds and the enterprise funds	(2.4)
Change in net position of business-type activities	\$ 21.2

See accompanying notes to basic financial statements.

VALLEY WATER
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2021
(Dollars in Millions)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities:				
Receipts from customers and users	\$ 288.8	\$ -	\$ 288.8	\$ -
Payments to suppliers	(20.2)	(26.1)	(46.3)	(25.0)
Payment for interfund services provided	(15.5)	-	(15.5)	33.8
Payments to employees	(101.3)	-	(101.3)	(11.4)
Well permits, refunds and adjustments	0.7	1.8	2.5	-
Net cash provided by (used for) operating activities	152.5	(24.3)	128.2	(2.6)
Cash flows from noncapital financing activities:				
Property taxes received	8.9	21.3	30.2	-
Operating grant	4.0	-	4.0	-
Transfers in from other funds	0.6	-	0.6	(0.2)
Net cash provided by noncapital financing activities	13.5	21.3	34.8	(0.2)
Cash flows from capital and related financing activities:				
COP/revenue bonds issuance/(payment)	219.1	-	219.1	-
Commercial paper issuance/(payment)	(72.7)	-	(72.7)	-
Capital grants	6.4	-	6.4	-
Interest and fiscal agent fees paid	(23.0)	-	(23.0)	-
Payments for contract water rights	(10.4)	-	(10.4)	-
Acquisition and construction of capital assets	(105.9)	-	(105.9)	(2.2)
Transfers in from other funds	67.6	-	67.6	7.5
Transfers out to other funds	(142.3)	-	(142.3)	-
Net cash provided by/(used for) capital and related financing activities	(61.2)	-	(61.2)	5.3
Cash flows from investing activities:				
Proceeds from sale of investments	0.1	-	0.1	-
Rental income received	0.1	-	0.1	-
Interest received on cash and investments	1.6	-	1.6	-
Net cash provided by/(used for) investing activities	1.8	-	1.8	-
Net increase (decrease) in cash and cash equivalents	106.6	(3.0)	103.6	2.5
Cash and cash equivalents, beginning of year	271.2	17.0	288.2	41.6
Cash and cash equivalents, end of year	\$ 377.8	\$ 14.0	\$ 391.8	\$ 44.1
Cash and cash equivalents are reported on the Statement of Net Position as follows:				
Cash and investments	\$ 377.8	\$ 14.0	\$ 391.8	\$ 44.1
Cash and cash equivalents, end of year	\$ 377.8	\$ 14.0	\$ 391.8	\$ 44.1
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 103.1	\$ (27.2)	\$ 75.9	\$ (5.3)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation, amortization and asset deletion	31.3	0.9	32.2	2.4
Other revenues - well permits, refunds and adjustments	0.7	1.8	2.5	-
Change in operating assets and liabilities:				
(Increase)/decrease in deposits and other assets	5.7	-	5.7	-
(Increase)/decrease in accounts receivable	(5.5)	-	(5.5)	-
(Increase)/decrease in inventory	4.5	-	4.5	-
Increase/(decrease) in accounts payable	(20.9)	(0.2)	(21.1)	(1.1)
Increase/(decrease) in accrued liabilities	51.2	0.4	51.6	2.0
Increase/(decrease) in compensated absences	1.5	-	1.5	0.1
Increase/(decrease) in deposits payable	(5.8)	-	(5.8)	-
Increase/(decrease) in claims payable	-	-	-	(0.9)
Increase/(decrease) in other post employment benefits payable	0.1	-	0.1	1.6
Increase/(decrease) in deferred inflows/outflow of resources	(25.5)	-	(25.5)	(4.0)
Increase/(decrease) in pension liabilities	9.7	-	9.7	2.6
Increase/(decrease) in payable to Semitropic	2.4	-	2.4	-
Net cash provided (used) by operating activities	\$ 152.5	\$ (24.3)	\$ 128.2	\$ (2.6)
Noncash investing, capital, and financing activity:				
Deletion of capital assets	\$ -	\$ -	\$ -	\$ 0.1

See accompanying notes to basic financial statements.

VALLEY WATER
Statement of Fiduciary Net Position
Custodial Fund
June 30, 2021
(Dollars in Millions)

ASSETS

Cash and investments (Note 3)	\$ 0.2
Total assets	<u>0.2</u>

LIABILITIES

Deposits payable	<u>0.2</u>
Total liabilities	<u>0.2</u>

NET POSITION

\$ -

See accompanying notes to basic financial statements.

VALLEY WATER
Statement of Changes in Fiduciary Net Position
Custodial Fund
For the Year Ended June 30, 2021
(Dollars in Millions)

	<u>Balance June 30, 2021</u>
<u>Deposit Fund</u>	
Additions:	
Contributions	\$ 0.2
Total additions	<u>0.2</u>
Deductions:	
Withdrawals	<u>0.2</u>
Total deductions	<u>0.2</u>
Net increase in fiduciary net position	-
Net Position, beginning	<u>-</u>
Net Position, ending	<u><u>\$ -</u></u>

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

NOTE 1 - THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

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

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

Valley Water has broad powers relating to all aspects of flood control and storm waters within the District, whether such waters have their sources within Valley Water. It is also authorized to store and distribute water for use within its jurisdictional boundaries and authorized to provide sufficient water for present or future beneficial use of the lands and inhabitants of the District. Valley Water acquires, stores, and distributes water for irrigation, residential, fire protection, municipal, commercial, industrial, and all other uses. Valley Water also directly supports the environment and the community through careful stewardship.

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

(b) Blended Component Unit

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

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

board is Valley Water's governing board. The operations of the PFFC are accounted for in the debt service and capital project funds.

Separate financial statements are not issued for the PFFC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Valley Water reports the following Governmental Funds:

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

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

- The *Watershed and Stream Stewardship Fund* is funded by Valley Water's one percent property tax allocation and benefit assessments and used to protect, restore, or enhance the watersheds, streams, and natural resources therein. Starting from fiscal year 2009, this fund was redefined to consolidate all watershed stewardship activities from a portion of Valley Water's ad valorem property tax allocation.

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

- ♦ The *Lower Peninsula Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek. The geographic area includes the Cities of Palo Alto, Los Altos, Mountain View, the Town of Los Altos Hills, and portions of Cupertino.
 - ♦ The *West Valley Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe Slough, Sunnyvale West Outfall, Sunnyvale East Outfall, Calabazas Creek, San Tomas Aquino Creek, and Saratoga Creek. The geographic area includes portions of the Cities of Sunnyvale, Cupertino, Monte Sereno, San Jose, Santa Clara, Campbell, Saratoga and the Town of Los Gatos.
 - ♦ The *Guadalupe Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe River. The major tributaries are Los Gatos Creek, Canoas Creek, Ross Creek, Guadalupe Creek, and Alamitos Creek. The geographic area includes portions of the Cities of Santa Clara, San Jose, Campbell, Monte Sereno, and the Town of Los Gatos.
 - ♦ The *Coyote Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of Coyote Creek. The major tributaries are Lower Penitencia Creek, Scott Creek, Berryessa Creek, Upper Penitencia Creek, Silver Creek, Thompson Creek, Fisher Creek, and Packwood Creek. The geographic area includes the City of Milpitas and portions of the Cities of San Jose and Morgan Hill.
- The *Safe, Clean Water & Natural Flood Protection Program* is used to account for the countywide special parcel tax approved by voters on November 6, 2012, with a sunset date of June 30, 2028. This program replaces the Clean, Safe Creeks and Natural Flood Protection Plan that was approved by voters in November 2000.

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

- The *Capital Project Type Funds* are used to account for COP proceeds used for the construction of major capital projects. The COP Construction Fund is Valley Water's sole capital project type fund.
- The *Debt Service Type Funds* are used to account for monies being held for reserve requirements and arbitrage rebate for Valley Water's debt payments. The COP Debt Service Fund is Valley Water's sole debt service type fund.

Valley Water reports the following Proprietary Funds:

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

Valley Water reports *Custodial Funds* (Fiduciary Fund type) to account for assets held by Valley Water as an agent for private organizations and/or other governments.

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

(b) Basis of Accounting

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

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

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

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

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

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

(c) Cash and Investments

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

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

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

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

(d) Inventory

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

Starting fiscal year 2020, the Valley Water's Board of Directors decided to record stored water as inventory. Water inventory is listed as a separate line item on the financial statements.

The component of water inventory as of the end of the current fiscal year is shown below. Water inventory is valued based on the rolling average of imported water purchase cost.

<u>Type</u>	<u>Acre Feet</u>		<u>Total in millions</u>
	<u>Volume</u>	<u>Average Unit Cost</u>	
Semitropic	321,974	376	\$ 121.1
Local Reservoir Storage	23,688	376	8.9
Total			<u>\$ 130.0</u>

(e) Capital Assets

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

The estimated useful lives are as follows:

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

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

(f) Amortization of Contract Water Rights

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 represent reimbursement of capital costs for transportation facilities (the capital cost component). The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(g) Amortization of Water Banking Rights

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 Water Enterprise Fund has capitalized the cost of the program and amortizes its cost over the 40-year entitlement period using the straight-line method.

(h) Amortization of Water Delivery Rights

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

(i) Receivables

Receivables include amounts due from water utility customers, as well as from other miscellaneous revenue sources. All receivables are shown net of an allowance for doubtful accounts. For the current fiscal year, the allowance balance was \$0.9 million. At the end of every fiscal year, a review of outstanding receivables results in the recalculation of the bad debt allowance where 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.

(j) Accrued Vacation and Sick Leave Pay

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

Maximum vacation accruals may not exceed three times the employee's annual accrual rate, per

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

employee. All regular full-time employees are eligible for twelve (12) days of sick leave per fiscal year. Unused sick leave may be carried forward to the following fiscal year without limitation. Upon retirement, up to 480 hours of accrued sick leave shall be paid to the eligible employee at the rate of 50% of the equivalent cash value. Upon resignation with ten or more years of service, or upon separation by layoff regardless of service, up to 480 hours of accrued sick leave shall be paid off at the rate of 25% of the cash value.

(k) Bond Premiums, Discounts and Issuance Costs

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

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

(l) Accounting for Encumbrances

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

(m) Net position

Valley Water's fund net position is classified based primarily to 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.

(n) Estimates

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

(o) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of 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

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Valuation Date June 30, 2019
Measurement Date..... June 30, 2020

(p) Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of 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.

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

Valuation Date June 30, 2019
Measurement Date..... June 30, 2020

(q) Fair Value Measurement

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

(r) Deferred Outflows and Inflows of Resources

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

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

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

(s) New Pronouncements

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

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. Valley Water has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 95 – In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this statement is to provide temporary relief to government and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to be effective for periods beginning June 15, 2018 and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities.

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The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

Valley Water has implemented this GASB standard.

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

GASB Statement No. 93 – In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (LIBOR)*. This statement requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. This pronouncement is not applicable to Valley Water.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, or fiscal year 2022. Valley Water has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will

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not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or fiscal year 2021. Valley Water has not determined the impact of this pronouncement on the financial statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Valley Water has implemented this GASB standard.

GASB Statement No. 88 – In April 2018, GASB Issued Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Valley Water has implemented this GASB standard.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or fiscal year 2021. Valley Water has not determined the impact of this pronouncement on the financial statements.

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NOTE 3 - CASH AND INVESTMENTS

Total Valley Water cash and investments reported on the financial statements at June 30, 2021 are as follows (in millions):

Statement of Net Position:	
Cash and investments	\$ 778.8
Restricted cash and investments	73.5
Statement of Fiduciary Net Position:	
Cash and investments	0.2
	<u>\$ 852.5</u>

Investments

At June 30, 2021, cash and investments based on fair value consist of the following (in millions):

U.S. Government Agencies	\$ 343.5
U.S. Treasury Obligations	32.3
Medium Term Notes	15.3
Local Agency Investment Fund	142.1
Mutual Funds	0.2
Supranational Obligations	15.2
Municipal Bonds	67.1
Negotiable Certificates of Deposit	0.5
Time Certificates of Deposit	195.0
Money Market Funds	33.7
Total Investments	<u>\$ 844.9</u>
Carrying amount of cash	7.6
Total Cash and Investments	<u><u>\$ 852.5</u></u>

As of June 30, 2021, the fair value of Valley Water's investment in the State investment pool (LAIF) was \$74.1 million in non-restricted cash. The remaining balance of the LAIF investment pool (\$68.0 million) is restricted and held in trust by Valley Water's debt service fiscal agent. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The 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.

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Authorized Investments by Valley Water

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	(Exempt from disclosure)	None	None
U.S. Government Agency Issues ^(A)	5 years	(Exempt from disclosure)	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	5 years	AA-	30%	3.6%
Time Certificates of Deposit ^(B)	5 years	Satisfactory CRA	5%	\$250,000 & FDIC Membership
Collateralized Repurchase Agreements	30 days	AA-	None	None
Medium Term Notes	5 years	AA-	15%	1.8%
Municipal Obligations	5 years	AA-	15%	1.8%
California Local Agency Investment Fund ^(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 and 2020D Certificates of Participations (COPs) and Water Utility Revenue and Refunding Bonds 2006B, 2016A, 2016B, 2017A, 2019A, 2019B, 2020A and 2020B, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee.

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As of June 30, 2021, the amount invested in assets held by fiscal agent amounted to \$73.5 million and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

Valley Water, through the PFFC, has also issued commercial paper to provide for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water. At June 30, 2021, the total balance of the taxable and the tax-exempt commercial paper certificate accounts held by fiscal agent is \$0.01 million. Both account balances were cash transfers from Valley Water to fiscal agent to fund maturing interest payments on commercial paper outstanding.

Restricted Cash and Investments for Watershed Management Projects

Valley Water has entered into certain cost sharing agreements with the U.S. Army Corps of Engineers (the Corps). Under these agreements, Valley Water is required to deposit monies into escrow accounts to be used by the Corps for watershed management projects. At June 30, 2021, Valley Water's restricted deposits held in escrow for construction of the Guadalupe Watershed project amounted to \$0.1 million.

Authorized Investments by Debt Agreements

Valley Water must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if 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 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 ^(G)	N/A	N/A
Local Agency Investment Fund of the State of CA	N/A	N/A
Supranational Obligations	N/A	AA

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- (A) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.
- (B) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMA's"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMA's"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.
- (C) Direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured, and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P.
- (D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3.0 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.
- (E) Repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA's or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50.0 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%.
- (F) Investment agreements, guaranteed investment contracts, funding agreement, or any other form of corporate note representing the unconditional obligations of entities or agencies with the unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody's and S&P.
- (G) Any investment approved in writing by the Certificate Insurer.

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Interest Rate Risk

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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 investments to market interest rate fluctuations, summarized by the following table, shows the distribution to Valley Water's investments by maturity or earliest call date (in millions).

	Total	12 Months or less	13 to 24 Months	25 to 60 Months
U.S. Government Agencies	\$ 243.5	\$ 53.9	\$ 67.6	\$ 122.0
U.S. Government Agencies - Callable	100.0	-	-	100.0
U.S. Treasury Obligations	32.3	9.2	8.3	14.8
Medium Term Notes	3.1	-	3.1	-
Medium Term Notes - Callable	12.2	3.0	7.2	2.0
Local Agency Investment Fund	142.1	142.1	-	-
Mutual Funds	0.2	0.2	-	-
Supranational Obligations	10.3	-	-	10.3
Supranational Obligations - Callable	4.9	-	-	4.9
Municipal Bonds	67.1	7.6	28.7	30.8
Negotiable Certificates of Deposit	0.5	-	0.3	0.2
Time Certificates of Deposit	195.0	195.0	-	-
Money Market Funds	33.7	33.7	-	-
Total Investments	<u>\$ 844.9</u>	<u>\$ 444.7</u>	<u>\$ 115.2</u>	<u>\$ 285.0</u>

Credit Risk

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

The ensuing 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, 2021 for each investment type as provided by Standard and Poor's (in millions).

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	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end				Not Rated
				AAA	AA+	AA	AA-	
U.S. Government Agencies	\$ 343.5	AA-	\$ -	\$ -	\$ 282.5	\$ -	\$ -	\$ 61.0
U.S. Treasury Obligations	32.3	AA-	32.3	-	-	-	-	-
Medium Term Notes	15.3	AA-	-	7.1	5.1	-	-	3.1
Local Agency Investment Fund	142.1	N/A	-	-	-	-	-	142.1
Mutual Funds	0.2	AAA	-	0.2	-	-	-	-
Supranational Obligations	15.2	AA	-	15.2	-	-	-	-
Municipal Bonds	67.1	AA-	-	11.1	20.0	31.3	3.1	1.6
Negotiable Certificates of Deposit	0.5	AA-	-	-	-	-	-	0.5
Time Certificates of Deposit	195.0	N/A	-	-	-	-	-	195.0
Money Market Funds	33.7	N/A	-	-	-	-	-	33.7
Total Investments	\$ 844.9		\$ 32.3	\$ 33.6	\$ 307.6	\$ 31.3	\$ 3.1	\$ 437.0

Concentration of Credit Risk

Valley Water's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and Valley Water's investment policy, whichever is more restrictive. However, Valley Water is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual Valley Water Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2021, those investments consisted of the following (in millions):

Issuer	Investment Type	Reported Amount
Government-Wide		
Federal Farm Credit Bank	U.S. Government Agency	\$ 112.6
Federal Home Loan Bank	U.S. Government Agency	100.1
Federal Home Loan Mortgage Corp.	U.S. Government Agency	61.0
Federal National Mortgage Association	U.S. Government Agency	65.2

Custodial Credit Risk

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

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

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of public agencies' cash on deposit. All of Valley Water's deposits are either insured by the

VALLEY WATER
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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

Valley Water measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as shown below:

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

Shown below is a summary of the fair value hierarchy of Valley Water's investment at fair value on June 30, 2021 (in millions):

	<u>6/30/2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Uncategorized</u>
Investments by Fair Value Level				
U.S. Government Agencies	\$ 343.5	\$ 343.5	\$ -	\$ -
U.S. Treasury Obligations	32.3	32.3	-	-
Medium Term Notes	15.3	-	15.3	-
Mutual Funds	0.2	-	0.2	-
Supranational Obligations	15.2	-	15.2	-
Municipal Bonds	67.1	-	67.1	-
Negotiable Certificates of Deposit	0.5	-	0.5	-
Time Certificates of Deposit	195.0	-	195.0	-
Subtotal - Leveled Investments	<u>669.1</u>	<u>375.8</u>	<u>293.3</u>	<u>-</u>
Local Agency Investment Fund	142.1	-	-	142.1
Money Market Funds	33.7	-	-	33.7
Subtotal - Uncategorized	<u>175.8</u>	<u>-</u>	<u>-</u>	<u>175.8</u>
Total Investments	<u>\$ 844.9</u>	<u>\$ 375.8</u>	<u>\$ 293.3</u>	<u>\$ 175.8</u>

Deposits and withdrawals in the State Investment Pool are made on the basis of \$1 and are not using fair value. Accordingly, Valley Water's investments of \$74.1 million in LAIF at June 30, 2021 are classified as uncategorized input (not classified as Level 1, Level 2, or Level 3).

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NOTE 4 - REIMBURSEMENT OF CAPITAL COSTS

Valley Water derives certain revenues from reimbursements of capital costs by local, state, federal agencies, and other outside sources. The following table shows a summary of such reimbursements during fiscal year 2021 (in millions).

		Reimbursement of Capital Costs (in Millions)	
		Governmental Funds	Proprietary Funds
Local Agencies:			
City of Morgan Hill		0.8	-
San Francisquito JPA		0.1	-
SF Bay Restoration Authority		3.5	-
San Benito Water District		-	0.4
Valley Transit Authority		0.3	-
State Agencies:			
Department of Water Resources		6.4	6.0
California Water Commission		2.4	-
Total		<u>\$ 13.5</u>	<u>\$ 6.4</u>

NOTE 5 - INVESTMENT INCOME

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

The following table represents the investment income as reported in the financial statements, the current year GASB 31 fair value adjustment, and the unadjusted interest income at June 30, 2021 (in millions).

Fund	Interest as Reported	GASB31 Fair Value Adjust.	Unadjusted Int. Income
General Fund	\$ -	\$ (0.2)	\$ 0.2
Watershed and Streams Stewardship	-	(1.9)	1.9
Safe, Clean Water and Natural			
Flood Protection	(0.2)	(2.2)	2.0
COP Construction	(0.1)	-	(0.1)
COP Debt Service	0.3	-	0.3
Water Enterprise	1.6	(2.5)	4.1
Internal Service			
Equipment Fund	-	-	-
Risk Management Fund	-	(0.1)	0.1
Information Technology Fund	-	(0.2)	0.2
	<u>\$ 1.6</u>	<u>\$ (7.1)</u>	<u>\$ 8.7</u>

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NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2021 is as follows (in millions):

	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
<u>Total - Government-wide Activities</u>					
Nondepreciable capital assets					
Land	\$ 191.7	\$ 0.1	\$ -	\$ -	\$ 191.8
Intangible - easements	27.4	0.9	-	-	28.3
Construction in progress					
Governmental Funds	668.1	76.0	(17.5)	-	726.6
Total nondepreciable	887.2	77.0	(17.5)	-	946.7
Depreciable capital assets					
Buildings	42.0	-	-	-	42.0
Structures and improvements	772.6	-	17.5	-	790.1
Equipment					
Governmental Funds	21.6	-	-	-	21.6
Internal Service Funds	31.4	3.0	-	(0.7)	33.7
Intangibles					
Governmental Fund	2.3	-	-	-	2.3
Internal Service Funds	2.0	-	-	-	2.0
Total depreciable	871.9	3.0	17.5	(0.7)	891.7
Less: accumulated depn and amort					
Buildings	(16.1)	(0.9)	-	-	(17.0)
Structures & improvements	(146.6)	(6.8)	-	-	(153.4)
Equipment					
Governmental Funds	(20.2)	(0.4)	-	-	(20.6)
Internal Service Funds	(19.8)	(2.9)	-	0.7	(22.0)
Intangible - Software					
Governmental Funds	(2.3)	-	-	-	(2.3)
Internal Service Funds	(0.3)	(0.4)	-	-	(0.7)
Total accum depreciation	(205.3)	(11.4)	-	0.7	(216.0)
Total Governmental Activities	\$ 1,553.8	\$ 68.6	\$ -	\$ -	\$ 1,622.4
<u>Total - Business-type Activities</u>					
Nondepreciable capital assets					
Land	\$ 20.0	\$ -	\$ -	\$ -	\$ 20.0
Intangible - easements	0.2	3.5	-	-	3.7
Construction in progress	493.8	102.3	(23.6)	-	572.5
Total nondepreciable	514.0	105.8	(23.6)	-	596.2
Depreciable capital assets					
Contracted water rights	226.6	10.4	-	-	237.0
Buildings	97.2	-	0.6	-	97.8
Structures and improvements	939.5	-	23.0	-	962.5
Equipment	29.9	0.1	-	-	30.0
Total depreciable	1,293.2	10.5	23.6	-	1,327.3
Less: accumulated depn and amort					
Contracted water rights	(188.1)	(12.8)	-	-	(200.9)
Buildings	(12.3)	(2.3)	-	-	(14.6)
Structures & improvements	(315.8)	(15.9)	-	-	(331.7)
Equipment	(24.7)	(1.3)	-	-	(26.0)
Total accum depreciation	(540.9)	(32.3)	-	-	(573.2)
Total Business-type Activities	\$ 1,266.3	\$ 84.0	\$ -	\$ -	\$ 1,350.3

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

During fiscal year 2021, addition to construction in progress for the current fiscal year was \$76.0 million in the government-wide activities. The breakdown of additions to the construction in progress was as follows: \$11.4 million to the watersheds, and \$64.6 million to the Safe, Clean Water & Natural Flood Protection Fund. There were 66 in progress and completed projects during the fiscal year with the major projects listed below (in millions):

- \$43.3 – Upper Llagas Creek
- \$7.5 – Permanente Creek, Bay-Foothill
- \$5.8 – San Francisco Bay Shoreline
- \$2.6 – Berryessa Creek, Lower Peninsula Phase 2
- \$1.9 – Guadalupe R Tasman Dr-l880
- \$1.9 – Fish Habitat Improvement
- \$1.8 – Almaden Lake Improvement
- \$1.7 – IRP2 Addline Valves
- \$1.6 – PA Flood Basin Tide Gate Improvement
- \$1.6 – San Francisquito Early Implementation
- \$1.5 – Lower Penitencia Creek Improvements
- \$1.4 – SFBS Other EIA Planning
- \$1.3 – Guadalupe River Improvement
- \$1.1 – Upper Penitencia Creek

New construction in progress amounted to \$102.3 million in the business-type activities. There were 49 in progress and completed projects during the fiscal year, with major projects listed below (in millions):

- \$32.8 – Rinconada Water Treatment Plant Reliability Improvement
- \$30.7 – Anderson Dam Seismic Retrofit
- \$16.5 – Pacheco Reservoir Expansion
- \$13.2 – 10-year Pipeline Rehabilitation
- \$2.3 – Coyote Pumping Plant
- \$1.8 – Indirect Potable Reuse-Plan C
- \$1.6 – Water Utility Computer Network Modernization
- \$1.0 – Calero Dam Seismic Retrofit
- \$1.0 – Guadalupe Dam Seismic Retrofit
- \$1.0 – Calero-Guadalupe Dam Safety Seismic Stability

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

General government	\$ 1.3
Watershed and Stream Stewardship	5.8
Safe, clean water and natural flood protection	1.0
Capital assets held by Valley Water's internal service funds are charged to the various functions based on their usage of assets.	<u>3.3</u>
Total depreciation expense – governmental activities	<u>\$ 11.4</u>

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Total depreciation and amortization expense – business-type activity
Water cost of production

\$ 32.2

NOTE 7 - SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

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

On May 15, 2012, the Valley Water Board authorized the execution and delivery of certain agreements in connection with the commercial paper program in an aggregate principal amount not to exceed \$100.0 million.

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

On April 22, 2020, Valley Water issued \$17.7 million of Tax Exempt and \$25.0 million of Taxable commercial paper to reimburse Water Utility capital project costs incurred between May 2019 and February 2020. On June 25, 2020, Valley Water issued \$10.0 million of Taxable commercial paper to prefund Water Utility costs incurred in March 2020 and in the future.

On October 14, 2020, Valley Water closed on a debt issuance to finance capital improvement costs for the water utility system. A portion of the total debt proceeds consisting of \$216.0 million, plus \$20.0 million of original issue premium, were used to repay \$72.7 million of beginning commercial paper balance, leaving a remaining balance of \$30.0 million. The \$30.0 million commercial paper outstanding balance was issued through the PFFC for the benefit of the Safe, Clean Water program.

Commercial paper activity for the year ended June 30, 2021 was as follows (in millions):

<u>Commercial Paper Program</u>	<u>Authorized</u>	<u>Outstanding Amount</u>
Beginning balance	\$ 150.0	\$ 102.7
Reductions	-	(72.7)
Ending balance	<u>\$ 150.0</u>	<u>\$ 30.0</u>

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

(b) Long-term liabilities

Valley Water's long-term liabilities outstanding consisted of the following (in millions):

Type of indebtedness	Maturity	All-in True Interest Cost*	Authorized and Issued	June 30, 2021	Due Within One Year
Government-wide activities					
Certificates of participation (COP)					
2012A COP	2024	1.41%	\$ 52.9	\$ 14.7	\$ 4.7
2017A COP	2030	2.56%	59.4	42.3	4.2
Debt from direct borrowings and direct placements			-	-	-
Compensated absences				12.3	2.7
Claims payable				6.6	1.7
Net pension liability				145.9	-
Other post employment liability				34.1	-
Bond premium				8.4	1.5
Total general long-term obligations				<u>\$ 264.3</u>	<u>\$ 14.8</u>
Deferred amount on refunding				<u>\$ (3,832)</u>	<u>\$ (343)</u>
Business-type activity					
1963 Water utility bonds - general obligation Series D	2012	2.25 - 7%	\$ 8,850	\$ -	\$ -
2006B Water revenue bond	2035	5.39%	\$ 25.6	\$ 16.5	\$ 0.9
2016A Water revenue bond	2046	3.25%	106.3	106.3	-
2016B Water revenue bond	2046	4.32%	75.2	75.2	-
2017A Water revenue bond	2037	3.13%	54.7	47.7	2.0
2019A Water revenue bond	2049	3.75%	15.2	14.8	0.4
2019B Water revenue bond	2049	3.81%	80.0	76.7	1.7
2019C Water revenue COP bond	2036	2.76%	38.3	35.1	2.1
2016C Water revenue COP bond	2029	2.13%	43.4	31.6	3.4
2016D Water revenue COP bond	2029	3.14%	55.0	40.0	4.4
2020A Water revenue bond	2050		24.1	24.1	
2020B Water revenue bond	2050		68.5	68.5	
2020C Water revenue COP bond	2041		41.8	41.8	1.7
2020D Water revenue COP bond	2041		81.6	81.6	3.2
Bond discount				-	-
Bond premium				54.1	2.4
Compensated absences				7.8	1.7
Net pension liability				110.3	-
Other post employment liability				25.8	-
Semitropic water banking agreement	2035		46.9	12.4	-
State revolving fund loan	2028		6,350	-	-
Total business-type obligations				<u>\$ 870.3</u>	<u>\$ 23.9</u>

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

The following is a summary of changes in long-term liabilities as of June 30, 2021 (in millions):

	Beginning			Ending		Due Within	
	Balance	Additions	Reductions	Balance	One Year	Long term	
Government-wide							
2012A COP	\$ 19.2	\$ -	\$ (4.5)	\$ 14.7	\$ 4.7	\$ 10.0	
2017A COP	46.2	-	(3.9)	42.3	4.2	38.1	
Compensated absences	10.2	6.4	(4.3)	12.3	2.7	9.6	
Claims payable	7.5	-	(0.9)	6.6	1.7	4.9	
Net pension liability	134.4	11.4	0.1	145.9	-	145.9	
Other post-employment benefits	33.0	1.8	(0.7)	34.1	-	34.1	
Premium on debt issuances	10.0	-	(1.6)	8.4	1.5	6.9	
Total Government-wide Activities	<u>\$ 260.5</u>	<u>\$ 19.6</u>	<u>\$ (15.8)</u>	<u>\$ 264.3</u>	<u>\$ 14.8</u>	<u>\$ 249.5</u>	
Business-type							
2006B revenue bonds	\$ 17.3	\$ -	\$ (0.8)	\$ 16.5	\$ 0.9	\$ 15.6	
2016A revenue bonds	106.3	-	-	106.3	-	106.3	
2016B revenue bonds	75.2	-	-	75.2	-	75.2	
2016C COPS	34.9	-	(3.3)	31.6	3.4	28.2	
2016D COPS	44.3	-	(4.3)	40.0	4.4	35.6	
2017A revenue bonds	49.6	-	(1.9)	47.7	2.0	45.7	
2019A revenue bonds	15.0	-	(0.2)	14.8	0.4	14.4	
2019B revenue bonds	78.4	-	(1.7)	76.7	1.7	75.0	
2019C COPS	37.0	-	(1.9)	35.1	2.1	33.0	
2020A revenue bonds	-	24.1	-	24.1	-	24.1	
2020B revenue bonds	-	68.5	-	68.5	-	68.5	
2020C COPS	-	41.8	-	41.8	1.7	40.1	
2020D COPS	-	81.6	-	81.6	3.2	78.4	
Premium on debt issuances	37.0	19.5	(2.4)	54.1	2.4	51.7	
Compensated Absences	6.3	4.9	(3.4)	7.8	1.7	6.1	
Net pension liability	100.6	9.7	-	110.3	-	110.3	
Other post-employment benefits	25.7	0.1	0.0	25.8	-	25.8	
Semitropic Water Banking Payable	10.0	2.4	-	12.4	-	12.4	
Total Business-type Activities	<u>\$ 637.6</u>	<u>\$ 252.6</u>	<u>\$ (19.9)</u>	<u>\$ 870.3</u>	<u>\$ 23.9</u>	<u>\$ 846.4</u>	

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

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

Bonds Payable	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 8.9	\$ 2.7	\$ 19.8	\$ 25.9
2023	9.3	2.3	20.4	25.3
2024	9.7	1.9	21.0	24.6
2025	4.3	1.5	21.7	23.9
2026	4.5	1.2	22.4	23.2
2027-2031	20.3	2.6	125.0	102.7
2032-2036	-	-	127.1	77.0
2037-2041	-	-	112.1	52.1
2042-2046	-	-	132.1	27.6
Thereafter	-	-	58.3	5.1
Total bonds payable requirements	57.0	\$ 12.2	659.9	\$ 387.4
Compensated absence	12.3		7.8	
Premium	8.4		54.1	
Claims payable	6.6		-	
OPEB	34.1		25.8	
Net pension liability	145.9		110.3	
Semitropic water banking agreement	-		12.4	
Total outstanding non-current liabilities at June 30, 2021	\$ 264.3		\$ 870.3	

Governmental Activities

The following provides a brief description of Valley Water's debt, and other long-term liabilities, for governmental activities outstanding as of June 30, 2021:

2012A Certificates of Participation

In November 2012, Valley Water issued \$53.0 million of Refunding and Improvement Certificates of Participation, Series 2012A, to be executed and delivered through the PFFC. The proceeds of 2012A COPs were used to: (1) refinance \$52.4 million of the 2003A Certificates of Participation; (2) finance the cost of certain flood control improvements; (3) fund a reserve fund; and (4) pay the costs of issuing the 2012A Certificates. The 2012A COPs are payable from the 1994 Installment Payments, which are payable by Valley Water, and are secured by a pledge of and lien on, the Valley Water Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the Valley Water Board on June 23, 1994.

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For the Year Ended June 30, 2021

2017A Certificates of Participation

In March 2017, Valley Water issued \$59.4 million of Refunding and Improvement Certificates of Participation, Series 2017A, to be executed and delivered through the PFFC. The proceeds of the 2017A COPs were used to: (1) refinance the \$5.3 million outstanding balance of the 2004A Certificates of Participation; (2) refinance the \$54.2 million outstanding balance of the 2007A Certificates of Participation; (3) finance the cost of certain flood control improvements; and (4) pay the costs of issuing the 2017A Certificates. The 2017A COPs are payable from the 1994 and 1995 Installment Payments, which are payable by Valley Water, and are secured by a pledge of and lien on, the Valley Water Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the Valley Water Board on June 23, 1994.

Claims Payable

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

Business-type Activity

The following provides a brief description of Valley Water's debt, and other long-term liabilities, for business-type activity outstanding as of June 30, 2021:

2006B Water Utility System Refunding Revenue Bonds

In December 2006, Valley Water issued \$99.8 million of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B, pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The proceeds of \$57.4 million of the 2006A and 2006B Bonds were used to refinance \$55.3 million of the remaining 2000A and 2000B Bonds and the proceeds of \$42.4 million of 2006A and 2006B were used to repay approximately \$40.9 million of commercial paper notes. In March 2016, Valley Water issued Series 2016A Water System Refunding Revenue Bonds to refund all 2006A outstanding principal.

2016A/B Water Systems Refunding Revenue Bonds

In March 2016, Valley Water issued \$181.5 million of Water Systems Refunding Revenue Bonds comprised of Series 2016A for \$106.3 million and Taxable Series 2016B 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 principal and interest of the 2016A/B Water Systems Refunding Revenue Bonds is secured by a

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pledge of and lien on Valley Water's Water Utility System revenues and are payable from the Net Water Utility System revenues.

2017A Water System Refunding Revenue Bonds

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

2019A/B Water Systems Refunding Revenue Bonds

In April 2019, Valley Water issued \$95.3 million of Water System Refunding Revenue Bonds 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 Revenue Certificates of Participation

In November 2019, Valley Water issued \$38.3 million of Water Utility Revenue Certificates of Participation to refinance all the currently outstanding Water Utility Revenue Certifications of Participation Taxable Series 2007B and fund costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019C 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).

2016C/D Water Utility Revenue Certificates of Participation

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

2020A/B Water Systems Refunding Revenue Bonds

In September 2020, Valley Water issued \$92.6 million of Water System Refunding Revenue Bonds comprised of Series 2020A for \$24.1 million and Taxable Series 2020B for \$68.5 million, . Proceeds of the 2020A Revenue Bonds, along with the original issue premium, were used to repay \$31.0

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Notes to Basic Financial Statements
For the Year Ended June 30, 2021

million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2020B Revenue Bonds were used to repay \$68.3 million of outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay principal and interest of the 2020A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

2020C/D Water Utility Revenue Certificates of Participation

In September 2020, Valley Water issued \$123.4 million of Water Utility Revenue Certificates of Participation, comprised of Series 2020C for \$41.8 million and Taxable Series 2020D for \$81.6 million, executed and delivered through the PFFC. Proceeds of the 2020C and 2020D COPs, along with the original issue premium, will be 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).

Semitropic Water Banking Agreement

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. At June 30, 2021, Valley Water has \$12.4 million outstanding liability related to water storage and banking rights.

Compensated Absences

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

(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 agreement 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

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For the Year Ended June 30, 2021

Water to observe or perform the conditions, covenants, or other agreement with respect thereto; bankruptcy filing by Valley Water; or if any court or competent jurisdiction shall assume custody or control of Valley Water, among other defaults. Certain of such master resolutions, bonds, notes and other obligations and reimbursement agreement and other financial contract contain acceleration provisions that allows a trustee, owners of bonds, notes or other obligations or the parties to such reimbursement agreements or other financial contracts to accelerate payments thereunder to the extent and as provided therein.

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

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

Valley Water has pledged future flood control system revenues to repay \$57.0 million in long-term debt outstanding as of June 30, 2021, that was issued to finance the cost of flood control improvements. The certificates of participation (COPs) are payable from installment payments that are secured by flood control system revenues and are payable through fiscal years 2024 (2012A) and 2030 (2017A). The total principal and interest remaining to be paid on the combined debt is \$69.2 million. A ten-year comparison of flood control system revenues to related debt service titled "Flood Control System Historical Operating Results – Combined Statements of Revenues and Debt Service Coverage – Last Ten Fiscal Years" can be found in the Statistical Section.

Valley Water has also pledged water utility system revenues, net of specified maintenance and operating expenses, to repay \$659.8 million in long-term debt outstanding as of June 30, 2021, that was issued to finance the cost of capital construction projects for the water utility enterprise. The secured debt includes revenue bonds and COPs. The revenue bonds are payable from net water utility system revenues and the revenue COPs are payable from installments that are secured by net water utility system revenues. The long-term debt is payable through fiscal year 2049. Total principal outstanding and interest costs remaining to be paid on the combined debt is \$1,047.3 million.

NOTE 8 - PROPERTY TAXES AND BENEFIT ASSESSMENTS

Valley Water derives certain revenues from the assessment of property tax parcel levies and the levy of benefit assessments and a special parcel tax. The property tax levy is composed of two categories: (1) an allocation of the County of Santa Clara's 1 percent tax; and (2) voter approved

VALLEY WATER
Notes to Basic Financial Statements
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levy to repay capital and operating costs related to imported water from the State Water Project. Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments. In November 2000, voters approved a 15-year special parcel tax to fund the countywide Clean, Safe Creeks & Natural Flood Protection Program. The levy became effective July 1, 2001 and is based on the proportionate storm water runoff for each property.

In November 2012, the voters approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax. The Safe, Clean Water program builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000. The Safe, Clean Water program replaced the Clean, Safe Creeks measure in its entirety beginning July 1, 2013. For fiscal year 2021, the budget included \$45.5 million of special parcel tax for this program. The renewed Safe, Clean Water program, approved by voters on November 3, 2020, will take effect beginning fiscal year 2022.

Property tax and benefit assessment revenues recorded for the year ended June 30, 2021 are shown on the following page (in millions).

	General Fund	Special Revenue Funds	Water Enterprise Fund
Property taxes:			
1% tax allocation	\$ 9.8	\$ 98.6	\$ 8.9
Special parcel tax	-	46.1	-
Voter approved indebtedness:			
State water	-	-	21.3
Total taxes	9.8	144.7	30.2
Benefit assessments	-	12.4	-
Total property taxes and benefit assessments	<u>\$ 9.8</u>	<u>\$ 157.1</u>	<u>\$ 30.2</u>

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

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.

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NOTE 9 - FUND BALANCES

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

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

Spending Prioritization in Using Available Resources

When an expense is incurred for purposes for which both restricted resources and unrestricted resources fund balance are available, Valley Water considers restricted resources to be spent first. When committed, assigned, and unassigned resources can be used for the same purpose, Valley Water's flow assumption is to spend in the sequence of committed resources first, assigned second, and unassigned last.

The various fund balances are established by actions of the Board of Directors and can be increased, reduced or eliminated by similar actions with the exception of contracts and commitments on the assigned fund balance, which can be reduced or eliminated without the action of the Board of Directors. Valley Water's reserve amounts are reviewed annually to ensure compliance with Valley

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Water's reserve policy. Changes to the restricted, committed and assigned reserves are presented to the Board of the Directors for review and approval.

Detailed schedule of fund balances as of June 30, 2021 is shown in the following table (in millions).

	General	Watershed & Stream Steward	Safe, Clean Water and Natural Flood Protection Program	COP Construction	COP Debt Service	Total Govern- mental Funds
Restricted Fund Balance:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 5.4	\$ 5.4
Debt proceeds	-	-	-	68.0	-	68.0
SCW-current authorized capital projects	-	-	140.7	-	-	140.7
Total restricted fund balance	-	-	140.7	68.0	5.4	214.1
Committed Fund Balance:						
Operating and capital	7.1	97.8	-	-	-	104.9
Current authorized capital projects	-	33.7	-	-	-	33.7
Total committed fund balance	7.1	131.5	-	-	-	138.6
Assigned Fund Balance:						
Encumbrances	7.0	18.3	-	-	-	25.3
Market valuation	0.1	1.0	-	-	-	1.1
Total assigned fund balance	7.1	19.3	-	-	-	26.4
Total fund balances	\$ 14.2	\$ 150.8	\$ 140.7	\$ 68.0	\$ 5.4	\$ 379.1

NOTE 10 - NET POSITION

The proprietary funds financial statements utilize a net position presentation. Net position is categorized as follows: (1) invested capital assets (net of related debt), (2) restricted and (3) unrestricted.

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

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

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

VALLEY WATER
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For the Year Ended June 30, 2021

The following table shows the detailed schedule of the proprietary funds' net position as of June 30, 2021 (in millions).

	Water Enterprise Fund	State Project Fund	Equipment Fund	Risk Management Fund	Information Technology Fund	Total
Restricted Net Position:						
San Felipe emergency reserve	\$ 3.3	\$ -	\$ -	\$ -	\$ -	\$ 3.3
Cash held by fiscal agent	-	-	-	-	-	-
GP5 reserve	9.7	-	-	-	-	9.7
Rate stabilization	25.1	-	-	-	-	25.1
Public-private partnership	-	-	-	-	-	-
Advance water purification center	1.3	-	-	-	-	1.3
Supplemental water supply	15.5	-	-	-	-	15.5
Drought reserve	10.0	-	-	-	-	10.0
State water project	-	13.6	-	-	-	13.6
Total restricted net position	64.9	13.6	-	-	-	78.5
Unrestricted Net Position:						
Operating and capital	87.0	-	5.3	-	-	92.3
Water inventory	130.0	-	-	-	-	130.0
Current authorized projects	85.3	-	-	-	7.8	93.1
Market valuation	2.4	-	0.1	0.1	0.1	2.7
Property self-insurance/catastrophic	-	-	-	6.8	-	6.8
Encumbrance	125.5	-	2.2	0.6	7.8	136.1
Net pension liability	(76.5)	-	(3.1)	(2.0)	(0.1)	(81.7)
Net other post-employment benefits	(32.2)	-	(1.0)	(0.8)	(0.2)	(34.2)
Total unrestricted net position	321.5	-	3.5	4.7	15.4	345.1
Net investment in capital assets	610.3	14.2	9.4	-	3.6	637.5
Net position	\$ 996.7	\$ 27.8	\$ 12.9	\$ 4.7	\$ 19.0	\$1,061.1

NOTE 11 - EMPLOYEES' RETIREMENT PLAN

Plan Description

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

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are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statutes and may be amended by the Valley Water's governing board.

The Plan's provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Prior to	3/19/2012 to	On or after
Hire date	3/19/2012	12/31/2012	1/1/2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + 2.5%*	7.0% + 3.5%*	6.75% + 1.5%
Required employer contribution rates	10.911% plus \$3.0 million prepayment for prior unfunded service cost		

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

Employees Covered – As of the most recent CalPERS annual valuation report, measurement date of June 30, 2020, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	1,044
Active employees	752

Contributions

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

For the year ended June 30, 2021 contributions to the plan were \$31.6 million. Valley Water is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. All funds with payroll charges contribute to the actuarially determined contribution.

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Net Pension Liability

Valley Water's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
Reporting date	June 30, 2021
Actuarial cost method	Entry-age normal cost method
Discount rate	7.15%
Inflation	2.625%
Salary increases	Varies by entry age and service
Investment rate of return ⁽¹⁾	7.25%
Retirement age	Based on the 2017 CalPERS Experience Study for the period from 197 to 2015.
Mortality rate table ⁽²⁾	Derived using CalPERS' membership data for all funds

⁽¹⁾Net of pension plan investment and administrative expenses; includes inflation

⁽²⁾The mortality rate table was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuarial Scale BB.

