



ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT -
ZONE 7 WATER AGENCY

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR
THE YEAR ENDED JUNE 30, 2017

Livermore, California

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT-
ZONE 7 WATER AGENCY,

CALIFORNIA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2017

PREPARED BY THE FINANCE AND MANAGEMENT DEPARTMENT

OSBORN K. SOLITEI, TREASURER/ASSISTANT GENERAL MANAGER – FINANCE

PRINTED ON RECYCLED PAPER

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT– ZONE 7 WATER AGENCY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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December 4, 2017

To the Board of Directors:

The Comprehensive Annual Financial Report for the Zone 7 Water Agency

We are pleased to present the Comprehensive Annual Financial Report (“CAFR”) of the Alameda County Flood Control and Water Conservation District, Zone 7, (Agency), for the fiscal year ended June 30, 2017.

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

The intended purpose of the financial report is to provide the Board of Directors, the customers of the Agency, and other interested parties with reliable information on the finances of the Agency. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive internal control framework it established for this purpose. Because the cost of internal control should not surpass its benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of material misstatements.

Maze & Associates, a firm of licensed certified public accountants, have issued an unmodified (“clean”) opinion on the Agency financial statements for the year ended June 30, 2017. The purpose of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2017, are free of material misstatement. The independent auditor’s report is located at the front of the financial section of this report.

Management’s discussion and analysis (“MD&A”) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter is designed to complement and be read in conjunction with the MD &A.

The Comprehensive Annual Financial Report (“CAFR”) follows the guidelines recommended by the Government Finance Officers Association of the United States and Canada (“GFOA”) and the Agency is submitting this CAFR to GFOA for review and certification.

Agency Profile

Zone 7 Water Agency is a dependent special district established under the Alameda County Flood Control and Water Conservation District Act. The Act (Chapter 55 of the California Water Code Appendix) was passed by the State Legislature in 1949. Zone 7 was established by a vote of the residents of the

Livermore-Amador Valley area in 1957, with its own independent elected board to provide local control over the area's water resources. The Agency's Administrative Office is located in the City of Livermore in Alameda County. Livermore was founded in 1869 and is one of California's oldest wine regions. The Agency currently serves a population of approximately 240,000 people and it is responsible for providing wholesale treated (drinking) and untreated (agricultural) water, regional flood control services and sustainable groundwater management throughout eastern Alameda County.

The Agency's territory includes 425 square miles of eastern Alameda County. The Agency has broad powers to finance, construct and operate a system for the transportation, storage, treatment and distribution of water.

Lake Oroville Reservoir

The Agency imports water to the Valley from the State Water Project (SWP), operated by the California Department of Water Resources ("DWR"). The State issued bonds to finance the SWP. Zone 7 is one of 29 water contractors who share the cost of the debt service for the SWP bonds.



The Agency's four retail water customers are: the City of Livermore, the City of Pleasanton, Dublin-San Ramon Services District (DSRSD) and California Water Service Company – Livermore District. These retailers distribute the water to municipal and industrial customers in Dublin, Livermore, Pleasanton, and, through special agreement with Dublin-San Ramon Services District, the Dougherty Valley portion of San Ramon in Contra Costa County.

History and Services

Since long before the Zone 7 Water Agency was created, the critical issues of water supply, water quality and flood protection have shaped the region's ability to prosper. Although the Tri-Valley was far less populated during the first half of the 20th Century than it is today, a declining groundwater table and periods of drought in that period had local farmers, vintners and residents alike worried about their livelihoods, according to reports published in 1948. There was frequent flooding, particularly in northern Pleasanton, where Hacienda Business Park and various residential developments are now located.

The Agency was established in 1957 by local voters demanding local control over local water-resource planning, flood protection and financing. Zone 7 has taken the Tri-Valley a long way to resolving many of its most pressing water-supply, water-quality and flood-protection problems. The locally-elected, seven-member Board of Directors has continually formulated and implemented needed programs for flood protection and water-resource management, incorporating recreational and environmental benefits where feasible. Many issues have persisted over the decades, and their implications on local land use, local control and local financing continue to surface. Indeed, challenges continue as the agency works to improve water reliability and quality, along with flood protection, in the most economical and environmentally sound ways possible, and to accommodate new development being approved by Tri-Valley cities and/or the County at no cost or harm to existing residents.

Zone 7 has long been known for its proactive groundwater basin stewardship. Continuing in that tradition, on December 21, 2016, the Zone 7 Water Agency Board of Directors adopted a resolution officially accepting the role of Groundwater Sustainability Agency (GSA) for the Livermore Valley Groundwater Basin under the Sustainable Groundwater Management Act (SGMA). Zone 7 was one of several agencies recognized in the legislation as being a trusted groundwater basin manager and identified as the exclusive local agency eligible to perform the GSA role within its service area.