The Experience Study can be obtained at CalPERS' website under "Forms and Publications".

Change in Assumptions

Inflation Rate

The inflation rate was 2.75% in fiscal year 2020 and decreased to 2.625% for fiscal year 2021.

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Notes to Basic Financial Statements
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Changes in the Net Pension Liability

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

	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(c) = (a) - (b)
Beginning balance	\$ 863.5	\$ 628.6	\$ 234.9
Changes recognized for the measurement period:			
Service cost	17.0	-	17.0
Interest on total pension liability	61.6	-	61.6
Difference between expected and actual experience	10.7	-	10.7
Contributions - employer	-	29.8	(29.8)
Contributions - employees	-	7.6	(7.6)
Net investment income	-	31.6	(31.6)
Benefits payment, including refunds of employee contributions	(42.2)	(42.2)	-
Administrative expense	-	(1.0)	1.0
Net changes	47.1	25.8	21.3
Ending balance	\$ 910.6	\$ 654.4	\$ 256.2

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

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

	Discount Rate		
	-1%	Current	+1%
Plan Net Pension Liability	\$ 374.5	\$ 256.2	\$ 157.8

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Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Pension Plan Fiduciary Net Position

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

Pension Expenses and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2021 (for measure period ended June 30, 2020), Valley Water recognized pension expense of \$10.7 million. As of June 30, 2021, Valley Water reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in millions):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflow of Resources</u>
Pension contribution subsequent to measurement date	\$ 31.6	\$ -
Changes in assumption	-	(2.3)
Differences between expected and actual experience	14.9	(0.3)
Net difference between projected and actual earnings on pension plan investments	5.0	
Total	<u>\$ 51.5</u>	<u>\$ (2.6)</u>

\$31.6 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction from the net pension liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as shown in the succeeding table.

Measurement Periods Ended June 30:	Deferred Outflows / (Inflows) of Resources
2022	\$ 1.1
2023	7.3
2024	6.1
2025	2.8
2026	-
Thereafter	-
Total	<u>\$ 17.3</u>

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Notes to Basic Financial Statements
For the Year Ended June 30, 2021

NOTE 12 – 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.

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VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Benefits Provided

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

For the Year Ended June 30, 2021

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

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For the Year Ended June 30, 2021

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

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

After an evaluation of the cost savings realized in implementing the Medicare enrollment plan since August 2007, Valley Water decided to expand the Medicare enrollment requirement to all retirees and their eligible dependents that are enrolled in Valley Water's medical plan. As of July 1, 2009,

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all Medicare eligible retirees and their eligible dependents were required to enroll in Medicare. Valley Water reimburses the Medicare Part B penalty charged by the Social Security Administration to the retirees/dependents due to late enrollment.

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

Employees Covered – As of the most recent OPEB annual valuation report, measurement date of June 30, 2020, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	846
Active employees	753

Contributions

On June 24, 2008, Valley Water's Board of Directors adopted a resolution approving the agreement and election of Valley Water to prefund OPEB through CalPERS under its California Employer's Retiree Benefit Trust (CERBT) Program, an agent multiple-employer plan consisting of an aggregation of single-employer plans. On September 9, 2008, Valley Water joined CERBT. The Board of Directors approved the reallocation of \$17.7 million from its existing reserve for the initial prefunding of the unfunded liability for the first year of reporting. Subsequent years funding, pursuant to the annual budget approved by the Board of Directors, was made at the beginning of each fiscal year through fiscal year 2017. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Employees' Retirement System, P. O. Box 942703, Sacramento, CA 94229-2703.

OPEB and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between Valley Water and the bargaining groups. For the fiscal year ended June 30, 2021, the District's total contribution to the plan amounted to \$11.0 million. All funds with payroll charges contribute to the actuarially determined contribution.

Net OPEB Liability

Valley Water's net OPEB liability was measured on June 30, 2020 for reporting date June 30, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019, based on the following actuarial methods and assumptions:

Discount rate ⁽¹⁾	7.59%
Investment rate of return ⁽¹⁾	7.59%
Inflation	3.00%
Payroll growth rate	2.75%
Mortality rate	Derived from the CalPERS study of Miscellaneous Public Agency experience

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Pre-retirement turnover ⁽²⁾	Derived from the CalPERS study of Miscellaneous Public Agency experience
Healthcare trend rate ⁽³⁾	Medical and Part B trend rate begin at 5.25% then taper to 4% by 2025/26; dental and vision are 3.0%

⁽¹⁾The discount rate is the expected long-term rate of return on Valley Water assets using investment strategy #1 within the California Employers' Retiree Benefit Trust.

⁽²⁾Net of OPEB plan investment expenses, including inflation

⁽³⁾The mortality rate table was developed based on CalPERS' nonindustrial miscellaneous public agency experience study for 14 years ending June 2011.

Discount Rate

The discount rate of 7.59% is the expected long-term rate of return on Valley Water assets using investment strategy #1 within the CERBT. The projected cash flows used to determine the discount rate assumed that Valley Water contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in OPEB Liability

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

	Increase (Decrease)		
	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(c) = (a) - (b)
Beginning balance	\$ 172.7	\$ 114.0	\$ 58.7
Changes recognized for the measurement period:			
Service cost	2.5	-	2.5
Interest cost	12.8	-	12.8
Other liability experience loss/(gain)	0.2	-	0.2
Contributions	-	10.3	(10.3)
Benefits payment	(10.3)	(10.3)	-
Administrative expenses	-	(0.1)	0.1
Expected investment return	-	8.7	(8.7)
Investment experience (loss)/gain	-	(4.6)	4.6
Net changes	5.2	4.0	1.2
Ending balance	\$ 177.9	\$ 118.0	\$ 59.9

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Notes to Basic Financial Statements
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Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of Valley Water, calculated using the current discount rate, as well as what Valley Water's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2020 (in millions):

	Discount Rate		
	-1%	Current	+1%
Plan NetOPEB Liability	\$ 80.3	\$ 59.9	\$ 42.7

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

The following presents the net OPEB liability of Valley Water, if it were calculated using health care cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2020 (in millions):

	Discount Rate		
	-1%	Current	+1%
Plan NetOPEB Liability	\$ 41.3	\$ 59.9	\$ 82.0

OPEB Plan Fiduciary Net Position

Detailed information about Valley Water's OPEB plan fiduciary net position is available in separately issued CalPERS CERBT financial reports.

OPEB Expense and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2021, Valley Water recognized OPEB credit expense of \$5.9 million. At fiscal year-end, Valley Water reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in millions):

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contribution subsequent to measurement date	\$ 11.0	\$ -
Changes in assumption	-	(3.4)
Other liability experience loss / (gain)	0.1	(4.9)
Investment experience loss / (gain)	3.5	-
Total	<u>\$ 14.6</u>	<u>\$ (8.3)</u>

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Notes to Basic Financial Statements
For the Year Ended June 30, 2021

\$11.0 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction from the net OPEB liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows (in millions):

Year ending June 30:	Deferred Outflows / (Inflows) of Resources
2022	\$ (2.1)
2023	(1.6)
2024	(1.4)
2025	0.4
2026	-
Thereafter	-
Total	<u>\$ (4.7)</u>

NOTE 13 - RISK MANAGEMENT

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

Valley Water's deductibles and maximum coverage are as follows (in thousands):

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

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2021, the liability for self-insurance claims was \$6.6 million. This liability is the 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.

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Changes in the reported liability since June 30, 2021 are as follows (in millions):

	General <u>Liability</u>	Workers <u>Compensation</u>	<u>Total</u>
Claims payable, June 2019	\$ 4.2	\$ 2.8	\$ 7.0
Current yr premiums, incurred claims & changes in estimates	1.0	0.3	1.3
Claims payments (6721-6723)	<u>(0.7)</u>	<u>(0.1)</u>	<u>(0.8)</u>
Claims payable, June 2020	4.5	3.0	7.5
Current yr premiums, incurred claims & changes in estimates	(0.4)	(0.3)	-
Claims payments (6721-6723)	<u>-</u>	<u>(0.2)</u>	<u>(0.2)</u>
Claims payable, June 2021	<u>\$ 4.1</u>	<u>\$ 2.5</u>	<u>\$ 6.6</u>
Current portion	<u>\$ 1.2</u>	<u>\$ 0.5</u>	<u>\$ 1.7</u>

NOTE 14 - TRANSFERS IN AND OUT

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

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

Transfers made during fiscal year 2021 are shown below (in millions):

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>	<u>Description</u>
General Fund	Watershed and Stream Stewardship	\$ 1.1	Drought induced tree removal
General Fund	Watershed and Stream Stewardship	2.9	SCW measure S election cost
General Fund	Water Enterprise Fund	0.4	SCW measure S election cost
General Fund	Watershed and Stream Stewardship	0.7	COVID-19 reimbursement
General Fund	Water Enterprise Fund	1.7	COVID-19 reimbursement
General Fund	Fleet Management Fund	-	COVID-19 reimbursement
General Fund	Risk Management Fund	0.1	COVID-19 reimbursement
General Fund	Information Technology Fund	0.2	COVID-19 reimbursement
West Valley Watershed	Watershed and Stream Stewardship	0.2	tfr to lower benefits assessmt
Guadalupe Watershed	Watershed and Stream Stewardship	0.6	tfr to lower benefits assessmt
Coyote Watershed	Watershed and Stream Stewardship	0.3	tfr to lower benefits assessmt
Safe, Clean Water & Nat. Flood Protection	Watershed and Stream Stewardship	2.5	Upper Penitencia Creek Project
Safe, Clean Water & Nat. Flood Protection	Watershed and Stream Stewardship	6.2	Upper Llagas - 26174052
Safe, Clean Water & Nat. Flood Protection	Watershed and Stream Stewardship	0.3	Encampment cleanup program
COP Construction	Water Enterprise Fund	135.7	Bond proceeds transfer
COP Debt Service	General Fund	0.5	Debt Service transfer
COP Debt Service	Coyote Watershed	0.4	Debt Service transfer
COP Debt Service	Guadalupe Watershed	0.2	Debt Service transfer
COP Debt Service	West Valley Watershed	0.1	Debt Service transfer
COP Debt Service	Lower Peninsula Watershed	0.4	Debt Service transfer
COP Debt Service	Lower Peninsula Watershed	1.8	Debt Service transfer
COP Debt Service	West Valley Watershed	1.7	Debt Service transfer
COP Debt Service	Guadalupe Watershed	3.5	Debt Service transfer
COP Debt Service	Coyote Watershed	2.9	Debt Service transfer
Water Enterprise Fund	COP Construction	67.6	Capital transfer
Water Enterprise Fund	Watershed and Stream Stewardship	0.3	Open space credit - 1% prop tx
Water Enterprise Fund	General Fund	0.3	Open space credit - 1% prop tx
Information Technology Fund	Water Enterprise Fund	4.5	IT capital projects
Information Technology Fund	Watershed and Stream Stewardship	3.0	IT capital projects
		<u>\$ 240.1</u>	

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Notes to Basic Financial Statements
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NOTE 15 - COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2021, governmental funds had encumbrances of approximately \$62.4 million, while proprietary funds had open purchase commitments of approximately \$142.5 million related to new or existing contracts and agreements. These encumbrances are only commitments for the expenditure of funds and do not represent actual expenditures or liabilities.

A detailed breakdown of encumbrances of the governmental and proprietary funds is shown below (in millions).

Fund	Fund Balances		
	Governmental Assigned	Proprietary Unrestricted	Total
General Fund	\$ 7.0	\$ -	\$ 7.0
Watershed and Streams Stewardship	18.3	-	18.3
Safe, Clean Water and Natural Flood Protection	37.1	-	37.1
Water Enterprise	-	131.9	131.9
Equipment Fund	-	2.2	2.2
Risk Management Fund	-	0.6	0.6
Information Technology Fund	-	7.8	7.8
Total	<u>\$ 62.4</u>	<u>\$ 142.5</u>	<u>\$ 204.9</u>

(b) San Felipe Project Water Deliveries

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

During fiscal year 2017, Valley Water amended this contract. The amended contract provided for compliance with the Central Valley Project Improvement Act and converted the repayment of the San Felipe Division facilities from a water service contract to a repayment contract with fixed semi-annual payments. The semi-annual payments for January 2007 through July 2016 are \$7.5 million. The semi-annual payments starting January 2017 is \$7.7 million. The amended contract preserved the attributes of a water service contract for other Central Valley Project costs.

The total commitment, including applicable interest, of the repayment contract was \$431.9 million. The remaining commitment as of June 30, 2021 was \$194.9 million.

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Notes to Basic Financial Statements
For the Year Ended June 30, 2021

(c) Participation Rights in Storage Facilities

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

Upon withdrawal by Valley Water of all 135,965 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs. The 2021 rate to retrieve Tier 1 water is \$73.70 per acre-feet. During the first 10 years, Valley Water had a reservation for the full 35 percent allocation; by January 1, 2006, if Valley Water's contributions towards the program capital costs did not equal \$46.9 million, Valley Water's permanent storage allocation would have been reduced. Valley Water decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

Valley Water currently has a storage allocation of 350,000 acre-feet. As of June 30, 2021, Valley Water has 321,974 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of \$29.9 million has been recorded through fiscal year 2021.

Semitropic Water Storage District has reported elevated concentrations of 1, 2, 3 trichloropropane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies.

(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.

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

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Notes to Basic Financial Statements
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NOTE 16 – CONTINGENCIES

(a) Litigation

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

Great Oaks Water Company v. Valley Water

In 2005, Great Oaks Water Company (hereinafter “Great Oaks”) filed an administrative claim alleging that Valley Water’s groundwater charges for 2005-06 violated the law and sought a partial refund. After its claim was deemed denied, Great Oaks filed a lawsuit alleging, among other things, that Valley Water’s groundwater production charges violated Proposition 218 (which added Article XIID to the California Constitution), because proceeds are used to fund projects and services that benefit the general public, not just ratepayers (*Great Oaks Water Company v. Santa Clara Valley Water District*, Santa Clara County Superior Court Case No. 2005-CV-053142; Cal. Court of Appeals Case Nos. HO35260 and HO35885; Cal. Supreme Court No. S231846 (the “Great Oaks Case”). Great Oaks also alleged that the groundwater production charges violated the Law. Great Oaks demanded a partial refund as well as declaratory, injunctive and mandamus relief.

On February 3, 2010, the trial court issued a Judgment After Trial in the Great Oaks case, ruling that Valley Water owed Great Oaks a refund of groundwater charges of approximately \$4.6 million plus interest at 7% per annum. The award of pre-judgment interest amounted to approximately \$1.3 million, and the court awarded post-judgment interest of \$886.62 per day. Valley Water appealed this decision to the California Court of Appeal for the Sixth Appellate District (the “Court of Appeal”). During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, Valley Water recorded a liability in the amount of the judgment plus interest. After the favorable judgement by the Court of Appeal in 2015, discussed below, Valley Water reversed its prior total recorded liability in the aggregate amount of \$7.4 million in its audited financial statements for Fiscal Year 2017.

In 2015, the Court of Appeal reversed in full the judgment of the trial court. The Court of Appeal found that Valley Water’s groundwater production charges did not violate Proposition 218 or the Law. Great Oaks petitioned the California Supreme Court to review the Court of Appeal’s ruling, and the Supreme Court granted its petition. The case was placed on hold pending the California Supreme Court’s decision in a similar case, *City of Buena Ventura v. United Water Conservation District* (“UWCD”). In late 2017, the California Supreme Court issued its opinion in the UWCD case, finding that Proposition 218 does not apply to groundwater charges, but that Article XIIC of the California Constitution does apply. The Supreme Court vacated the Court of Appeal’s decision and remanded the Great Oaks case for reconsideration in light of its UWCD opinion. On November 8, 2018, the Court of Appeal reaffirmed its 2015 decision. The Court of Appeal declined to consider Great Oaks’ request to consider whether Valley Water’s groundwater production charges violated Article XIIC of the California Constitution, as this

VALLEY WATER
Notes to Basic Financial Statements
For the Year Ended June 30, 2021

cause of action had never been considered by the trial court. This case was remanded to the trial court for further proceedings in February 2019.

While the 2005 Great Oaks case was pending, Great Oaks filed additional annual claims and additional annual lawsuits challenging Valley Water's groundwater production charges for each year after 2005, continuing through the present. Great Oaks' subsequent, similar lawsuits were stayed pending resolution of its 2005 case. (Santa Clara Superior Court Case Nos. 2007-CV-087884; 2008-CV-119465; 2008-CV-123064; 2009-CV-146018; 2010-CV-178947; 2011-CV-205462; 2012- CV-228340; 2013-CV-249349; 2015-CV-281385; 2016-CV-292097; 2017-CV-308140; and 2018-CV-327641). In addition, in 2011 Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club filed a similar refund action, making similar claims (Santa Clara Superior Court Case No. 2011-CV-195879). Other water retailers including San Jose Water Company and the cities of Morgan Hill, Gilroy and Santa Clara, and the Los Altos Golf and Country Club and Stanford University, dispute Valley Water's groundwater charges and entered into tolling agreements with Valley Water pending the final decision in the Great Oaks Case. In 2019, Valley Water filed a collection action against Shatto Corporation for failure to pay groundwater charges from 2009 to 2014 and associated penalties and interest. Valley Water estimates that the amount due is approximately \$1.0 million. Shatto Corporation filed a cross-complaint, alleging that Valley Water's groundwater charges violate Article XIIC of the California Constitution (Santa Clara Superior Court Case No. 2019-CV-348413).

Once the Great Oaks Case was remanded to the trial court in February 2019, the court lifted the stay over Great Oaks' subsequently filed cases, as well as the case brought by Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club. At the request of the trial court, in order to streamline resolution of the remaining issues this litigation and related litigation, the parties stipulated and agreed to the filing of a new, omnibus complaint. On June 12, 2020, the proposed omnibus "Master Complaint" of plaintiffs Great Oaks and Shatto Corporation was approved for filing and filed under Santa Clara Superior Court Case No. 2011-CV-205462. Great Oaks alleges that Valley Water's groundwater production charges violate Proposition 26, and that Valley Water does not levy or collect groundwater charges from agricultural pumpers but instead uses property taxes to pay these charges. On or about October 7, the District and Shatto Corporation entered into a settlement agreement by which both parties dismissed with prejudice all actions each had against the other. Shatto will pay Valley Water \$1.1 million.

The Great Oaks case will proceed to trial on written briefs in the Superior Court in and for Santa Clara County on June 13, 2022.

In the event that a court rules that Valley Water's groundwater production charges violate Proposition 26, such a ruling could materially impact Valley Water's rate revenue and finances.

VALLEY WATER
Notes to Basic Financial Statements
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Flooding in the City of San Jose

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

As of the date of this Official Statement, Valley Water has received 423 claims with respect to the flooding along Coyote Creek. Estimated damages are in excess of \$10.0 million; however, Valley Water cannot predict the final amount of any proven damages. Many of the claimants are also seeking recovery from the City of San Jose; therefore, a portion of the aggregate stated value of the claims may be apportioned to the City of San Jose.

A number of claimants have filed lawsuits in Santa Clara County Superior Court against Valley Water and the City of San Jose alleging damage from the Coyote Creek flood event. Currently, 20 lawsuits have been filed and 19 are pending against Valley Water relating to the flood event (one case was dismissed). Valley Water is evaluating all of such claims and lawsuits and cannot predict the outcomes or financial impacts of these or any future claims and lawsuits with respect to the Coyote flood event. Valley Water intends to vigorously defend any actions brought against it with respect to flood-related property damage caused by the flooding along Coyote Creek. Valley Water has filed a motion to remove all 19 pending cases from the State Superior Court to federal court. A hearing on the removal motion has been set for September 1, 2020.

Of the 423 claims, 192 of the claimants have not filed an action in superior court. As to these 192 claims, Valley Water settled 162 of such claims in September 2019 at a total cost of approximately \$0.7 million.

The City of San Jose reached a settlement with the plaintiffs for \$750,000. On October 25, 2021, the court granted the City's application for a determination that the settlement was reached in good faith, effectively leaving Valley Water as the sole remaining defendant.

On October 27, 2021, Valley Water filed a motion for summary judgment as to the entire action, or in the alternative, summary adjudication as to each individual cause of action. This motion is scheduled to be heard on January 13, 2022. Trial on any remaining claims is scheduled for May 2, 2022.

On September 30, 2020, Pacific Gas & Electric Corporation filed a civil action against Valley Water claiming personal property damages as a result of flooding resulting from a series of storms occurring on or about February 21, 2017.

On or about June 14, 2018, San Jose Unified School District filed a civil action against Valley Water claiming property damages as a result of flooding resulting from a series of storms occurring on or

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Notes to Basic Financial Statements
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about February 21, 2017.

(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 required reimbursements are not expected to be material.

(c) WIIN Act Contract Conversions

On December 16, 2016, Congress enacted the Water Infrastructure Improvements for the Nation Act (WIIN Act). Under the WIIN Act, a Central Valley Project (CVP) contractor may request conversion of its multi-year term water service contract into a permanent repayment contract. In a water service contract, construction costs owed by the contractor are paid on a per acre-foot basis in proportion to its CVP water deliveries. However, in a repayment contract under the WIIN Act, construction costs are paid up front as a lump sum or three-year accelerated scheduled irrespective of water deliveries. By agreeing to prepay construction costs up front, the WIIN Act provides for a repayment contract that does not expire.

Under the terms of these contract conversions, the Bureau requires all contractors, including Valley Water, to file validation actions in Superior Court to establish conclusively that the new, converted contract is valid, and the contractor has the legal authority to enter into it.

Valley Water has converted two of its contracts with the Bureau of Reclamation (Valley Water's long-term CVP contract and its contract for water services assigned to it by Mercy Springs Water District). Valley Water filed validation actions as to both these contracts. Both validation actions have gone unchallenged. However, separately, the Centers for Biological Diversity and other plaintiffs have challenging the conversion of these contracts and contracts between the Bureau and other contractors. This action remains pending in the federal District Court for the Eastern District of California.

(d) California Drought

On May 10, 2021, The Governor of the State of California recently proclaimed a state of emergency due to the severe drought condition that continues to hit the state. The State of California is in a more dire situation when compared to this point in time last year. To mitigate its impact to the Santa Clara Valley residents, Valley Water will prioritize drought response and preparedness resources, increase resilience of our water supplies and systems, and ensure that the potential impacts of drought on communities are anticipated and proactively addressed.

(e) Rinconada Water Treatment Plant Upgrade

On May 26, 2015, the Board awarded a \$179.9 million construction contract to Balfour Beatty Infrastructure, Inc. ("Balfour Beatty") for the Rinconada Water Treatment Plant (WTP) Reliability Improvement Project. Phase 2 of such project includes the construction of several new facilities for the upgraded treatment system at the Rinconada WTP, including flocculation/sedimentation, ozone generation, and washwater recover facilities. Such project also includes the installation of an

VALLEY WATER
Notes to Basic Financial Statements
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electrical control building and appurtenant wiring and control systems, significant underground piping, and installation of chemical feed systems.

Valley Water's contract with Balfour Beatty provided for the project to be built in five phases within a 5-year period. The existing Rinconada WTP is to remain operational during the entire construction period, with the newly constructed facilities and upgrades integrated with plant operations at the end of each phase.

Balfour Beatty's current estimated completion date of Phase 2 work is more than two years later than originally provided in the construction schedule. Valley Water advised Balfour Beatty of Valley Water's concerns regarding quality of construction work, the failure to comprehensively remedy construction defects, and Balfour Beatty's lack of diligence to ensure progress is made in a timely manner. On March 10, 2020, Valley Water and Balfour Beatty entered into an amendment to their original construction contract ("Amendment One") pursuant to which the scope of work was reduced such that Balfour Beatty only responsible for completing Phase 2 of the project and not the later phases, as originally agreed upon. Amendment One reduced the contract amount by approximately \$39.8 million. Balfour Beatty Infrastructure Inc. has completed the scope of work described in Amendment One.

On January 12, 2021, Valley Water accepted the work as complete and will submit the Notice of On January 12, 2021, the Board accepted the work as complete and the Notice of Completion was recorded on January 21, 2021. Final payment and the contract retention sum were both thereafter remitted to BBII. The parties have had no discussions regarding resolving this Claim. The Board took no action on this Claim and no lawsuit has been filed by BBII.

(f) Factors Affecting Water Supply

Endangered Species Act Issues

Valley Water's imported and local supplies are subject to regulatory restrictions due to implementation of the federal Endangered Species Act ("ESA") and the California Endangered Species Act ("CESA"). The listing of winter-run Chinook salmon in 1989 and delta smelt in 1993 resulted in pumping restrictions imposed on the State and federal water projects to protect these species. These pumping restrictions resulted in reduced deliveries from the SWP and CVP, compounding the shortages created by the on-going drought at the time. In 1993, the United States Environmental Protection Agency (the "EPA") also proposed to implement water quality standards for the Bay-Delta that would impose severe restrictions on the operation of the SWP and CVP. These circumstances led to the Bay-Delta Accord in 1994, in which the State and federal governments, along with urban, agricultural and environmental interests, agreed to an interim set of ESA protection measures coupled with water supply certainty. The Bay-Delta Accord laid the groundwork for the establishment of the CALFED Bay-Delta Program, which has been succeeded by a number of efforts, including the California Water Action Plan, the Delta Reform Act and Delta Plan, and the proposed Delta Conveyance Project to develop a long-term solution for conflicts in the Bay-Delta. However, there has been significant recent litigation concerning ESA and CESA issues and water moving through the Delta for export to contractors.

Various legal actions have been filed, and are anticipated to be filed, involving the conveyance of water through the Delta by DWR, via the SWP, and by USBR, via the CVP.

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2019 Revised Federal Biological Opinions Litigation. In October 2019, the United States, acting through the National Marine Fisheries Service (“NMFS”) and United States Fish and Wildlife Service (“FWS”) issued revised Biological Opinions (BiOps) governing the joint operation of the CVP and SWP. The revised BiOps allow for the export of additional water south of the Delta during April and May in certain water years, as compared to the prior 2008-09 BiOps. The State of California and several environmental groups filed suit soon thereafter, alleging that this BiOp violated the ESA, Administrative Procedure Act (“APA”), and National Environmental Policy Act (“NEPA”). These cases have been consolidated in the United States District Court for the Eastern District of California.

Shortly after the Biden Administration took office, counsel for the United States requested to stay this litigation to allow the new administration to conduct a comprehensive review of joint project operations and ESA and other issues. On October 1, 2021, the United States formally re-initiated ESA consultations on joint project operations. The U.S. and California also recently filed a proposed “joint interim operations plan” for the CVP and SWP in water year 2022. In this plan, the U.S. would essentially operate the CVP in accordance with California’s stricter Incidental Take Permit (“ITP”) (issued in 2020 under the CESA, which contains Delta export restrictions not contained in the revised BiOps. The U.S. and California will likely seek a one year stay of this litigation while they try to work through ESA consultation and joint project operation issues.

It is anticipated that the United States will, after ESA consultation and NEPA review (expected to last through late 2024) replace or further revise its 2019 BiOps, potentially with more export restrictions.

California Incidental Take Permit and SWP Long-Term Operations EIR Litigation. Prior to 2019, California operated the SWP under the CESA in accordance with the federal 2008-09 BiOps through the filing of a “consistency determination.” However, in 2018, California decided to conduct its own environmental review, and separate CESA review, of SWP operations. In November 2019, DWR issued its draft EIR for long-term operations of the SWP. The draft EIR found that the project would have no significant environmental impacts. However, the draft EIR also discussed several project alternatives, including “Alternative 2[b] - Proposed Project with Dedicated Water for Delta Outflow from SWP.” In December 2019, DWR applied to the California Department of Fish & Wildlife (“CDFW”) for an ITP under the CESA. Despite the draft EIR finding of no significant impact, in its ITP application, DWR described the project in terms closer to Alternative 2b than what it had originally proposed. On March 27, 2020, DWR certified its final EIR, which adopted “Refined Alternative 2b” as the approved project. On March 31, 2020, CDFW issued an ITP consistent with the final EIR. The ITP will limit exports in wetter years as compared to what is allowed under the 2019 revised BiOps, with potential reductions of up to 400,000 acre-feet in April and May. Although the ITP applies only to SWP operations, as noted above, it appears the U.S. may operate the CVP consistent with the ITP during its ESA reconsultation.

Several lawsuits were filed against the State challenging the EIR and ITP by State and federal water contractors and by environmental groups. Contractors allege that the State violated CEQA or CESA by: (a) changing the project description after the draft EIR and certifying new “Refined Alternative 2b” without adequate disclosure or public comment; and (b) failing to use the best available science and requiring unjustified fish avoidance and mitigation measures. Several SWP contractors also allege the State breached its SWP Water Supply Contract by limiting water exports without justification. Environmental groups allege that the ITP violates CEQA, CESA and/or the Delta Reform Act because it is not protective enough of threatened species. This litigation has been

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For the Year Ended June 30, 2021

consolidated in Sacramento Superior Court, Case No. JCCP 5117 (CDWR Water Operations Cases), and the administrative record is still being prepared.

Bay-Delta and Imported Water Litigation

Bay-Delta Water Quality Control Plan Phase 1 Amendments Litigation. In late 2018, the SWRCB released its “Phase 1” amendments to the San Francisco Bay/Sacramento - San Joaquin Delta Estuary Bay-Delta Water Quality Control Plan (“Bay Delta WQCP”), which addressed water quality objectives on the Lower San Joaquin River, its tributaries, and the southern Delta. (Phase 2 amendments will focus on the Sacramento River, its tributaries and the northern and central Delta.) Among other things, the Phase I amendments require an adaptive 30% – 50% unimpaired flow requirement on all major tributaries to the San Joaquin River, including the Tuolumne River, from which the SFPUC Hetch-Hetchy system obtains its water supplies. The SWRCB announced that, in forthcoming Phase 2 amendments concerning the Sacramento River and the North and Central Delta, that it expects to impose a higher adaptive 45% – 65% unimpaired flow requirement. Approximately 24 entities filed suit against the SWRCB in 13 lawsuits concerning the Phase I Bay-Delta WQCP amendments. Such lawsuits have been consolidated in Sacramento Superior Court in Case No. JCCP 5013. Several water and irrigation districts, environmental groups, the cities of San Francisco and Modesto, the United States, and one Indian tribe are plaintiffs/petitioners. Valley Water filed suit against the SWRCB but voluntarily dismissed its lawsuit on September 1, 2020.

Most public agency plaintiffs allege that the flow requirements are arbitrary and capricious, not based on the best available science, or are too restrictive of, or alter, water rights. Environmental groups allege they are not protective enough of threatened fish populations. The Phase 1 amendments could reduce water imported through Hetch Hetchy system into northern Santa Clara County, which could cause increased groundwater pumping. Also, anticipated Phase 2 amendments could cause a more direct reduction in Valley Water imported supplies. Valley Water and other contractors would prefer to use a comprehensive voluntary agreements (VAs) process applicable to all major Delta watershed water users, or water rights holders, to meet Delta outflow targets.

Delta Stewardship Council Delta Plan Litigation. The Delta Reform Act of 2009 (“DRA”) established co-equal goals of restoring the Bay-Delta ecosystem and increasing the reliability of Delta water supplies. The DRA also created the Delta Stewardship Council (“DSC”), which was charged with developing a plan that accomplishes these goals. In 2013, after the DSC released its Bay-Delta Plan, federal and state water contractors (including Valley Water), as well as several environmental groups, filed suit, alleging that the Plan violated the DRA because, among other things, its Regulation WR P1 provides that the DSC may reject any projects involving water moving through the Bay-Delta if local agencies do not demonstrate efforts to reduce local water demand, improve efficiency and/or increase local water supplies. Environmental groups alleged that the Plan violated the DRA because it did not set forth enforceable, quantified minimum water flows or other measurable objectives. The trial court rejected the contractors’ causes of action and agreed with the environmental groups, holding that the Plan violated the DRA because it did not set forth quantified water flow objectives or other measurable targets.

In 2020, the Court of Appeal issued an opinion rejecting the arguments of both contractors and environmental groups, holding that the Bay-Delta Plan does not violate the DRA. The Court of

VALLEY WATER
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For the Year Ended June 30, 2021

Appeal's decision could impact contractors' ability to participate in multi-year water transfers if a contractor is unable to demonstrate reduced reliance on imported Delta water to the satisfaction of the DSC – which may require even local retail water agencies to showing reduced reliance on imported water. However, the DRA exempts single-year water transfers.

Litigation Relating to Monterey Amendments to SWP Contract. In late 1994, SWP contractors and DWR entered into an agreement in Monterey to substantially amend the standard SWP contract. In 1995 the first of several CEQA lawsuits challenging the “Monterey Amendments” was filed after a SWP contractor prepared an EIR for these amendments. That case settled after DWR agreed to prepare a new EIR for the Monterey Amendments, which was named the “Monterey Plus” project. In 2010, DWR certified its final Monterey Plus EIR. Central Delta Water Agency and several NGOs filed suit against DWR thereafter (Sacr. Sup. Ct. Case No. 34-2010-80000561) (“*Central Delta I*”), alleging that the Monterey Plus EIR violated CEQA because it failed to provide an adequate description of the project and its impacts, failed to adequately analyze alternatives and mitigation measures, contained inadequate responses to public comments, and was not properly circulated. The plaintiffs also alleged that DWR’s CEQA findings were not supported by substantial evidence. A related lawsuit was filed, *Rosedale-Rio Bravo Water Storage District v. DWR* (Sacr. Sup. Ct. Case No. 34-2010-80000703), alleging only that the Monterey Plus EIR failed to adequately analyze the operations of the proposed Kern Water Bank). Finally, the Central Delta Water Agency filed a second, separate lawsuit challenging the validity of the transfer of the Kern Water Bank from the Kern County Water Agency to the Kern Water Bank Authority (Sacr. Sup. Ct. Case No. 34-2010-80000719, “*Central Delta II*”). These three actions were ordered related and assigned to a Sacramento Superior Court judge. *Central Delta II* has been stayed pending resolution of *Central Delta I*.

In a decision in 2014 in *Central Delta I* and *Rosedale-Rio Bravo*, the court upheld the majority of the Monterey Plus EIR. However, the court found that the Monterey Plus EIR did not sufficiently analyze or address the operation of the Kern Water Bank and issued a writ for DWR to further analyze its operations and recertify the Monterey Plus EIR. The *Central Delta I* plaintiffs appealed the rejection the CEQA claims. The parties completed appellate court briefing in July of 2016. In 2021 the Court of Appeal upheld the trial court’s decision and denied plaintiffs’ request for rehearing. (Ct. of App. 3d. Dist. Case No. C078249). Plaintiffs may petition the Supreme Court to review this ruling.

As ordered by the trial court, DWR conducted further environmental review of the Kern Water Bank, and, in 2016, issued its revised EIR: “Monterey Plus — Kern Water Bank Development and Continued Use Operation.” The Center for Food Safety and other NGOs (represented by *Central Delta I & II*’s counsel) filed suit shortly thereafter, alleging various CEQA violations (*Center for Food Safety v. DWR*, Sacr. Sup. Ct. Case No. Case No. 34-2016-800002469). The court denied all of plaintiffs’ claims in an order and judgment in October 2017, and plaintiffs appealed. In 2021 the Court of Appeal upheld the trial court’s decision in all respects and denied plaintiffs’ request for rehearing (Ct. of App. 3d Dist. Case No. C086215). Plaintiffs may petition the Supreme Court to review this ruling.

DWR SWP Contract Long-Term Extension Validation Action & CEQA Actions. (Sacr. Sup. Ct. Case No. 34-2018-00246183 and Nos. 34-2019-80003047 & 3053). DWR filed a validation action in Sacramento County Superior Court in 2018 to validate the legality of its approval of long-term

VALLEY WATER
Notes to Basic Financial Statements
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extensions of all SWP water service contracts, including Valley Water's contract. A judgment in favor of DWR would provide that the matters contained therein are in conformity with applicable law and allow DWR to have the ability to issue and successfully market low-interest rate, long-term (30 year) SWP bonds.

In February 2019, Valley Water filed an answer supporting DWR's allegations, as did several other SWP contractors. However, several environmental groups and counties and districts filed answers or separate lawsuits opposing DWR's approval of the long-term extension, asserting that the approval violates CEQA, the Public Trust Doctrine or the DRA. All cases have been consolidated and assigned to Judge Culhane; the administrative record in these cases has been certified; and briefing has started. It is expected that the trial court will hear arguments on these issues in early 2022 and later issue its ruling(s).

Oroville Spillway Environmental Damage Cases. In response to record rainfall in early 2017, DWR's Oroville Dam filled and excess water ran down its spillway. A portion of the concrete spillway, however, broke apart, and sent water, concrete, and dirt and trees tumbling down into the Feather River. The District Attorney of Butte County (*People of State of CA v. DWR*) and other individuals and entities have filed suit for environmental damage or property damage resulting from the spillway failure. These cases have been consolidated in Sacramento Superior Court Case No. JCCP 4974. The Butte County District Attorney is seeking \$51 billion in damages (\$25k/day penalty + \$10/pound of spillway and materials discharged into river) under Cal. Fish & Game Code § 5650. Although Article 13(b) of the SWP contract provides that contractors are not liable for DWR's operation or maintenance of SWP structures or facilities before their turnouts, DWR maintains that ultimately, regardless of legal liability, all costs of the SWP system must be borne by SWP contractors rather than the general public, and thus DWR may bill contractors or raise SWP costs to recover expenditures related to this litigation (cost of litigation, settlements, damages awards/verdicts).

The trial court granted the State's motion for summary judgment on the D.A.'s section 5650 claim in the spring of 2021, finding that this statute does not authorize bringing a cause of action against the State. Plaintiffs have appealed this ruling to the Court of Appeal; appellate briefing has not yet started.

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NOTE 17 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 13, 2021.

Valley Water has received information that some of its activities may have contributed to subsidence at some properties abutting a Valley Water project. Valley Water is investigating the causes of and potential liability for the subsidence.

On August 24, 2021, Valley Water adopted a resolution authorizing its participation in the Los Vaqueros Reservoir Joint Powers Authority (JPA). This JPA will manage the operation and funding of the Los Vaqueros Reservoir Expansion Project (LVE Project). The LVE Project could provide Valley Water regional storage, new wet year supplies, and increased operational flexibility in the conveyance of imported water. Valley Water is evaluating participation in conveyance only, or in conveyance and storage portions of the project. Once the JPA is formed, JPA members will negotiate participation and financial terms, and the JPA will oversee funding of project activities. The project cost is estimated at \$827 million (measured in 2018 dollars).

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**Required
Supplementary
Information**

VALLEY WATER
Schedule of Changes In Net Pension Liability and Related Ratios
June 30, 2021
Last 10 Years*
(Dollars in Millions)

	2015	2016	2017	2018	2019	2020	2021
Total pension liability							
Service cost	\$ 14.3	\$ 13.7	\$ 13.8	\$ 15.7	\$ 16.0	\$ 16.5	\$ 17.0
Interest on total pension liability	46.3	48.8	51.1	53.1	54.9	58.4	61.6
Differences between expected and actual experience	-	(0.2)	(3.2)	(4.7)	(1.4)	13.3	10.7
Changes in assumptions	-	(12.0)	-	44.3	(8.1)	-	-
Benefit payments, including refunds of employee contributions	(25.0)	(27.8)	(30.4)	(32.5)	(35.3)	(38.4)	(42.2)
Net change in pension liability	35.6	22.5	31.3	75.9	26.1	49.8	47.1
Total pension liability, beginning	622.2	657.8	680.3	711.6	787.5	813.6	863.4
Total pension liability, ending (a)	<u>\$ 657.8</u>	<u>\$ 680.3</u>	<u>\$ 711.6</u>	<u>\$ 787.5</u>	<u>\$ 813.6</u>	<u>\$ 863.4</u>	<u>\$ 910.5</u>
Plan fiduciary net position							
Contributions - employer	\$ 13.8	\$ 15.2	\$ 17.0	\$ 19.0	\$ 20.1	\$ 26.6	\$ 29.8
Contributions - employee	9.0	6.2	6.6	6.6	7.0	7.6	7.6
Net investment income	75.7	11.5	2.8	56.5	47.2	39.3	31.6
Benefits payment	(25.0)	(27.8)	(30.4)	(32.5)	(35.3)	(38.4)	(42.2)
Administrative expenses	-	(0.6)	(0.3)	(0.7)	(0.9)	(0.4)	(1.0)
Other miscellaneous income / (expenses)	-	-	-	-	(1.6)	-	-
Net change in fiduciary net position	73.5	4.5	(4.3)	48.9	36.5	34.7	25.8
Plan fiduciary net position, beginning	434.7	508.2	512.7	508.4	557.3	593.8	628.5
Plan fiduciary net position, ending (b)	<u>\$ 508.2</u>	<u>\$ 512.7</u>	<u>\$ 508.4</u>	<u>\$ 557.3</u>	<u>\$ 593.8</u>	<u>\$ 628.5</u>	<u>\$ 654.3</u>
Net pension liability, ending (a - b)	<u>\$ 149.6</u>	<u>\$ 167.6</u>	<u>\$ 203.2</u>	<u>\$ 230.2</u>	<u>\$ 219.8</u>	<u>\$ 234.9</u>	<u>\$ 256.2</u>
 Plan fiduciary net position as a percentage of total pension liability	 77.26%	 75.36%	 71.44%	 70.77%	 72.98%	 72.79%	 71.86%
Covered payroll	\$ 77.9	\$ 78.0	\$ 79.6	\$ 84.1	\$ 88.5	\$ 92.1	\$ 97.3
Net pension liability as a percentage of covered payroll	192.04%	214.87%	255.28%	273.72%	248.36%	255.05%	263.31%
Discount rate	7.50%	7.65%	7.65%	7.15%	7.15%	7.15%	7.15%

* Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 7 years are shown.

VALLEY WATER
Schedule of Employer Pension Contributions
June 30, 2021
Last 10 Years*
(Dollars in Millions)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarially determined contribution	\$ 13.9	\$ 16.5	\$ 18.6	\$ 19.7	\$ 25.4	\$ 28.3	\$ 31.6
Contributions in relation to the actuarially determined contribution	(13.9)	(16.5)	(18.6)	(19.7)	(28.4)	(31.3)	(34.6)
Contribution Deficiency/(Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3.0)</u>	<u>\$ (3.0)</u>	<u>\$ (3.0)</u>
Covered payroll ⁽¹⁾	\$ 78.0	\$ 79.6	\$ 84.1	\$ 88.5	\$ 92.1	\$ 97.3	\$ 100.0
Contribution as a percentage of covered payroll	17.82%	20.73%	22.12%	22.26%	27.58%	29.09%	31.60%

⁽¹⁾ The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net pension liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 2.75% increase.

* Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 7 years are shown.

VALLEY WATER

Schedule of Changes In Net OPEB Liability and Related Ratios

June 30, 2021

Last 10 Years*

(Dollars in Millions)

	2018	2019	2020	2021
Total OPEB liability				
Service cost	\$ 2.9	\$ 2.9	\$ 2.6	\$ 2.5
Interest on total OPEB liability	12.0	12.5	12.9	12.8
Effect of change in actuarial assumptions/methods	-	-	(5.5)	-
Benefits payment	(8.5)	(8.9)	(10.1)	(10.3)
Other liability experience loss / (gain)	-	-	(8.0)	0.2
Net change in OPEB liability	6.4	6.5	(8.1)	5.2
Total OPEB liability, beginning	167.8	174.3	180.8	172.7
Total OPEB liability, ending (a)	\$ 174.2	\$ 180.8	\$ 172.7	\$ 177.9
Plan fiduciary net position				
Contributions	\$ 11.5	\$ 11.9	\$ 10.1	\$ 10.3
Benefits payment	(8.5)	(8.9)	(10.1)	(10.3)
Expected investment income	6.2	7.1	7.7	8.7
Investment experience (loss) / gain - differences				
between expected and actual experience	2.9	0.8	(1.1)	(4.6)
Administrative expense	-	-	(0.1)	(0.1)
Net change in fiduciary net position	12.1	10.9	6.5	4.0
Plan fiduciary net position, beginning	84.5	96.6	107.5	114.0
Plan fiduciary net position, ending (b)	\$ 96.6	\$ 107.5	\$ 114.0	\$ 118.0
 Net OPEB liability, ending (a - b)	\$ 77.6	\$ 73.3	\$ 58.7	\$ 59.9
 Plan fiduciary net position as a percentage of total OPEB liability	55.45%	59.46%	66.07%	66.33%
Covered payroll	\$ 84.1	\$ 88.5	\$ 92.1	\$ 97.3
Net OPEB liability as a percentage of covered payroll	92.27%	82.82%	63.74%	61.56%
Discount rate	7.28%	7.28%	7.28%	7.28%

* Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 4 years are shown.

VALLEY WATER
Schedule of Employer Other Post Employment Benefit Contributions
June 30, 2021
Last 10 Years*
(Dollars in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarially determined contribution	\$ 9.5	\$ 10.2	\$ 10.8	\$ 11.0
Contributions in relation to the actuarially determined contribution	<u>(12.5)</u>	<u>(10.2)</u>	<u>(10.8)</u>	<u>(11.0)</u>
Contribution Deficiency / (Excess)	<u>\$ (3.0)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll ⁽¹⁾	\$ 88.5	\$ 92.1	\$ 97.3	\$ 100.0
Contribution as a percentage of covered payroll	14.12%	11.07%	11.13%	11.00%

⁽¹⁾ The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net OPEB liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 2.75% increase.

* Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 4 years are shown.

VALLEY WATER
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Budgeted Governmental Funds
For the Year Ended June 30, 2021
(Dollars in Millions)

	General Fund			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 9.2	\$ 9.2	\$ 9.8	\$ 0.6
Use of money and property:				
Investment income	0.2	0.2	-	(0.2)
Rental	-	-	-	-
Reimbursement of capital costs	-	-	-	-
Other	-	-	-	-
Total revenues	<u>9.4</u>	<u>9.4</u>	<u>9.8</u>	<u>0.4</u>
Expenditures:				
Operating budget:				
Operations and operating projects	69.6	69.0	68.0	1.0
Debt service:				
Principal repayment	0.4	0.4	0.4	-
Interest and fiscal charges	0.1	0.1	0.1	-
Total operating budget	<u>70.1</u>	<u>69.5</u>	<u>68.5</u>	<u>1.0</u>
Capital budget:				
Capital improvement projects	3.0	3.0	3.3	(0.3)
Total expenditures	<u>73.1</u>	<u>72.5</u>	<u>71.8</u>	<u>0.7</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(63.7)</u>	<u>(63.1)</u>	<u>(62.0)</u>	<u>1.1</u>
Other financing sources (uses):				
Intra-district overhead reimbursement	56.4	56.4	53.6	(2.8)
Transfers in	4.4	7.1	7.0	(0.1)
Transfers out	(0.3)	(0.3)	(0.3)	-
Total other financing sources	<u>60.5</u>	<u>63.2</u>	<u>60.3</u>	<u>(2.9)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	<u>\$ (3.2)</u>	<u>\$ 0.1</u>	<u>(1.7)</u>	<u>\$ (1.8)</u>
Reconciliation of GAAP and budgetary basis:				
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(2.0)	
Capital improvement projects			(0.5)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			1.9	
Capital improvement projects			2.3	
Fund Balances, beginning of year			<u>14.2</u>	
Fund Balances, end of year			<u>\$ 14.2</u>	

Watershed & Stream Stewardship				Safe, Clean Water & Natural Flood Protection			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 93.5	\$ 93.5	\$ 98.6	\$ 5.1	\$ 45.5	\$ 45.5	\$ 46.1	\$ 0.6
2.6	2.6	-	(2.6)	3.4	3.4	(0.2)	(3.6)
1.4	1.4	1.5	0.1	-	-	0.3	0.3
20.1	20.1	5.0	(15.1)	12.2	12.2	8.5	(3.7)
0.2	0.2	0.6	0.4	-	-	0.1	0.1
117.8	117.8	105.7	(12.1)	61.1	61.1	54.8	(6.3)
61.8	62.6	59.2	3.4	16.5	18.8	14.9	3.9
-	-	-	-	-	-	-	-
-	-	-	-	1.7	1.7	0.9	0.8
61.8	62.6	59.2	3.4	18.2	20.5	15.8	4.7
27.9	87.4	63.5	23.9	58.7	127.0	71.7	55.3
89.7	150.0	122.7	27.3	76.9	147.5	87.5	60.0
28.1	(32.2)	(17.0)	15.2	(15.8)	(86.4)	(32.7)	53.7
-	-	-	-	-	-	-	-
2.3	2.3	2.5	0.2	9.8	9.8	9.0	(0.8)
(18.2)	(18.9)	(18.1)	0.8	-	-	-	-
(15.9)	(16.6)	(15.6)	1.0	9.8	9.8	9.0	(0.8)
\$ 12.2	\$ (48.8)	(32.6)	\$ 16.2	\$ (6.0)	\$ (76.6)	(23.7)	\$ 52.9
		(1.5)				(2.1)	
		(0.7)				(5.7)	
		3.8				2.1	
		9.8				11.6	
		172.0				158.5	
		\$ 150.8				\$ 140.7	

VALLEY WATER
Notes to Required Supplementary Information
For the Year Ended June 30, 2021

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

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

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

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

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

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**Supplemental
Information**

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

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

VALLEY WATER
Schedule of Revenues, Expenditures and
Changes in Fund Balances
Selected Watershed Activities
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2021
(Dollars in Millions)

	Lower Peninsula Watershed	West Valley Watershed
Revenues:		
Benefit assessments	\$ 2.7	\$ 2.1
Total revenues	<u>2.7</u>	<u>2.1</u>
Expenditures:		
Debt service:		
Principal repayments	-	-
Interest and fiscal charges	-	-
Total expenditures	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2.7</u>	<u>2.1</u>
Other financing source (uses):		
Transfers in (Note 14)	-	0.2
Transfers out (Note 14)	<u>(2.7)</u>	<u>(2.3)</u>
Total other financing sources (uses)	<u>(2.7)</u>	<u>(2.1)</u>
Net change in fund balances	-	-
Fund balances, beginning of year	-	-
Fund balances, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Guadalupe Watershed	Coyote Watershed	Total
\$ 4.0	\$ 3.6	\$ 12.4
4.0	3.6	12.4
-	-	-
-	-	-
-	-	-
4.0	3.6	12.4
0.6	0.3	1.1
(4.6)	(3.9)	(13.5)
(4.0)	(3.6)	(12.4)
-	-	-
-	-	-
\$ -	\$ -	\$ -

VALLEY WATER
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Selected Watershed Activities
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2021
(Dollars in Millions)

	Lower Peninsula Watershed			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Benefit assessments	\$ 2.7	\$ 2.7	\$ 2.7	\$ -
Total revenues	2.7	2.7	2.7	-
Expenditures:				
Debt service:				
Principal repayment	1.4	1.4	1.4	-
Interest and fiscal charges	0.9	0.9	0.9	-
Total expenditures	2.3	2.3	2.3	-
Excess (deficiency) of revenues over (under) expenditures	0.4	0.4	0.4	-
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(0.4)	(0.4)	(0.4)	-
Total other financing sources (uses)	(0.4)	(0.4)	(0.4)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	\$ -	\$ -	\$ -	\$ -

West Valley Watershed				Guadalupe Watershed			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 2.1	\$ 2.1	\$ 2.1	\$ -	\$ 4.0	\$ 4.0	\$ 4.0	\$ -
2.1	2.1	2.1	-	4.0	4.0	4.0	-
1.4	1.4	1.4	-	3.0	3.0	3.0	-
0.5	0.5	0.5	-	0.7	0.7	0.7	-
1.9	1.9	1.9	-	3.7	3.7	3.7	-
0.2	0.2	0.2	-	0.3	0.3	0.3	-
0.2	0.2	0.2	-	0.6	0.6	0.6	-
(0.4)	(0.4)	(0.4)	-	(0.9)	(0.9)	(0.9)	-
(0.2)	(0.2)	(0.2)	-	(0.3)	(0.3)	(0.3)	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Continued)
Selected Watershed Activities Contained
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2021
(Dollars in Millions)

	Coyote Watershed			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Benefit Assessments	\$ 3.6	\$ 3.6	\$ 3.6	\$ -
Total revenues	3.6	3.6	3.6	-
Expenditures:				
Debt service:				
Principal repayment	2.1	2.1	2.3	(0.2)
Interest and fiscal charges	1.1	1.1	0.9	0.2
Total expenditures	3.2	3.2	3.2	0.0
Excess (deficiency) of revenues over (under) expenditures	0.4	0.4	0.4	0.0
Other financing sources (uses):				
	0.3	0.3	0.3	-
Transfers out	(0.7)	(0.7)	(0.7)	-
Total other financing sources (uses)	(0.4)	(0.4)	(0.4)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	\$ -	\$ -	\$ -	\$ -

Water Enterprise and State Water Project Funds

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

VALLEY WATER
Schedule of Revenues, Expenses and
Changes in Net Position - Budget and Actual
Water Enterprise and State Water Project Funds
For the Year Ended June 30, 2021
(Dollars in Millions)

	Water Enterprise Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 8.2	\$ 8.2	\$ 8.9	\$ 0.7
Intergovernmental services	1.2	1.2	4.0	2.8
Ground water production charges	121.1	121.1	132.1	11.0
Treated water charges	137.4	137.4	154.9	17.5
Surface and recycled water revenue	2.6	2.6	2.7	0.1
Investment income	3.5	3.5	1.6	(1.9)
Capital reimbursements	11.4	11.4	6.4	(5.0)
Other	1.0	1.0	0.9	(0.1)
Total revenues	<u>286.4</u>	<u>286.4</u>	<u>311.5</u>	<u>25.1</u>
Expenses:				
Current:				
Operations and operating projects	171.0	172.1	152.3	19.8
Debt Service:				
Principal repayment	19.8	16.1	14.1	2.0
Interest and fiscal charges	28.6	25.3	24.9	0.4
Capital outlay:				
Capital improvement projects	159.1	210.2	136.0	74.2
Total expenses	<u>378.5</u>	<u>423.7</u>	<u>327.3</u>	<u>96.4</u>
Excess (deficiency) of revenues over				
(under) expenses before transfers	(92.1)	(137.3)	(15.8)	121.5
Transfers in	68.2	68.2	68.2	-
Transfers out	<u>(141.7)</u>	<u>(143.4)</u>	<u>(142.3)</u>	<u>1.1</u>
Excess (deficiency) of revenues and other financing sources over (under) expenses	<u>\$ (165.6)</u>	<u>\$ (212.5)</u>	<u>(89.9)</u>	<u>\$ 122.6</u>
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(31.3)	
Capitalized expenditures			105.9	
Inventory adjustment not budgeted			(4.5)	
Debt principal and GAAP basis accruals for interest payable			16.0	
GAAP basis expenses and other liabilities			12.0	
Expenses of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(8.4)	
Capital improvement projects			(35.7)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			16.6	
Capital improvement projects			47.0	
Net position, beginning of year			<u>969.0</u>	
Net position, end of year			<u>\$ 996.7</u>	

State Water Project Fund				Total			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 18.0	\$ 18.0	\$ 21.3	\$ 3.3	\$ 26.2	\$ 26.2	\$ 30.2	\$ 4.0
-	-	-	-	1.2	1.2	4.0	2.8
-	-	-	-	121.1	121.1	132.1	11.0
-	-	-	-	137.4	137.4	154.9	17.5
-	-	-	-	2.6	2.6	2.7	0.1
-	-	-	-	3.5	3.5	1.6	(1.9)
-	-	-	-	11.4	11.4	6.4	(5.0)
1.0	1.0	1.8	0.8	2.0	2.0	2.7	0.7
19.0	19.0	23.1	4.1	305.4	305.4	334.6	29.2
29.6	29.6	29.6	-	200.6	201.7	181.9	19.8
-	-	-	-	19.8	16.1	14.1	2.0
-	-	-	-	28.6	25.3	24.9	0.4
-	-	-	-	159.1	210.2	136.0	74.2
29.6	29.6	29.6	-	408.1	453.3	356.9	96.4
(10.6)	(10.6)	(6.5)	4.1	(102.7)	(147.9)	(22.3)	125.6
1.3	1.3	-	(1.3)	69.5	69.5	68.2	(1.3)
-	-	-	-	(141.7)	(143.4)	(142.3)	1.1
\$ (9.3)	\$ (9.3)	(6.5)	\$ 2.8	\$ (174.9)	\$ (221.8)	(96.4)	\$ 125.4
		(1.0)				(32.3)	
		-				105.9	
		-				(4.5)	
		-				16.0	
		-				12.0	
		(3.0)				(11.4)	
		-				(35.7)	
		6.4				23.0	
		-				47.0	
		31.9				1,000.9	
		\$ 27.8				\$ 1,024.5	

Internal Service Funds

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

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

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

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

VALLEY WATER
Combining Statement of Net Position
Internal Service Funds
June 30, 2021
(Dollars in Millions)

	Equipment	Risk Management	Information Technology	Total
ASSETS				
Current assets:				
Cash and investments	\$ 6.0	\$ 14.8	\$ 23.3	\$ 44.1
Deposits and other assets	0.3	(0.1)	-	0.2
Total current assets	6.3	14.7	23.3	44.3
Noncurrent assets:				
Capital assets				
Depreciable assets	23.7	-	11.8	35.5
Accumulated depreciation	(14.3)	-	(8.2)	(22.5)
Total noncurrent assets	9.4	-	3.6	13.0
Total assets	15.7	14.7	26.9	57.3
Deferred outflows of resources - pension activities	0.9	1.1	2.8	4.8
Deferred outflows of resources - OPEB	0.1	0.2	0.4	0.7
Deferred outflows of resources	1.0	1.3	3.2	5.5
LIABILITIES				
Current liabilities:				
Accounts payable	0.1	-	0.1	0.2
Accrued liabilities	-	0.6	1.4	2.0
Claims payable	-	1.8	-	1.8
Compensated absence	0.1	-	-	0.1
Total current liabilities	0.2	2.4	1.5	4.1
Non current liabilities:				
Claims payable	-	4.8	-	4.8
Net Pension liability	2.5	3.1	7.6	13.2
Other post employment benefits liability	0.6	0.7	1.8	3.1
Compensated absence	0.2	0.2	0.2	0.6
Total non current liabilities	3.3	8.8	9.6	21.7
Total liabilities	3.5	11.2	11.1	25.8
Deferred inflows of resources - pension activities	0.2	-	(0.2)	-
Deferred inflows of resources - OPEB	0.1	0.1	0.2	0.4
Deferred inflows of resources	0.3	0.1	-	0.4
NET POSITION				
Net investment in capital assets	9.4	-	3.6	13.0
Unrestricted	3.5	4.7	15.4	23.6
Total net position	\$ 12.9	\$ 4.7	\$ 19.0	\$ 36.6

VALLEY WATER
Combining Statement of Revenues, Expenses and
Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2021
(Dollars in Millions)

	Equipment	Risk Management	Information Technology	Total
Operating revenues:				
Vehicle service charges	\$ 7.6	\$ -	\$ -	\$ 7.6
Computer equipment use charges	-	-	20.2	20.2
Self-insurance service charges	-	6.0	-	6.0
Total operating revenues	7.6	6.0	20.2	33.8
Operating expenses:				
Administration and general	-	5.1	-	5.1
Equipment maintenance	3.3	-	27.6	30.9
Depreciation and amortization	1.7	-	1.4	3.1
Total operating expenses	5.0	5.1	29.0	39.1
Operating Income (loss)	2.6	0.9	(8.8)	(5.3)
Nonoperating revenues:				
Investment income	-	-	-	-
Gain on sale of capital assets	0.1	-	-	0.1
Other	-	-	-	-
Total nonoperating revenues	0.1	-	-	0.1
Income (loss) before transfers	2.7	0.9	(8.8)	(5.2)
Transfer in	-	-	7.5	7.5
Transfer out	-	-	(0.2)	(0.2)
Change in net position	2.7	0.9	(1.5)	2.1
Net position, beginning of year	10.2	3.8	20.5	34.5
Net position, end of year	\$ 12.9	\$ 4.7	\$ 19.0	\$ 36.6

VALLEY WATER
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2021
(Dollars in Millions)

	Equipment	Risk Management	Information Technology	Total
Cash flows from operating activities:				
Receipts from interfund services provided	\$ 7.6	\$ 6.0	\$ 20.2	\$ 33.8
Payments to suppliers	(3.2)	(3.8)	(18.0)	(25.0)
Payments to employees	(1.5)	(2.1)	(7.8)	(11.4)
Net cash provided (used) by operating activities	2.9	0.1	(5.6)	(2.6)
Cash flows from noncapital financing activities:				
Transfers out	-	-	(0.2)	(0.2)
Net cash provided by noncapital financing activities	-	-	(0.2)	(0.2)
Cash flows from capital and related financing activities:				
Acquisition and disposal of capital assets	(1.5)	-	(0.7)	(2.2)
Transfers in - capital project reimbursement	-	-	7.5	7.5
Net cash (used) by capital and related financing activities	(1.5)	-	6.8	5.3
Net increase/(decrease) in cash and cash equivalents	1.4	0.1	1.0	2.5
Cash and cash equivalents, beginning of year	4.6	14.7	22.3	41.6
Cash and cash equivalents, end of year	\$ 6.0	\$ 14.8	\$ 23.3	\$ 44.1
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 2.6	\$ 0.9	\$ (8.8)	\$ (5.3)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation, amortization and asset deletion	1.0	-	1.4	2.4
Change in operating assets and liabilities:				
Increase/(decrease) in accounts payable	-	0.1	(1.2)	(1.1)
Increase/(decrease) in accrued liabilities	-	0.6	1.4	2.0
Increase/(decrease) in compensated absences	-	-	0.1	0.1
Increase/(decrease) in claims payable	-	(0.9)	-	(0.9)
Increase/(decrease) in GASB68 Retirement payable	-	0.2	2.4	2.6
Increase/(decrease) in OPEB/GASB75 payable	(0.2)	-	1.8	1.6
Increase/(decrease) in def inflows/outflows of resources	(0.5)	(0.8)	(2.7)	(4.0)
Net cash used for operating activities	\$ 2.9	\$ 0.1	\$ (5.6)	\$ (2.6)

VALLEY WATER
Schedule of Revenues, Expenses and
Changes in Fund Net Position - Budget and Actual
Internal Service Funds
For the Year Ended June 30, 2021
(Dollars in Millions)

	Equipment			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 0.1	\$ 0.1	\$ -	\$ (0.1)
Vehicle service charges	7.6	7.6	7.6	-
Computer equipment use charges	-	-	-	-
Self-insurance service charges	-	-	-	-
Gain on sale of fixed assets	0.1	0.1	0.1	-
Total revenues	<u>7.8</u>	<u>7.8</u>	<u>7.7</u>	<u>(0.1)</u>
Expenditures:				
Current:				
Operations and operating projects	5.1	5.1	3.3	1.8
Capital equipment acquisition	3.5	3.7	2.5	1.2
Total expenditures	<u>8.6</u>	<u>8.8</u>	<u>5.8</u>	<u>3.0</u>
Excess (deficiency) of revenues over (under)				
expenditures before transfers	(0.8)	(1.0)	1.9	2.9
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	<u>\$ (0.8)</u>	<u>\$ (1.0)</u>	1.9	<u>\$ 2.9</u>
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(1.7)	
Capitalized expenditures			2.3	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			-	
Capital improvement projects			(1.5)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			-	
Capital improvement projects			1.7	
Net position, beginning of year			10.2	
Net position, end of year			<u>\$ 12.9</u>	

Risk Management				Information Technology			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 0.2	\$ 0.2	\$ -	\$ (0.2)	\$ 0.1	\$ 0.1	\$ -	\$ (0.1)
-	-	-	-	-	-	-	-
-	-	-	-	20.5	20.5	20.2	(0.3)
6.6	6.6	6.0	(0.6)	-	-	-	-
-	-	-	-	-	-	-	-
6.8	6.8	6.0	(0.8)	20.6	20.6	20.2	(0.4)
6.8	6.6	5.5	1.1	18.6	20.4	21.4	(1.0)
-	-	-	-	7.5	15.0	7.1	7.9
6.8	6.6	5.5	1.1	26.1	35.4	28.5	6.9
-	0.2	0.5	0.3	(5.5)	(14.8)	(8.3)	6.5
-	-	-	-	7.5	7.5	7.5	-
-	-	-	-	-	-	(0.2)	(0.2)
<u>\$ -</u>	<u>\$ 0.2</u>	0.5	<u>\$ 0.3</u>	<u>\$ 2.0</u>	<u>\$ (7.3)</u>	(1.0)	<u>\$ 6.3</u>
		-				(1.4)	
		-				0.7	
		(0.1)				(1.2)	
		-				(4.3)	
		0.5				2.8	
		-				2.9	
		3.8				20.5	
		<u>\$ 4.7</u>				<u>\$ 19.0</u>	

VALLEY WATER
Schedule of Revenues, Expenses and
Changes in Fund Net Position - Budget and Actual (Continued)
Internal Service Funds
For the Year Ended June 30, 2021
(Dollars in Millions)

	Total			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 0.4	\$ 0.4	\$ -	\$ (0.4)
Vehicle service charges	7.6	7.6	7.6	-
Computer equipment use charges	20.5	20.5	20.2	(0.3)
Self-insurance service charges	6.6	6.6	6.0	(0.6)
Gain on sale of fixed assets	0.1	0.1	0.1	-
Total revenues	<u>35.2</u>	<u>35.2</u>	<u>33.9</u>	<u>(1.3)</u>
Expenditures:				
Current:				
Operations and operating projects	30.5	32.1	30.2	1.9
Capital equipment acquisition	11.0	18.7	9.6	9.1
Total expenditures	<u>41.5</u>	<u>50.8</u>	<u>39.8</u>	<u>11.0</u>
Excess (deficiency) of revenues over (under)				
expenditures before transfers	(6.3)	(15.6)	(5.9)	9.7
Transfer in	7.5	7.5	7.5	-
Transfer out	-	-	(0.2)	0.2
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	<u>\$ 1.2</u>	<u>\$ (8.1)</u>	1.4	<u>\$ 9.9</u>
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(3.1)	
Capitalized expenditures			3.0	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(1.3)	
Capital improvement projects			(5.8)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			3.3	
Capital improvement projects			4.6	
Net position, beginning of year			34.5	
Net position, end of year			<u>\$ 36.6</u>	

Capital Assets Used in the Operation of Governmental Activities

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

VALLEY WATER
Capital Assets Used in the Operation of Governmental Activities
Schedule By Source
June 30, 2021
(Dollars in Millions)

Governmental activities capital assets:

Land	\$ 191.8
Buildings	42.0
Structures and improvements	790.1
Equipment	55.3
Construction in process	726.6
Intangibles:	
Easements	28.3
Computer Software	4.3
Total governmental funds capital assets	<u><u>\$ 1,838.4</u></u>

Investments in governmental activities capital assets by source:

General fund	\$ 88.5
Special revenue funds:	
Watershed & Stream Stewardship	1,143.9
Safe, Clean Water & Natural Flood Protection	570.4
Internal service funds	35.6
Total governmental funds capital assets	<u><u>\$ 1,838.4</u></u>

VALLEY WATER
Capital Assets Used in the Operation of Governmental Activities
Schedule By Function and Activity
June 30, 2021
(Dollars in Millions)

Dept	Function and Activity	Land	Structures and		Equipment	Construction	Intangibles		Total
			Buildings	Improvements		in Progress	Easements	Software	
100	CEO Support Operations								
102	Chief Executive Office	\$ -	\$ -	\$ -	\$ 0.4	\$ -	\$ -	\$ -	\$ 0.4
200	Watershed Operations								
210	Chief Operating Office	-	-	-	5.2	-	-	-	5.2
210	Watershed Management Division								
215	Watershed Business Management	-	-	-	0.1	-	-	-	0.1
250	Lower Peninsula/West Valley Mgmt.	-	-	-	0.2	-	-	-	0.2
270	Guadalupe Watershed Mgmt.	-	-	-	0.4	-	-	-	0.4
310	Capital Program Services Division								
340	Capital Program Services Departments	-	-	-	0.4	-	-	-	0.4
410	Water Utility Enterprise Operations								
410	Chief Operating Office	-	-	-	0.1	-	-	-	0.1
420	Water Utility Enterprise	-	-	-	0.2	-	-	-	0.2
600	Administration								
602	Chief Administrative Office	-	-	-	0.2	-	-	-	0.2
670	Financial Services Division								
610	Office of Administrative Services	-	-	-	0.1	-	-	-	0.1
670	Business And Finance Program	-	-	-	1.7	-	-	-	1.7
710	Information Management Division								
715	Information Management Division	-	-	-	0.2	-	-	-	0.2
720	Information Mgmt. Support Departments	-	-	-	9.1	-	-	-	9.1
810	General Services Division								
815	Technical Services Division	-	-	-	-	-	-	-	-
820	Technical Services Support Division	-	-	-	1.2	-	-	-	1.2
765	Records and Library	-	-	-	0.2	-	-	-	0.2
820	Warehouse Services	-	-	-	3.9	-	-	-	3.9
885	Equipment Management	-	-	-	16.9	-	-	-	16.9
910	Human Resources Program								
660	Human Resources Program	-	-	-	0.1	-	-	-	0.1
Other:									
	District-wide property	191.8	42.0	790.1	14.7	726.6	28.3	4.3	1,797.8
	Total capital assets	<u>\$ 191.8</u>	<u>\$ 42.0</u>	<u>\$ 790.1</u>	<u>\$ 55.3</u>	<u>\$ 726.6</u>	<u>\$ 28.3</u>	<u>\$ 4.3</u>	<u>\$ 1,838.4</u>

VALLEY WATER
Capital Assets Used in the Operation of Governmental Activities
Schedule of Changes By Function and Activity
For the Year Ended June 30, 2021
(Dollars in Millions)

Dept	Function and Activity	Governmental Capital Assets June 30, 2020	Additions	Deductions	Governmental Capital Assets June 30, 2021
100	CEO Support Operations				
102	Chief Executive Office	\$ 0.4	\$ -	\$ -	\$ 0.4
200	Watershed Operations				
202	Chief Operating Office	5.2	-	-	5.2
210	Watershed Management Division				
215	Watershed Business Management	0.1	-	-	0.1
250	Lower Peninsula/West Valley Mgmt.	0.2	-	-	0.2
270	Guadalupe Watershed Mgmt.	0.4	-	-	0.4
310	Capital Program Services Division				
340	Capital Program Services Departments	0.6	-	-	0.6
410	Water Utility Enterprise Operations				
410	Chief Operating Office	0.1	-	-	0.1
420	Water Utility Enterprise	0.2	-	-	0.2
600	Administration				
602	Chief Administrative Office	0.2	-	-	0.2
670	Financial Services Division				
610	Office of Administrative Services	0.1	-	-	0.1
670	Business And Finance Program	1.7	-	-	1.7
710	Information Management Division				
715	Information Management Division	0.2	-	-	0.2
720	Information Mgmt. Support Departments	9.7	0.7	-	10.4
810	General Services Division				
820	Technical Services Support Division	1.1	-	-	1.1
765	Records and Library	0.2	-	-	0.2
820	Warehouse Services	3.7	-	(0.4)	3.3
885	Equipment Management	19.1	2.3	(0.2)	21.2
910	Human Resources Program				
660	Human Resources Program	0.1	-	-	0.1
Other:					
	District-wide property	1,745.2	47.5	-	1,792.7
		<u>\$ 1,788.5</u>	<u>\$ 50.5</u>	<u>\$ (0.6)</u>	<u>\$ 1,838.4</u>

SANTA CLARA VALLEY WATER DISTRICT

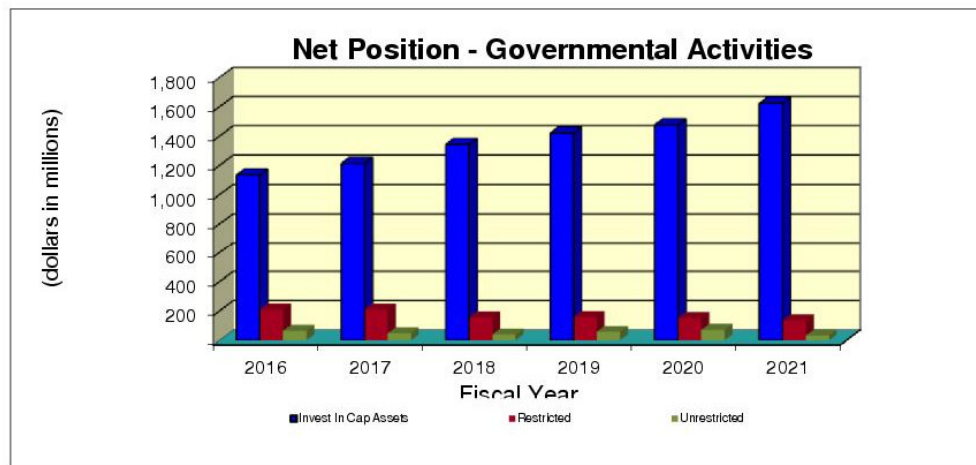
Statistical Section

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

<u>Contents</u>	Page
Financial Trends These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	140
Revenue Capacity These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.	148
Debt Capacity These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.	155
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	161
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	163

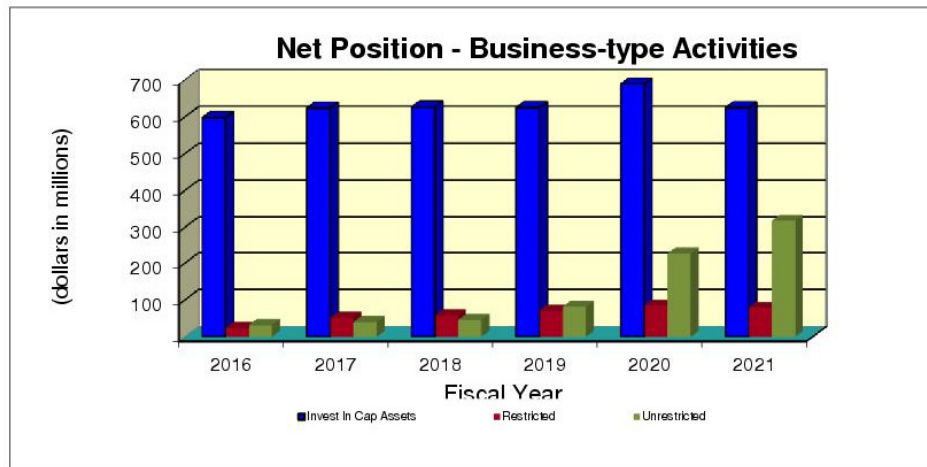
VALLEY WATER
Net Position by Component
Government-wide
Last Ten Fiscal Years
(Dollars in Millions)

	2012	2013	2014	2015
Governmental activities				
Net Investment in capital assets	\$ 964.4	\$ 1,011.1	\$ 1,036.9	\$ 1,083.6
Restricted	166.8	182.7	214.7	215.0
Unrestricted	142.3	144.0	144.2	60.7
Total governmental activities net position	<u>\$ 1,273.5</u>	<u>\$ 1,337.8</u>	<u>\$ 1,395.8</u>	<u>\$ 1,359.3</u>
Business-type activities				
Net Investment in capital assets	\$ 554.3	\$ 575.7	\$ 573.4	\$ 575.9
Restricted	28.1	30.1	30.0	26.1
Unrestricted	86.7	97.7	127.9	45.4
Total business-type activities net position	<u>\$ 669.1</u>	<u>\$ 703.5</u>	<u>\$ 731.3</u>	<u>\$ 647.4</u>
Primary government				
Net Investment in capital assets	\$ 1,518.7	\$ 1,586.8	\$ 1,610.3	\$ 1,659.4
Restricted	194.9	212.9	244.7	241.1
Unrestricted	229.0	241.6	272.1	106.2
Total primary government net position	<u>\$ 1,942.6</u>	<u>\$ 2,041.3</u>	<u>\$ 2,127.1</u>	<u>\$ 2,006.7</u>



Source: Santa Clara Valley Water District, General Accounting Unit

2016	2017	2018	2019	2020	2021
\$ 1,135.6	\$ 1,213.8	\$ 1,344.1	\$ 1,421.6	\$ 1,478.4	\$ 1,624.9
210.2	209.9	158.1	160.6	153.7	136.5
66.4	49.0	40.5	59.5	71.8	33.2
<u>\$ 1,412.2</u>	<u>\$ 1,472.7</u>	<u>\$ 1,542.7</u>	<u>\$ 1,641.7</u>	<u>\$ 1,703.9</u>	<u>\$ 1,794.6</u>
\$ 598.1	\$ 623.8	\$ 626.5	\$ 625.3	\$ 689.2	\$ 624.5
24.6	52.1	58.7	71.5	84.7	78.5
32.2	39.9	46.1	81.8	226.1	318.2
<u>\$ 654.9</u>	<u>\$ 715.8</u>	<u>\$ 731.3</u>	<u>\$ 778.6</u>	<u>\$ 1,000.0</u>	<u>\$ 1,021.2</u>
\$ 1,733.7	\$ 1,837.7	\$ 1,970.7	\$ 2,046.9	\$ 2,167.6	\$ 2,249.4
234.8	262.0	216.7	232.1	238.4	215.0
98.6	88.9	86.6	141.3	297.9	351.4
<u>\$ 2,067.1</u>	<u>\$ 2,188.6</u>	<u>\$ 2,274.0</u>	<u>\$ 2,420.3</u>	<u>\$ 2,703.9</u>	<u>\$ 2,815.8</u>



VALLEY WATER
Changes in Net Position
Government-wide
Last Ten Fiscal Years
(Dollars in Millions)

	2012	2013	2014
Expenses			
Governmental activities:			
General government:	\$ 5.4	\$ 6.4	\$ 6.9
Watersheds	50.3	51.7	61.3
Interest on long-term debt	7.0	8.0	6.1
Total governmental activities expenses	62.7	66.1	74.3
Business-type activities:			
Water enterprise	158.9	161.6	173.8
Total primary government expenses	<u>\$ 221.6</u>	<u>\$ 227.7</u>	<u>\$ 248.1</u>
Program Revenues			
Governmental activities:			
Capital grants and contributions	\$ 32.6	\$ 34.9	\$ 25.8
Business-type activities:			
Charges for services	141.8	155.7	172.4
Operating grants and contributions	1.1	1.0	1.2
Capital grants and contributions	11.8	4.6	3.5
Total business-type activities program revenues	154.7	161.3	177.1
Total primary government program revenues	<u>\$ 187.3</u>	<u>\$ 196.2</u>	<u>\$ 202.9</u>
 Net (expense)/revenue			
Governmental activities	\$ (30.1)	\$ (31.2)	\$ (48.6)
Business-type activities	(4.2)	(0.3)	3.4
Total primary government net expense	<u>\$ (34.3)</u>	<u>\$ (31.5)</u>	<u>\$ (45.2)</u>
 General Revenues and Other Changes in Net Position			
Governmental activities:			
Property taxes	\$ 88.2	\$ 92.7	\$ 100.6
Unrestricted investment earnings	2.3	3.5	3.8
Miscellaneous	2.5	2.9	2.6
Transfers	(3.3)	(3.7)	0.3
Total governmental activities	89.7	95.4	107.3
Business-type activities:			
Property taxes	22.3	24.2	27.0
Unrestricted investment earnings	1.1	1.2	1.6
Miscellaneous	2.6	5.6	3.3
Transfers	3.3	3.7	(0.3)
Total business-type activities	<u>\$ 29.3</u>	<u>\$ 34.7</u>	<u>\$ 31.6</u>
 Changes in Net Position			
Governmental activities	\$ 59.6	\$ 64.2	\$ 58.7
Business-type activities	25.1	34.4	35.0
Total primary government	<u>\$ 84.7</u>	<u>\$ 98.6</u>	<u>\$ 93.7</u>

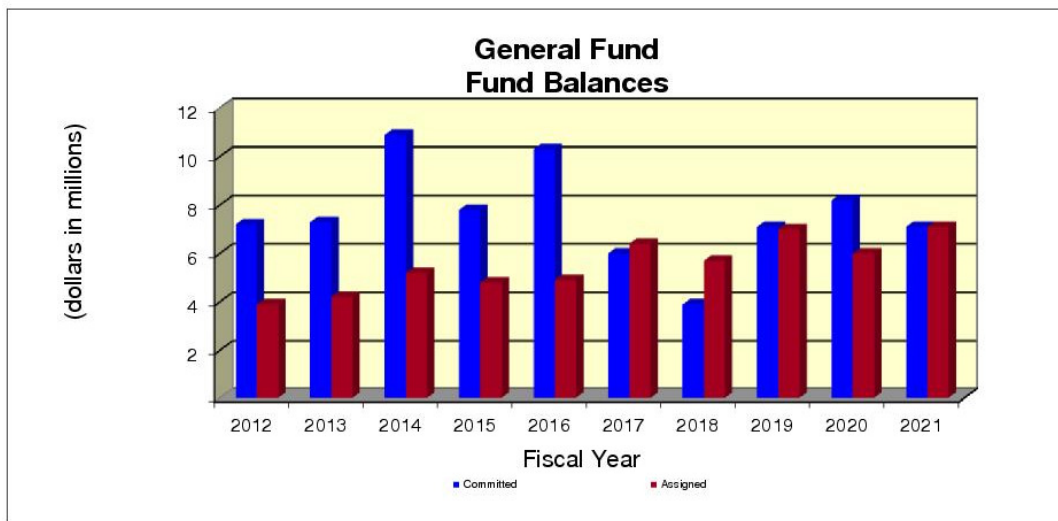
Source: Santa Clara Valley Water District, General Accounting Unit

2015	2016	2017	2018	2019	2020	2021
\$ 20.4	\$ 5.9	\$ 9.3	\$ 8.4	\$ 3.2	\$ 10.9	\$ 18.6
56.8	57.7	69.2	85.8	99.4	134.1	145.3
5.8	6.0	4.3	3.1	3.0	2.5	2.5
83.0	69.6	82.8	97.3	105.6	147.5	166.4
186.2	207.3	199.6	229.4	222.1	226.9	239.3
\$ 269.2	\$ 276.9	\$ 282.4	\$ 326.7	\$ 327.7	\$ 374.4	\$ 405.7
\$ 17.8	\$ 19.4	\$ 16.6	\$ 61.2	\$ 40.3	\$ 42.9	\$ 25.9
154.8	151.2	190.9	231.0	227.7	266.9	289.7
2.1	2.1	2.0	4.4	2.8	3.7	4.0
0.9	3.2	17.5	4.4	1.1	4.3	6.4
157.8	156.5	210.4	239.8	231.6	274.9	300.1
\$ 175.6	\$ 175.9	\$ 227.0	\$ 301.0	\$ 271.9	\$ 317.8	\$ 326.0
\$ (65.1)	\$ (50.2)	\$ (66.2)	\$ (36.1)	\$ (65.4)	\$ (104.6)	\$ (140.5)
(28.5)	(50.8)	10.8	10.4	9.5	48.0	60.8
\$ (93.6)	\$ (101.0)	\$ (55.4)	\$ (25.7)	\$ (55.9)	\$ (56.6)	\$ (79.7)
\$ 107.6	\$ 114.4	\$ 123.3	\$ 129.9	\$ 143.8	\$ 148.4	\$ 154.5
3.7	5.0	1.2	2.5	13.6	12.9	-
3.0	3.6	4.1	6.7	4.3	3.9	2.6
11.4	(19.9)	(1.9)	8.2	2.7	1.6	74.1
125.7	103.1	126.7	147.3	164.4	166.8	231.2
27.7	30.5	44.8	37.4	30.4	30.2	30.2
1.6	2.9	1.0	1.3	8.1	8.8	1.6
3.1	4.9	2.5	6.4	1.9	2.8	2.7
(11.4)	19.9	1.9	(8.2)	(2.7)	(1.6)	(74.1)
\$ 21.0	\$ 58.2	\$ 50.2	\$ 36.9	\$ 37.7	\$ 40.2	\$ (39.6)
\$ 60.6	\$ 52.9	\$ 60.5	\$ 111.2	\$ 99.0	\$ 62.2	\$ 90.7
(7.5)	7.4	61.0	47.3	47.2	88.2	21.2
\$ 53.1	\$ 60.3	\$ 121.5	\$ 158.5	\$ 146.2	\$ 150.4	\$ 111.9

VALLEY WATER
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Dollars in Millions)

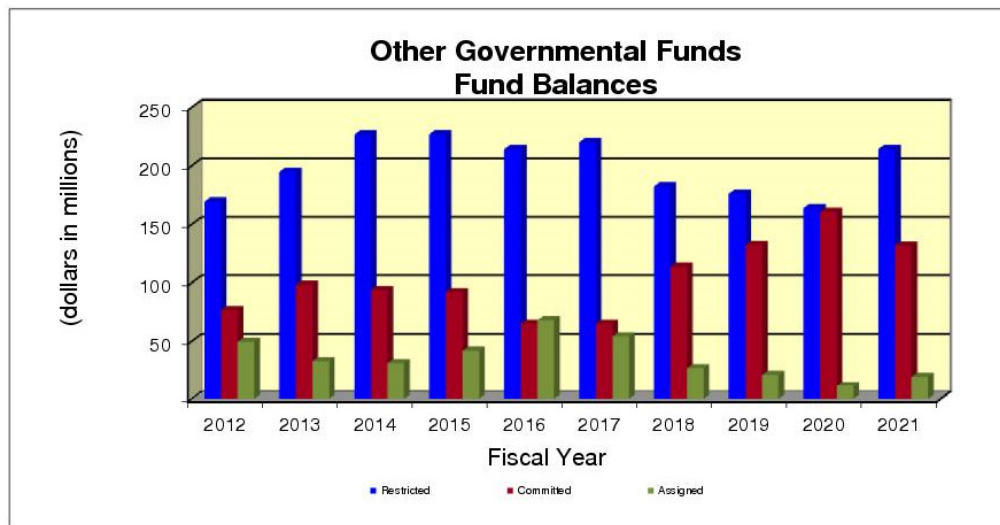
Data incorporating GASB 54 implementation

	Restated 2012	2013	2014	2015
General Fund				
Committed	\$ 7.2	\$ 7.3	\$ 10.9	\$ 7.8
Assigned	3.9	4.2	5.2	4.8
Total general fund	<u>\$ 11.1</u>	<u>\$ 11.5</u>	<u>\$ 16.1</u>	<u>\$ 12.6</u>
All other governmental funds				
Restricted	\$ 169.3	\$ 194.7	\$ 226.5	\$ 226.7
Committed	76.5	98.1	93.7	91.8
Assigned	49.5	32.8	31.1	41.9
Total all other governmental funds	<u>\$ 295.3</u>	<u>\$ 325.6</u>	<u>\$ 351.3</u>	<u>\$ 360.4</u>



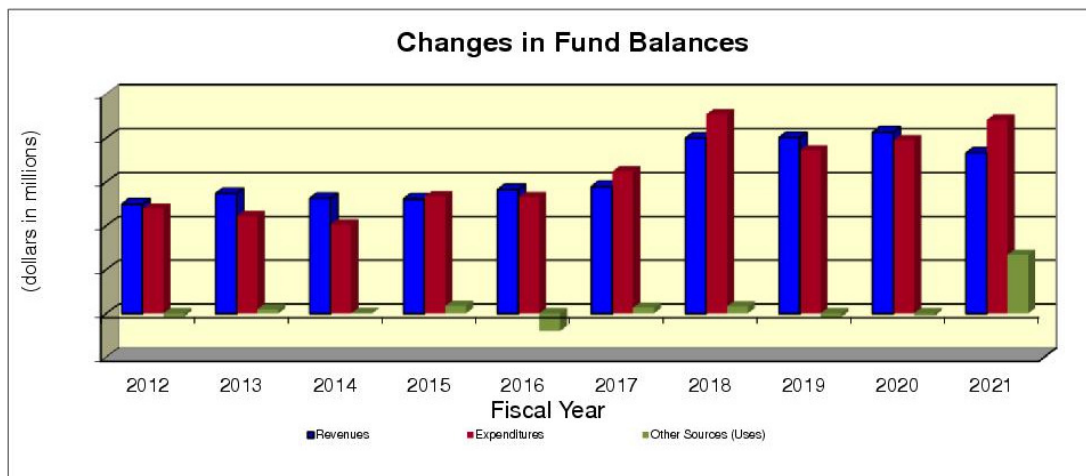
Source: Santa Clara Valley Water District, General Accounting Unit

2016	2017	2018	2019	2020	2021
\$ 10.3	\$ 6.0	\$ 3.9	\$ 7.1	\$ 8.2	\$ 7.1
4.9	6.4	5.7	7.0	6.0	7.1
<u>\$ 15.2</u>	<u>\$ 12.4</u>	<u>\$ 9.6</u>	<u>\$ 14.1</u>	<u>\$ 14.2</u>	<u>\$ 14.2</u>
\$ 214.1	\$ 220.1	\$ 182.3	\$ 176.0	\$ 163.9	\$ 214.1
64.9	64.9	113.7	132.2	160.5	131.5
68.0	54.2	26.9	21.1	11.5	19.3
<u>\$ 347.0</u>	<u>\$ 339.2</u>	<u>\$ 322.9</u>	<u>\$ 329.3</u>	<u>\$ 335.9</u>	<u>\$ 364.9</u>



VALLEY WATER
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Dollars in Millions)

	2012	2013	2014	2015
Revenues				
Property taxes	\$ 88.2	\$ 97.2	\$ 100.6	\$ 107.6
Benefit assessments	19.1	19.2	16.1	16.1
Use of money and property:				
Investment income	1.6	1.8	2.6	2.5
Rental	1.4	1.4	1.6	1.7
Reimbursement of capital costs	13.5	15.8	9.6	1.7
Other	0.9	1.4	0.7	0.9
Total Revenues	124.7	136.8	131.2	130.5
Expenditures				
Operations and operating project	51.4	49.2	50.4	65.4
Capital improvement projects	51.4	44.8	36.9	54.0
Debt Service:				
Principal repayment	9.7	10.9	8.1	8.4
Interest and fiscal charges	6.8	5.9	5.9	5.5
Total expenditures	119.3	110.8	101.3	133.3
Excess of revenues over (under) expenditures	5.4	26.0	29.9	(2.8)
Other financing sources (uses)				
Transfers in	24.4	21.2	34.4	30.1
Transfers out	(27.7)	(24.9)	(34.1)	(21.5)
Proceeds from issuance of debt	-	53.0	-	-
Payment to refunded bond escrow agent	-	(53.5)	-	-
Net original issue premium	-	8.9	-	-
Total other financing sources (uses)	(3.3)	4.7	0.3	8.6
Net change in fund balances	\$ 2.1	\$ 30.7	\$ 30.2	\$ 5.8
Debt service as a percentage of non-capital expenditures	23.0%	25.7%	18.8%	13.0%



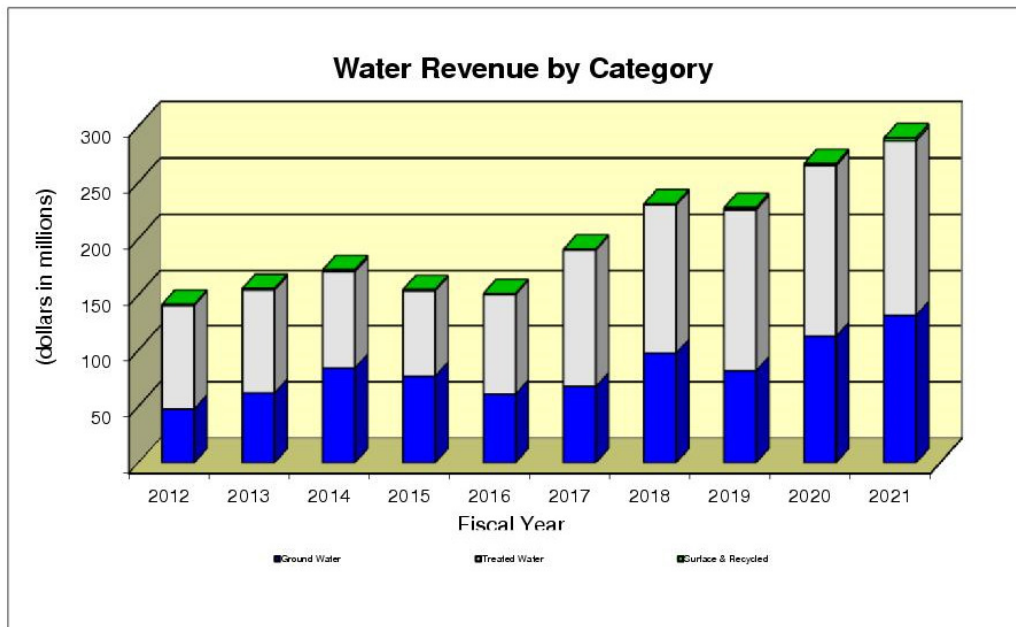
Source: Santa Clara Valley Water District, General Accounting Unit

	2016		2017		2018		2019		2020		2021
\$	114.4	\$	123.3	\$	129.9	\$	143.8	\$	148.4	\$	154.5
	14.7		14.8		14.8		14.7		13.4		12.4
	3.7		1.0		2.3		12.4		11.6		-
	1.8		1.8		1.9		2.0		2.1		1.8
	4.7		1.8		46.4		25.5		29.5		13.5
	1.8		2.0		4.4		2.1		1.7		0.7
	141.1		144.7		199.7		200.5		206.7		182.9
	57.8		67.5		70.9		68.2		80.2		86.6
	61.9		81.6		142.7		104.3		104.9		121.7
	7.6		8.0		8.7		8.7		8.1		8.5
	5.1		4.7		4.4		4.7		4.2		3.9
	132.4		161.8		226.7		185.9		197.4		220.7
	8.7		(17.1)		(27.0)		14.6		9.3		(37.8)
	26.5		17.4		31.0		17.3		34.4		164.4
	(46.4)		(19.3)		(22.9)		(21.1)		(36.9)		(97.6)
	-		68.9		-		-		-		-
	-		(60.4)		-		-		-		-
	-		-		-		-		-		-
	(19.9)		6.6		8.1		(3.8)		(2.5)		66.8
\$	(11.2)	\$	(10.5)	\$	(18.9)	\$	10.8	\$	6.8	\$	29.0
	13.4%		15.0%		13.7%		13.8%		9.0%		8.6%

Dollar amounts rounded to the thousands prior to fiscal year 2020 were rounded to the millions for comparability; totals and ratios for these periods may not add due to independent rounding.

VALLEY WATER
Water Revenue by Category
Last Ten Fiscal Years
(Dollars in Millions)

Fiscal Year	Ground Water Revenue	Treated Water Revenue	Surface & Recycled Water Revenue	Total Water Revenue
2012	48.0	92.9	0.8	141.8
2013	62.1	92.4	1.3	155.7
2014	84.3	86.4	1.7	172.4
2015	77.1	76.8	0.9	154.8
2016	61.1	89.4	0.7	151.2
2017	67.9	122.2	0.7	190.9
2018	97.5	132.5	1.0	231.0
2019	81.9	144.0	1.8	227.7
2020	112.6	152.6	1.7	266.9
2021	132.1	154.9	2.7	289.7



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

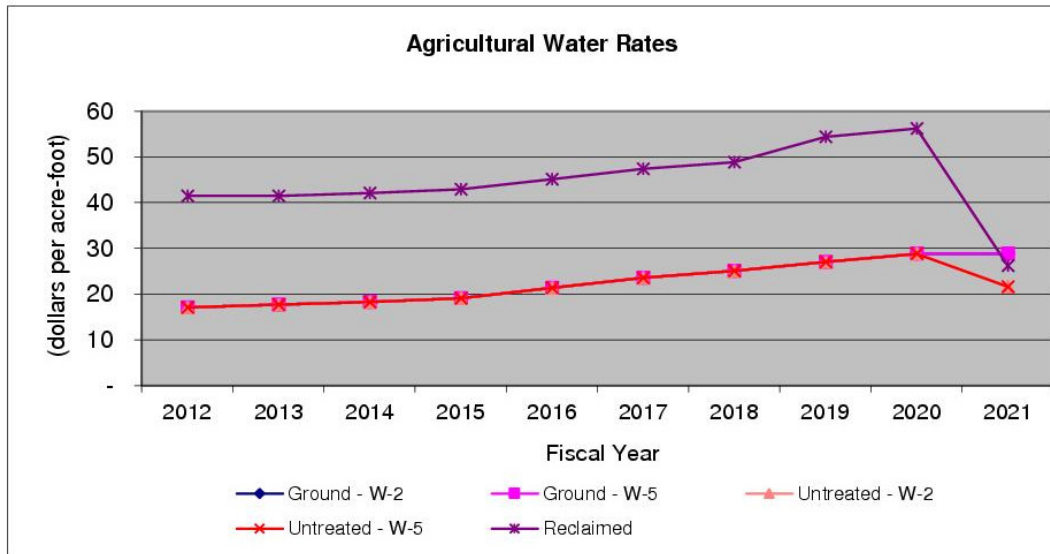
Valley Water
Principal Water Revenue Customers
Current year and Nine years ago
(Dollars in Millions)

Water Customer	Fiscal Year 2021			Fiscal Year 2012		
	Water Revenue	Rank	Percent of Total Water Revenue	Water Revenue	Rank	Percent of Total Water Revenue
San Jose Water Company	\$ 167.0	1	62.57%	\$ 81.1	1	57.19%
City of Santa Clara	20.0	2	7.49%	11.3	2	7.97%
California Water Service Company	19.0	3	7.12%	8.2	4	5.78%
San Jose City Water	18.0	4	6.74%	10.2	3	7.19%
City of Sunnyvale	13.0	5	4.87%	6.0	5	4.23%
Great Oaks Water Company	10.0	6	3.75%	5.4	6	3.81%
City of Milpitas	5.0	7	1.87%	2.3	7	1.62%
Gilroy City Water Department	4.0	8	1.50%			0.00%
City of Cupertino	3.0	9	1.12%	2.1	9	1.48%
City of Morgan Hill	3.0	10	1.12%	2.3	8	1.62%
City of Mountain View				1.0	10	0.71%
Total	<u>\$ 262.0</u>		<u>98.15%</u>	<u>\$ 129.9</u>		<u>91.60%</u>
Total Water Sales	<u>\$ 266.9</u>			<u>\$ 141.8</u>		

Source: Santa Clara Valley Water District, Revenue Management Unit

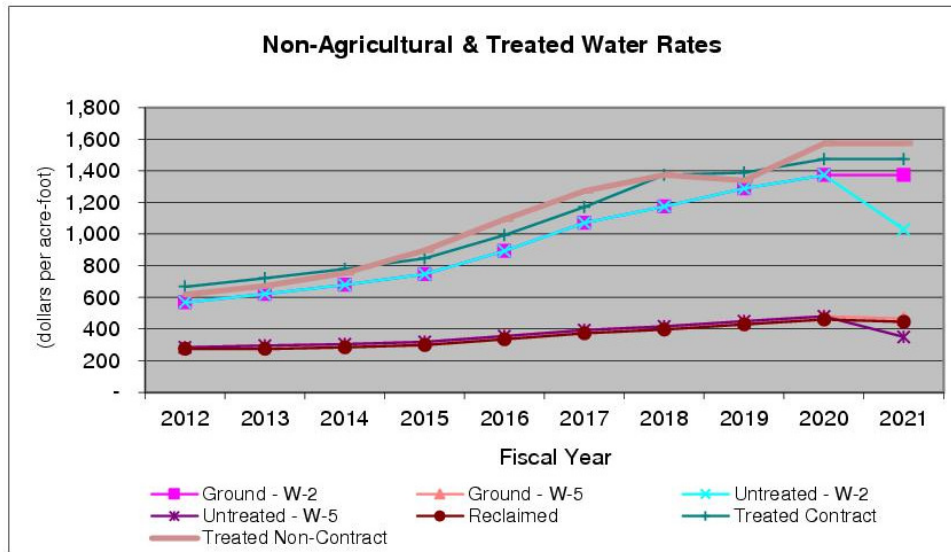
Valley Water
Water Enterprise Rates Summary
Last Ten Fiscal Years
(Rates in Dollars per Acre-foot)

Fiscal Year	Groundwater Rates				Treated Water Rates	
	Zone W-2		Zone W-5		Contract	Non Contract
	AG	Non-AG	AG	Non-AG		
2012	17.10	569.00	17.10	285.00	669.00	619.00
2013	17.70	622.00	17.70	295.00	722.00	672.00
2014	18.30	680.00	18.30	305.00	780.00	755.00
2015	19.14	747.00	19.14	319.00	847.00	897.00
2016	21.36	894.00	21.36	356.00	994.00	1,094.00
2017	23.59	1,072.00	23.59	393.00	1,172.00	1,272.00
2018	25.09	1,175.00	25.09	418.00	1,375.00	1,375.00
2019	27.02	1,289.00	27.02	450.00	1,389.00	1,339.00
2020	28.86	1,374.00	28.86	481.00	1,474.00	1,574.00
2021	28.86	1,374.00	28.86	467.00	1,474.00	1,574.00



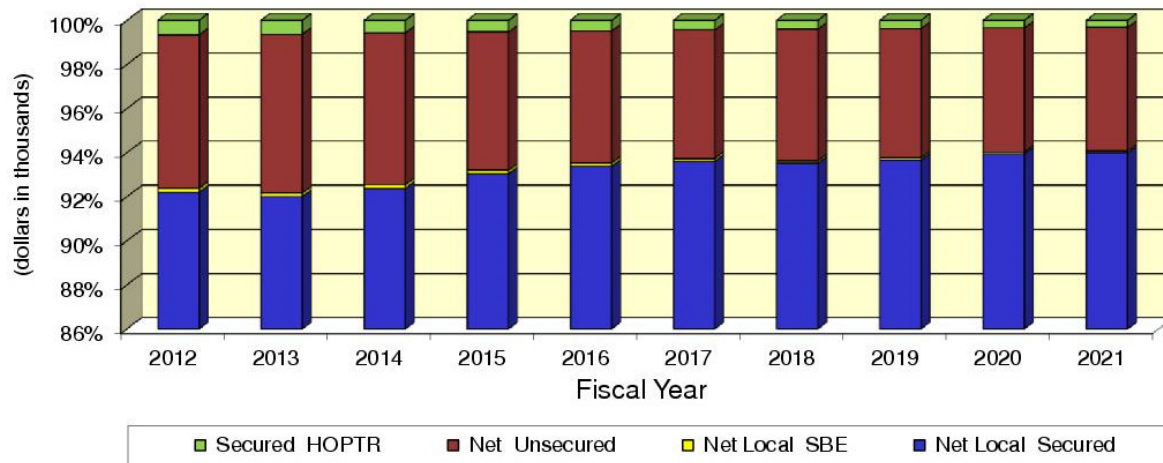
Source: Santa Clara Valley Water District, Wells & Water Production Unit

Untreated Water Rates				Reclaimed Water Rates	
Zone W-2		Zone W-5		AG	Non-AG
AG	Non-AG	AG	Non-AG	AG	Non-AG
17.10	569.00	17.10	285.00	41.50	275.00
17.70	622.00	17.70	295.00	41.50	275.00
18.30	680.00	18.30	305.00	42.10	285.00
19.14	747.00	19.14	319.00	42.94	299.00
21.36	894.00	21.36	356.00	45.16	336.00
23.59	1,072.00	23.59	393.00	47.38	373.00
25.09	1,175.00	25.09	418.00	48.88	398.00
27.02	1,289.00	27.02	450.00	54.41	430.00
28.86	1,374.00	28.86	481.00	56.25	461.00
21.65	1,030.50	21.65	350.25	26.26	447.00



Valley Water
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(Dollars in Thousands)

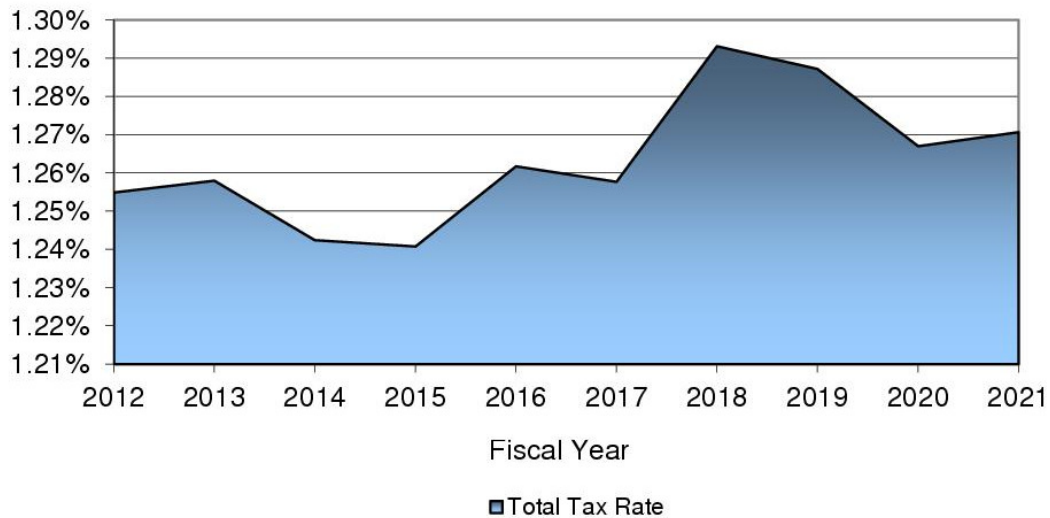
Fiscal Year	Net Local Secured	SBE	Total Secured	Net Unsecured	Total (a)	Exempt Valuation Secured		Total (c) = (a+b)	District Direct Rate (d)	Total District Direct Tax (c x d)
						HOPTR (b)				
2012	\$ 275,581,705	\$ 557,469	\$ 276,139,174	\$ 20,791,740	\$ 296,930,914	\$ 1,978,658		\$ 298,909,572	0.0064%	\$ 19,130.21
2013	283,903,536	525,302	284,428,838	22,225,683	306,654,521	1,951,818		308,606,339	0.0069%	21,293.84
2014	308,939,519	596,002	309,535,521	23,021,092	332,556,613	1,920,733		334,477,346	0.0070%	23,413.41
2015	332,220,200	577,096	332,797,296	22,417,252	355,214,548	1,891,373		357,105,921	0.0065%	23,211.88
2016	362,318,558	594,415	362,912,973	23,239,529	386,152,502	1,874,832		388,027,334	0.0057%	22,117.56
2017	392,058,176	524,128	392,582,304	24,439,939	417,022,243	1,850,004		418,872,247	0.0086%	36,023.01
2018	420,616,061	476,901	421,092,962	26,855,499	447,948,461	1,824,379		449,772,840	0.0062%	27,885.92
2019	452,259,125	451,125	452,710,250	28,342,158	481,052,408	1,808,872		482,861,280	0.0042%	20,280.17
2020	484,249,401	442,613	484,692,014	29,026,589	513,718,603	1,791,435		515,510,038	0.0041%	21,135.91
2021	517,837,409	462,813	518,300,222	30,879,670	549,179,892	1,770,130		550,950,022	0.0037%	20,385.15



Source: County of Santa Clara Compilation of Tax Rates & Information

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

Fiscal Year	Basic County Wide Levy	County	Cities	Santa Clara Valley Water District	Schools and Other Districts	Total Tax Rate
2012	1.0000%	0.0388%	0.0334%	0.0064%	0.1763%	1.2549%
2013	1.0000%	0.0388%	0.0316%	0.0069%	0.1807%	1.2580%
2014	1.0000%	0.0388%	0.0279%	0.0070%	0.1687%	1.2424%
2015	1.0000%	0.0388%	0.0253%	0.0065%	0.1702%	1.2408%
2016	1.0000%	0.0388%	0.0223%	0.0057%	0.1949%	1.2617%
2017	1.0000%	0.0388%	0.0207%	0.0086%	0.1896%	1.2577%
2018	1.0000%	0.0597%	0.0186%	0.0062%	0.2087%	1.2932%
2019	1.0000%	0.0565%	0.0170%	0.0042%	0.2095%	1.2872%
2020	1.0000%	0.0557%	0.0226%	0.0041%	0.1846%	1.2670%
2021	1.0000%	0.0457%	0.0175%	0.0037%	0.2038%	1.2707%



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

Valley Water
Principal Property Tax Payers
Current year and Nine years ago
(Dollars in Thousands)

Taxpayer	Fiscal Year 2021 ⁽²⁾			Fiscal Year 2012 ⁽³⁾		
	Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Taxable Assessed Value	Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Taxable Assessed Value
Google Inc.	\$ 8,273,860	1	1.50%	\$ 688,093	8	0.23%
Leland Stanford Jr, University	7,664,453	2	1.39%			
Campus Holdings Inc.	3,652,033	3	0.66%			
Sobrato Interests	2,408,575	4	0.44%			
Essex Portfolio LP	1,851,933	5	0.34%			
Apple Computer Inc.	1,787,392	6	0.32%			
Cisco Technology	1,552,539	7	0.28%	1,067,405	3	0.36%
Applied Materials Inc.	1,134,832	8	0.21%			
Intel Corporation	1,112,577	9	0.20%	665,249	9	0.22%
VF Mall LLC	1,108,053	10	0.20%			
FRIT San Jose Town & Country Village LLC	926,093	11	0.17%			
San Jose Water Works	880,824	12	0.16%			
Lockheed Missels and Space Co. Inc.	877,317	13	0.16%			
Intuitive Surgical Inc.	800,701	14	0.15%			
CW SPE LLC	771,597	15	0.14%			
Trishman Speyer Archstone-Smith	699,211	16	0.13%			
Samsung Electronics America, Inc.	695,580	17	0.13%			
Planetary Ventures LLC	654,936	18	0.12%			
Menlo & Juniper Networks LLC	629,356	19	0.11%			
Nvidia Corporation	595,259	20	0.11%			
Pacific Gas & Electric Co.				1,683,944	1	0.56%
Blackhawk Parent, LLC				1,037,307	2	0.35%
The Irvine Company, LLC				970,278	4	0.32%
Hitachi Global Storage				891,549	5	0.30%
Westfield Malls				823,563	6	0.28%
Silicon Valley CA, LLC				694,258	7	0.23%
Pacific Bell Telephone Co.				563,245	10	0.19%
Total	<u>\$ 38,077,121</u>		<u>6.92%</u>	<u>\$ 9,084,891</u>		<u>3.04%</u>
Net Assessed Value of Taxable Property	<u>\$ 550,950,022</u>			<u>\$ 298,909,572</u>		

⁽¹⁾ Includes taxable properties only.

⁽²⁾ Source: California Municipal Statistics, Inc.

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

Valley Water
Computation of District Act Debt Margin
June 30, 2021
(Dollars in Millions)

Authorized short-term debt under authority of District Act Section 25.6	\$ 8.0
Outstanding short-term debt under Section 25.6, June 30, 2021	<u>-</u>
District Act Section 25.6 debt margin on short-term debt	<u><u>\$ 8.0</u></u>

Note:

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

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

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

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

Valley Water
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(Dollars in Millions, Except Per Capita)

Fiscal Year	Governmental Activities		Business-type Activities	
	General Obligation Bonds	Certificate of Participation	General Obligation Bonds	Revenue Bonds/ Certificate of Participation
2012	\$ -	\$ 132.5	\$ -	\$ 208.4
2013	-	131.2	-	201.8
2014	-	122.4	-	201.5
2015	-	117.1	-	191.5
2016	-	108.4	-	440.1
2017	-	105.5	-	443.6
2018	-	95.3	-	423.8
2019	-	85.1	-	509.2
2020	-	75.4	-	495.0
2021	-	65.4	-	714.0

Source: Santa Clara Valley Water District, General Accounting Unit

Total Primary Government	Percentage of Personal Income	Per Capita
\$ 340.9	0.2788%	\$ 179
333.0	0.2549%	181
323.9	0.2283%	173
308.6	0.2154%	163
548.5	0.3163%	285
549.1	0.2890%	283
519.1	0.2483%	267
594.3	0.2622%	304
570.4	0.2491%	291
779.4	0.3370%	403

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

	2012	2013	2014	2015
Flood Control System Revenues:				
Benefit assessment, gross ¹	\$ 19.3	\$ 19.4	\$ 16.3	\$ 16.2
Property tax	48.5	55.6	57.6	62.9
Investment income	0.6	0.2	1.0	0.9
Rental income	1.2	1.2	1.3	1.4
Other	0.8	1.3	0.7	0.6
Total Flood Control System Revenue	<u>\$ 70.4</u>	<u>\$ 77.7</u>	<u>\$ 76.9</u>	<u>\$ 82.0</u>
Debt Service:				
2003A Certificates of participation ²	\$ 6.0	\$ 1.1	\$ -	\$ -
2004A Certificates of participation ^{3/4}	2.3	2.4	1.4	1.3
2007A Certificates of participation ³	5.8	5.8	5.8	5.8
2012A Certificates of participation	-	6.4	6.1	6.1
2017A Certificates of participation ⁴	-	-	-	-
Total Debt Service	<u>\$ 14.1</u>	<u>\$ 15.7</u>	<u>\$ 13.3</u>	<u>\$ 13.2</u>
Coverage	5.00	4.95	5.80	6.21

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

FY2021 - \$ 135
FY2020 - \$ 149
FY2019 - \$ 148
FY2018 - \$ 149
FY2017 - \$ 149
FY2016 - \$ 162
FY2015 - \$ 163
FY2014 - \$ 194
FY2013 - \$ 193
FY2012 - \$ 193

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

Source: Santa Clara Valley Water District, General Accounting Unit

2016	2017	2018	2019	2020	2021
\$ 14.8	\$ 14.9	\$ 14.9	\$ 14.9	\$ 13.5	\$ 12.9
68.0	74.8	79.5	90.7	93.1	98.6
1.3	0.3	0.7	4.9	5.2	-
1.5	1.5	1.6	1.7	1.7	1.5
1.2	1.9	4.0	1.7	1.6	0.6
<u>\$ 86.8</u>	<u>\$ 93.4</u>	<u>\$ 100.7</u>	<u>\$ 113.9</u>	<u>\$ 115.1</u>	<u>\$ 113.6</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1.1	1.1	-	-	-	-
5.8	5.8	-	-	-	-
5.3	5.3	5.3	5.3	5.3	5.3
-	-	6.9	6.9	5.8	5.8
<u>\$ 12.2</u>	<u>\$ 12.2</u>	<u>\$ 12.2</u>	<u>\$ 12.2</u>	<u>\$ 11.1</u>	<u>\$ 11.1</u>
7.14	7.68	8.29	9.37	10.37	10.23

² The 2003A Certificates were refunded by the 2012A Certificates.

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

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

Dollar amounts rounded to the thousands prior to fiscal year 2020 were rounded to the millions for comparability; totals and ratios for these periods may not add due to independent rounding.

Valley Water
Computation of Direct and Overlapping Debt
June 30, 2021

2020-21 Assessed Valuation

550,950,022,000

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:

	Total Debt-06/30/2021	% Applicable ⁽¹⁾	District's Share of Debt-06/30/2021
Santa Clara County	\$ 812,685,000	100%	\$ 812,685,000
Foothill-DeAnza Community College District	707,932,142	100%	707,932,142
San Jose-Evergreen Community College District	875,433,918	100%	875,433,918
West Valley-Mission Community College District	589,080,000	99.068%	583,589,774
Other Community College Districts	478,115,060	0.053-75.018%	164,726,611
Gilroy Unified School District	362,567,495	100%	362,567,495
Palo Alto Unified School District	241,738,172	100%	241,738,172
San Jose Unified School District	530,349,025	100%	530,349,025
Santa Clara Unified School District	1,001,785,000	100%	1,001,785,000
Other Unified School Districts	320,082,045	1.168-100%	264,551,265
Campbell Union High School District	357,945,000	100%	357,945,000
East Side Union High School District	978,683,605	100%	978,683,605
Fremont Union High School District	617,160,088	100%	617,160,088
Other High School Districts	392,306,957	0.546-100%	289,614,459
Campbell School District	211,274,895	100%	211,274,895
Cupertino Union School District	284,223,303	100%	284,223,303
Evergreen School District	167,115,512	100%	167,115,512
Franklin McKinley School District	157,984,366	100%	157,984,366
Los Altos School District	164,070,000	100%	164,070,000
Los Gatos Union School District	72,185,000	100%	72,185,000
Moreland School District	127,582,251	100%	127,582,251
Oak Grove School District	235,076,631	100%	235,076,631
Sunnyvale School District	209,495,820	100%	209,495,820
Other School Districts	784,612,413	4.525-100%	777,975,433
City of Campbell	18,860,000	100%	18,860,000
City of Gilroy	25,639,646	100%	25,639,646
City of Palo Alto	56,995,000	100%	56,995,000
City of San Jose	446,460,000	100%	446,460,000
City of Saratoga	7,530,000	100%	7,530,000
Saratoga Fire Protection District	2,319,428	100%	2,319,428
El Camino Hospital District	116,290,000	100%	116,290,000
City Community Facilities Districts	27,982,782	100%	27,982,782
City of San Jose Special Assessment Bonds	5,785,000	100%	5,785,000
Other City 1915 Act Bonds (Estimated)	24,685,000	100%	24,685,000
Midpeninsula Regional Open Space District	86,400,000	67.482%	58,304,448
Santa Clara Valley Water District Benefit Assessment District	57,010,000	100%	57,010,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 11,043,606,069

Ratios to the 2020-21 Assessed Valuation

Direct Debt	(\$57,010,000)	0.01%
Total Direct and Overlapping Tax and Assessment Debt		2.00%

OVERLAPPING GENERAL FUND DEBT:

	Total Debt-06/30/2021	% Applicable ⁽¹⁾	District's Share of Debt-06/30/2021
Santa Clara County General Fund Obligations	\$ 914,957,860	100%	\$ 914,957,860
Santa Clara County Pension Obligation Bonds	341,399,194	100%	341,399,194
Santa Clara County Office of Education Certificates of Participation	2,670,000	100%	2,670,000
Foothill-De Anza Community College District General Fund Obligations	22,085,000	100%	22,085,000
San Jose-Evergreen Community College District Other Post-Employment Benefit Obligations	47,450,000	100%	47,450,000
Gavilan Joint Community College District General Fund Obligations	6,670,000	75.018%	5,003,701
West Valley-Mission Community College District General Fund Obligations	49,850,000	99.068%	49,385,398
Gilroy Unified School District Certificates of Participation	23,365,000	100%	23,365,000
Other Unified School District School General Fund Obligations	57,073,669	1.168-100%	46,207,091
East Side Union High School District Benefit Obligations	26,660,000	100%	26,660,000
Other Union High School District General Fund Obligations	46,368,588	.0546-100%	24,230,789
Alum Rock Union School District Certificates of Participation	13,650,000	100%	13,650,000
Other School District General Fund Obligations	13,204,902	20.699-100%	13,026,475
City of Cupertino Certificates of Participation	19,900,000	100%	19,900,000
City of Gilroy Certificates of Participation	30,160,000	100%	30,160,000
City of San Jose General Fund Obligations	540,365,000	100%	540,365,000
City of Santa Clara General Fund Obligations	13,070,000	100%	13,070,000
City of Sunnyvale General Fund Obligations	142,540,000	100%	142,540,000
Other City General Fund Obligations	189,003,342	100%	189,003,342
Santa Clara County Vector Control District Certificates of Participation	1,765,000	100%	1,765,000
Midpeninsula Regional Park District General Fund Obligations	106,000,600	67.482%	71,531,325
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$ 2,538,425,175
Less: Santa Clara County supported general fund obligations			25,277,294
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$ 2,513,147,881

OVERLAPPING TAX INCREMENT DEBT: \$ 1,659,060,000 100% \$ 1,659,060,000

TOTAL DIRECT DEBT

TOTAL GROSS COMBINED OVERLAPPING DEBT \$ 15,184,081,244
TOTAL NET COMBINED OVERLAPPING DEBT \$ 15,158,803,950

GROSS COMBINED TOTAL DEBT \$ 15,241,091,244 ⁽²⁾
NET COMBINED TOTAL DEBT \$ 15,215,813,950

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

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

Ratios to the 2020-21 Assessed Valuation

Total Direct Debt	Ratio
Gross Combined Total Debt	0.01%
Net Combined Total Debt	2.77%
	2.76%

Ratio to Redevelopment Incremental Valuation (63078630895)

Total Overlapping Tax Increment Debt	2.63%
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Source: California Municipal Statistics, Inc.

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

Fiscal Year	Population ⁽¹⁾	Personal Income (in \$000) ⁽²⁾	Per Capita Personal Income (in \$000)	Change In Consumer Price Index ⁽³⁾	School Enrollment ⁽⁴⁾	Total Employment ⁽⁵⁾	Unemployment Rate ⁽⁵⁾
2012	1,899,567	\$ 122,259,021	64.362	0.9%	270,109	794,236	8.5%
2013	1,842,254	130,624,491	70.905	1.4%	273,701	865,900	6.8%
2014	1,868,558	141,873,705	75.927	3.0%	276,175	879,500	5.4%
2015	1,889,638	143,292,442	75.831	2.3%	276,689	993,400	3.7%
2016	1,927,888	173,428,896	89.958	2.7%	274,948	996,800	4.0%
2017	1,938,180	190,001,690	98.031	3.5%	273,264	992,900	3.8%
2018	1,947,798	209,019,944	107.311	3.9%	272,132	1,035,600	2.7%
2019	1,954,286	226,697,176	116.000	2.7%	267,224	1,026,700	2.6%
2020	1,961,969	228,964,148	116.701	1.6%	263,449	926,700	10.7%
2021	1,934,171	231,253,789	119.562	3.7%	253,625	961,700	5.2%

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

⁽²⁾ U.S. Department of Commerce - Bureau of Economic Analysis; actual data available up to 2019; personal income data for 2020 & 2021 are preliminary and assumes a 1% increase from prior year.

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

⁽⁴⁾ State of California - Department of Education and Santa Clara County Office of Education (grades K to 12)

⁽⁵⁾ State of California - Employment Development Department

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

Company or Organization	Fiscal Year 2021			Fiscal Year 2012		
	Employees ⁽¹⁾	Rank	Percentage of Total County Employment	Employees ⁽²⁾	Rank	Percentage of Total County Employment
Apple Inc.	25,000	1	2.60%	10,000	2	1.09%
Google, Inc. / Alphabet	25,000	2	2.60%			
County of Santa Clara	18,873	3	1.96%			
Facebook Inc.	17,000	4	1.77%			
Stanford University	15,314	5	1.59%	5,526	3	0.60%
Stanford Health Care	14,574	6	1.52%			
Tesla Motors Inc.	13,000	7	1.35%			
Cisco Systems	12,740	8	1.32%	13,000	1	1.42%
Kaiser Permanente Northern California	12,442	9	1.29%			
Safeway	8,757	10	0.91%			
City of San Jose	7,641	11	0.79%			
Intel Corp.	7,143	12	0.74%	5,000	4	0.55%
University of California Santa Cruz	6,900	13	0.72%			
Applied Materials Inc.	6,500	14	0.68%			
Stanford Children's Health	6,060	15	0.63%			
VMWare Inc.	5,870	16	0.61%			
San Mateo County	5,640	17	0.59%			
LinkedIn Corp.	5,542	18	0.58%			
HP Inc.	5,000	19	0.52%			
Pajaro Valley Unified School District	4,565	20	0.47%			
Lockheed Martin Space Systems Co.	4,300	21	0.45%			
Gilead Sciences Inc.	4,000	22	0.42%			
Department of Veterans Affairs, Palo Alto	3,900	23	0.41%			
Amazon Com Services	3,748	24	0.39%			
Adobe Inc.	3,731	25	0.39%			
Maxim Integrated Products, Inc.				4,700	5	0.51%
JDS Uniphase Corp.				4,000	6	0.44%
Santa Clara Valley Medical Center				3,500	7	0.38%
Flextronics International				3,490	8	0.38%
Yahoo, Inc.				3,000	9	0.33%
Silicon Graphics, Inc.				2,851	10	0.31%
Total	<u>243,240</u>		<u>25.30%</u>	<u>55,067</u>		<u>6.01%</u>
Total County Employment ⁽³⁾	<u>961,700</u>			<u>917,100</u>		

Source: ⁽¹⁾ Silicon Valley Business Journal

⁽²⁾ Rich's Business Information - Santa Clara County

⁽³⁾ State of California - Employment Development Department

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

Function/Program	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Office of the CEO	10	10	10	10	10	11	11	17	20	16
Office of the District Counsel	9	9	9	9	9	10	10	11	11	13
Community & Government Relations	8	8	8	8	18	23	27	28	32	41
County-Wide Watershed Management	105	98	98	98	112	109	109	133	133	145
Capital Programs	126	117	112	115	118	112	112	108	111	122
Water Utility Operations	43	43	43	43	43	43	43	41	41	39
Water Supply	11	11	11	11	11	11	11	8	8	13
Water Conservation	10	10	10	10	10	11	11	12	12	10
Surface & Groundwater Management	34	34	34	34	36	33	33	35	35	39
Water Quality	22	22	22	22	22	28	28	24	24	25
Control Systems	11	11	11	11	11	14	14	14	14	15
Water Utility Maintenance	23	23	23	23	23	28	28	28	28	28
Treated Water Operations	36	36	36	36	38	44	44	43	43	48
Raw Water Operations	25	25	25	25	28	37	37	37	40	38
Administrative & Business Management	8	8	8	8	8	11	11	3	5	14
Clerk of the Board	12	12	12	12	12	14	14	10	10	10
Organizational Training & Development	6	6	6	6	6	4	4	4	8	15
Business Support Services	16	16	16	16	16	16	16	20	25	12
Library & Records	6	6	6	6	6	5	5	6	6	5
Budget Office	8	8	8	8	8	7	7	7	10	8
Accounting	18	18	16	18	18	17	17	16	16	17
Information & Systems Management	39	39	39	39	39	36	36	32	32	32
Technical Services	3	3	3	3	3	3	3	3	3	3
Wells & Water Production	18	18	18	18	18	18	18	15	15	20
Real Estate & Right-of-Way	8	8	8	8	9	10	10	8	10	8
Equipment Management	12	12	12	12	12	12	12	10	10	9
Warehouse & Inventory Control	6	6	6	6	6	5	5	5	5	5
Facilities Maintenance	15	15	15	15	15	15	15	14	16	16
Purchasing	9	9	9	9	10	10	10	9	12	15
Permits	16	16	13	16	16	14	14	16	16	16
Contracts Administration	4	4	4	4	5	5	5	5	10	6
Human Resources & Benefits	21	21	19	21	21	18	18	22	22	13
Health & Safety	6	6	10	6	6	10	10	9	9	9
Total	704	688	680	686	723	744	748	753	792	825

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

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

Function/Program	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
District Well Ordinance Program										
New Wells	541	443	513	407	424	321	410	325	298	367
Destroyed Wells	531	502	744	1,504	1,167	945	463	494	387	481
Well Permits	1,740	1,265	1,697	2,285	1,799	1,546	1,272	1,078	1,123	882
Well Inspections	1,350	1,080	1,398	2,092	1,848	1,687	1,093	1,030	1,163	1,254
Watershed Management										
Miles of Vegetation Removed/Managed	241	221	206	177	164	116	168	163	161	134
Cubic Yards of Sediment Removed	32,456	21,456	34,596	4,129	3,929	83,792	34,881	19,279	49,641	55,878
Miles of Bank Erosion Protection	0.5	1.1	2.1	0.2	1.2	0.5	0.5	0.2	0.3	0.3
Laboratory Services Unit										
Water Samples Tested (approx.)	111,265	158,082	170,055	169,182	178,934	179,252	156,347	151,118	151,500	142,328
Water Quality Violations	-	-	-	-	-	-	-	-	-	-
Water Measurement Program										
Meter Reads/Site Visits	5,939	6,019	5,964	5,908	5,934	5,489	6,264	5,384	6,740	6,126
Meter Repairs/Preventative Maintenance	316	313	272	201	323	301	307	381	183	115
Backflow Device Tests	151	177	159	203	153	149	227	188	217	205
Community Projects Review										
Permits Issued	220	257	201	220	289	228	177	160	137	175
Land Development Review Requests	964	865	940	843	45	124	749	938	809	1,023
Underground Service Alerts	37,348	46,599	53,782	58,871	12,118	8,042	8,529	9,859	8,560	8,607
Requests for Flood Zone Information	70	72	51	24	92	26	18	18	11	20
Environmental Impact Reports Reviewed	55	33	65	68	32	56	53	83	82	145
Water Resource Protec. Ordinance Violations	234	193	184	130	220	163	186	208	240	243
Human Resources										
Permanent Positions Hired	17	21	31	54	150	112	133	79	162	182
Temporary Workers Employed	112	140	247	134	276	259	122	108	110	115
Employment Applications Processed	2,685	1,524	4,236	5,746	5,621	5,847	5,668	5,370	7,860	7,382
Health & Safety										
Ergonomic Assessments	36	39	38	42	46	44	47	37	12	36
Confined Space Assessments	117	139	261	147	204	120	223	192	205	164
Employee Safety Committee Meetings	11	9	11	12	12	12	11	8	6	8
Projects Managed by Type:										
Capital Projects	129	126	131	160	165	121	130	121	114	122
Operating Projects	48	43	36	35	39	23	29	17	16	15
Operations Projects	365	396	394	415	409	358	351	335	328	317

Source: Santa Clara Valley Water District, various government departments

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

Function/Program	Fiscal Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Water Utility Enterprise										
Acres of groundwater recharge ponds	393	393	393	393	393	393	393	393	393	277
Miles of canals	17	17	17	17	17	17	17	17	17	17
Miles of pipeline	144	144	144	144	144	144	144	144	144	137
Miles of tunnels	8	8	8	8	8	8	8	8	8	8
Number of treatment plants	4	4	4	4	4	4	4	4	4	4
Number of pumping stations	5	5	5	5	5	5	5	5	5	5
Number of treated water reservoirs	1	1	1	1	1	1	1	1	1	1
Water Utility Operations										
Process Control Instrumentation	1161	1406	1680	1,443	1,493	1,548	1,534	1,542	1,710	1,748
Mechanical Drives	54	72	61	56	73	58	61	61	61	52
Chemical Mixers	87	89	111	95	95	92	88	88	126	124
Electrical Motors	432	452	512	439	455	468	464	468	531	529
Power Distribution Equipment	913	1248	1673	1,140	1,155	1,089	859	870	890	1,383
Pumps	515	547	601	515	518	517	518	517	584	582
Utility Vaults & Structures	1051	1062	1095	1,114	1,340	1,156	1,122	1,166	1,195	1,205
Chemical & Water Storage Tanks	192	199	176	174	203	168	173	196	202	207
Valves	1070	1613	1702	1,600	1,676	1,695	1,710	1,758	1,987	1,866
Valve Operators	579	799	869	783	782	781	782	789	841	824
Generators	26	25	27	25	29	29	27	30	33	33
Flow Meters	296	381	387	347	377	399	360	361	395	392
Electric Drives	170	173	208	165	162	172	183	191	196	201
Blowers & Compressors	174	146	208	188	185	184	181	187	188	187
Miscellaneous Equipment	467	477	3306	1,441	1,350	1,356	1,322	1,327	1,345	1,362
Watersheds										
Miles of creeks and rivers managed for flood control	700	700	700	700	700	700	800 +*	800 +*	800 +*	<275*
Number of reservoirs	10	10	10	10	10	10	10	10	10	10
Total District reservoir capacity (acre-feet)	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415	166,266
Acres of Wildlife Habitat Restored	N/A	569	569	326	326	310	364	364	364	493
Fleet Equipment										
Class I Passenger Vehicles	190	185	186	182	184	179	178	178	175	168
Class II Heavy Duty Trucks	78	82	84	87	82	90	94	94	97	64
Class III Tractors, Const. Equip., Generators, Forklifts	26	24	27	26	26	21	26	26	26	22
Class IV Misc. Small Tools & Engines	643	655	474	506	506	534	478	415	521	519

Source: Santa Clara Valley Water District, various government departments

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

Valley Water
Flood Control System
Historical Operating Results
Combined Statement of Revenues and Debt Service Coverage
Last Ten Fiscal Years
=+Title!A7

	2012	2013	2014	2015
Flood Control System Revenues:				
Benefit assessment, gross ¹	\$ 19.3	\$ 19.4	\$ 16.3	\$ 16.2
Property tax	48.5	55.6	57.6	62.9
Investment income	0.6	0.2	1.0	0.9
Rental income	1.2	1.2	1.3	1.4
Other	0.8	1.3	0.7	0.6
Total Flood Control System Revenue	<u>\$ 70.4</u>	<u>\$ 77.7</u>	<u>\$ 76.9</u>	<u>\$ 82.0</u>
Debt Service:				
2003A Certificates of participation ²	\$ 6.0	\$ 1.1	\$ -	\$ -
2004A Certificates of participation ^{3/4}	2.3	2.4	1.4	1.3
2007A Certificates of participation ³	5.8	5.8	5.8	5.8
2012A Certificates of participation	-	6.4	6.1	6.1
2017A Certificates of participation ⁴	-	-	-	-
Total Debt Service	<u>\$ 14.1</u>	<u>\$ 15.7</u>	<u>\$ 13.3</u>	<u>\$ 13.2</u>
Coverage	5.00	4.95	5.80	6.21

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

FY2021 - \$ 135
FY2020 - \$ 149
FY2019 - \$ 148
FY2018 - \$ 149
FY2017 - \$ 149
FY2016 - \$ 162
FY2015 - \$ 163
FY2014 - \$ 194
FY2013 - \$ 193
FY2012 - \$ 193

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

Source: Santa Clara Valley Water District, General Accounting Unit

2016	2017	2018	2019	2020	2021
\$ 14.8	\$ 14.9	\$ 14.9	\$ 14.9	\$ 13.5	\$ 12.9
68.0	74.8	79.5	90.7	93.1	98.6
1.3	0.3	0.7	4.9	5.2	-
1.5	1.5	1.6	1.7	1.7	1.5
1.2	1.9	4.0	1.7	1.6	0.6
<u>\$ 86.8</u>	<u>\$ 93.4</u>	<u>\$ 100.7</u>	<u>\$ 113.9</u>	<u>\$ 115.1</u>	<u>\$ 113.6</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1.1	1.1	-	-	-	-
5.8	5.8	-	-	-	-
5.3	5.3	5.3	5.3	5.3	5.3
-	-	6.9	6.9	5.8	5.8
<u>\$ 12.2</u>	<u>\$ 12.2</u>	<u>\$ 12.2</u>	<u>\$ 12.2</u>	<u>\$ 11.1</u>	<u>\$ 11.1</u>
7.14	7.68	8.29	9.37	10.37	10.23

² The 2003A Certificates were refunded by the 2012A Certificates.

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

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

Dollar amounts rounded to the thousands prior to fiscal year 2020 were rounded to the millions for comparability; totals and ratios for these periods may not add due to independent rounding.

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Santa Clara Valley Water District

File No.: 21-1207

Agenda Date: 12/15/2021

Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

First Quarter Fiscal Year 2021-22 Financial Status Update.

RECOMMENDATION:

Receive the first quarter Fiscal Year 2021-22 financial status update as of September 30, 2021.

SUMMARY:

Valley Water's first quarter Fiscal Year 2021-22 closed on September 30, 2021. The first quarter financial status update presentation (Attachment 1) summarizes cash and investment balances, the debt portfolio and includes a summary of the budget to actual status of revenues and expenditures for all funds as of September 30, 2021.

These financial statements have been prepared by Valley Water for informational purposes only and have not been audited by the external auditor. No party is authorized to disseminate these unaudited financial statements to the State Comptroller or any nationally recognized rating agency, nor are they authorized to post these financial statements on EMMA or any similar financial reporting outlets or redistribute the information without the express written authorization of the Chief Financial Officer of Valley Water. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of District 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, maintained on the World Wide Web at <<https://emma.msrb.org/>>.

ATTACHMENTS:

Attachment 1: PowerPoint

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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Q1 FY2021-22 Financial Status Update

November 17, 2021

The FY 2021-22 Q1 unaudited financial statements contained herein have been prepared by Valley Water for information only and have not been audited by the external auditor. These financial statements remain subject to change by Valley Water and remain subject to review by external auditor. Changes made by the external auditor, including changes in response to the outsider auditor's review, could be material. No party is authorized to disseminate these unaudited financial statements to the State Comptroller or any nationally recognized rating agency nor post these statements on EMMA or any similar financial reporting outlets or redistribute the information without the express written authorization of the Chief Financial Officer of Valley Water. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale Valley Water bonds, notes or other obligations and investors and potential investors should rely on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the World Wide Web at <https://emma.msrb.org/>.

1. Financial Status

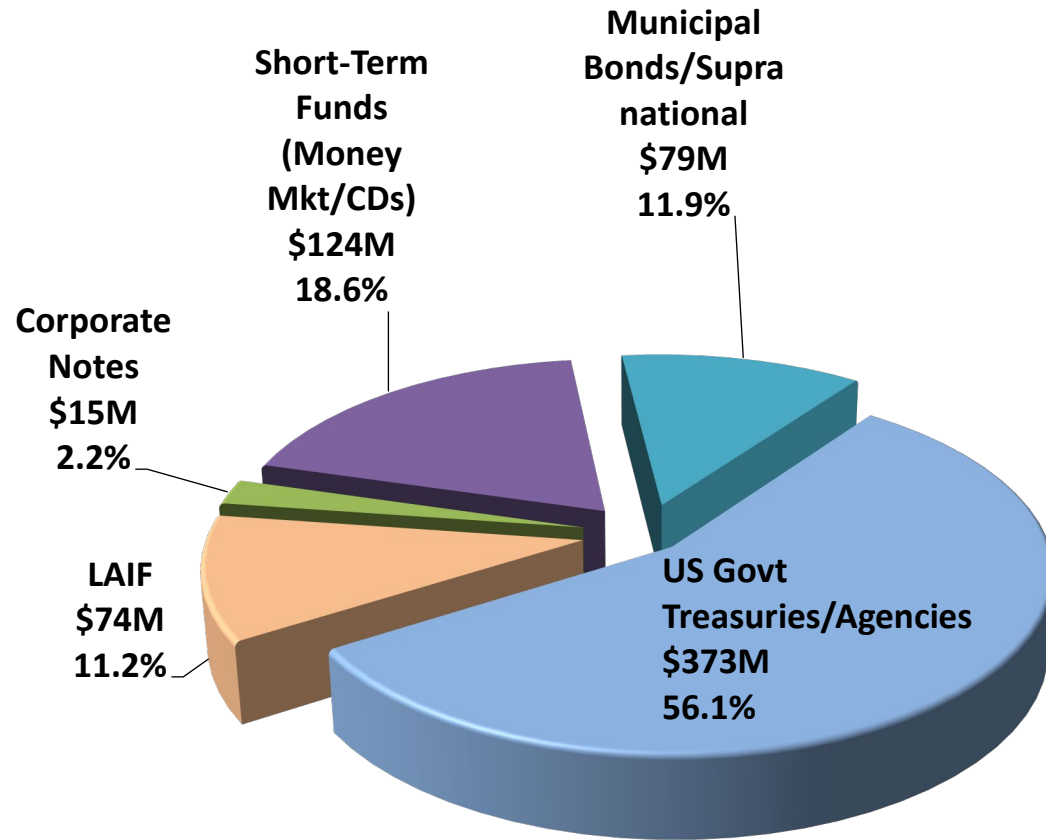
- Cash & Investments
- Debt Portfolio

2. Q1 FY 22 Financial Status Update

- Revenue
- Operating & Capital Expenditures

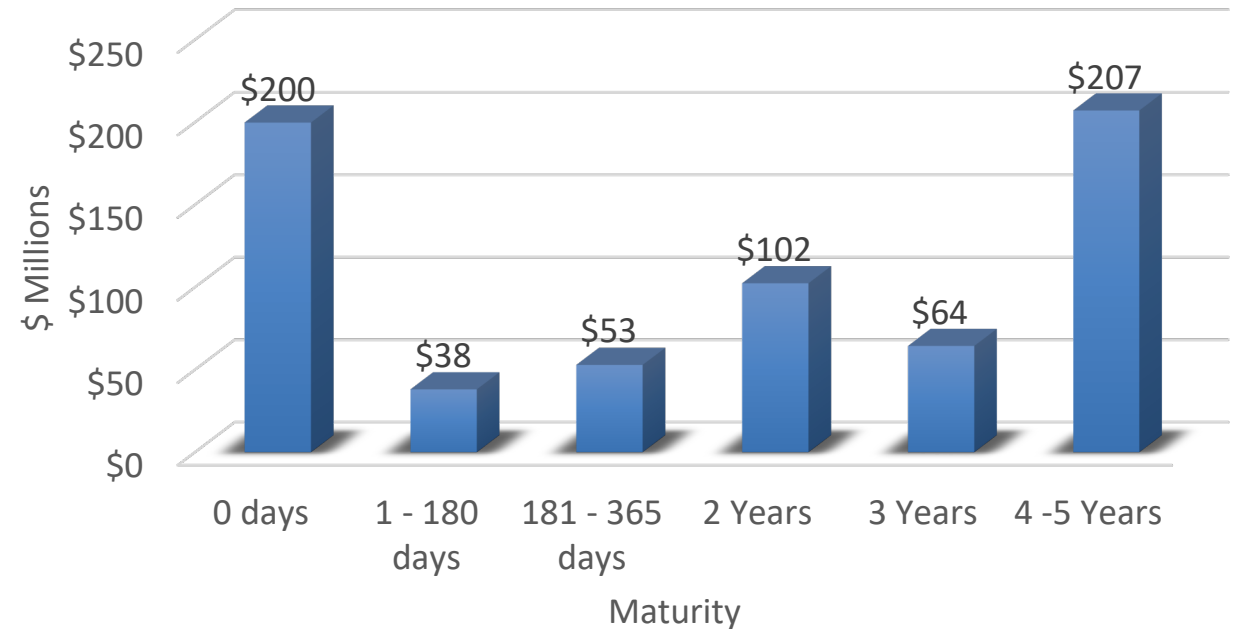
Financial Status Update – Cash & Investments

\$291M or 44% of portfolio very liquid (<1-year maturity)



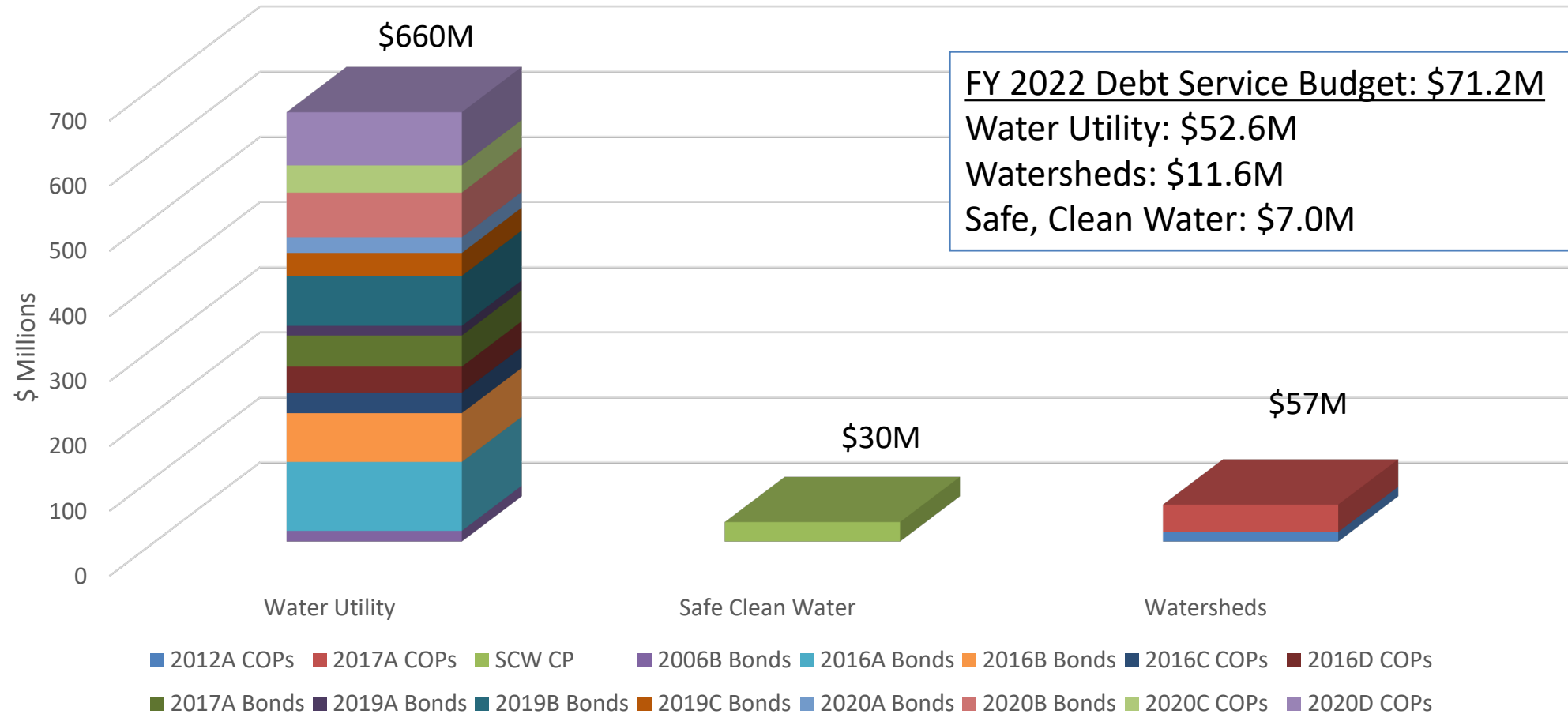
SCVWD Portfolio Book Value as of Sep 30, 2021: \$665 Million

Valley Water Portfolio Aging Report
September 30, 2021
Portfolio Book Value: \$665 Million



Financial Status Update - Outstanding Debt (9/30/2021)

Total Outstanding Debt: \$747 Million



Ample access to cash at low interest rates

\$320M short-term credit facilities

- \$150M Commercial Paper – ongoing program
- \$170M Bank Line of Credit (\$150M Lead + \$20M Small/Local)
 - US Bank Lead (\$150M), Community Bank of the Bay (\$5M), Bank of SF (\$7M), and First Foundation Bank (8M)

FY 2022 Planned Debt Issuances (~March – May 2022):

- \$100M Safe, Clean Water Program
- \$159M Water Utility

WIFIA Loan Program Update: \$135M SCW + \$1.2B Pacheco

Q1 FY 22 – Revenues

Majority of sources of revenues on schedule

(\$ in millions)	FY22 Adj Budget	Q1 FY22 Actuals	Q1 FY22 % Rec'd	Q1 FY21 Actuals	Q1 FY22 vs Q1 FY21
Groundwater Production Charges	\$ 135.3	\$ 4.2	3%	\$ 6.6	\$ (2.4)
Treated Water Charges	150.4	32.6	22%	36.1	(3.5)
Surface/Recycled Water Charges	2.8	0.2	7%	0.2	-
1% Ad-valorem Property Tax	118.4	1.5	1%	0.3	1.2
Safe Clean Water Special Parcel Tax	47.1	-	0%	-	-
Benefit Assessments	13.5	-	0%	-	-
State Water Project Tax	26.0	-	0%	-	-
Capital Reimbursements	35.1	6.0	17%	-	6.0
Interest Income & Other	10.8	2.7	25%	3.6	(0.9)
Total Revenue	\$ 539.4	\$ 47.2	9%	\$ 46.8	\$ 0.4

(\$ in millions)	FY22 Adj Budget	Q1 FY22 Actuals	Q1 FY22 % Rec'd	Q1 FY21 Actuals	Q1 FY22 vs Q1 FY21
General Fund	\$ 10.0	\$ 0.2	2%	\$ 0.1	\$ 0.1
Watershed & Stream Stewardship Fund	123.4	5.1	4%	1.4	3.7
Safe, Clean Water Fund	56.3	2.6	5%	0.9	1.7
Water Utility Enterprise Fund	335.9	39.2	12%	44.3	(5.1)
Service Funds	0.4	0.1	25%	0.1	-
Benefit Assessment Funds	13.4	-	0%	-	-
Total Revenue	\$ 539.4	\$ 47.2	9%	\$ 46.8	\$ 0.4

Observations

- Q1 FY 22 revenues total \$47.2M, or 9% of budget.
- Property Tax, State Water Project Tax, SCW Parcel Tax, Benefit Assessments total \$1.5M. First large tax apportionments will be received in December and January.
- Groundwater Production Charges \$4.2M, or 3% of budget; GW charges are one quarter behind due to the billing schedules.
- Treated Water Charges \$32.6M, or 22% of budget; Staff anticipates FY 22 water usage will be lower than last year due to drought emergency.
- Capital Reimbursements \$6.0M or 17% of budget.
- Interest Income and Other \$2.7M, or 25% of budget.

Q1 FY 22 – Operating & Capital Expenditures

Operating and Capital expenditures within budget

Operating

(\$ in millions)	FY22 Adj Budget	Q1 FY22 Actuals	Q1 FY22 % Spent	Q1 FY21 Actuals	Q1 FY21 % Spent
General Fund	\$ 76.1	\$ 17.7	23%	\$ 18.0	26%
Watershed & Stream Stewardship Fund	67.6	15.5	23%	14.6	24%
Safe, Clean Water Fund	30.2	4.4	15%	4.0	18%
Water Utility Enterprise Fund	291.7	99.9	34%	42.2	17%
Service Funds	34.7	6.3	18%	8.7	20%
Benefit Assessment Funds	11.2	1.2	11%	1.4	12%
Total Operating Expenditures	\$ 511.5	\$ 145.0	28%	\$ 88.9	25%

Note 1: Operating Adjusted Budget includes Adopted Budget and current year budget adjustments

Note 2: FY 22 Actuals column reflects Budgetary basis Actuals, includes actuals and encumbrances as of 09/30/21

Note 3: Operating Expenditures does not include OPEB and Pension accruals related to unfunded liability

Capital

(\$ in millions)	FY22 Adj Budget	Q1 FY22 Actuals	Q1 FY22 % Spent	Q1 FY21 Actuals	Q1 FY21 % Spent
General Fund	\$ 6.1	\$ 1.2	19%	\$ 0.6	19%
Watershed & Stream Stewardship Fund	64.7	24.9	38%	4.0	12%
Safe, Clean Water Fund	108.7	29.5	27%	41.2	45%
Water Utility Enterprise Fund	297.4	37.5	13%	18.5	10%
Service Funds	15.1	2.2	15%	1.0	8%
Total Capital Expenditures	\$ 492.0	\$ 95.3	19%	\$ 65.3	12%

Note 1: Capital Adjusted Budget includes Adopted Budget and prior year capital carryforward budget

Note 2: FY 22 Actuals column reflects Budgetary basis Actuals, includes actuals and encumbrances as of 09/30/21

Observations

- Q1 FY 22 Operating Expenditures, 145.0M or 28% of budget.
- Water Utility Enterprise Fund Q1 operating expenditures are \$99.9M, 34 % of budget; primarily due to water purchase costs increase and \$24.8M in encumbrances for State Water Project costs during the Q1.
- Benefit Assessments Funds debt service will be paid in Q2 FY22.
- Q1 FY 22 Capital Expenditures, \$95.3M, or 19% of budget.
- Spending rate higher than comparable time of last year.

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Santa Clara Valley Water District

File No.: 21-1209

Agenda Date: 12/15/2021

Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

The 2021 Risk Assessment Report and 2022-2024 Annual Audit Work Plan.

RECOMMENDATION:

- A. Receive and discuss the 2021 Risk Assessment Report and 2022-2024 annual Audit Work Plan; and
- B. Authorize staff to present the 2022-2024 Annual Audit Work Plan to the Board.

SUMMARY:

Per the Board Audit Committee (BAC) Audit Charter, Article 3, Section 7, Sub-paragraph 7.4, Risk Assessment, the "Committee shall endeavor to complete a Valley Water-wide risk assessment, at a minimum, tri-annually and to annually update Valley Water-wide audit risk assessment to include objectively recommended audits ranked based upon the potential level of risk to Valley Water. The results of this Valley Water-wide audit risk assessment should be relied upon to develop the proposed Annual Audit Work Plan." The next Tri-annual Risk Assessment is due to be completed by October 2021.

At its January 26, 2021 meeting, the Board of Directors (Board) approved a recommendation from the BAC to have the Board's Independent Auditor, TAP International, Inc., conduct the 2021 Risk Assessment.

At its March 9, 2021 meeting, the Board approved the Scope of Work for the 2021 Risk Assessment. The scope of work includes a survey of multiple stakeholders to identify risks from their perspective as part of the initial audit planning assessment. The Board and BAC will then determine which risk factors are to be included in the final audit planning assessment at a later date.

At its June 16, 2021 meeting, TAP Int'l informed the Committee that the survey was released on June 10, 2021. The survey technically closed on June 24, 2021. TAP Int'l then analyzed the survey results, followed up with respondents as appropriate, and presented a summary for discussion at the July 21, 2021 BAC meeting. At the September 15, 2021 BAC meeting, TAP Int'l informed the BAC that Phase 2 efforts to analyze processes and procedures was nearly complete. The initial assessment was presented at the October 20, 2021 BAC meeting. On November 1, 2021, staff

provided suggested updates and clarifications on the draft risk assessment that were incorporated as applicable. The BAC also requested TAP to prioritize the suggested audits on the draft audit work plan.

The BAC is requested to authorize staff to present the 2022-2024 Annual Audit Work Plan to the full Board at a later date.

ATTACHMENTS:

- Attachment 1: 2021 Risk Assessment Report
- Attachment 2: 2022-2024 Annual Audit Work Plan
- Attachment 3: Risk Assessment Feedback Summary
- Attachment 4: 2021 Risk Assessment Update

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



TAPInternational

FY 2022- 2024 Risk Assessment

November 10, 2021

Final Risk Assessment Results



Contents

Executive Summary	1
Why the Assessment Was Conducted	2
How the Assessment Was Conducted	2
What the Assessment Found	2
Risk Assessment Approach	4
Assessment Results	8
Appendix A: Stakeholder Survey	35

The logo for Silicon Valley Advanced Water is displayed on a curved wall. It features the words "siliconvalley" in a sans-serif font, with "ADVANCED WATER" in a smaller font below it. The central graphic consists of a stylized city skyline above a large, teardrop-shaped water droplet, which is superimposed on three wavy lines representing water.

siliconvalley

ADVANCED WATER

Executive Summary

Why the Assessment Was Conducted

The Valley Water Board Audit Committee (BAC) advances open and accountable government through accurate, independent, and objective audits that seek to improve the economy, efficiency, and effectiveness of Valley Water operations. To support the oversight and monitoring role of the BAC and of the Board of Directors, Valley Water established an Independent Auditor function in 2017 and since inception, TAP International, Inc. has served as the Independent Auditor.

Professional auditing standards describe the use of a risk-based approach for creation of an audit work plan. An annual audit work plan identifies areas that need an audit to help prevent the occurrence of potential problems in the future. Risk areas identified in the assessment represent potential opportunities to conduct audits that will provide objective analysis and recommendations to help enhance the efficiency and effectiveness of Valley Water operations.

A risk assessment for audit planning is not considered a formal audit, and thus, no findings or recommendations are included in this report. The results are considered by auditors for audit planning purposes.

How the Assessment Was Conducted

The 2021 risk assessment process consisted of two phases: (1) administration of a survey in which 59 Valley Water internal and external stakeholders identified current and emerging challenges facing Valley Water, and (2) evaluation of Valley Water activities across the top challenges and other areas. Individual Board Directors and dozens of Valley Water employees across executive, manager, and supervisory levels contributed to this assessment, and over 75 documents were reviewed over a three-month period, to form the basis of the results discussed in this assessment. In total, about 100 persons participated in the risk assessment between the two phases.

What the Assessment Found

The stakeholder survey identified six top current and/or emerging challenges for Valley Water. The most frequently cited challenges include:

1. Emergency management in response to severe weather and/or natural disasters
2. Environmental damage caused by humans and climate change (applicable to environmental sustainability)
3. Aging or inadequate water delivery infrastructure
4. Cybersecurity
5. Surface water supply shortages or contamination
6. Contamination or shortages of groundwater

Among the most identified impacts of these challenges on Valley Water operations, survey respondents reported, would likely be an increase in the cost to provide services and/or cost overruns for capital projects. Survey participants also identified activities – for example, the most frequently selected activities were initiatives to ensure cybersecurity and expanded use of data to inform strategic and operational decision making – that with effective implementation, could help address the challenges identified. Appendix A describes how the survey was conducted and the complete survey results.

Valley Water has implemented many activities across the stakeholders' top challenges and other areas to help prevent environmental harm, to protect the quality and availability of Valley Water's water supply, and to improve property and information technology security, which are highlighted throughout this report. Key issues and concerns remain that led to identifying a range of suggested audits (31) for potential completion through Fiscal Year (FY) 2024 to further reduce Valley Water risks. The nature and number of audits to be completed will be determined by the Board of Directors, in consideration of Board priorities and funding availability.



Risk Assessment Approach

Risk Assessment Approach

Using the results of a stakeholder survey administered under phase one of this risk assessment, TAP International further evaluated the top six challenges as well as another area -- data management and accuracy – in phase two of the risk assessment as shown in Figure 1 below. To conduct the second phase of the risk assessment, TAP International interviewed 40 Valley Water managers, staff, and various Board Directors to collect and evaluate information about Valley Water’s mitigation activities across the seven areas, as well as gaps or overlaps in these areas that could benefit from an audit. The results were then assessed to determine the likelihood that an audit is needed and, if an audit were conducted, the impact that it could have to further mitigate risk(s). Notably, these seven areas evaluated do not align perfectly with Valley Water’s organizational structure; more than one Valley Water unit or division may perform activities related to a particular area. For example, Valley Water’s Division of Emergency, Safety, and Security is responsible for ensuring comprehensive, integrated, risk-based, emergency management for the staff and critical infrastructure of Valley Water. However, each Valley Water unit is responsible for planning and implementing their unit’s specific field-level response to emergencies. The heat maps included in this report reflect these cross-functional relationships and do not necessarily reflect areas for potential audit in one division or unit.

Figure 1. Designated Scope of Work for Further Risk Assessment

- | | |
|--|--|
| 1. Emergency Preparedness/Disaster Planning | 2. Financial Management |
| 3. Environmental Sustainability | 4. Strategy Development, Planning & Innovation |
| 5. Aging Infrastructure-Capital Project Planning | 6. Data Management & Accuracy |
| 7. Information Technology & Management | |

Throughout the risk assessment, TAP International considered the following questions:

- **Strategy**—Are current and emerging challenges guided by short and long-term strategy development? Are there gaps in current management plans developed? Do management plans appropriately respond to changes in the operating or business environment? Does plan development account for technical and human resources needs to address areas of concern?
- **Financial Management**—Is there an opportunity to improve how Valley Water manages, invests, spends, and accounts for its financial resources?
- **Reputation**—Can performance potentially fall short of community expectations? Has project value been assessed prior to commitment of resources?

- **Operational Information Security**—Are Valley Water’s information systems and networks protected against unauthorized access, use, disclosure, disruption, modification, inspection, recording, or destruction?

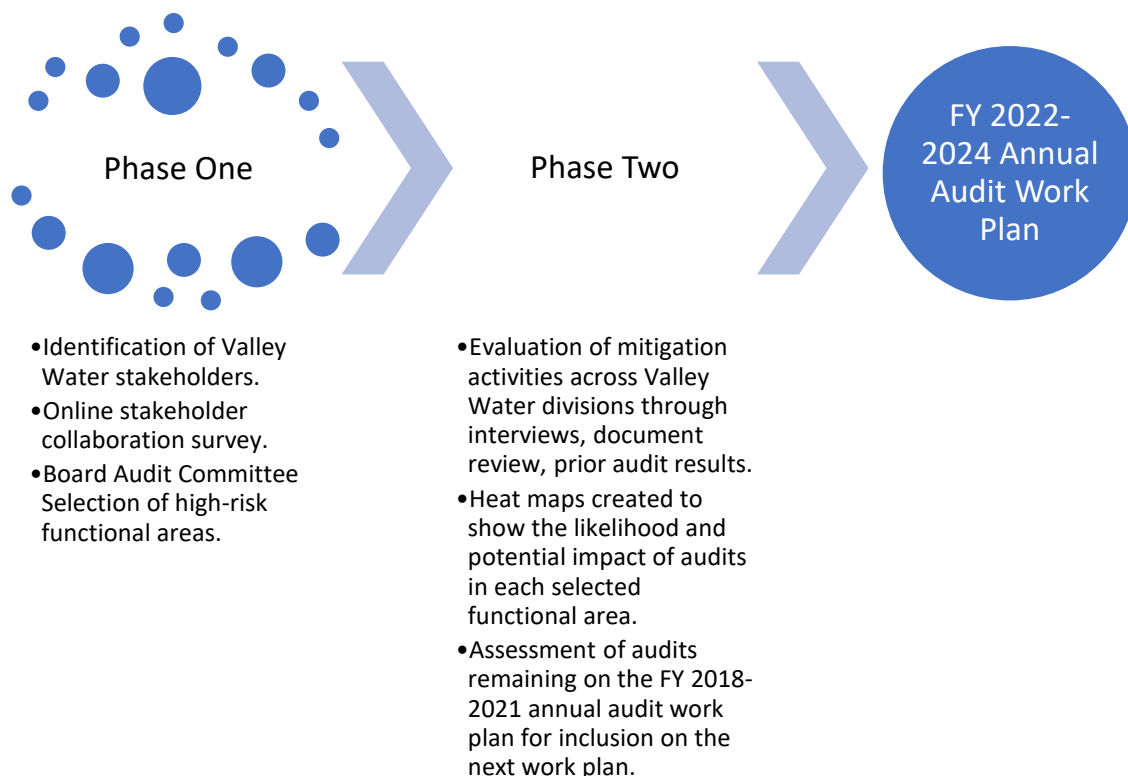
TAP International also considered factors to assess the potential for an audit, including:

- **Relevance**—Does the audit have the potential to affect Board decision-making or impact Valley Water customers and residents?
- **Best Practices**—Does the audit provide the opportunity to compare current performance to best practices?
- **Return on Investment**—Does the audit have the potential for cost savings, cost avoidance, or revenue generation?
- **Improvement**—Does the audit have the potential to result in meaningful improvement in how Valley Water operates?
- **Risk**—If the audit was conducted, can audit recommendations potentially reduce risks?

TAP International also collected information related to audits remaining on the FYs 2018-2021 audit work plan to assess their potential inclusion on the FY 2022-2024 annual audit plan.

Figure 2 illustrates the key activities implemented to complete the risk assessment.

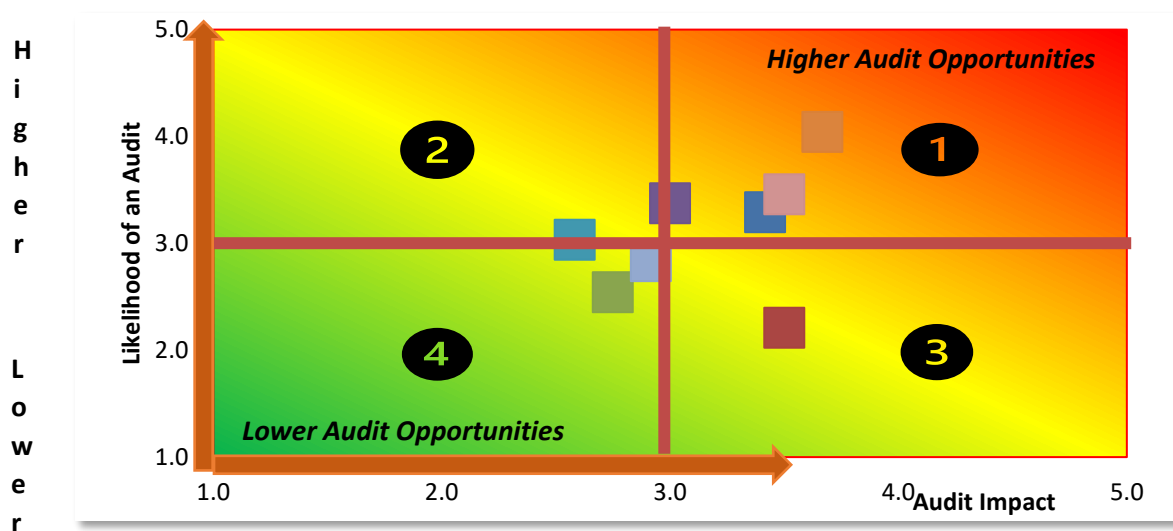
Figure 2: Risk Assessment Approach for Audit Planning Purposes



How to Read a Heat Map

Heat maps are used to illustrate the evaluation results in each of the seven Valley Water areas assessed. A heat map shows both the likelihood that an audit is needed and, if an audit is performed, the potential impact of an audit in helping Valley Water address current and emerging challenges. Throughout this report, we provide heat maps to illustrate “risk scores” among specific types of activities within each of the seven areas. As shown in Figure 3 below, the vertical line (Y axis) represents the likelihood (on a scale of 1-5) that an audit could likely identify opportunities for improvement and the horizontal line (X axis) represents the potential impact (on a scale of 1-5) of those improvements. The overall “risk” score for each area can fall in one of four quadrants depending on the likelihood and impact scores.

Figure 3: Sample Heat Map



Activities that appear in Quadrant 1 of a heat map, as explained in Figure 4 below, have the highest need for an audit that could likely have the greatest impact on Valley Water operations. It is important to note that our assessment and results reported are for audit planning purposes only and should not be construed as audit findings.

Figure 4: Heat Map Legend

1	Higher need for an audit and greater impact on outcomes. The Board Audit Committee should prioritize these areas in subsequent audit work.
2	Higher need for an audit, but lower impact on outcomes. The Board Audit Committee has the option to include these areas or Valley Water functions in subsequent audit work.
3	Lower need for an audit but higher impact on outcomes. The Board Audit Committee should consider the cost-effectiveness of audit outcomes before initiating an audit.
4	Lower need for performance audit assistance and lower impact on outcomes. The Board Audit Committee should monitor areas for potential audits in the future.

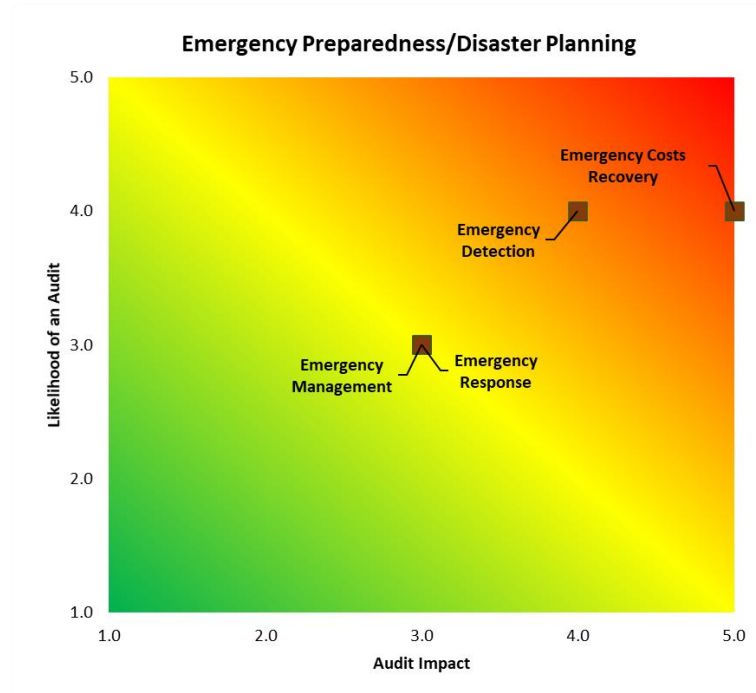


Assessment Results

Stakeholder Identified Risk Area: Emergency Preparedness/Disaster Planning

Emergency Response, the Most Frequent Challenge Cited by Stakeholders

A public agency's response to unexpected or dangerous events or natural disasters depends on organizational structures, plans, and procedures to mitigate the event on the public and the environment. Stakeholders unanimously agreed that Valley Water's ability to respond to emergencies or disasters is a current or emerging challenge facing Valley Water. All stakeholders that responded to the survey identified "emergency management in response to severe weather and/or natural disasters" as a likely current or emerging challenge to Valley Water's achievement of its key strategic goals.¹



Valley Water Divisions and Units Agree with Stakeholder Survey Results

Valley Water management and staff agreed that emergency preparedness and response is a high-risk area, citing the challenges to operations presented by recent events (such as the 2017 winter flooding, recent annual large-scale wildfires, COVID-19 pandemic and 2021 drought). Staff explained that these recent events have had a substantial impact on Valley Water's operations, in particular the workloads of staff providing emergency response services.

Current or planned efforts to mitigate the risk of interruptions to overall operations from severe weather or natural disasters include:

- Maintaining the Districtwide Emergency Operations Center (EOC) (and alternate) for operational readiness.
- Use of cross-functional teams of Valley Water divisions/units with responsibilities to coordinate emergency response to specific types of emergencies (flood, power outage, wildfire).

¹ See 2021 Valley Water Stakeholder Collaboration Survey for Audit Planning, July 2021 for additional information.

- Including clauses in key contracts to ensure the agency receives priority response and service for key supplies and service.
- Establishing mutual aid type agreements, for example, with other local water agencies for water treatment if Valley Water is unable to provide services.
- Valley Water is part of the Emergency Incident Command System used by the County, State and Federal agencies deploying mutual aid as necessary during emergencies. Valley Water has staff in key leadership positions in Cal-WARN, statewide resources for water agencies; staff leadership in the state's largest public sector procurement association to assist with cooperative contract options as needed.
- Establishing and implementing an annual process to update Division/Unit Emergency Actions Plans and coordinate these updates with the Information Technology Division (ITD).
- Completing emergency management training for all Valley Water workers designated as disaster workers.
- Undertaking capital projects for flood protection and preservation of flood conveyance capacity including seven projects under construction and 14 in the planning/design stage at the time of our assessment.
- Participating in inter-agency training exercises at the state and countywide level for emergency operations during a flood event.
- Planned implementation of at least two additional flood forecast points as part of a flood warning system.

Many staff praised the work of the Division of Emergency, Safety, and Security for their emergency preparations and operations, and their support for individual units who are responsible for preparing their own field response. While the Office of Emergency Services (OES) meets annually with field units to help them update their plans, OES is not responsible for planning field units' specific prevention, detection, response, and recovery activities.

Key Issues Identified

Assessment of Valley Water's response to recent events by units and divisions identified:

- **Lost opportunities for federal and state cost reimbursement.** Valley Water management reported that since March 2020, Valley Water has utilized an EOC cost tracking structure that has a specific EOC activation budget and payroll charge codes to separate emergency-related cost from standard operating costs. Cost Recovery application has been submitted to the California State Treasury for COVID-19, and additional cost recovery applications are being finalized for submittal to the Federal Emergency Management Agency for applicable recovery expenditures. Valley Water

Management also reported that best practices have been developed during the COVID-19 emergency in regard to cost tracking and recovery, which will be utilized moving forward for current and future emergencies. Nonetheless, across managers and staff interviewed, the capabilities of divisions to properly account for emergency response and recovery activities to successfully obtain federal or state cost reimbursement vary. Some divisions have defined the cost recovery processes while other divisions have organizational culture issues that have prevented implementation of updated cost recovery processes. Staff explained that the gaps in recovery-related processes have led Valley Water to miss reimbursement opportunities from prior flood events.

- **Need for additional staff during emergencies to prevent significant backlog of work.** Valley Water management reported that the use of temporary staff and other staffing strategies have been implemented to supplement critical work areas as appropriate during the COVID-19 emergency, including implementing business continuity strategies during the pandemic that helped prioritize work in essential functions. Other managers and staff explained that individual staff workloads increase during all types of emergencies, often for substantial periods of time, without the field unit receiving additional staff support. Staff have reported working longer than normal hours and deferring tasks that could increase risks in other areas.
- **Planning for procurement during emergencies.** Field units are responsible for planning of their own procurement needs during an emergency response. Some staff reported that their unit had proactively established on-call contracts or arrangements with Valley Water's warehouse for emergency services and supplies, including technical assistance, while others reported that they do have the same type of contracts in place. A best practice shared by the manager of one unit is to plan for extra procurement needs for disaster response equipment, for example, extra parts that could be needed to repair critical machinery during an emergency. It is unclear to what extent the emergency response plans of Valley Water field units address procurement needs although Valley Water management reported having contracts that require vendors to prioritize services and supplies should events occur.

Staff noted that neighboring local agencies had pre-approved the delegation of a limited authority from the Board to executive managers to procure certain services or supplies up to a pre-approved dollar threshold. An advantage to proactively establishing this type of delegation of authority allows the agency to respond quickly to an emergency while preserving transparency and accountability for procurements within the organization.

- **Need to re-evaluate division and unit roles and responsibilities for detection activities.** One unit continues to screen all mail received for Valley Water to detect hazardous substances when the unit is primarily responsible for warehousing supplies and inventory management, including continuing to procure personal protective

equipment and related resources for the current COVID-19 pandemic. While Valley Water has demonstrated agility in its response efforts by establishing an Emergency Steering Committee (ESC) in 2019 and assigned the responsibility of reviewing after action reports (AAR) and improvement plan (IPs), including weekly status meetings to coordinate emergency response activities, we were unsuccessful in identifying post implementation and assessment reports for issues and events that provided the rationale for having the General Service unit continue to monitor mailings for toxic substances.

- **Need for greater physical security surveillance of Valley Water property, facilities, and infrastructure.** While Valley Water has proactively dedicated a unit, hired a new manager and additional staff, and began installing needed surveillance cameras and other equipment for some facilities, more work remains. Staff explained that current gaps leave Valley Water vulnerable to untimely detection of security concerns should events occur. Valley Water management reported that gaps have been identified through 3rd party and internal assessments, which are presently in the process of being addressed through the CIP. Until these gaps are mitigated, security surveillance risks remain high.
- **The ability of Valley Water to operate a virtual EOC.** While Valley Water has implemented a virtual EOC to enhance operational readiness² and management reported that EOC documentation has been updated to reflect virtual EOC operations, Valley Water's Emergency Operations Plan, Crisis Management Plan and EOC Activation/Deactivation Process are in final stages for updating. Until these plans are complete, reputational and operational risks remain high for Valley Water. An independent verification on the extent that Valley Water activities align with established guidance issued by Federal Emergency Management Agency is needed to ensure that plans, when completed, can effectively mitigate communication, operational, and response risks.

² Valley Water Virtual EOC was activated in March 2020 and utilizes Zoom for communication and coordination, and Egnyte (encrypted SharePoint) for EOC Documentation. Valley Water created 52 EOC Action Plans, one for each Operational Period and activated multiple Virtual EOCs, separate teams for the Drought, as well as a potential flood event in January 2021.

Stakeholder Identified Risk Area: Environmental Sustainability

Water Supply, Contamination, Environmental Damage and Climate Change Among the Top Challenges Facing Valley Water

Environmental sustainability programs and activities help to ensure that future generations have the natural resources available to live an equal, if not better, way of life as current generations by balancing the economic, social, and environmental needs of a community.

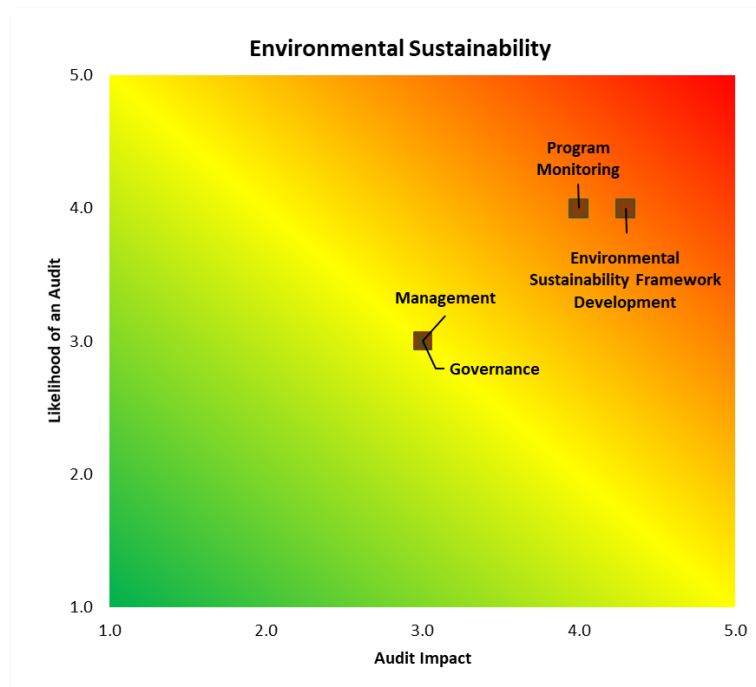
Three environmental sustainability challenges (environmental damage caused by humans and climate change; surface water supply or contamination; and contamination or shortages of groundwater) were among the six most often identified current or emerging challenges facing Valley Water.³

Most Valley Water divisions share responsibility for environmental sustainability. Many of Valley Water's activities are funded by its Safe Clean Water Program, including grants to external parties and partnership funding. The FY 2022 Valley Water budget allocates more than \$45 million for activities to protect and restore creek, bay, and other aquatic ecosystems.

Valley Water Divisions and Units Agree with Stakeholder Survey Results

Environmental sustainability is a high-risk area for Valley Water, with staff and managers frequently describing risks due to the current drought risks to Valley Water operations from environmental damage, water supply shortfalls, and degraded water quality. At the same time, divisions and units described many efforts to mitigate these risks, including:

- Implementing water conservation outreach programs where Valley Water staff work directly with consumers and water retailers to reduce water usage.
- Working with the State of California to have enforcement authority on water conservation initiatives within Valley Water's area of authority.



³ See 2021 Valley Water Stakeholder Collaboration Survey for Audit Planning, July 2021 for additional information.

- Providing timely information on water supplies and quality during the current drought and past flood events.
- Proactively establishing contracts for purchases of imported surface water. Valley Water relies highly on imported surface water supplies. On average, about 40 percent of Valley Water's water supply is from imported water resources.
- Establishing proactive surveillance testing for emerging contaminants, like PFAS⁴, which seep into groundwater. State standards allow for very low amounts of PFAS to be present in groundwater. Valley Water has established a cross-functional team to discuss how Valley Water can proactively address the threat posed by PFAS, for example, through surveillance testing and monitoring or partnering to help advance treatment technologies. Valley Water's lab is already certified to test for this contaminate. Also, Valley Water is working with the Water Quality Board when regulatory action is needed to address sources of contamination.
- Assessing the risk of groundwater and surface water contamination from homelessness, determining that fecal contamination does not usually affect the quality of groundwater but is a more acute concern for surface water.
- Initiating long-term planning efforts to address climate change. Valley Water adopted a Climate Change Action Plan (CCAP) in July 2021, which states that climate changes will impact local and imported water supplies, challenging Valley Water's water supply reliability, complicating flood protection efforts, potentially degrading water quality and threatening habitat mitigation efforts. According to the CCAP, the next task is to develop an Implementation Program for the updated CCAP, that includes specific actions and a system for monitoring progress established.

Key Issues Identified

The assessment identified key issues related to Valley Water's environmental sustainability efforts. These issues include:

- **Limited use of sustainability indicators.** A sustainability indicator can allow measurement of environmental, economic, or social systems for monitoring progress at addressing the challenges of sustainability. A Board Director conveyed the need for additional information about the extent to which Valley Water is consistently monitoring the impacts from its actions to reduce greenhouse gases across the entire agency and all projects, including any unintended consequences from these efforts.
- **Need for expertise in regulatory permitting.** Due to drought conditions, Valley Water has not had enough surface water to recharge the groundwater basin, however if and

⁴ Per- and Polyfluoroalkyl Substances. These are a group of manufactured chemicals used in industry and consumer products. These chemicals break down very slowly and can build up in people, animals, and the environment over time.

when water supplies are available, Valley Water would need to obtain regulatory permits (that were previously allowed to expire) in order to use percolation ponds and perform creek releases. Operations is responsible for obtaining the permits from the appropriate agencies, which can be a time-consuming regulatory process. Staff have explained that better regulatory expertise is needed within Valley Water to help secure these permits, so that when supplies are available for groundwater recharge, there is not a delay due to the time to obtain regulatory permits. Staff explained that without use of the percolation ponds, a long-term impact is that more reliance will be needed on imported water. There is also the long-term impact of potential ground subsidence.

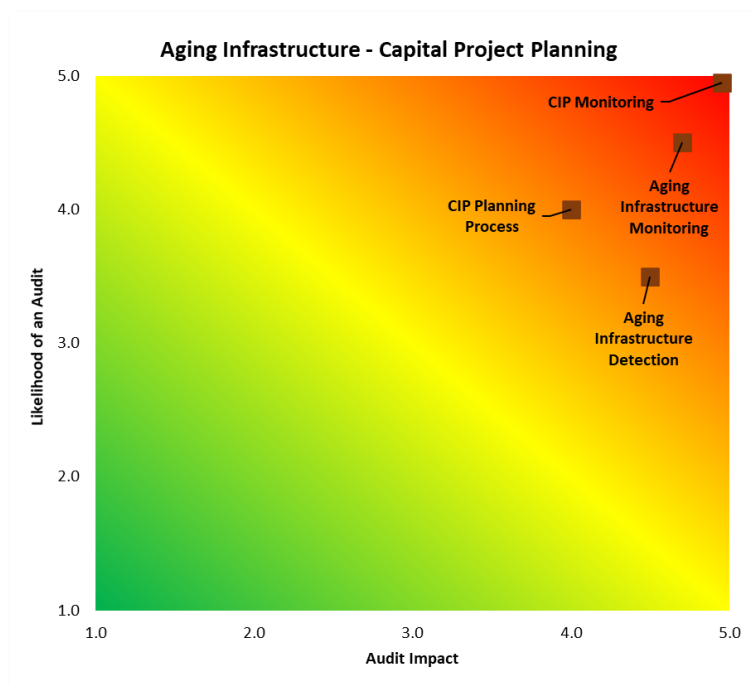
- **Need to validate methodologies for estimated water usage.** Unmetered groundwater pumping requires the use of estimates to track usage. While the formulas used to produce these estimates are periodically reassessed internally to ensure accuracy, no independent evaluation or audit has been performed for verification purposes.

Stakeholder Identified Risk Area: Aging Infrastructure—Capital Project Planning

Aging Infrastructure Among the Top Challenges to Valley Water with Stakeholder Concerns about Capital Project Completion

Infrastructure includes organizational frameworks and systems, such as water treatment and delivery. Government plays a key role in building and maintaining infrastructure because it is an investment that has a multiplier effect throughout the community, generating lasting economic, social, and environmental benefits. It is an

area that does not come to the forefront of issues until a crisis has occurred or something does not work. These systems tend to be capital intensive and high-cost investments. Among stakeholders, “aging or inadequate water delivery infrastructure” was one of the three most identified current or emerging challenges for Valley Water. Further, many stakeholders equally expressed concern over possible “delays to delivery projects and services” and a “limited ability to complete capital projects” as a result of the challenges facing Valley Water.⁵



Valley Water Divisions and Units Agree with Stakeholders about Aging Infrastructure and Related Capital Project Planning

Consistent with Valley Water stakeholders, staff across Valley Water divisions and units agreed that aging infrastructure poses a high risk to Valley Water.

The Capital Improvement Program (CIP) is a projection of Valley Water’s capital funding requirements for 68 projects totaling \$8.021 billion planned from FY 2022 through FY 2026. The capital projects address water supply, flood protection, aging infrastructure, water resources stewardship, buildings and grounds, and information technology projects. Notable examples of efforts to mitigate the risk of aging infrastructure include:

- Retrofitting Anderson Dam for seismic safety
- Replacing 70 miles of aged water pipeline

⁵ See 2021 Valley Water Stakeholder Collaboration Survey for Audit Planning, July 2021 for additional information.

- Building the Rinconada treatment plant
- Implementing detection systems to ensure water quality and water supply

To include capital projects in the CIP, Valley Water implements an annual planning process that includes many steps that begin with the initial identification of projects by Valley Water staff. Ultimately, division executive management generally decide whether to send a capital project to the Capital Improvement Program Committee (Committee) for review and inclusion into the CIP.

According to information contained in the CIP plan, the CIP planning process itself is designed in part to meet the Board's priorities and contribute to the objectives of Valley Water's various programs, and to identify funding for the duration of the projects. Alignment of these objectives can be assured based on implementation of the CIP planning processes described in an ISO procedure.⁶

Key Issues Identified

The assessment identified key issues and concerns about the capital improvement process and aging infrastructure. These include:

- **Justification of capital improvement projects.** The current CIP process has led to projects wherein many interviewed staff have questioned their need, whether past projects have accomplished their intended goals, and raised concern that the current CIP is not right sized for Valley Water's availability of resources, including staffing availability.
- **Potentially unnecessary work performed.** The Financial Services Unit must prepare 15 financing plans, some through 2037, on capital improvement projects shown in the CIP when many of the projects may not be initiated within the expected timeframe. Project costs also include planning costs which could be substantial given the time needed to move a project from planning to construction.
- **Gaps in inclusive engagement.** There is limited or no participation by Valley Water support units, such as General Services and Real Estate Services in CIP planning that has led to supply and service delivery management issues.

⁶ The ISO procedure describes the following key steps: • Management review and approval, to ensure staff proposed projects are aligned with Board policies and approved program plans; • Validation of projects to ensure there is a business case for doing the project and that a capital investment is the best solution; • Review of all projects, including continuing and newly proposed projects, to ensure the projects in the CIP reflect Board priorities; • Financial analysis, to determine the capacity of Valley Water's capital funding sources to fund the proposed capital projects.

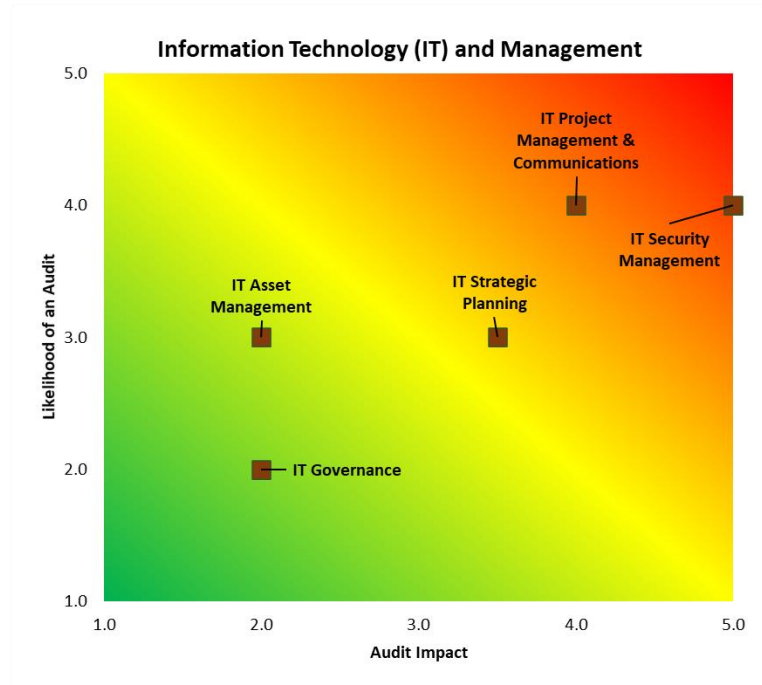
- **Absence of defining and measuring success on CIP projects.** Valley Water management and staff reported that many CIP projects do not have measures defined to assess project success that ensure intended goals and objectives have been met. `
- **Absence of robust capital project monitoring.** While staff provide status reports, formal program monitoring would evaluate costs versus benefits, including whether project outcomes accomplished their intended goal or purpose.
- **Having insufficient detection systems to monitor infrastructure operations.** While staff reported having sufficient systems in place for monitoring water treatment and water systems, additional detection systems could benefit from physical security and pipeline maintenance. Valley Water is in the process of installing surveillance equipment and fiber optics into pipelines, but staff have raised concerns about quality assurance and the need for a better process that systematically monitors Valley Water's aging infrastructure. One Board Member interviewed also raised a concern about whether Valley Water had systems in place to recognize the risks to the infrastructure.

Stakeholder Identified Need: Information Technology and Management

Ensuring Cybersecurity Topped List of Efforts to Help Valley Water Prepare for Current or Emerging Challenges

Stakeholders viewed cybersecurity as one of the top emerging challenges facing Valley Water and security breaches among the most concerning effects on Valley Water operations. To best prepare for the current or emerging challenges, more stakeholders identified “initiatives to ensure cybersecurity” as very or somewhat likely to help compared to all other efforts presented in the survey.

Also, among the top five efforts included two strategies that rely on information technology management: “accelerated use of digital tools and automation of Valley Water operations” and “strategies to promote transparency and enhance information dissemination.”⁷



The ITD provides planning, design, and operational support and maintenance of Valley Water’s: (1) physical technology infrastructure and cyber security posture management; and (2) software application portfolio. The division is overseen by the Office of the Chief Operating Officer (COO) of Information Technology & Administrative Services (IT & AS). The FY 2022 operating and capital budget for the ITD is \$26.1 million and has 38 positions. According to the FY 2022 budget, Valley Water reports that it is many years behind on Information Technology due to a lack of human resources combined with a large amount of technical debt, creating challenges for modernization projects. As a result, ITD management said that it has had to prioritize some Information Technology projects based on operational needs and risks and defer others.

Valley Water Staff was Mixed on Information Technology Risks

Valley Water management and staff had mixed responses applicable to the magnitude of information technology and cybersecurity risks to Valley Water. Some staff reported the likelihood of an occurrence was low but agreed with survey results that the impact should an

⁷ See 2021 Valley Water Stakeholder Collaboration Survey for Audit Planning, July 2021, for additional information.

event occur was high. Other Valley Water staff agreed with the survey and said that information technology and cybersecurity were moderate to high challenge areas with information security and disaster recovery being the most pressing issue.

ITD management and staff reported that there are several projects underway to help mitigate cybersecurity risks and update the Valley Water information security infrastructure, including:

- Completing disaster recovery and business continuity project plans and implementing projects to address identified gaps.
- Updating the physical security of the information technology assets
- Developing an Information Technology Governance Review Board and refreshing the Information Technology Strategic Plan
- Developing an IT asset inventory
- Planning consolidation of computer applications used within Valley Water
- Nearing completion of multi-factor authentication for all users' access to the Valley Water network at the time of our review⁸
- Procuring a vendor for yearly security audits of the corporate environment (business network within Valley Water) and the SCADA (Supervisory Control and Data Acquisition) network (the current contract will expire this year)
- Implementing projects to address prior audit recommendations

Until these projects are completed and fully executed, the cybersecurity and IT risks remain high.

Key Issues Identified

While Valley Water continues to make progress in developing its organizational capability for understanding and managing cybersecurity risk, it faces challenges in two key areas.

- **Alignment with IT security best practices.** The uncertainty of whether Valley Water's enterprise risk management program is largely consistent with best practices, such as National Institute of Standards and Technology (NIST) guidance, including whether acceptable risk appetites and risk tolerances have been formally documented and approved by the Board of Directors. Although ITD management states that their cybersecurity program is in alignment with NIST and ISO, independent verification is needed.
- **Agency-wide IT control and security assessments.** IT control and other security risks have not been assessed on all Valley Water information systems. While critical financial

⁸ As of 11/1/2021, ITD management reported this project is completed.

systems and Valley Water's SCADA network are continuously monitored, the assessment process excludes other information systems, including home-grown systems and those implemented independently by other divisions. The categorization of these systems' risk is unknown and facilitate the development of a comprehensive Valley Water system security plan. ITD management explained that gaps are present when Valley Water utilizes no cost tools or acquire licenses for tools via P-card or check requests without ITD's knowledge.

- **Absence of independent monitoring of the status of prior audit recommendations.** The ITD has undertaken yearly security audits of both the business network as well as the SCADA system. The audits produced various findings and recommendations that Valley Water management said are being addressed, after delays in Valley Water's attention due to responding to the COVID-19 pandemic that required the division to refocus its resources on enhancing network reliability and computer resources available to staff. To ensure that critical and high priority vulnerabilities are remediated in a timely fashion, best practices include regular independent monitoring and independent status reporting to Boards and executive management in addition to management progress reporting.
- **Accomplishing effective project management and communication.** The ITD is in the process of implementing multiple projects to improve Valley Water's infrastructure, security, and business continuity. However, staff across Valley Water reported that although the ITD puts forth their best effort, the division is hampered by insufficient staffing levels to respond to work requests and to complete projects in a timely manner.

Valley Water staff and management were consistent in comments regarding the ERP implementation, citing uncertainty about its overall success related to delivering the functionality that was originally anticipated, the quality of the communication strategies administered, and the delays that have occurred which can be attributed, in part, by having multiple changes in project managers and lead consultants for the various modules. Staff also reported concerns with unrealistic schedules being established, concerns about the extent and quality of system testing being performed, and whether Valley Water will actually enforce the use of the ERP system or still allow continued use of manual business processes. Finally, staff explained that the implementation is a very large project and despite the best of intentions, it has been difficult to dedicate resources to the project and to also keep operations going, creating operational and managerial risks.

A Valley Water executive explained that the ERP implementation has had its challenges, but that efforts are underway to support the successful delivery of the project through enhanced communication activities, assignment of a new project manager who has brought greater transparency and effective communication to the project, and enhanced oversight of the project schedule that included, at the time of our

assessment, plans to “go live” with the ERP system on October 11, 2021. Management subsequently reported a new “go-live” date of January 3, 2022. ITD management further explained that they will not go live with an ERP system that does not work.

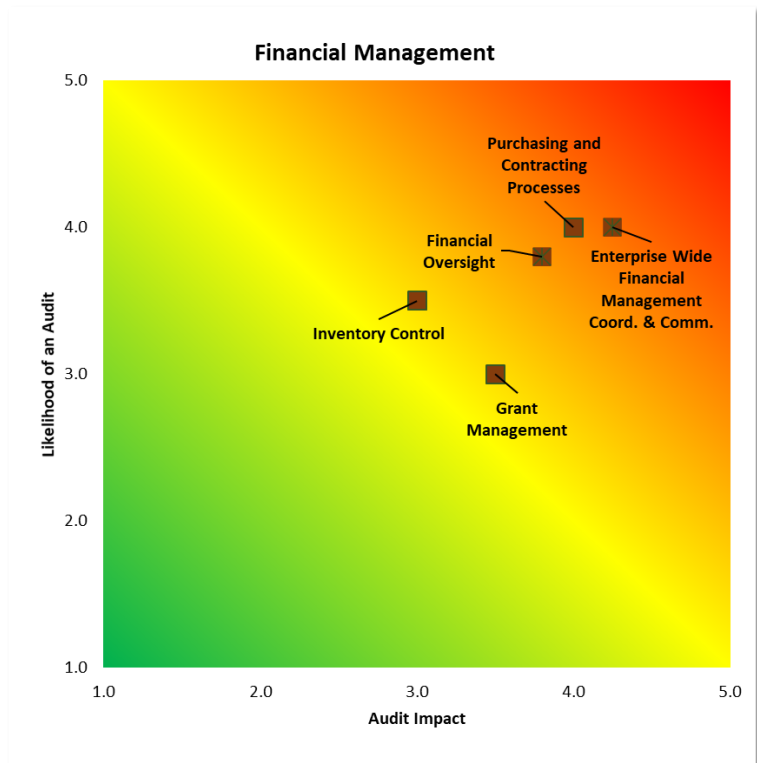
- **Gaps in IT Strategic Planning.** Best practices include clear definition of the criteria used to prioritize information systems designated for recovery should a disaster or other event occur that affect the ability to access, process, and communicate information. While development of a disaster recovery plan is underway, the methodology and criteria used to prioritize systems have led staff to question the priority rankings.

Stakeholder Identified Concern: Financial Management

Financial Risk of Capital Projects a Top Concern Among Stakeholders

Valley Water finances planned capital improvement projects primarily through bonds, loans, revenues generated from the purchase of water, and from state and federal grants.

Stakeholders commonly identified the “increased cost to provide services or cost overruns for capital projects” among the possible effects from current or emerging challenges. Some stakeholders also identified the “loss of revenue or intergovernmental funding” as a possible effect. Among the most cited efforts to likely help Valley Water was “new federal government infrastructure investment.”⁹



The Financial Planning and Management Services Division (FPMS) secures the financing of the capital projects identified on the CIP. Presently, Valley Water has funds totaling \$1.9B for the implementation of various projects through FY 2021. The Board of Directors approves the budget and funding for capital projects, including cost overruns.

Valley Water Staff Agree with Stakeholders that Capital Project Financial Management is a Risk

Valley Water staff generally agreed with survey results that the financial risk associated with capital projects is a high-risk area, citing increased costs, project prioritization, and the volume of projects undertaken as creating the cause for concern.

Efforts reported by stakeholders to better oversee financial management of capital construction projects include:

- Move to biannual budgeting of capital improvement projects versus annual budgeting. After completion of a study on capital projects budgeting practices, Valley Water has opted to commit funding for a two-year period, which can help mitigate potential project delays. Some staff raised concern about committing expenditures for a 10-year

⁹ See 2021 Valley Water Stakeholder Collaboration Survey for Audit Planning, July 2021 for additional information.

period of time to contractors involved with the capital projects but authorizing the revenues for a short period of time.

- Implementation of the ERP system intended to improve financial management as well as capital project management.
- Development of a Financial Management Plan.
- Additional staff resource with the transition of one temporary staff to a full-time position.

Key Issues Identified

Other financial-related activities within Valley Water, many of which are outside of the management of FPMS, were also identified as areas of high concern. These concerns include:

- **Procurement and contracting process.** Standing orders are used for the acquisition of commodities or services that are needed on an ongoing basis when the specific item(s), quantity, and frequency of need are known in advance. Valley Water's use of standing orders has a high risk of cost overruns because divisions and units that use them routinely amend the standing order budget amount, which cannot exceed \$75,000. Staff have raised concern that when this occurs, it circumvents the formal procurement process, which could lead to purchasing supplies at higher cost. A contributing factor to this issue was the lack of available spending and trend reports by vendor for review by divisions and units. To solve the issue, Valley Water uses a web-based platform to receive weekly procurement reports and the ERP system implementation is intended to develop reports by commodity classification. Valley Water is also working on solutions to expand outreach of eligible bidders rather than just relying on the same long-time small group of bidders. Until these activities are implemented, the use of standing orders poses a financial risk to Valley Water.

Another area of concern raised by staff includes the adequacy of internal controls governing P-Cards, which historically is a high-risk area. In addition, a Board Director raised questions about the spending level of outsourced legal services. The District Counsel said that he is working with FPMS on regular reporting of budget-to-actual expenditures for outsourced legal services.

- **Inventory management.** There are multiple reasons why inventory management is an important financial management issue. Effective inventory management promotes (1) overall efficiencies, by spending less time sifting through files, avoiding sending spreadsheets to one another, leveraging space, or not having to visit the warehouse every time stock is needed—all of which have been concerns raised by Valley Water staff, (2) knowing where the inventory is located given that Valley Water does not have centralized inventory management functions; and (3) having advance notice of supply

needs and meeting delivery dates, which staff have said has been an issue for capital projects leading to project delays.

Valley Water has taken actions to improve inventory management, such as purging items sitting on shelves for over 20 years, implementing improved forecasting and changing the approach to inventory counting to allow better identification of discrepancies, but these actions have taken place at Valley Water's main warehousing facility because other facilities are under the control of other Valley Water divisions. Understanding the impact that decentralizing inventory management has on financial management, availability of supplies, and the risk of equipment misuse and theft requires further assessment.

- Financial oversight.** In last several years, a Board Director has raised concerns about the audited financial statements issued by the Valley Water's external financial auditor, which is a certified public accounting firm with experience in the government sector. One of these concerns included how the consolidated annual financial report (CAFR) was presented. The assessment identified that the CAFR was prepared in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board (GASB). GASB guidelines differ in how audited financial reports are prepared and presented for government agencies versus private sector statements. Government-related audits establish that revenues and expenses are accurate and reasonable while private-sector audits show that the profitability and financial stability of a company are presented correctly. For government agencies, having this type of information would require computation based on the revenue and expenses information contained in the consolidated annual financial statements. Some government agencies request fiscal health assessments as part of the annual financial statements and others do not. While Valley Water presents information in its consolidated annual financial report on historic trends in revenues and expenditures as well as property tax rates, a full set of fiscal health ratios, except for debt ratios, are not included.

While Valley Water's Procurement and Contract's evaluation team found the current external auditor best met the desired bid qualifications, the assessment identified that Valley Water financial management risks are increasing, as evidenced by financial growth of Valley Water, the size of the capital improvement plan budget, the multiple mega-capital projects planned or underway, and the absence of adequate internal controls identified in prior audits and assessments, as reported by other companies. Further review is needed on whether the same or other types of qualifications for certified public accounting firms are needed to assist Valley Water in future financial oversight because of these risks.

- Rate-setting alignment with capital projects likely to be completed.** Valley Water funds capital projects, such as the P3 (purified) water project, using revenues from wholesale

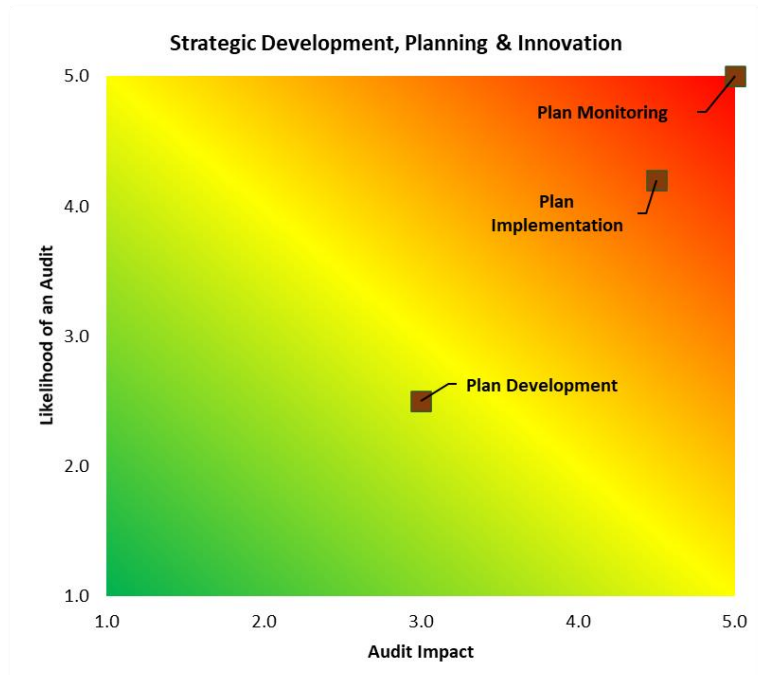
water sales. The rate setting process depends on many factors, including the need for water supply and treatment capital projects to meet projected demand. Staff explained that the costs of projects listed on the CIP can influence water rates, but given the size of the current CIP, water rates could be set too high because there is high risk that projects on the CIP will be deferred or not completed, especially when staff reported that available resources have been reassigned to the larger capital projects.

- **Grant management activities.** Valley Water stakeholders discussed concerns regarding the timeliness of grant reimbursements to Valley Water grantees as well as processes for reporting and invoicing when Valley Water is the recipient of a grant. Valley Water has taken action to address grantee concerns and have reported reducing the time required to reimburse grantees, which now averages about 13 days to approve invoices for payment. A formal follow-up review is needed to verify prior audit recommendations.
- **Financial management coordination and communication.** Valley Water staff and management said there were sometimes difficulties with coordination and communication between the FMPS and other divisions and units. Examples were with coordination of timing for project funding needs and being included in the planning process for projects and services that will affect FMPS staff workloads. Without closer coordination for project funding needs, FMPS staff cannot effectively schedule time and workloads to accomplish the tasks necessary for timely project funding. Similarly, without FMPS staff involvement in the planning process for projects and service programs, such as the tuition reimbursement program, effective scheduling for workload needs cannot be done.
- **Efforts to increase the resilience of Valley Water's water supply may also increase financial risks and managerial risks.** Valley Water may encounter budget shortfalls if the drought persists into 2022 because of declining revenues caused by mandatory water usage restrictions and the need for Valley Water to purchase additional water supplies to meet reduced availability. The FY 2020-21 budget contains funding of \$10M for a drought reserve fund, within the Water Utility Enterprise fund, to minimize possible water charge impacts during a possible drought emergency. Should another drought year occur, then there may be a need for more incremental water supply purchases. Combined with the 15 percent water reduction from 2019 use levels called for by the Board, this would create significant shortages in revenue relative to the budget. The completeness of projections of Valley Water's plan for risk mitigation strategies is not fully known.

Stakeholder Identified Need: Strategy Development, Planning, and Innovation

Increased Agility in Operations a Key Effort to Help Valley Water

Good plans outlining strategies to address current and future operations are fluid, not rigid and unbending. A key purpose of strategy development is to lay out the elements of a plan in a logical and transparent way, including providing space for decision-makers to outline strategic operations and tradeoff for deliberations before deciding a specific strategy. Survey participants cited, among the most common efforts likely to help Valley Water respond to current and emerging challenges, the ability for



Valley Water to move more quickly and easily as an organization. Stakeholders also frequently identified the “accelerated use of digital tools and automation of Valley Water operations” among the efforts likely to help address identified challenges. About 75 percent of 59 survey participants (stakeholders) also identified “gaps in the knowledge, skills and abilities of the workforce” as an effect on Valley Water’s operations of current and emerging challenges.¹⁰

Divisions and units across Valley Water either assist in strategy development or assume responsibility for developing their own strategies to address challenges faces Valley Water.

Valley Water Staff Mixed on Survey Results

Valley Water staff generally differed in their responses when discussing strategy development. Some staff conveyed operational risks have occurred without greater involvement in strategy development activities. Greater involvement of support units in project planning would help support units better anticipate increases in workload; having this adequate lead time would also help support units ensure resources and equipment are available when needed.

Other staff reported active strategy development among divisions and units. The assessment identified at least 12 examples of management planning across a wide range of areas including safe and clean water, communication, water supply, water quality, information technology, emergency response, financial management, environment, and more. Internal staff, consultants, or committees comprised of internal and external stakeholders were involved in these planning efforts. Other staff reported that some plans in place require updating given

¹⁰ See 2021 Valley Water Stakeholder Collaboration Survey for Audit Planning, July 2021 for additional information.

their age. For example, one plan used by land use and survey is over 20 years old. Similarly, ITD is in the process of procuring a consultant to help refresh a nine-year-old critical infrastructure plan.

Key Issues Identified

While Valley Water has made notable progress in strategy development, the assessment identified key issues and concern. These include:

- **Documenting institutional knowledge and knowledge transfer.** Staff explained that while the divisions and units are putting forth their best effort to stay on top of issues, staff retirement and turnovers have eroded Valley Water’s technical expertise to develop creative solutions to new problems. Some staff further explained that due to all of the demands placed on staff and management, Valley Water has grown accustomed to reacting to issues as they occur versus proactively preventing their occurrence. For instance, staff do not have information available that describe the full extent to which flood protection could be enhanced from additional environmental mitigation, or the specific impact on future pumping with new state requirements to monitor groundwater ecosystems.
- **Hiring of experienced professionals.** Staff and Board members expressed concern about the need for strategies to hire technically competent and experienced professionals to fill critical positions across Valley Water divisions. Information shared by staff was mixed on the factors that have prevented experienced staff from joining the Valley Water workforce, such as losing potential retirement benefits and lower compensation. However, information that would describe the extent that contributing factors have prevented hiring of these professionals can increase the effectiveness of plan development aimed at recruiting and hiring experienced technical professionals.
- **Organizational culture.** There was general consensus among staff that organizational culture has historically influenced the effectiveness of change management or implementation efforts, and that some divisions are better than others in implementing change. Staff explained that some units may have new management plans or business processes in place, but staff may not fully implement them.
- **Limited monitoring of management plan implementation.** The assessment identified the absence of comprehensive and routine monitoring and reporting on the progress of plan completion. For units that have performed routine plan monitoring, staff described successful processes because meetings are frequent, involve other Valley Water units, and impacts are discussed.
- **Having insufficient time and staff to fully implement plans developed.** Staff responsible for implementing activities prescribed by management plans raised concern about the unit’s capability to fully implement them on a timely basis given their workload completing day-to-day activities. Backlogs of work reported by staff across Valley Water

varied from days to over six months. The assessment identified that the number of initiatives, goals, and objectives for some of the plans reviewed may not be right sized in comparison to available time and staff to implement activities. Strategies reported to address this challenge generally included implementing the task when time permits.

- **Absence of completion dates for plans under development.** Staff across units have reported that management plan development have been underway in their respective units, one of them for several years, but no completion dates have been finalized. The extent to which plans are underway without milestones established for their completion is unknown and could benefit from review.
- **Absence of management plan development.** The assessment identified that some units could benefit from management plan development. One unit reported the need for reshaping and planning given the added functions and responsibilities assigned to them, which has eroded their primary mission. Staff also reported that some units are siloed, such as Real Estate Services Unit (RESU), Community Projects Review Unit (CPRU), and the two units administering land use survey and GIS mapping, which need potential restructuring and re-organization. TAP International recommended in prior audits the need to consolidate RESU and CPRU activities. A Valley Water executive participating in this assessment explained that RESU and CPRU would likely need another Valley Water executive to oversee operations.
- **Need for data management strategy.** Valley Water has not developed a data management strategy that would comprehensively facilitate “open” data to external stakeholders or its internal staff. Open data is the concept that some data should be available to everyone to use (internal and external) for all types of activities, such as analysis, monitoring, workload planning, and performance measurement. While Valley Water produces reports in multiple areas, having greater access to more detailed information can prove beneficial to identify early warning signs of potential issues and problems. Staff reported multiple situations where the absence of information has had adverse impacts on workload planning and allocation among staff, as well as supply chain management challenges because equipment and supplies were not available at the time needed on capital projects, contributing to project schedule delays.

Until plans are fully developed, implemented, and monitored for their effectiveness, concerns and challenges described in this report remain as high potential for subsequent auditing.

Stakeholder Identified Need: Data Management & Accuracy

Strategic Use of Data to Inform Decision Making Identified as a Key Effort to Address Challenges Facing Valley Water

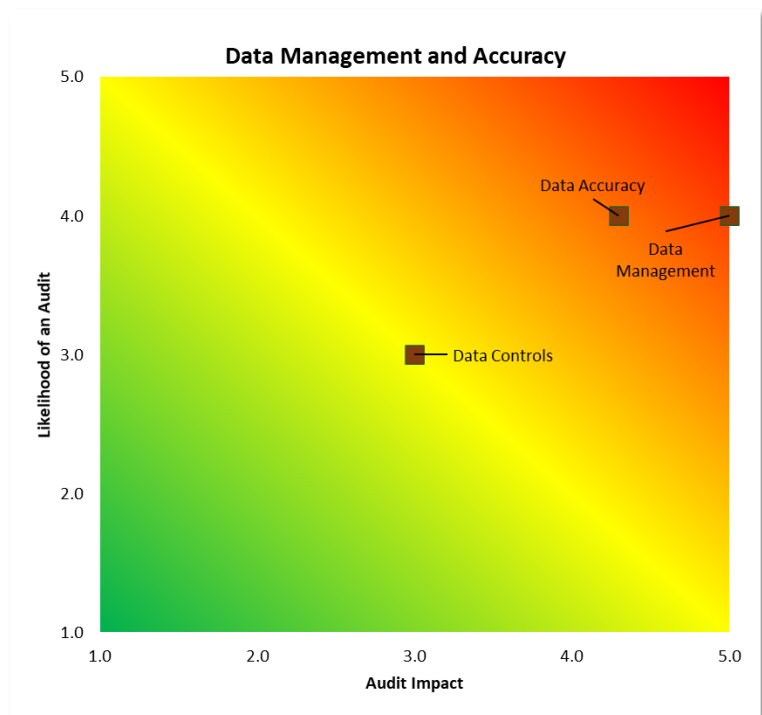
Having accurate data is a key element of an effective decision-making process. Ensuring data quality relies on implementing proactive processes that include quality control efforts both in manual and electronic form. Each Valley Water division and unit is responsible for the accuracy of the data they collect, record and use.

Stakeholders most frequently cited three efforts related to data accuracy and management among those likely to help Valley Water best prepare for its current and emerging challenges. Among stakeholders, the “expanded use of data to inform strategic and operational decision making” was the most popular effort to “very likely” help Valley Water prepare for challenges. Also, among the top five efforts were “strategies to promote transparency and enhance information dissemination” and “more agile operations and organizational structure,” which both rely on data accuracy and information sharing.¹¹

Most data collected and used by Valley Water staff is either recorded across multiple information systems developed and/or supported by the ITD or maintained on MS Excel spreadsheets created by staff across Valley Water. The extent to which data that is maintained using MS Excel is unknown by Valley Water, but critical information such as IT inventory, grants management and administration, project management, and other project/program data is at least partially manually maintained and tracked.

Valley Water Staff Mixed on Data Accuracy as a Key Area

Analysis of information provided by Valley Water staff show different experiences on the issue of data management as a key effort to address challenges depending on the main activities of the unit. The timing of receiving information, and how data is stored and updated are critical issues for many units, and for others, no significant concerns were identified. The differences



¹¹ See 2021 Valley Water Stakeholder Collaboration Survey for Audit Planning, July 2021 for additional information.

can be attributed to whether the unit relies on information generated to plan for and/or deliver a service.

The FY 2022 budget identifies many efforts across Valley Water divisions to integrate and/or share data collected across various Valley Water programs and units, as well as modernization projects. The new ERP system implementation previously discussed in this report, serves as a notable example. The new enterprise-wide information system is intended to capture financial management, work order, and workflow process data.

Different staff experiences were identified on the issue of data accuracy. Strong data input controls were identified to ensure its quality. Examples include:

- Checking that data input matches data output related to water treatment monitoring.
- Cross-referencing checks between the meter read and the data recorded in the SCADA.
- Conducting calibration checks on water treatment monitoring equipment.
- Conducting quality assurance reviews of reports generated applicable to water treatment and water quality monitoring.
- Comparing direct measurement of water levels to detect errors in water estimates provided by agricultural water users.

Key Issues Identified

Valley Water staff identified other areas that need attention. These include:

- **Need for increased data accuracy controls and processes.** Limited or no procedures were in place to ensure data quality of information recorded and maintained in their unit. For the most part, the employee preparing the report or entering the data into a spreadsheet is responsible for ensuring that the data is correct.
- **Need to enhanced data integrity.** Data management to ensure a single source of truth is also limited within Valley Water. Due to the disparate systems, it is not known where the single source of information resides. This can cause reporting irregularities as different units may use different sources of data.
- **Gaps in data oversight.** Formal processes have not been developed to support staff responsibility for reviewing technical data that is outside their area of expertise. Outsourced technical studies ordered on capital projects have been found to have incorrect data because of limited knowledge of the subject matter by the contractor's project manager to detect errors or anomalies in the data. These errors were corrected by having Valley Water staff replicate the work performed by external land surveyors, which led to added costs and project delays.

None of the Valley Water staff that discussed data accuracy issues reported that the Board received reports or memos that contained inaccurate data. In TAP International's review of

Board memos involving real estate transactions and claim related decision, information shared in the memos was not always complete, which would help convey a full understanding of the issue under review. Board members participating in this risk assessment questioned the timeliness of information presented by staff to the Board. Staff appear to wait until an issue is resolved before informing the Board. Informing the Board in a timelier manner could allow the Board the opportunity to align their activities or efforts with those of staff.

FY 2018-2021 Audit Work Plan Review

The FY 2018 – 2021 annual audit work plan included 19 potential audits for Board of Director review and authorization. The Board of Directors authorized implementation of five performance audits and one investigation. Three desk reviews on the agenda preparation process for committee, hiring of executive staff, and grants management, were also completed.

The remaining 13 audits were reviewed as part of the FY 2022 – 2024 audit planning assessment. As shown in the Figure 5 below, six of these audits are no longer needed because of efforts by Valley Water during the prior three years were sufficient to lower the risks that implementing an audit at this time may not effectively leverage audit resources.

Figure 5. FY 2018 – 2021 Audits Recommended Excluded from the FY 2021 – 2024 Annual Work Plan

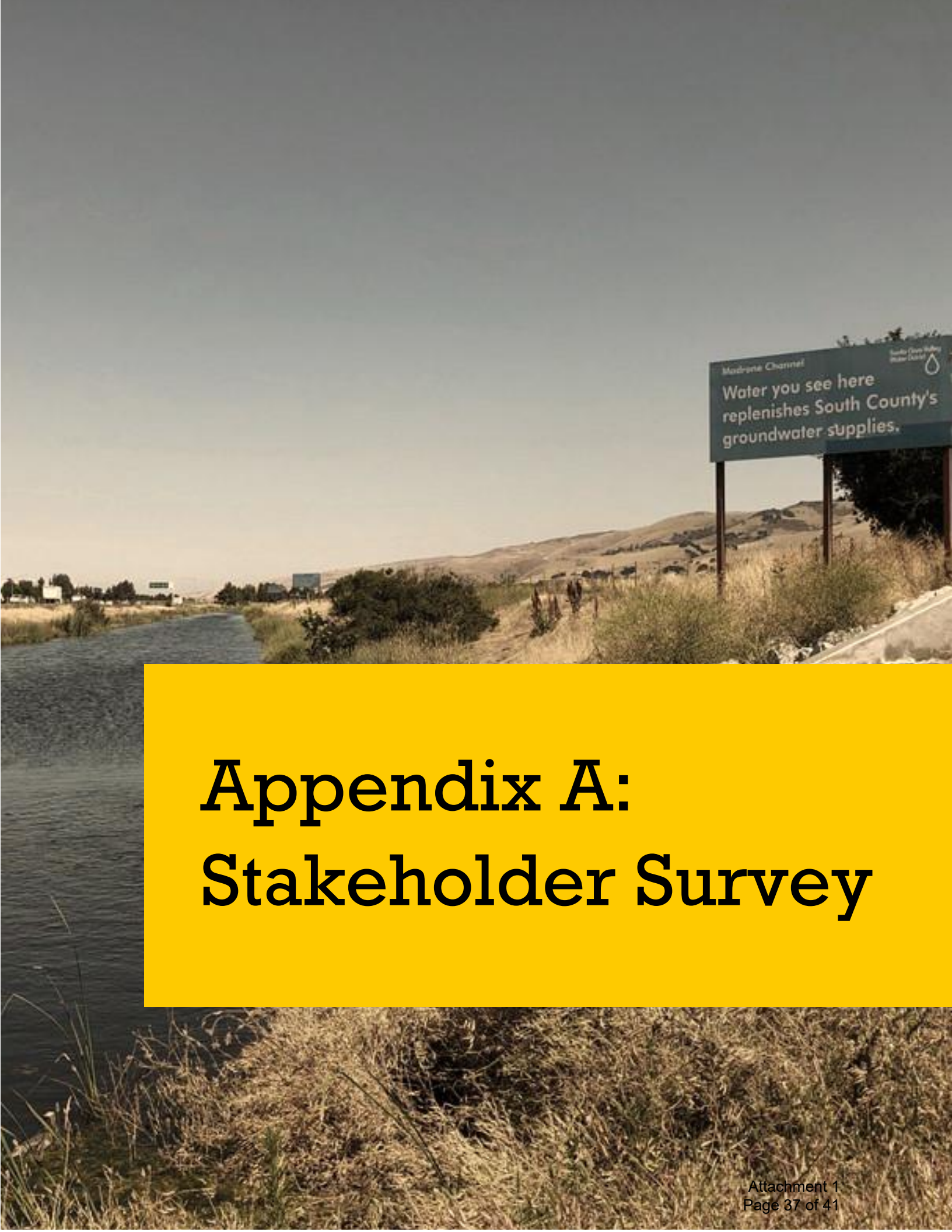
FY 2018 – 2021 RECOMMENDED AUDIT	FACTORS CONSIDERED THAT AN AUDIT IS NO LONGER NEEDED AT THIS TIME
BILLING AND COLLECTIONS	<ul style="list-style-type: none"> At the time of our review, Valley Water had a project underway to develop and strengthen internal controls related to billing and collections.
SAFE CLEAN WATER AUDITS	<ul style="list-style-type: none"> Valley Water, through passage of Measure S, is required to conduct three independent audits of the Safe, Clean Water and Natural Flood Protection Program.
COMMUNITY ENGAGEMENT (2 AUDITS)	<ul style="list-style-type: none"> Valley Water has expanded community engagement, outreach, and communication internally and externally to within Valley Water and the surrounding community. While the stakeholder survey conducted as part of this audit planning assessment cited communication activities as a critical success factor to meeting challenges, Valley Water has in place key protocols, partnerships, and lines of communication in place. Should problems occur resulting from the potential challenges identified by stakeholders, it would be an opportunity to evaluate the effectiveness of communication activities implemented.
CLASSIFICATION OF CONFIDENTIAL INFORMATION	<ul style="list-style-type: none"> Valley Water hired a successor to the recently retired District Counsel. With new leadership, it provides an opportunity for changes to business practices and operations.
LOCAL WORKFORCE HIRING	<ul style="list-style-type: none"> In August 2021, the Valley Water Board of Directors approved the draft project labor agreement (PLA) governing wages, benefits, work rules, and other terms and conditions of employment for construction projects. The agency-wide agreement applies to all Covered Projects where the engineer's estimate or the cumulative bid amount submitted by the contractor(s) awarded a Construction Contract(s) for a covered project exceeds two million dollars (\$2,000,000), which will cover nearly all capital projects at Valley Water.

For the remaining seven audits shown on the prior annual audit work plan, Valley Water has implemented efforts to address specific concerns, but the risk of potential problems to occur

remain sufficient high that audits continue to be recommended. In Figure 6, we list the audit area and the information supporting its continued presence on the FY 2018 – 2021 work plan.

Figure 6. FY 2018 – 2021 Audit Areas Recommended for Inclusion in Next Work Plan

FY 2018 – 2021 AUDIT AREA	FACTORS CONSIDERED THAT SUPPORT CONTINUING NEED FOR AN AUDIT
HOMELESSNESS	<ul style="list-style-type: none"> Watershed operations and maintenance note in FY 2022 that encampment abatement work came to a halt due to CDC recommendation to suspend cleanups during the COVID-19 pandemic. Staff continues to raise concerns about the health and safety of staff responsible for cleanup of homeless camps. Homelessness continues to grow statewide prompting community wide and Valley Water efforts to form partnerships to address the issues.
CAPITAL PROJECT BUDGETING PRACTICES	<ul style="list-style-type: none"> The FMPS is responsible for preparing financing packages through 2037 on capital projects on the CIP plan when many projects may not likely be completed, creating an opportunity for improvement with a subsequent audit to identify potential alternatives. Cost estimates developed during their initial development of potential capital projects have been significantly underestimated by the time the project is implemented.
SCADA	<ul style="list-style-type: none"> While assessments have been performed by Valley Water and plans are currently under development, auditable areas remain on the status of prior audit recommendations, and progress at plan completion and implementation.
RISK MANAGEMENT OPERATIONS	<ul style="list-style-type: none"> Valley Water continues to have siloed risk management activities. Risk management in many other public agencies report directly to the executive director to ensure alignment with strategic goals and objectives. Citizens have routinely raised concern about the denial of claims for reimbursement for property damage.
ENCROACHMENT PERMITTING PROGRAM	<ul style="list-style-type: none"> Board of Director request to ensure the new program development for encroachment permits is consistent with Board directed guiding principles.
EQUIPMENT/ASSET MAINTENANCE	<ul style="list-style-type: none"> Valley Water has experienced failures across its pipeline causing significant localized damage to, and subsidence of, the roadway structure, including failure of replacement parts.
WATERFIX FINANCIAL IMPACT	<ul style="list-style-type: none"> Changing political environment and current challenges with project development and implementation requires comprehensive assessment of financial risk to Valley Water.

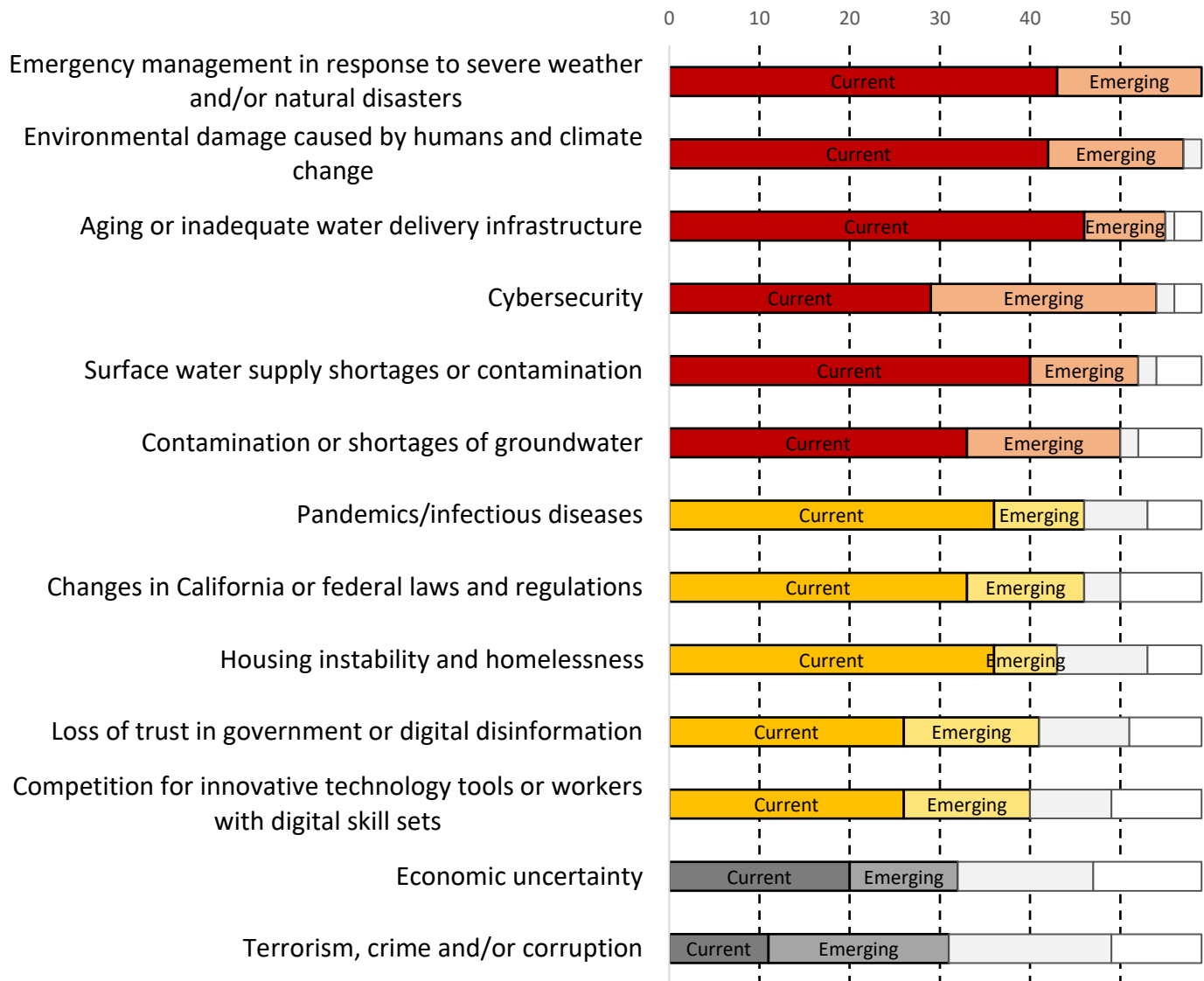


Appendix A: Stakeholder Survey

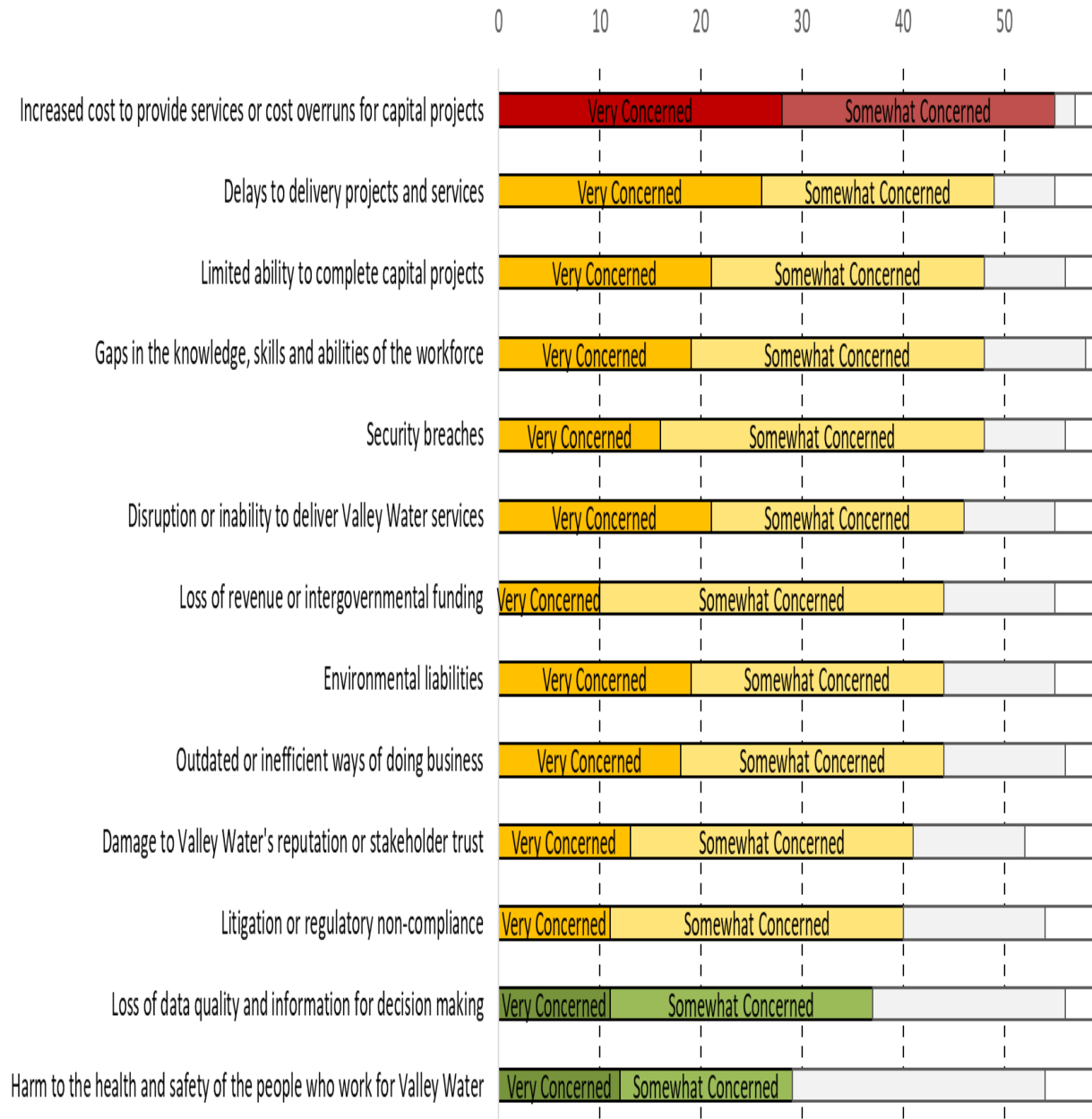
Appendix A:**2021 Valley Water Stakeholder Collaboration Survey Results (for Audit Planning)**

Stakeholder Group	Number of Respondents	Percent of Total
Capital Construction	1	2%
Nonprofit Grantees	13	22%
Professional Services Consultants	19	32%
Public agency & state/federal partners	4	7%
Sponsorships	6	10%
Water retailers & supply consultants	7	12%
VW Executives	9	15%
Grand Total	59	100%

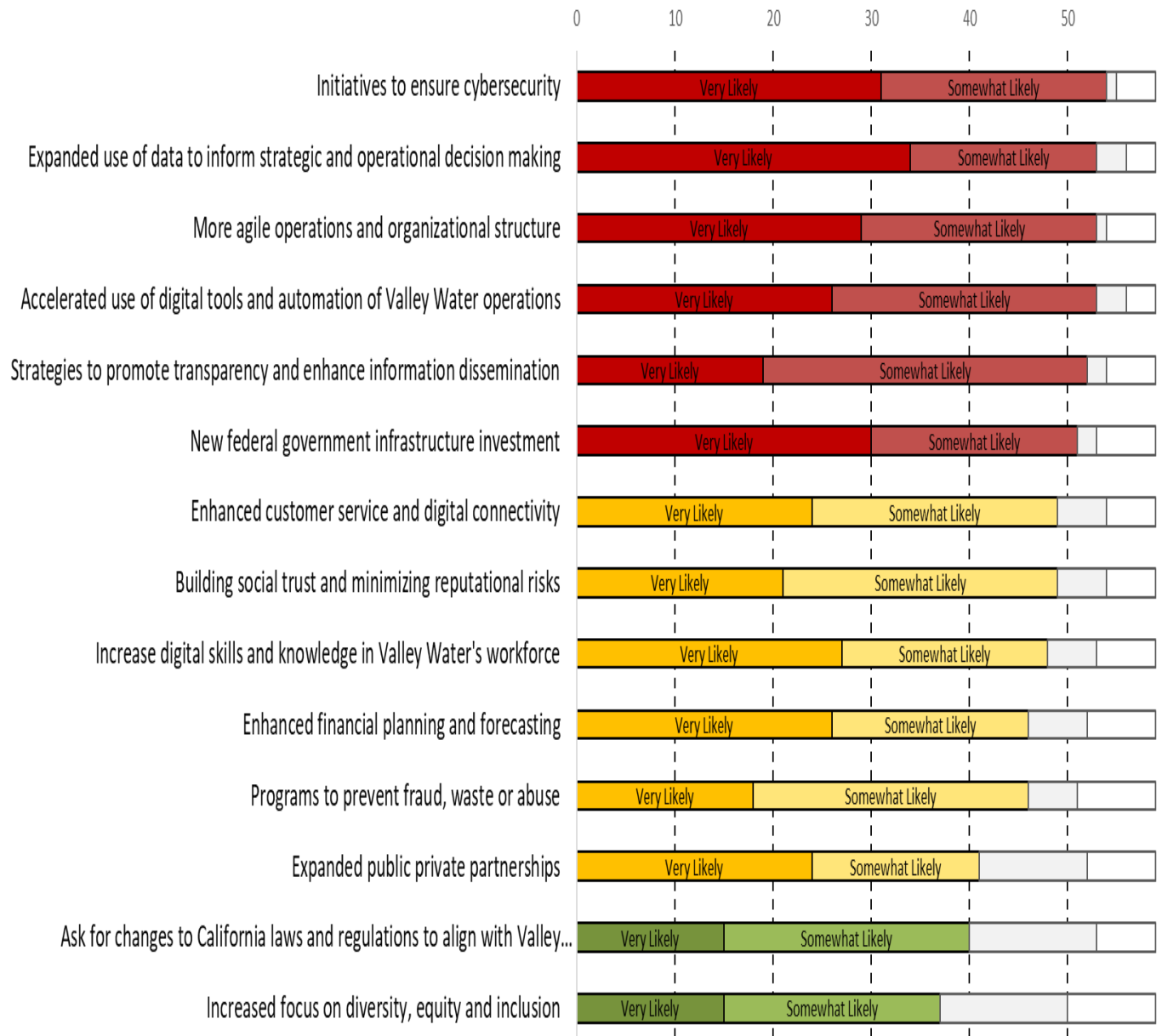
Q1: What are the current or emerging challenges to Valley Water's achievement of its key strategic goals?



Q2: How concerned are you about the possible effects on Valley Water's operations from these challenges?



Q3: Which efforts are likely to help Valley Water best prepare for the current and emerging challenges that you've identified?



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TAPInternational

FY 2022-2024 Annual Audit Work Plan

November 10, 2021

Final

ANNUAL AUDIT WORK PLAN

The Audit Work Plan serves as a tool for communicating audit priorities as determined by the Santa Clara Valley Water District's Board Audit Committee (BAC) and Board of Directors. The selection of audits for formal review and approval by the Board of Directors is an important responsibility of the Audit Committee.

Audits are an important oversight tool because they provide independent and fact-based information to management and elected officials. Those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making.

Audits can:

- Verify that programs, services, and operations are working based on your understanding.
- Assess efficiency and effectiveness.
- Identify the root cause or problems.
- Assess the progress of prior audit recommendations.
- Identify the impact of changes
- Identify leading practices.
- Assess regulatory compliance.
- Develop policy options.
- Assess the accuracy of financial information reported.

The types of audits that can be conducted include:

- Internal audits: Internal audits review the environment, information, and activities that are designed to provide proper accountability over District operations.
- Compliance audits: Compliance audits review adherence to policies and procedures, state regulatory requirements, and/or federal regulatory requirements.
- Performance audits (impact or prospective audits): Performance audits review the economy, efficiency, and effectiveness of Valley Water programs, services, and operations.
- Desk reviews: Small and quick audits.
- Follow up audits: Follow up audits assess the implementation status of recommendations included in prior audit reports.
- Best practices reviews: Compares current operations to best practices.

This proposed audit work plan is divided into sections. Section A describes anticipated ongoing support services to be provided by the independent auditor as well as other quality assurance activities planned by Valley Water's executive management. Section B describes the audits planned for implementation by the Independent Auditor.

SECTION A

ONGOING SUPPORT SERVICES AND SPECIAL PROJECTS

The following table lists non-audit services and special projects for the FY 2022 to 2024 audit work plan:

Project/Responsible Party	Scope	FY 2022 Planned Hours	FY 2023 Planned Hours	FY 2024 Planned Hours
Board of Director & Board Audit Committee Requests for Information/ Independent Auditor	Ongoing. Should the Board of Directors request information on activities implemented by other public agencies or on other matters of interests applicable to enhancing the efficiency and effectiveness of operations, the independent auditor will collect and summarize information.	80	80	80
Audit Training/ Independent Auditor	Annual. The Board Audit Committee Charter describes a requirement to provide audit training to Board Audit Committee members at least annually.	2	2	2
Support Services/ Independent Auditor	Ongoing. Provide support services to Board Directors and Valley Water staff applicable to specific initiatives or planning projects to prevent potential service delivery risks.	40	40	40
QEMS/Valley Water Continual Quality Improvement Unit	Ongoing. Provide services to ensure proper oversight and accountability.	As needed	As needed	As needed

Management Reviews/Valley Water Management	Ongoing. Valley Water's Chief Executive Officer ,as needed, will initiate internal quality assurance reviews of business practices and operations. These reviews are to be shared with the audit committee.	As needed	As needed	As needed
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SECTION B

AUDIT SERVICES – INDEPENDENT AND ON-CALL AUDITORS

Labor Summary

Project/Responsible Party	Scope	FY 2022 Planned Hours	FY 2023 Planned Hours	FY 2024 Planned Hours
Independent and On-Call Auditors	Audits and Follow-up Audits Based on the Audit Work Plan	TBD	TBD	TBD

Recommended Audits

The Board Audit Committee will select and recommend audits described below for approval by the Board of Directors.

ID	Risk Area(s)	Risk Factor	Audit Topic	Type of Audit	Suggested Audit Objectives
1	CIP Planning Process Financial Management	<input checked="" type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	CIP Planning Process	Cross-Functional Performance Audit	<ol style="list-style-type: none"> Are there opportunities to improve the capital improvement project planning process (project initiation to CIP plan approval)? To what extent can early participation of Valley Water support units (environmental planning, permitting, purchasing, warehousing) on large capital projects prevent project delays and reduce cost overruns? Can the Capital Improvement Plan be better right sized that considers the Agency's funding and staffing levels?
2	Inventory Control	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Inventory Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> Does Valley Water effectively manage, account for and record inventory across the agency? What resources (e.g., staffing, systems, facilities) and business processes (communication and coordination) are necessary to meet current and future needs including centralizing inventory management?
3	Emergency Response Emergency Detection Emergency Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Monitoring	Cross-Functional Performance Audit	<ol style="list-style-type: none"> To what extent do the emergency management plans variously established by Valley Water contain gaps and activities to ensure proper prevention, detection, response, and recovery activities? Do gaps exist in surveillance and detection of potential problems across Valley Water's infrastructure?

					<ol style="list-style-type: none"> 3. To what extent is the virtual Emergency Operations Center aligned with FEMA best practices? 4. Are there lessons learned from past emergencies to prevent disruptions to regular operations while providing additional manpower and resources to respond to emergencies?
4	Emergency Cost Recovery Data Management & Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Financial Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent has Valley Water been able to claim the full reimbursement of costs for eligible expenses from FEMA? 2. Are business practices aligned with federal and state aid requirements for emergency cost reimbursement? To what extent are information systems and other business processes configured to capture information needed for cost reporting and recovery?
5	Financial Oversight Purchasing and Contracting Processes	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Financial Management	Performance Audit	<ol style="list-style-type: none"> 1. To what extent do Valley Water procurement programs for low dollar purchases (i.e., P-Cards, & Standing Orders) comply with established policies and procurement limits? 2. Are added policies and procedures needed to control spending and prevent work arounds to formal competitive bids?
6	Data Management Date Integrity Data Accuracy	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Business Process	Cross Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent does Valley Water use multiple data stores for the same information?
7	Plan Implementation Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Organizational Culture	Culture Audit	<ol style="list-style-type: none"> 1. How has Valley Water's organizational culture impacted implementation of plan established across the agency? 2. To what extent does Valley Water demonstrate and practice common cultural characteristics including:

					<ul style="list-style-type: none"> a) Defining organization's values and proactively emphasize and model those values. b) Ensuring strategies are consistent with the values and holding management accountable. c) Executing their duties within the organization's risk appetite. d) Management reinforces the values and culture through clear communication of expectations across the organization. e) Management actively gathers and listens to feedback. f) All levels are open to constructive criticism and problem solving through methods including information obtained from second- and third-line functions via inputs such as well-received and acknowledged employee suggestion/question program, ethics hotlines, open door policies, employees' events, and meetings, and more. g) All employees (to the extent possible) are engaged in objective setting and strategy discussions.
8	Grant Management Financial Management Coord. & Comm. Financial Oversight Data Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Grant Reimbursement	Performance Audit	1. Can Valley Water's process for tracking labor and expense activities on state grants awarded to Valley Water benefit from updating? 2. How timely are claims for reimbursement submitted to awarding state agencies? 3. What circumstances have contributed to lost opportunities

					for reimbursement by awarding state agencies?
9	Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Human Resources Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. What progress has been made in implementing existing workforce development and succession planning plans? 2. What evidenced-based factors have been significant in facilitating the hiring of technical and operational staff? 3. To what extent have position descriptions and classification evolved to ensure that Valley Water has the technical capability to meet future demands to solve complex problems in an agile and creative manner?
10	Aging Infrastructure Detection Aging Infrastructure Monitoring	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Asset Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent do Valley Water divisions and units ensure compliance to specification standards to prevent substandard replacements of parts, equipment, and capital assets? 2. Is Valley Water adequately meeting the needs of equipment maintenance?
11	Data Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Unmetered Groundwater Measurement	Desk Review	<ol style="list-style-type: none"> 1. Is the methodology supporting unmetered groundwater usage measurement valid and include all applicable methodological assumptions?
12	CIP Planning Process Financial Management	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Capital Project Budgeting	Performance Audit	<ol style="list-style-type: none"> 1. Are there areas of Valley Water's capital project budgeting practices that can benefit from adopting best practices?
13	IT Security Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	SCADA	Performance Audit	<ol style="list-style-type: none"> 1. What is the status of implementation of prior audit recommendations? 2. Will the recommendations as implemented by Valley Water accomplish intended goals and objectives?

					3. Are changes needed in the frequency of communications to the Board on the progress and status of cybersecurity and other IT needs?
14	Plan Monitoring Management Plan Implementation	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Strategy Development and Implementation	Cross-Functional Performance Audit	1. To what extent are management plans underway or completed across Valley Water? 2. To what extent do the plans need a completion date or require updating? 3. Are strategy and management plans developed across the Agency right sized to the divisions and/or units' staffing levels and workloads? 4. What progress has Valley Water made in implementing management plans to manage risks?
15	Program Monitoring Governance Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Homelessness Programs	Performance Audit	1. To what extent has Valley Water implemented its homelessness plan? 2. Can other cost-effective strategies implemented in other jurisdictions to prevent the creation and establishment of homeless encampments on Valley Water property? 3. How can Valley Water enhance its homelessness encampment clean-up activities to ensure the protection of health and safety of employees?
16	Grant Management	<input checked="" type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Financial Management	Follow-Up Audit	1. Have improvements occurred in the timeliness of grant reimbursements? 2. To what extent has the grant management and administration implemented prior audit recommendations? 3. What improvements in program outcomes have occurred in the timeliness of grant application review, reimbursement, and accomplishment of deliverables?

17	Program Monitoring Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Encroachment Program	Performance Audit	1. Is Valley Water implementing its encroachment licensing program consistent with the Board's guiding principles?
18	Data Management Data Accuracy	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Business Process	Cross Functional Performance Audit	1. To what extent have Valley Water units established business processes to ensure accurate data collection and input? 2. What gaps remain in automating data collection and input?
19	Operations	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Risk Management	Performance Audit	1. What are the advantages and disadvantages of realigning business functions (i.e., all risk management activities, workers compensation administration, and claim administration)? 2. Can risk management business processes benefit from updating? (i.e., overall operations, data management, contract claims, workers compensation, small claims, claims administration and management, workers compensation administration, and all risk management activities, including insurance & self-insurance.
20	Emergency Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Peer Review	Best Practices Review	1. Can regulatory permitting practices administered by other utilities districts help reduce barriers and other challenges experienced by Valley Water?
21	IT Project Management & Communication Data Accuracy	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	System Implementation	Post IT Implementation Audit	1. Has the current large ERP project implementation produced the desired functionality? 2. To what extent have all contract deliverables been met? 3. To what extent have data quality issues surfaced post-implementation? 4. What lessons learned can apply to future information system implementations?

22	Emergency Response Emergency Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Procurement	Performance Audit	<ol style="list-style-type: none"> 1. Have Valley Water's procurement policies been flexible and agile to effectively and timely respond to and recover from past emergencies? 2. Are other procurement and operational activities needed to ensure prompt and reliable emergency services?
23	Environmental Sustainability Framework Development Program Monitoring Governance	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Measurement & Evaluation	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. What level of success has Valley Water's environmental stewardship activities had on preventing environmental damage and promoting environmental sustainability? 2. To what extent has Valley Water adopted sustainability indicators on specific projects to measure progress? 3. To what extent has Valley Water adopted sustainability indicators in its decision-making?
24	Program Monitoring Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Outcomes Business Process	Performance Audit	<ol style="list-style-type: none"> 1. To what extent has Valley Water mitigated the environmental hazards caused by non-use of the percolator ponds? 2. In a non-drought year, are barriers present that prevent Valley Water from filling percolator ponds? 3. What processes need development to prevent expiration of groundwater charge permits?
25	Financial Management Coord. & Comm. Financial Oversight	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Capital projects	Desk Review	<ol style="list-style-type: none"> 1. What potential financial risks could occur on the California WaterFix project?
26	CIP Monitoring	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Capital Project Evaluation and Monitoring	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. Have completed capital projects met their intended goals? 2. To what extent does Valley Water include performance measures to measure success and monitor financial management?

					Are there lessons learned that can be adopted in future capital project plans to ensure goal accomplishments as well as implementation of alternative strategies to facilitate early communication to the Board of Directors of potential and actual problems, and to predict success such as performing cost vs. benefit analysis?
27	IT Security Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	IT Risk Management	Desk review	1. To what extent is IT risk management activities aligned with best practices, such as National Institute of Standards and Technology (NIST) guidance, including whether acceptable risk appetites and risk tolerances have been formally documented and approved by the Board of Directors?
28	Purchasing and Contracting Processes	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Financial Oversight	Desk Review	1. Can Valley Water benefit from updating its qualifications and experience criteria to include in future competitive bids for external financial audit services?
29	IT Strategic Planning Emergency Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Disaster Planning	Performance Audit	1. Does Valley Water's prioritization for systems and data recovery meet the agency's needs for sustained business continuity? 2. To what extent does Valley Water's process for determining the prioritization of systems and data recovery adhere to best practices (ex. NIST)?
30	Plan Development Plan Implementation Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Decision-Making	Cross-Functional Performance Audit	1. What lessons has Valley Water learned from its ad hoc cross-functional efforts to proactively address current or emerging risks?
31	Financial Oversight	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Outsourcing of Legal Services	Desk Review	1. How have changes occurred in District Counsel Office spending

for contracting external legal services?

2. To what extent are the nature of services provided by contracted legal firms presently outside of the District Counsel Office's expertise?
 3. Can expanding outsourced legal services prevent project delivery delays?
-

SECTION C

AUDIT SERVICES – VALLEY WATER RESPONSIBILITY

QEMS ACTIVITIES

Under development

COMPLIANCE AND FINANCIAL AUDITS

FINANCIAL AUDITS
Financial Audits
Treasurer's Report
Appropriation's Limit
Compensation and Benefit Compliance (odd years)
Travel Expenses Reimbursement (even years)
Single Audit (if applicable)
WUE Fund Audit

Reviewer	Report Pg	Original content extracted from the report	Comments/Feedback
Alex Gordon	10	Lost opportunities for federal and state cost reimbursement. The capabilities of divisions to properly account for emergency response and recovery activities to successfully obtain federal or state cost reimbursement vary. Some divisions have defined the cost recovery processes while other divisions have organizational culture issues that have prevented improvement. The gaps in recovery-related processes have led Valley Water to miss reimbursement opportunities from prior flood events.	This key issue is outdated. Since March 2020, Valley Water has utilized an EOC cost tracking structure that has a specific EOC activation budget and payroll charge codes to separate emergency-related cost from standard operating costs. Cost Recovery application has been submitted to the California State Treasury for COVID-19, and additional cost recovery applications are being finalized for submittal to the Federal Emergency Management Agency for applicable recovery expenditures. Best practices have been developed during the COVID-19 emergency in regard to cost tracking and recovery, which will be utilized moving forward for current and future emergencies.
Jessica Collins	10	Undertaking capital projects for flood protection and preservation of flood conveyance capacity including seven under construction and 11 in the planning/design stage.	Correct 7 under construction. Incorrect- we have 14 in the planning/design phase.
Alex Gordon	11	The ability of Valley Water to operate a virtual EOC. While Valley Water has implemented a virtual EOC to enhance operational readiness, the virtual EOC's capabilities and plans may not be aligned with FEMA best practices. Gaps in plans and capabilities should be identified to ensure operational readiness.	This finding is not correct. Valley Water has established a successful Virtual EOC, which has been activated since March 2020. Valley Water's Virtual EOC utilizes Zoom for communication and coordination, and Egnyte (encrypted sharepoint) for EOC Documentation. We have created 52 EOC Action Plans, one for each Operational Period, which demonstrates the effectiveness of the remote tools for the EOC. Valley Water has also activated multiple Virtual EOCs, separate teams, for the Drought, as well as a potential flood event in January 2021. EOC documentation has been updated to reflect virtual EOC operations. Valley Water's Emergency Operations Plan, Crisis Management Plan and EOC Activation/Deactivation Process are in final stages for update to include Virtual EOC language.
Mike Cook	19	Procuring a vendor to develop an updated master plan to maintain security of Valley Water's critical IT infrastructure	This is incorrect. We have what is effectively a 5-year plan for cybersecurity projects already and have developed our master set of policies/standards. We are not in the process of selecting a vendor to develop a cybersecurity master plan.
Mike Cook	19	The uncertainty of whether Valley Water's enterprise risk management program is largely consistent with best practices, such as National Institute of Standards and Technology (NIST) guidance . . .	This is untrue. The Valley Water cybersecurity program is in alignment with NIST, ISO27001, etc.
Mike Cook	19	. . . While critical financial systems and Valley Water's SCADA network are continuously monitored, the assessment process excludes other information systems, including home-grown systems and those implemented independently by other divisions. . . .	To clarify, all networks, all systems, all applications on Valley Water's infrastructure and all cloud systems which have gone through a formal procurement process (PO, RFP, etc.) are assessed and monitored by IT. However, issues arise when departments on their own utilize no-cost tools or acquire licenses for tools via PCard or Check Request without IT's knowledge.
Mike Cook	19 & 20	Absence of independent monitoring of the status of prior audit recommendations. The ITD has undertaken yearly security audits of both the business network as well as the SCADA system. The audits produced various findings and recommendations that Valley Water management said are being addressed, after delays in Valley Water's attention due to responding to the COVID-19 pandemic that required the division to refocus its resources on enhancing network reliability and computer resources available to staff. To ensure that critical and high priority vulnerabilities are remediated in a timely fashion, best practices include regular status reporting to Boards and executive management.	This is untrue. Findings from the audits are reported to the Full Board and key Executive Stakeholders in Closed Session annually, as well as regular (every other month) progress reports to the CEO, CAO and Chief of Staff.
Darin Taylor; Mike Cook	20	"October 11, 2021"	January 3, 2022 is the new "go live" date
Jennifer Martin	31	The Finance Unit is responsible for preparing financing packages through 2040 on capital projects on the CIP plan when many projects may not likely be completed, creating an opportunity for improvement with a subsequent audit to identify potential alternatives.	To clarify, the CIP is a 15 year forecast and the currently approved CIP is forecast to 2037 only.

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Santa Clara Valley Water District

2021 Risk Assessment - Update

December BAC Meeting



TAP INTERNATIONAL, INC.
TRAINING ANALYTICS PERFORMANCE

Background

The October BAC meeting led to a request for the Independent Auditor to identify the top 10 audits.

TAP International was to receive internal agency comments of the draft report.



Results

TOP 10 Audit List



TOP 10 Suggested Audits

ID	Risk Area(s)	Risk Factor	Audit Topic	Type of Audit	Suggested Audit Objectives
1	CIP Planning Process Financial Management	<input checked="" type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	CIP Planning Process	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. Are there opportunities to improve the capital improvement project planning process (project initiation to CIP plan approval)? 2. To what extent can early participation of Valley Water support units (environmental planning, permitting, purchasing, warehousing) on large capital projects prevent project delays and reduce cost overruns? 3. Can the Capital Improvement Plan be better right sized that considers the Agency's funding and staffing levels?
2	Inventory Control	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Inventory Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. Does Valley Water effectively manage, account for and record inventory across the agency? 2. What resources (e.g., staffing, systems, facilities) and business processes (communication and coordination) are necessary to meet current and future needs including centralizing inventory management?
3	Emergency Response Emergency Detection Emergency Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Monitoring	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent do the emergency management plans variously established by Valley Water contain gaps and activities to ensure proper prevention, detection, response, and recovery activities? 2. Do gaps exist in surveillance and detection of potential problems across Valley Water's infrastructure? 3. To what extent is the virtual Emergency Operations Center aligned with FEMA best practices? 4. Are there lessons learned from past emergencies to prevent disruptions to regular operations while providing additional manpower and resources to respond to emergencies?

4	Emergency Cost Recovery Data Management & Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Financial Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent has Valley Water been able to claim the full reimbursement of costs for eligible expenses from FEMA? 2. Are business practices aligned with federal and state aid requirements for emergency cost reimbursement? 3. To what extent are information systems and other business processes configured to capture information needed for cost reporting and recovery?
5	Financial Oversight Purchasing and Contracting Processes	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Financial Management	Performance Audit	<ol style="list-style-type: none"> 1. To what extent do Valley Water procurement programs for low dollar purchases (i.e., P-Cards, & Standing Orders) comply with established policies and procurement limits? 2. Are added policies and procedures needed to control spending and prevent work arounds to formal competitive bids?
6	Data Management Data Integrity Data Accuracy	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Business Process	Cross Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent does Valley Water use multiple data stores for the same information?
7	Strategic Plan Implementation Strategic Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Organizational Culture	Culture Audit	<ol style="list-style-type: none"> 1. How has Valley Water's organizational culture impacted implementation of a strategic plan established across the agency? 2. To what extent does Valley Water demonstrate and practice common cultural characteristics including: <ol style="list-style-type: none"> a) Defining organization's values and proactively emphasize and model those values. b) Ensuring strategies are consistent with the values and holding management accountable. c) Executing their duties within the organization's risk appetite. d) Management reinforces the values and culture through clear communication of expectations across the organization.

					<p>e) Management actively gathers and listens to feedback.</p> <p>f) All levels are open to constructive criticism and problem solving through methods including information obtained from second- and third-line functions via inputs such as well-received and acknowledged employee suggestion/question program, ethics hotlines, open door policies, employees' events, and meetings, and more.</p> <p>g) All employees (to the extent possible) are engaged in goal setting and strategy discussions.</p>
8	<p>Grant Management</p> <p>Financial Management Coord. & Comm.</p> <p>Financial Oversight</p> <p>Data Accuracy</p>	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Grant Reimbursement	Performance Audit	<p>1. Can Valley Water's process for tracking labor and expense activities on state grants awarded to Valley Water benefit from updating?</p> <p>2. How timely are claims for reimbursement submitted to awarding state agencies?</p> <p>3. What circumstances have contributed to lost opportunities for reimbursement by awarding state agencies?</p>
9	Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Human Resources Management	Cross-Functional Performance Audit	<p>1. What progress has been made in implementing existing workforce development and succession planning plans?</p> <p>2. What evidenced-based factors have been significant in facilitating the hiring of technical and operational staff?</p> <p>3. To what extent have position descriptions and classification evolved to ensure that Valley Water has the technical capability to meet future demands to solve complex problems in an agile and creative manner?</p>

10	Aging Infrastructure Detection Aging Infrastructure Monitoring	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Asset Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent do Valley Water divisions and units ensure compliance to specification standards to prevent substandard replacements of parts, equipment, and capital assets? 2. Is Valley Water adequately meeting the needs of equipment maintenance?
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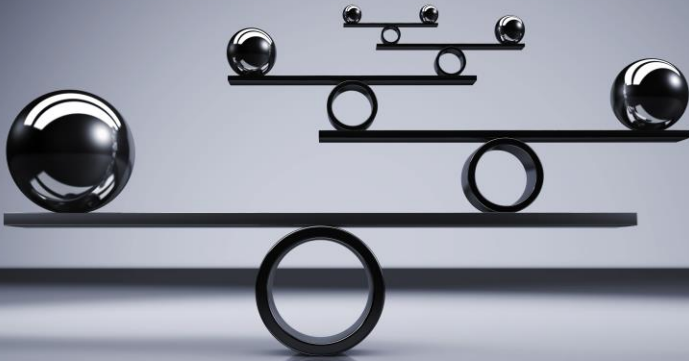
Results

Status of VW Comments

Suggested audits did not change.

Nine comments summarized by Valley Water Staff

- 3 comments related to updates to data points.
- 1 comment aligned with information reported in the draft report.
- 5 comments did not change the issue/concern described in the report.



**TAP International Response to Valley Water Draft Risk
Assessment Report Comments**

Reviewer	Report Page	Original content extracted from the report	Comments/Feedback	TAP Response:
Alex Gordon	10	Lost opportunities for federal and state cost reimbursement. The capabilities of divisions to properly account for emergency response and recovery activities to successfully obtain federal or state cost reimbursement vary. Some divisions have defined the cost recovery processes while other divisions have organizational culture issues that have prevented improvement. The gaps in recovery-related processes have led Valley Water to miss reimbursement opportunities from prior flood events.	This key issue is outdated. Since March 2020, Valley Water has utilized an EOC cost tracking structure that has a specific EOC activation budget and payroll charge codes to separate emergency-related cost from standard operating costs. Cost Recovery application has been submitted to the California State Treasury for COVID-19, and additional cost recovery applications are being finalized for submittal to the Federal Emergency Management Agency for applicable recovery expenditures. Best practices have been developed during the COVID-19 emergency in regard to cost tracking and recovery, which will be utilized moving forward for current and future emergencies.	The issue is inconsistent implementation of cost reimbursement processes within Divisions.
Jessica Collins	10	Undertaking capital projects for flood protection and preservation of flood conveyance capacity including seven under construction and 11 in the planning/design stage.	Correct 7 under construction. Incorrect- we have 14 in the planning/design phase.	The number was originally identified as 11 based on VW documentation. TAP updated 11 to 14 on page 12 of the draft.

Alex
Gordon

11 (TAP
note: now
on page 12)

The ability of Valley Water to operate a virtual EOC. While Valley Water has implemented a virtual EOC to enhance operational readiness, the virtual EOC's capabilities and plans may not be aligned with FEMA best practices. Gaps in plans and capabilities should be identified to ensure operational readiness.

This finding is not correct. Valley Water has established a successful Virtual EOC, which has been activated since March 2020. Valley Water's Virtual EOC utilizes Zoom for communication and coordination, and Egnyte (encrypted SharePoint) for EOC Documentation. We have created 52 EOC Action Plans, one for each Operational Period, which demonstrates the effectiveness of the remote tools for the EOC. Valley Water has also activated multiple Virtual EOCs, separate teams, for the Drought, as well as a potential flood event in January 2021. EOC documentation has been updated to reflect virtual EOC operations. Valley Water's Emergency Operations Plan, Crisis Management Plan and EOC Activation/Deactivation Process are in final stages for update to include Virtual EOC language.

TAP International reiterates that a risk assessment is not an audit report and "findings" are not described, but rather concerns and issues identified among over 100 stakeholders that participated in the assessment and agency documentation. TAP summarized VW comments and inserted footnote 2 to incorporate management comments.

Mike
Cook

19 (TAP
note: now
page 20)

Procuring a vendor to develop an updated master plan to maintain security of Valley Water's critical IT infrastructure.

This is incorrect. We have what is effectively a 5-year plan for cybersecurity projects already and have developed our master set of policies/standards. We are not in the process of selecting a vendor to develop a cybersecurity master plan.

Given the conflicting information provided among Valley Water staff, TAP International clarified the statement to "Procuring a vendor for yearly security audits of the corporate environment (business network within Valley Water) and the SCADA (Supervisory Control and Data Acquisition) network (the current contract will expire this year)"

Mike Cook	19 (TAP note: now page 20)	The uncertainty of whether Valley Water’s enterprise risk management program is largely consistent with best practices, such as National Institute of Standards and Technology (NIST) guidance . . .	This is untrue. The Valley Water cybersecurity program is in alignment with NIST, ISO27001, etc.	While Valley Water staff reported agency cybersecurity is in alignment with NIST and ISO, the concern is the need to have independent verification of this alignment.
Mike Cook	19 (TAP note: now page 20-21)	. . . While critical financial systems and Valley Water’s SCADA network are continuously monitored, the assessment process excludes other information systems, including home-grown systems and those implemented independently by other divisions. . . .	To clarify, all networks, all systems, all applications on Valley Water’s infrastructure and all cloud systems which have gone through a formal procurement process (PO, RFP, etc.) are assessed and monitored by IT. However, issues arise when departments on their own utilize no-cost tools or acquire licenses for tools via P Card or Check Request without IT’s knowledge.	Management comments align with what was originally reported. TAP added the detail requested: ITD management explained that gaps are present when Valley Water utilizes no-cost tools or acquires licenses for tools via P-card or check requests without ITD's knowledge.

Mike Cook	19 & 20 (TAP note: now page 21)	Absence of independent monitoring of the status of prior audit recommendations. The ITD has undertaken yearly security audits of both the business network as well as the SCADA system. The audits produced various findings and recommendations that Valley Water management said are being addressed, after delays in Valley Water's attention due to responding to the COVID-19 pandemic that required the division to refocus its resources on enhancing network reliability and computer resources available to staff. To ensure that critical and high priority vulnerabilities are remediated in a timely fashion, best practices include regular status reporting to Boards and executive management.	This is untrue. Findings from the audits are reported to the Full Board and key Executive Stakeholders in Closed Session annually, as well as regular (every other month) progress reports to the CEO, CAO and Chief of Staff.	The risk assessment describes the need for status reports on the progress of implementing recommendations and does not describe a concern with the reporting of audit findings. To emphasize this point, the report was updated to read: "To ensure that critical and high priority vulnerabilities are remediated in a timely fashion, best practices include regular independent monitoring and independent status reporting to Boards and executive management in addition to management progress reporting."
Darin Taylor; Mike Cook	20 (TAP note: now page 21)	"October 11, 2021"	The date of October 22 was reported and verified to TAP International. The January 3, 2022 date was communicated in the technical comments and this new date was included in the final report.	TAP added that ITD management reported a new go live date of January 3, 2022.
Jennifer Martin	31	The Finance Unit is responsible for preparing financing packages through 2040 on capital projects on the CIP plan when many projects may not likely be completed, creating an opportunity for improvement with a subsequent audit to identify potential alternatives.	Incorrect - the CIP is a 15 year forecast and the currently approved CIP is forecast to 2037 only.	TAP international had both 2037 and 2040 reported to us. We inserted the 2040 date upon considering the position and reputation of the participant. The report was updated to reflect 2037.



TAPInternational

Denise Callahan, President
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Santa Clara Valley Water District

File No.: 21-1245

Agenda Date: 12/15/2021

Item No.: 4.4.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Receive a Verbal Status Update Regarding the INFOR Project Implementation.

RECOMMENDATION:

Receive a verbal status update regarding the INFOR Project implementation.

SUMMARY:

On July 23rd, 2019, the Valley Water Board of Directors (the Board) approved an agreement with INFOR to implement and license a new Enterprise Resource Planning (ERP) system to replace its legacy Financial and Human Resource system, PeopleSoft.

Staff will provide a verbal update on the Infor implementation as requested by the BAC. The purpose of this item is to further inform the BAC so that it may evaluate whether a desk audit should be commenced on this major information technology project given the concerns identified in the draft FY 2022-2024 Risk Assessment.

ATTACHMENTS:

None

UNCLASSIFIED MANAGER:

Mike Cook, 408-630-2424

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Santa Clara Valley Water District

File No.: 21-1203

Agenda Date: 12/15/2021

Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Review and Discuss the 2021 Board Audit Committee Work Plan.

RECOMMENDATION:

Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan.

SUMMARY:

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. Committee Work Plans also serve as Annual Committee Accomplishments Reports.

At the September 15, 2021 BAC meeting, staff noted that the committee would like to conduct its periodic review of its charter. Staff will confirm with the Chair what issues are to be addressed in the charter and will return to the BAC later with next steps. The BAC noted the steps to be taken but took no formal action.

At the October 20, 2021 BAC meeting, staff noted that the committee members would like to receive an update regarding the InForAll project that will implement a new Enterprise Resource Planning (ERP) system at Valley Water. Staff is in the process of providing individual briefings with each of the BAC members in response to this request.

Item #19 regarding the review of the Draft Audited Financial Statements for Fiscal Year 2021 ending June 30, 2021 will be delayed from the November 17th meeting to the December 15th meeting, to allow more time for staff to receive comments/feedback from the review conducted by the Government Finance Officers Association (GFOA).

Attachment 1 is the 2021 Board Audit Committee Work Plan. Upon review, the Committee may make changes to be incorporated into the next revision.

File No.: 21-1203

Agenda Date: 12/15/2021
Item No.: 4.5.

ATTACHMENTS:

Attachment 1: 2021 BAC Work Plan

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
	Board Audit Committee Meeting Dates													
	Number of Agenda Items per Meeting Date	11	11	5	5	8	6	4	8	8	3	4	4	Note: For informational purposes only.
	Meeting Dates	•	•	•	•	•	•	•	•	•	•	•	•	Note: The BAC approved a regular meeting schedule for 2021, to meet monthly, on the third Wednesdays at 2:00 p.m.
	Board Audit Committee Management													
1	Election of 2021 BAC Chair and Vice Chair		•											Recommendation: Nominate and elect the 2021 Board Audit Committee Chair and Vice Chair.
2	Board Audit Committee Audit Charter													Recommendation: Propose modifications to the Board Audit Committee Audit Charter to be presented to the full Board.
3	Review and Update 2021 BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	Recommendation: A. Review and Discuss topics of interest raised at prior Board Audit Committee Meetings and make any necessary adjustments to the Board Audit Committee Work Plan; and B. Approve the updated 2021 Board Audit Committee Work Plan.
4	Discuss Scope of Annual Audit Training from Board Independent Auditor		•				•							Recommendation: Discuss scope of Annual Audit Training from Board Independent Auditor.
5	Receive Annual Audit Training from Board Independent Auditor				See Note									Recommendation: Receive Annual Audit Training from Board Independent Auditor. Note: FY20 Training was delayed by Pandemic and conducted at Special BAC meeting on 4/2/2021 FY21 Training is related to Grants Management and will be scheduled when TAP is ready (6/23/21)
6	Conduct Annual Self-Evaluation	•	•	•					•					Recommendation: A. Conduct Annual Self-Evaluation; and B. Prepare Formal Report to provide to the full Board.
7	Receive and Discuss Board Auditor Activity Report to Evaluate Board Auditor Performance	•	•											Recommendation: Receive and discuss Board Auditor Activity Report from TAP International, Inc. to evaluate Board Auditor Performance.
8	Discuss Extension or Termination of Board Independent Auditor Contract for Board Independent Auditing Services Prior to Expiration of the Agreement Effective June 30, 2021.													Recommendation: A. Discuss option to extend Board Independent Auditor Contract with TAP International, Inc. for Board Independent Auditing Services currently scheduled to expire effective June 30, 2021; and B. Approve recommendation to the full Board to: 1. Allow the expiration of the Board Independent Auditor Contract with TAP International; or 2. Exercise option to extend Board Independent Auditor Contract with TAP International, Inc.

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

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9	Chief Board Auditor - Request for Proposal: Review Panel					•								<u>Note:</u> Review Panel for the role of the Chief Board Auditor will be the BAC members
10	Tri-annual Risk Assessment		•		•	•	•	•	•	•	•	•		<u>Recommendation:</u> Discuss the scope of work for the 2021 Risk Assessment. <u>Note:</u> November 17, 2021 meeting is to discuss prioritization
Board Audit Committee Special Requests														
11	External Financial Auditor Meeting with Individual Board members													<u>Note:</u> Schedule as needed. In June David Alvey offered to speak with each member individually.
12	Provide status report to full Board quarterly													<u>Note:</u> Report to be provided to Board in non-agenda the month after each BAC meeting.
13	Discuss the Scope and Approach of the Ad-hoc Desk Reviews													<u>Recommendation:</u> Discuss the scope and approach of the ad-hoc Desk Reviews.
14	Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract		•											<u>Recommendation:</u> Receive and discuss Financial Analysis regarding the Board Independent Auditing Services Contract with TAP International, Inc.
15	QEMS & ISO Overview and Continuous Improvement Methodology Benchmarking Analysis								•					<u>Note:</u> At the Dec '19 BAC meeting, the BAC approved new PO for \$25K min for Tanner Pacific, Inc. to prepare QEMS Methodology Benchmarking Analysis. <u>Recommendation:</u> Review and discuss overview of QEMS Process Improvement post ISO de-certification, and Benchmarking Analysis for 2020.
16	Risk Management Organization	•												<u>Note:</u> In October 2021 The BAC suggested pushing discussion on this topic out a few months to allow new District Counsel time to ascertain effectiveness of current organizational structure (assume April 2022). <u>Recommendation:</u> Review and discuss Risk Management Organization.
17	Valley Water Policies Related to Financial Auditor Responsibility	•												<u>Note:</u> At the Dec '20 BAC meeting, the BAC requested this item to be brought forth at the 1/13/2021 Committee meeting. The full Board transferred this item to the BPPC at the 2/9/2021 Board meeting <u>Recommendation:</u> Review and discuss Valley Water Policies Related to Financial Auditor Responsibility.

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

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18	Financial Auditor Selection Parameters	•												<u>Recommendation:</u> Discuss prior to the selection of the next financial auditor
Management and Third Party Audits														
19	Review Draft Audited Financial Statements	•											•	<u>Recommendation:</u> A. Review draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2021; and B. Direct staff to have Financial Auditor to contact Board Members and present, if necessary.
20	Audit Report of the Water Utility Enterprise Funds for the Fiscal Year									•				<u>Recommendation:</u> Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year.
21	Receive QEMS Annual Internal Audit Report								•					<u>Recommendation:</u> Receive information regarding the Quality and Environmental Management System.
22	Status Update on the Implementation of Recommendations from the 2015 Consultant Contracts Management Process Audit Conducted by Navigant Consulting, Inc. and the Consultant Contracts Improvement Process.		•											<u>Note:</u> Staff CAS update every 6 months. <u>Recommendation:</u> Receive and discuss a status update on the implementation of the recommendations made by Navigant in the 2015 Consultant Contracts Management Process Audit and on the Consultant Contracts Improvement Process.
23	Review Contract Change Order Audit Report								•					<u>Recommendation:</u> Receive and discuss a status update on the implementation of the recommendations made by TAP International, Inc. in the Contract Change Order Audit Report. <u>Note:</u> Staff periodic update.
24	Audit Recommendations Implementation Status	•											•	<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations.
Board Independent Auditor - TAP International, Inc. Items														
25	Review and Update Annual Audit Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	<u>Recommendation:</u> Discuss the Annual Audit Work Plan and update, if necessary.
Audit - Grants Management														
26	Receive notification of initiated Grants Management Audit													<u>Note:</u> Audit Objectives - Performance audit of the efficiency and effectiveness of grant management and administration.
27	Review Grants Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
28	Review Grants Management Audit Draft Report Presentation	•												<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
29	Review Response to Grants Management Audit Final Draft Report		•											<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

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30	Recommendation Implementation Status (Semi-Annual Rpt.; Target Completion = June 30,2023)									•				<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations.
Audit - Permitting Best Practices														
31	Receive notification of initiated Permitting Best Practices Audit													<u>Note:</u> Audit Objectives - How does Valley Water's permitting process compare with other agencies? Can alternative permit processing activities benefit Valley Water?
32	Review Permitting Best Practices Audit Progress Report	•	•	•										<u>Recommendation:</u> Receive an update on the status of the on-going audit.
33	Review Permitting Best Practices Audit Draft Report Presentation				•									<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
34	Review Response to Permitting Best Practices Audit Final Draft Report					•								<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Pacheco Reservoir Expansion														
35	Receive notification of initiated Pacheco Project Investigation			•										<u>Note:</u> Audit Objectives - Determine how and why the initial Project Scope & Cost evolved and increased over time?
36	Review Pacheco Project Investigation Progress Report				•	•	•		•	•				<u>Recommendation:</u> Receive an update on the status of the on-going audit.
37	Review Pacheco Project Investigation Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
38	Review Response to Pacheco Project Investigation Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Construction Project Management (Tentative)														
39	Receive notification of initiated Construction Project Management Audit													<u>Note:</u> Audit Objectives - What areas of Valley Water's capital project budgeting practices can benefit from adopting best practices?
40	Review Construction Project Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
41	Review Construction Project Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
42	Review Response to Construction Project Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Supervisory Control and Data Acquisition (Tentative)														

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

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43	Receive notification of initiated Supervisory Control and Data Acquisition Audit													<u>Note:</u> Audit Objectives - Does Valley Water's Supervisory Control and Data Acquisition (SCADA) systems meet established SCADA security frameworks?
44	Review Supervisory Control and Data Acquisition Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
45	Review Supervisory Control and Data Acquisition Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
46	Review Response to Supervisory Control and Data Acquisition Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Risk Management (Tentative)														
47	Receive notification of initiated Risk Management Audit													<u>Note:</u> Audit Objectives - Can risk management business processes be implemented more effectively? (i.e. contract claims, workers compensation, small claims).
48	Review Risk Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
49	Review Risk Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
50	Review Response to Risk Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Billing and Collections (Tentative)														
51	Receive notification of initiated Billing and Collections Audit													<u>Note:</u> Audit Objectives - Are there opportunities to enhance Valley Water's billing and collection processes?
52	Review Billing and Collections Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
53	Review Billing and Collections Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
54	Review Response to Billing and Collections Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Accountability (Tentative)														
55	Receive notification of initiated Accountability Audit													<u>Note:</u> Audit Objectives - Are there opportunities to enhance safe clean water audits?
56	Review Accountability Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

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57	Review Accountability Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
58	Review Response to Accountability Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Community Engagement (Tentative)														
59	Receive notification of initiated Community Engagement Audit													<u>Note:</u> Audit Objectives - Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities? What are the best practices in planning and facilitating community engagement?
60	Review Community Engagement Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
61	Review Community Engagement Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
62	Review Response to Community Engagement Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Property Management (Tentative)														
63	Receive notification of initiated Property Management Audit													<u>Note:</u> Audit Objectives - Is Valley Water implementing encroachment licensing program consistent with the Board's guiding principles?
64	Review Property Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
65	Review Property Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
66	Review Response to Property Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Homelessness Analysis (Tentative)														
67	Receive notification of initiated Homelessness Analysis Audit													<u>Note:</u> Audit Objectives - How can Valley Water enhance its homelessness encampment clean-up activities that protect health and safety?
68	Review Homelessness Analysis Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
69	Review Homelessness Analysis Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed.

BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
70	Review Response to Homelessness Analysis Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Classified Information (Tentative)														
71	Receive notification of initiated Classified Information Audit													<u>Note:</u> Audit Objectives - To what extent does Valley Water's Counsel's Office appropriately classify confidential information?
72	Review Classified Information Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
73	Review Classified Information Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
74	Review Response to Classified Information Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Local Workforce Hiring (Tentative)														
75	Receive notification of initiated Local Workforce Hiring Audit													<u>Note:</u> Audit Objectives - What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?
76	Review Local Workforce Hiring Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
77	Review Local Workforce Hiring Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
78	Review Response to Local Workforce Hiring Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Equipment Maintenance (Tentative)														
79	Receive notification of initiated Equipment Maintenance Audit													<u>Note:</u> Audit Objectives - Is Valley Water adequately meeting the needs of equipment maintenance?
80	Review Equipment Maintenance Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
81	Review Equipment Maintenance Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
82	Review Response to Equipment Maintenance Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed.

BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
Audit - Delta Conveyance (Tentative)														
83	Receive notification of initiated Delta Conveyance Audit													<u>Note:</u> Audit Objectives - What potential financial risks could occur on the California Water Fix project?
84	Review Delta Conveyance Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
85	Review Delta Conveyance Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
86	Review Response to Delta Conveyance Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Miscellaneous BAC Work Plan Items														
87	BAC Self-Evaluation Report													<u>Note:</u> Per the February 19, 2020 BAC meeting, the 2019 BAC Self-Evaluation form is to be completed and a formal report provided to the full Board at a future meeting. At the January 13, 2021 BAC meeting, the 2020 BAC Self-Evaluation form is to be completed by the Committee and a formal report provided to the full Board at a future meeting.
88	Sponsorship Program													<u>Recommendation:</u> Discuss the potential for a desk review or audit of the Sponsorship Program. <u>Note:</u> Board chose not to do a desk review or audit at the 1/12/2021 meeting.
89	Establishment of Additional Board Auditors					•		•						<u>Recommendation:</u> Discuss the potential master services agreement to recommend to the full Board for the establishment of additional Board Auditors.
90	Participate in financial statement audit procurement process													<u>Note:</u> Next procurement scheduled for January 2022.
91	Financial Audit - Quarterly Update					•			•		•			<u>Note:</u> suggested frequency is as follows: February for mid-year review; May for Q3 review; September for unaudited close; November for Q1 review
92	Financial Audit - Periodic Update						•							Schedule as needed <u>Recommendation:</u> Receive and Discuss the Financial Audit
93	Completed Audits - Recommendation Follow-up Process								•					<u>Recommendation:</u> Discuss the process to follow-up on Audit Recommendations
94	Infor Project Status Update													<u>Recommendation:</u> Provide a status update of the InforAll project <u>Note:</u> InFor Project Team is briefing the Directors individually

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Santa Clara Valley Water District

File No.: 21-1202

Agenda Date: 12/15/2021

Item No.: 4.6.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Discuss the 2019-2021 Annual Audit Work Plan and Authorize Staff to Transition to the 2022-2024 Annual Audit Work Plan When Approved by the Board.

RECOMMENDATION:

- A. Discuss the 2019-2021 Annual Audit Work Plan; and
- B. Authorize staff to transition to the 2022-2024 Annual Audit Work Plan when approved by the Board.

SUMMARY:

On September 26, 2018, TAP International, Inc. (TAP) presented the 2018 Risk Assessment Model to the BAC assessing operational risks to the Santa Clara Valley Water District ("Valley Water"). The Risk Assessment Model developed heat maps of Valley Water 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), management, and staff and would be used to assist in the development of the 2019-2021 Annual Audit Work Plan.

On January 26, 2021, the Board authorized TAP to conduct the 2021 Risk Assessment that would inform the proposed 2022-2024 Annual Audit Work Plan for consideration by the Board.

Since the approval to proceed with the 2021 Risk Assessment, the BAC has not authorized any material changes to the 2019-2021 Annual Audit Work Plan. Audits recommended in the 2019-2021 Annual Audit Work Plan that were not completed will be reviewed in conjunction with any new areas of risk identified in the 2021 Risk Assessment and included in the 2022-2024 Annual Audit Work Plan as appropriate.

The BAC is requested to authorize staff to transition from the 2019-2021 Annual Audit Work Plan (Attachment 1) to the 2022-2024 Annual Audit Work Plan when approved by the Board. The proposed 2022-2024 Annual Audit Work Plan (Attachment 2) based on the observations noted in the 2021 Risk Assessment was presented to the BAC for consideration via a previous agenda item.

File No.: 21-1202

Agenda Date: 12/15/2021
Item No.: 4.6.

ATTACHMENTS:

Attachment 1: 2019-2021 Annual Audit Work Plan

Attachment 2: Proposed 2022-2024 Annual Audit Work Plan

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

Santa Clara Valley Water District Annual Audit Work Plan, FY 18/19 to FY 20/21.

DRAFT AUDIT WORK PLAN – MAY 5, 2021

SANTA CLARA VALLEY WATER DISTRICT BOARD OF DIRECTORS DRAFT
ANNUAL WORK PLAN, FY 18/19 TO FY 20/21

OVERVIEW

The selection of audits is an important responsibility of the Audit Committee. The formulation of this audit work began in 2018 when the Valley Water's Board of Director provided input and approved the enterprise risk assessment that was administered across agency operations. The audit work plan is a culmination of a comprehensive effort to consider input on auditable areas from Valley Water employees, mid-level management, executive management, and Board Directors.

The proposed audit work plan considers factors that, if addressed, will provide opportunities to mitigate those risks and improve operations. These factors include:

- **Operational** – Are Valley Water programs/activities performed and services delivered in the most efficient, effective, and economical manner possible, and do they represent sound business decisions, including appropriate responses to changes in the business environment?
- **Financial** – Is there an opportunity to improve how Valley Water manages, invests, spends, and accounts for its financial resources?
- **Regulatory** – Do Valley Water programs and activities comply with applicable laws and regulations?
- **Health and Safety** – Are Valley Water services delivered in a manner that protects our residents and employees from unnecessary exposure to environmental factors?
- **Information Security** – Are Valley Water's information systems and networks protected against unauthorized access, use, disclosure, disruption, modification, inspection, recording, or destruction?

In addition, the proposed audit work plan considers several other factors in the selection of audits.

- **Relevance** – Does the audit have the potential to affect Board decision-making or impact Valley Water customers and residents?
- **Best Practices** – Does the audit provide the opportunity to compare current performance to best practices?
- **Return on Investment** – Does the audit have the potential for cost savings, cost avoidance, or revenue generation?
- **Improvement** – Does the audit have the potential to result in meaningful improvement in how Valley Water does its business?
- **Risk** - The audit work plan also considers risks related to major functions, as identified through a 2017 enterprise risk assessment conducted by TAP International.
- **Audit Frequency** – Individual Divisions at Valley Water should not be subject to more than two audits per year.

AUDIT WORK PLAN, FY 18/19 TO FY 20/21

This proposed audit work plan is divided into section. Section A describes ongoing non-audit (e.g. advisory) responsibilities of the Independent auditor and well as other quality assurance activities planned by executive management. Section B describes the audits planned for implementation by the Independent Auditor and other audits planned by Valley Water's executive management.

SECTION A

NON-AUDIT SERVICES AND SPECIAL PROJECTS

The following table lists non-audit services and special projects for the FY 2019-20 audit work plan:

Project	Scope	Planned Hours
Board of Director/Audit Committee Requests for Information	Ongoing. Should the Board of Directors request information on activities implemented by other public agencies or on other matters of interests applicable to enhancing the efficiency and effectiveness of operations, the independent auditor will collect and summarize information.	80
Audit Training	Annual. The Board Audit Committee Charter describes a requirement to provide audit training to BAC committee members at least annually.	2
Support services	Ongoing. Provide support services to Board Directors and Valley Water staff applicable to specific initiatives or planning projects to prevent potential service delivery risks, such as the planning of a new ERP system.	40
QEMS – Independent Auditor	Ongoing. Provide services to ensure proper oversight and accountability.	As needed
Management reviews	Ongoing. Valley Water 's CEO as needed will initiate internal quality assurance reviews of business practices and operations. These reviews are to be shared with the audit committee.	As needed

SECTION B: AUDIT SERVICES**AUDIT WORK PLAN – INDEPENDENT AUDITOR****FY 2018-19**

The following audits have been approved in FY 2018-19 by the Board of Directors and will continue into the FY 2019-20 audit work plan.

ID	Audit	Audit Objectives	Planned Hours
1	District Counsel Office Review	Are there structural, organizational, and process improvement opportunities for the District Counsel's Office?	664
5	Contract Change Order Processing	What types of business process improvements are necessary for contract change order processing?	429
6	Real Estate Review	How can the Real Estate improve its financial and service delivery performance?	574
Total	3 audits		1,667

FY 2019-20

The following audits have been selected for approval for the FY 2019-20 audit work plan.

ID	Audit Name	Audit Objectives	Planned Hours	Factors Considered
	Ad-hoc Board Audits	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	Sub Total		620-800	
13	Construction project management	What areas of Valley Water's capital project budgeting practices can benefit from adopting best practices?	314-371	Financial Improvement Risk Best practices
2	SCADA audit*	Does Valley Water's Supervisory Control and Data Acquisition (SCADA) systems meet established SCADA security frameworks?	714-857	Information Security Relevance Improvement Risk
7	Permitting best practices	How does Valley Water's permitting process compare with other agencies? Can alternative permit processing activities benefit Valley Water?	171-229	Operational Best practices Improvement

4	Risk Management	Can risk management business processes be implemented more effectively? (i.e. contract claims, workers compensation, small claims).	143-260	Relevance Financial Operational Best practices
3	Billing and Collections audit	Are there opportunities to enhance Valley Water's billing and collection processes?	343-429	Relevance Financial Regulatory Improvement Risk Return on Investment
11	Accountability audit	Are there opportunities to enhance safe clean water audits?	115-171	Health and Safety Relevance Improvement
Sub Total	5		1,800-2,317	

*The SCADA audit (ID 2) will be deferred and reconsidered during the next Risk Assessment given the master planning efforts underway for Valley Water's SCADA systems.

FY 2020-21

The following audits have been selected for approval for the FY 2020-21 audit work plan.

ID	Audit Name	Audit Objectives	Planned Hours	Factors Considered
	Ad-hoc Board Audits**	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	Subtotal		620-800	
	<u>Grants Management</u>	<u>Performance audit of the efficiency and effectiveness of grant management and administration</u>	<u>Outsourced-TBD</u>	<u>Financial improvement</u> <u>Operational Best practices</u>
Ad Hoc Board Audit	Pacheco Reservoir Expansion (Lessons Learned)	(1) Develop a timeline of project costs (including contract change orders and professional services agreement amendments) and identify the types of expenses incurred.	220-270	Financial, Operational, and best practices improvements

		(2) Identify key drivers for project cost increases that were within and outside of VW's control. (3) Identify lessons learned in the planning, design and construction phases of the project.		
21	Community engagement	Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities? What are the best practices in planning and facilitating community engagement?	417-543	Financial Improvement Operational Best practices
	Property Management	<u>Is Valley Water implementing its encroachment licensing program consistent with the Board's guiding principles?</u>	400	Operational
20	Homelessness analysis	How can the Valley Water enhance its homelessness encampment clean-up activities that <u>protect health and safety</u> ?	290-371	Health and Safety Relevance Financial Operational
8	Classified information***	To what extent does the Valley Water's Counsel's office appropriately classify confidential information?	143-200	Relevance Operational
26	Local workforce hiring	What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?	200-229	Operational
27	Equipment maintenance	Is Valley Water adequately meeting the needs of equipment maintenance?	143-229	Health and safety Operational Financial
33	Water Fix	What potential financial risks could occur on the California Water Fix project?	160-286	Financial Relevance
Sub Total	9		1,973-2,528	

**Ad-Hoc Audits to be added to the Board performance plan upon identification and approval of reviews.

***This issue was included in the project plan for the performance audit of the District Counsel's office.

AUDIT WORK PLAN – VALLEY WATER RESPONSIBILITY**FY 18/19 THRU FY 19-20****QEMS**

QUALITY ENVIRONMENTAL MANGEMENT SYSTEM INTERNAL AUDITS	
AUDIT DESCRIPTION AND UNIT #	
Treated Water O&M DOO: TW Survey (customer service w/ WS DOO)	#515
Laboratory Services Unit	#535
North Water Treatment Operations Unit	#565
South Water Treatment Operations Unit	#566
Treatment Plant Maintenance Unit (North & South WTP)	#555
Water Quality Unit	#525
Water Utility Capital Division	
Capital Program Planning and Analysis Unit	#335
Construction Services Unit	#351
Pipelines Project Delivery Unit	#385
East Side Project Delivery Unit	#375
West Side Project Delivery Unit	#376
Dam Safety & Capital Delivery Division	
CADD Services Unit	#366
Dam Safety Program & Project Delivery Unit	#595
Design and Construction Unit #3	#333
Pacheco Project Delivery Unit	#377
Water Supply Division DOO: TW Survey (customer service w/ TW O&M DOO)	#415
Wells & Water Measurement Unit	#475
Watersheds Design and Construction Division	
Design and Construction Unit #1	#331
Design and Construction Unit #2	#332
Design and Construction Unit #4	#334
Design and Construction Unit #5	#336
Land Surveying and Mapping Unit	#367
Real Estate Services Unit	#369
Associated Business Support Areas	
Facilities Management Unit	#887
Infrastructure Services Unit/IT	#735
Equipment Management Unit	#885
Business Support & Warehouse Unit	#775
Purchasing & Consultant Contracts Services Unit	#820

Emergency Services & Security	#219
Environmental, Health & Safety Unit	#916
Workforce Development (Training)	#915
Core ISO Procedures: Continual Improvement Unit	#116
Office of Communications (Customer Service)	#172
Office of the Clerk of the Board (Customer Service)	#604

COMPLIANCE AND FINANCIAL AUDITS

FINANCIAL AUDITS
Financial Audits
Treasurer's Report
Appropriation's Limit
Compensation and Benefit Compliance (odd years)
Travel Expenses Reimbursement (even years)
Single Audit (if applicable)
WUE Fund Audit



TAPInternational

FY 2022-2024 Annual Audit Work Plan

November 10, 2021

Final

ANNUAL AUDIT WORK PLAN

The Audit Work Plan serves as a tool for communicating audit priorities as determined by the Santa Clara Valley Water District's Board Audit Committee (BAC) and Board of Directors. The selection of audits for formal review and approval by the Board of Directors is an important responsibility of the Audit Committee.

Audits are an important oversight tool because they provide independent and fact-based information to management and elected officials. Those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making.

Audits can:

- Verify that programs, services, and operations are working based on your understanding.
- Assess efficiency and effectiveness.
- Identify the root cause or problems.
- Assess the progress of prior audit recommendations.
- Identify the impact of changes
- Identify leading practices.
- Assess regulatory compliance.
- Develop policy options.
- Assess the accuracy of financial information reported.

The types of audits that can be conducted include:

- Internal audits: Internal audits review the environment, information, and activities that are designed to provide proper accountability over District operations.
- Compliance audits: Compliance audits review adherence to policies and procedures, state regulatory requirements, and/or federal regulatory requirements.
- Performance audits (impact or prospective audits): Performance audits review the economy, efficiency, and effectiveness of Valley Water programs, services, and operations.
- Desk reviews: Small and quick audits.
- Follow up audits: Follow up audits assess the implementation status of recommendations included in prior audit reports.
- Best practices reviews: Compares current operations to best practices.

This proposed audit work plan is divided into sections. Section A describes anticipated ongoing support services to be provided by the independent auditor as well as other quality assurance activities planned by Valley Water's executive management. Section B describes the audits planned for implementation by the Independent Auditor.

SECTION A

ONGOING SUPPORT SERVICES AND SPECIAL PROJECTS

The following table lists non-audit services and special projects for the FY 2022 to 2024 audit work plan:

Project/Responsible Party	Scope	FY 2022 Planned Hours	FY 2023 Planned Hours	FY 2024 Planned Hours
Board of Director & Board Audit Committee Requests for Information/ Independent Auditor	Ongoing. Should the Board of Directors request information on activities implemented by other public agencies or on other matters of interests applicable to enhancing the efficiency and effectiveness of operations, the independent auditor will collect and summarize information.	80	80	80
Audit Training/ Independent Auditor	Annual. The Board Audit Committee Charter describes a requirement to provide audit training to Board Audit Committee members at least annually.	2	2	2
Support Services/ Independent Auditor	Ongoing. Provide support services to Board Directors and Valley Water staff applicable to specific initiatives or planning projects to prevent potential service delivery risks.	40	40	40
QEMS/Valley Water Continual Quality Improvement Unit	Ongoing. Provide services to ensure proper oversight and accountability.	As needed	As needed	As needed

Management Reviews/Valley Water Management	Ongoing. Valley Water's Chief Executive Officer ,as needed, will initiate internal quality assurance reviews of business practices and operations. These reviews are to be shared with the audit committee.	As needed	As needed	As needed
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SECTION B

AUDIT SERVICES – INDEPENDENT AND ON-CALL AUDITORS

Labor Summary

Project/Responsible Party	Scope	FY 2022 Planned Hours	FY 2023 Planned Hours	FY 2024 Planned Hours
Independent and On-Call Auditors	Audits and Follow-up Audits Based on the Audit Work Plan	TBD	TBD	TBD

Recommended Audits

The Board Audit Committee will select and recommend audits described below for approval by the Board of Directors.

ID	Risk Area(s)	Risk Factor	Audit Topic	Type of Audit	Suggested Audit Objectives
1	CIP Planning Process Financial Management	<input checked="" type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	CIP Planning Process	Cross-Functional Performance Audit	<ol style="list-style-type: none"> Are there opportunities to improve the capital improvement project planning process (project initiation to CIP plan approval)? To what extent can early participation of Valley Water support units (environmental planning, permitting, purchasing, warehousing) on large capital projects prevent project delays and reduce cost overruns? Can the Capital Improvement Plan be better right sized that considers the Agency's funding and staffing levels?
2	Inventory Control	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Inventory Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> Does Valley Water effectively manage, account for and record inventory across the agency? What resources (e.g., staffing, systems, facilities) and business processes (communication and coordination) are necessary to meet current and future needs including centralizing inventory management?
3	Emergency Response Emergency Detection Emergency Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Monitoring	Cross-Functional Performance Audit	<ol style="list-style-type: none"> To what extent do the emergency management plans variously established by Valley Water contain gaps and activities to ensure proper prevention, detection, response, and recovery activities? Do gaps exist in surveillance and detection of potential problems across Valley Water's infrastructure?

					<ol style="list-style-type: none"> 3. To what extent is the virtual Emergency Operations Center aligned with FEMA best practices? 4. Are there lessons learned from past emergencies to prevent disruptions to regular operations while providing additional manpower and resources to respond to emergencies?
4	Emergency Cost Recovery Data Management & Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Financial Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent has Valley Water been able to claim the full reimbursement of costs for eligible expenses from FEMA? 2. Are business practices aligned with federal and state aid requirements for emergency cost reimbursement? To what extent are information systems and other business processes configured to capture information needed for cost reporting and recovery?
5	Financial Oversight Purchasing and Contracting Processes	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Financial Management	Performance Audit	<ol style="list-style-type: none"> 1. To what extent do Valley Water procurement programs for low dollar purchases (i.e., P-Cards, & Standing Orders) comply with established policies and procurement limits? 2. Are added policies and procedures needed to control spending and prevent work arounds to formal competitive bids?
6	Data Management Date Integrity Data Accuracy	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Business Process	Cross Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent does Valley Water use multiple data stores for the same information?
7	Plan Implementation Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Organizational Culture	Culture Audit	<ol style="list-style-type: none"> 1. How has Valley Water's organizational culture impacted implementation of plan established across the agency? 2. To what extent does Valley Water demonstrate and practice common cultural characteristics including:

					<ul style="list-style-type: none"> a) Defining organization's values and proactively emphasize and model those values. b) Ensuring strategies are consistent with the values and holding management accountable. c) Executing their duties within the organization's risk appetite. d) Management reinforces the values and culture through clear communication of expectations across the organization. e) Management actively gathers and listens to feedback. f) All levels are open to constructive criticism and problem solving through methods including information obtained from second- and third-line functions via inputs such as well-received and acknowledged employee suggestion/question program, ethics hotlines, open door policies, employees' events, and meetings, and more. g) All employees (to the extent possible) are engaged in objective setting and strategy discussions.
8	Grant Management Financial Management Coord. & Comm. Financial Oversight Data Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Grant Reimbursement	Performance Audit	<ol style="list-style-type: none"> 1. Can Valley Water's process for tracking labor and expense activities on state grants awarded to Valley Water benefit from updating? 2. How timely are claims for reimbursement submitted to awarding state agencies? 3. What circumstances have contributed to lost opportunities

					for reimbursement by awarding state agencies?
9	Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Human Resources Management	Cross-Functional Performance Audit	1. What progress has been made in implementing existing workforce development and succession planning plans? 2. What evidenced-based factors have been significant in facilitating the hiring of technical and operational staff? 3. To what extent have position descriptions and classification evolved to ensure that Valley Water has the technical capability to meet future demands to solve complex problems in an agile and creative manner?
10	Aging Infrastructure Detection Aging Infrastructure Monitoring	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Asset Management	Cross-Functional Performance Audit	1. To what extent do Valley Water divisions and units ensure compliance to specification standards to prevent substandard replacements of parts, equipment, and capital assets? 2. Is Valley Water adequately meeting the needs of equipment maintenance?
11	Data Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Unmetered Groundwater Measurement	Desk Review	1. Is the methodology supporting unmetered groundwater usage measurement valid and include all applicable methodological assumptions?
12	CIP Planning Process Financial Management	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Capital Project Budgeting	Performance Audit	1. Are there areas of Valley Water's capital project budgeting practices that can benefit from adopting best practices?
13	IT Security Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	SCADA	Performance Audit	1. What is the status of implementation of prior audit recommendations? 2. Will the recommendations as implemented by Valley Water accomplish intended goals and objectives?

					3. Are changes needed in the frequency of communications to the Board on the progress and status of cybersecurity and other IT needs?
14	Plan Monitoring Management Plan Implementation	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Strategy Development and Implementation	Cross-Functional Performance Audit	1. To what extent are management plans underway or completed across Valley Water? 2. To what extent do the plans need a completion date or require updating? 3. Are strategy and management plans developed across the Agency right sized to the divisions and/or units' staffing levels and workloads? 4. What progress has Valley Water made in implementing management plans to manage risks?
15	Program Monitoring Governance Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Homelessness Programs	Performance Audit	1. To what extent has Valley Water implemented its homelessness plan? 2. Can other cost-effective strategies implemented in other jurisdictions to prevent the creation and establishment of homeless encampments on Valley Water property? 3. How can Valley Water enhance its homelessness encampment clean-up activities to ensure the protection of health and safety of employees?
16	Grant Management	<input checked="" type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Financial Management	Follow-Up Audit	1. Have improvements occurred in the timeliness of grant reimbursements? 2. To what extent has the grant management and administration implemented prior audit recommendations? 3. What improvements in program outcomes have occurred in the timeliness of grant application review, reimbursement, and accomplishment of deliverables?

17	Program Monitoring Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Encroachment Program	Performance Audit	1. Is Valley Water implementing its encroachment licensing program consistent with the Board's guiding principles?
18	Data Management Data Accuracy	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Business Process	Cross Functional Performance Audit	1. To what extent have Valley Water units established business processes to ensure accurate data collection and input? 2. What gaps remain in automating data collection and input?
19	Operations	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Risk Management	Performance Audit	1. What are the advantages and disadvantages of realigning business functions (i.e., all risk management activities, workers compensation administration, and claim administration)? 2. Can risk management business processes benefit from updating? (i.e., overall operations, data management, contract claims, workers compensation, small claims, claims administration and management, workers compensation administration, and all risk management activities, including insurance & self-insurance.
20	Emergency Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Peer Review	Best Practices Review	1. Can regulatory permitting practices administered by other utilities districts help reduce barriers and other challenges experienced by Valley Water?
21	IT Project Management & Communication Data Accuracy	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	System Implementation	Post IT Implementation Audit	1. Has the current large ERP project implementation produced the desired functionality? 2. To what extent have all contract deliverables been met? 3. To what extent have data quality issues surfaced post-implementation? 4. What lessons learned can apply to future information system implementations?

22	Emergency Response Emergency Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Procurement	Performance Audit	<ol style="list-style-type: none"> 1. Have Valley Water's procurement policies been flexible and agile to effectively and timely respond to and recover from past emergencies? 2. Are other procurement and operational activities needed to ensure prompt and reliable emergency services?
23	Environmental Sustainability Framework Development Program Monitoring Governance	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Measurement & Evaluation	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. What level of success has Valley Water's environmental stewardship activities had on preventing environmental damage and promoting environmental sustainability? 2. To what extent has Valley Water adopted sustainability indicators on specific projects to measure progress? 3. To what extent has Valley Water adopted sustainability indicators in its decision-making?
24	Program Monitoring Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Outcomes Business Process	Performance Audit	<ol style="list-style-type: none"> 1. To what extent has Valley Water mitigated the environmental hazards caused by non-use of the percolator ponds? 2. In a non-drought year, are barriers present that prevent Valley Water from filling percolator ponds? 3. What processes need development to prevent expiration of groundwater charge permits?
25	Financial Management Coord. & Comm. Financial Oversight	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Capital projects	Desk Review	<ol style="list-style-type: none"> 1. What potential financial risks could occur on the California WaterFix project?
26	CIP Monitoring	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Capital Project Evaluation and Monitoring	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. Have completed capital projects met their intended goals? 2. To what extent does Valley Water include performance measures to measure success and monitor financial management?

					Are there lessons learned that can be adopted in future capital project plans to ensure goal accomplishments as well as implementation of alternative strategies to facilitate early communication to the Board of Directors of potential and actual problems, and to predict success such as performing cost vs. benefit analysis?
27	IT Security Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	IT Risk Management	Desk review	1. To what extent is IT risk management activities aligned with best practices, such as National Institute of Standards and Technology (NIST) guidance, including whether acceptable risk appetites and risk tolerances have been formally documented and approved by the Board of Directors?
28	Purchasing and Contracting Processes	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Financial Oversight	Desk Review	1. Can Valley Water benefit from updating its qualifications and experience criteria to include in future competitive bids for external financial audit services?
29	IT Strategic Planning Emergency Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Disaster Planning	Performance Audit	1. Does Valley Water's prioritization for systems and data recovery meet the agency's needs for sustained business continuity? 2. To what extent does Valley Water's process for determining the prioritization of systems and data recovery adhere to best practices (ex. NIST)?
30	Plan Development Plan Implementation Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Decision-Making	Cross-Functional Performance Audit	1. What lessons has Valley Water learned from its ad hoc cross-functional efforts to proactively address current or emerging risks?
31	Financial Oversight	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Outsourcing of Legal Services	Desk Review	1. How have changes occurred in District Counsel Office spending

for contracting external legal services?

2. To what extent are the nature of services provided by contracted legal firms presently outside of the District Counsel Office's expertise?
 3. Can expanding outsourced legal services prevent project delivery delays?
-

SECTION C

AUDIT SERVICES – VALLEY WATER RESPONSIBILITY

QEMS ACTIVITIES

Under development

COMPLIANCE AND FINANCIAL AUDITS

FINANCIAL AUDITS
Financial Audits
Treasurer's Report
Appropriation's Limit
Compensation and Benefit Compliance (odd years)
Travel Expenses Reimbursement (even years)
Single Audit (if applicable)
WUE Fund Audit



Santa Clara Valley Water District

File No.: 21-1300

Agenda Date: 12/15/2021

Item No.: 4.7.

COMMITTEE AGENDA MEMORANDUM **Board Audit Committee**

SUBJECT:

Receive Information Regarding the New Chief Audit Executive, Sjoberg Evashenk Consulting, Inc. and Acknowledge TAP International's Accomplishments During Their Time as Chief Audit Executive.

RECOMMENDATION:

Receive information regarding the new Chief Audit Executive, Sjoberg Evashenk Consulting, Inc. and acknowledge TAP International's accomplishments during their time as Chief Audit Executive.

SUMMARY:

On April 21, 2021, a Request for Proposal (RFP) for Board Audit Consultant Services 2021 was published on Valley Water's Contract Administration System (CAS). The RFP notification was sent to firms that are registered in CAS, under expertise code FS10 - Auditing Services. Valley Water received proposals from three consultant firms, Baker Tilly US, LLP, Moss Adams LLP, and Sjoberg Evashenk.

After conducting written and oral interviews, the EC recommended staff to proceed with the highest ranked firm, Sjoberg Evashenk Consulting, Inc., for contract negotiations.

At its November 23rd, 2021 Board Meeting, the Board of Directors (the Board) approved the Board Audit Consultant Services agreement with Sjoberg Evashenk Consulting, Inc. With this agreement, the Consultant will serve as advisor to the Board of Directors' Audit Committee (Board Audit Committee or BAC) in fulfilling its duties, responsibilities, and functions. Specifically, the Consultant will assess operational risks and advise on potential audits to ensure Santa Clara Valley Water District is in compliance with its policies, procedures and regulations. The Consultant will also assist in preparing an annual program of audits with associated calendars, schedules and budgets and prepare formal and informal reports and presentations to the BAC and to the Board.

During their time as the Board's Chief Audit Executive between fiscal year (FY) 2018 and FY 2022 TAP International (TAP) conducted the first Triennial Risk Assessment for Valley Water and developed the Annual Audit Work Plan. TAP conducted several audits and desk reviews as identified and prioritized by the BAC. TAP was also instrumental in developing the Board Audit Committee Charter. Recently, TAP concluded the second Triennial Risk Assessment and developed the next

File No.: 21-1300

Agenda Date: 12/15/2021
Item No.: 4.7.

Draft Annual Audit Work Plan which includes areas of risk still outstanding from the last assessment, as appropriate.

ATTACHMENTS:

None

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



Santa Clara Valley Water District

File No.: 22-0014

Agenda Date: 12/15/2021

Item No.: 4.8.

COMMITTEE AGENDA MEMORANDUM **Board Audit Committee**

SUBJECT:

Receive the 2021 Annual Audit Training from the Board's Chief Audit Executive.

RECOMMENDATION:

Receive the 2021 Annual Audit Training from the Board's Chief Audit Executive.

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.

On August 27, 2019, the Board approved the BAC Audit Charter to provide detailed guidance regarding how the BAC should carry out its functions and to guide the work of the Board's Chief Audit Executive. Per Article 9, paragraph 3 of the BAC Charter the Board's Chief Audit Executive is required to provide audit training to BAC members at least annually.

The Board's Chief Audit Executive, TAP International (TAP), will conduct the 2021 Annual Audit Training at the December 15, 2021 BAC Meeting.

ATTACHMENTS:

Attachment 1: PowerPoint

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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Santa Clara Valley Water District

GRANT MANAGEMENT AND ADMINISTRATION – BOARD AUDIT
COMMITTEE TRAINING

Learning Objectives

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1

Understanding of state and federal grant requirements as a grant recipient

2

Understanding of desired requirements as a grantor

Grant Management and Administration as a Grant Recipient

Federal Grants Overview

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Pre-Award Phase

- Grantor creates a grant application based on granting agency's needs.

Award phase

- The award recipient is responsible for meeting the administrative, financial, and programmatic reporting requirements of the award.

Post Award

- This process extends across the life of the grant award and involves reviewing reports submitted by the awardees. Representatives from the grantor agency may perform on-site visits with the project director and implementation staff. Oversight may also occur in the form of auditing.

Reporting and Monitoring

- Award recipients conduct two primary types of reporting to the funding agency on a regular basis: financial reporting and programmatic reporting. These reports provide information about the overall financial status and program performance of the grant project. Recipients must also respond to any audit requests that pertain to the grant.

Close-out

- As reports and financial data are passed along to the grantor agency, the program stakeholders ensure that all requirements are being met. Upon completing all the closeout requirements, including a review of the final financial and technical reports from the awardee, the grant lifecycle comes to an end.

Grant Reporting Cont.

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Progress Reports

Grant recipients submit regular reports (called "Performance Progress Reports" or "Research Performance Progress Reports") documenting a project throughout its lifespan.

These reports may include both expense-related data and quantitative information about the project's impact.

Site Visits & Technical Assistance

Grant recipients may receive site visits from the federal grantor agency. Such visits provide an opportunity for two-way communication between the grantor and the award recipient.

Technical assistance provided by the grantor is also a means for ensuring that the grant recipient is complying with the award agreement.

Audits

The [Single Audit Act](#) (amended in 1996) states that grant recipients may be subject to an audit once a year.

The audit aims to ensure compliance with government regulations and evaluate financial information, including expenses paid for with federal award funds.

Grant Reporting

What kinds of data are federal award recipients expected to include in their reporting?

The information falls into one of three categories: financial data, such as expenses paid for with federal funds; compliance information to ensure the recipient is following federal regulations; and project data highlighting progress and/or community impact.

Grant-making agencies use this information, in part, to gauge the success of their own programs and initiatives.

The required information may be collected through several different channels, including regular progress reports, site visits, and audits

Grant Recipient Responsibilities

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Recipients of federal grants have been awarded funds to carry out the goals and objectives identified in the grant. These funds are subject to certain regulations, oversight, and audit.

- **Grant recipients are stewards of federal funds.**
- **Grant dollars must be used for their intended purpose.**
- **Grant recipients must account for costs and justify expenditures.**

Using federal grant dollars for unjust enrichment, personal gain, or other than their intended use is a form of theft, subject to criminal and civil prosecution under the laws of the United States.

Grant Fraud

- ▶ The vast majority of these funds are spent as intended, but misuse, deceit and abuse are nonetheless present. As a result, hundreds of thousand dollars go to waste.

Grant Fraud Risks

- ▶ Federal grant dollars are susceptible to several forms of financial theft, most commonly in the form of specific federal violations, including:
 - ▶ Embezzlement
 - ▶ Theft or bribery concerning programs receiving federal funds
 - ▶ False statements
 - ▶ False claims
 - ▶ Mail fraud and wire fraud
- ▶ Each of these violations of law are subject to criminal prosecution, fines, restitution, and civil penalties.

Examples of Grant Fraud

- ▶ Grant fraud occurs in many ways, but some of the most common fraud scenarios include:
 - ▶ Charging personal expenses as business expenses against the grant
 - ▶ Charging for costs which have not been incurred or are not attributable to the grant
 - ▶ Charging for inflated labor costs or hours, or categories of labor which have not been incurred (for example, fictitious employees, contractors or consultants)
 - ▶ Falsifying information in grant applications or contract proposals
 - ▶ Billing more than one grant or contract for the same work
 - ▶ Falsifying test results or other data
 - ▶ Substituting approved materials with unauthorized products
 - ▶ Misrepresenting a project's status to continue receiving government funds
 - ▶ Charging higher rates than those stated or negotiated for in the bid or contract
 - ▶ Influencing government employees to award a grant or contract to a particular company, family member, or friend

Grant Fraud Prevention

- ▶ As a grant recipient, there is a responsibility to:
 - ▶ Establish an adequate and effective system of accounting, internal controls, records control, and records retention.
 - ▶ Implement an internal compliance and ethics program that encourages the recognition and reporting of fraud, waste, or abuse.

Grant Management and Administration as a Grantor

Valley Water's Grant Program

- ▶ Multiple grant programs exist at Valley Water
 - ▶ Water Conservation, Water to Go, and Pilot Mini-Grants
 - ▶ Pollution Prevention and Partnerships Grants
 - ▶ Support Volunteer Cleanup Efforts and Education Grants
 - ▶ Grants and Partnerships to Restore Wildlife Habitat,
 - ▶ Grants and Partnerships to Access Trails & Open Space, and
 - ▶ Mini-Grants
 - ▶ Valley Water's 63 grantees includes a mix of non-profit organizations, municipalities, educational institutions, special districts and other community stakeholders.
 - ▶ As of September 2020, there have been 135 individual grant projects, representing \$13,120,529 in total awarded funds, with millions more in awards expected.

KSA's Needed to Administer Grant Funded Programs

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Grant Program Administration – Overview

Pre – Grant Planning

- Strategy: Policy objectives to accomplish
- Grant Application Planning: Development of grant goals and objectives, scope of work, defined deliverables, evaluation criteria development

Award

- ▶ Development of clear grant application evaluation process
- ▶ Effective grant applications request information on:
 - ▶ Financial or other in-kind contributions to elected officials
 - ▶ Family relationships with Agency employees
 - ▶ How the grant will be administered
 - ▶ Capability of the recipient to prevent co-mingling of grant fund with general funds to maintain general operations
 - ▶ How success will be measured and evaluated
 - 1. How the grant will be managed
- ▶ Grant agreements include:
 - ▶ Criteria for allowable and unallowable expenses
 - ▶ Requirements for program evaluation
 - ▶ Requirements for conflict-of-interest disclosures during the life of the agreement

Grant Program Administration – Overview

Monitoring

- ▶ Reviewing progress reports
- ▶ Conducting on site visits
- ▶ Monitoring the completion of deliverables
- ▶ Continuous measurement of success

Close-out

- ▶ Receipt of program evaluation report
- ▶ Desk audit of grant expenditures for allowable and unallowable expenses' programmatic requirements
- ▶ Depending on the size of the grant, consider formal financial audit (i.e. Single Audit)

Grants Management– Overview

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Organizational Structure

- ▶ Program leader with delegated decision-making authority
- ▶ Other countries have grant application review boards to select recipients
- ▶ Establish staffing levels that allow for segregation of duties

Internal Controls

- ▶ Establishment of policies and procedures governing all aspects of the grants administration process and back-end processing of grants (i. e. application receipt, grant award/agreement processing, grant close-out activities)

Grants Management– Overview

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Training

- ▶ Train Grant Recipients
 - ▶ Workshops and training programs for grantees that specifically focus on grant fraud are useful for preventing fraud and for encouraging grantees to report fraud when they become aware of it.
- ▶ Train Grant Administrators
 - ▶ This training can address the benefits of specific certification requirements, the necessity of providing adequate oversight after the grant money is awarded, and the types of grant fraud indicators that administrators should be alert to finding.

Financial and Performance Management

- ▶ Set expectations and/or requirements for recipients to submit invoices by certain dates with all supporting documentation
- ▶ Set timeliness standards for processing recipient invoices
- ▶ Set up systems to monitor budget vs. actual amounts
- ▶ Set up tracking systems to collect/analyze/ verify and report program outcomes

Auditor Red Flags - Grants Management and Administration Activities

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Award



Continuous award to the same recipient(s) without accomplishing deliverables or history of poor performance



Awarding of grants without clear project related goals and objectives



Extension of time and/or grant award levels without consideration of deliverable completion



Appearances of conflicts of interest



Actual conflicts of interest



Equity issues with the awarding of grants

Limited award announcement activities

Auditor Red Flags – Grants Management and Administration

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Financial Management

- Comingling of grant funds with general purpose revenue
- Use of grant funds to pay for non-grant related expenditures
- Use of grant funds to pay salaries of non-grant related personnel
- Absence of documentation to support allowable expenses
- Use of grants funds to pay for non-allowable activities (i.e. dinners, awards, gifts)

Monitoring

- Absence of progress reports or program evaluation reports
- Absence of criteria to measure grant agreement success
- Absence of public benefits accomplished from the grant award

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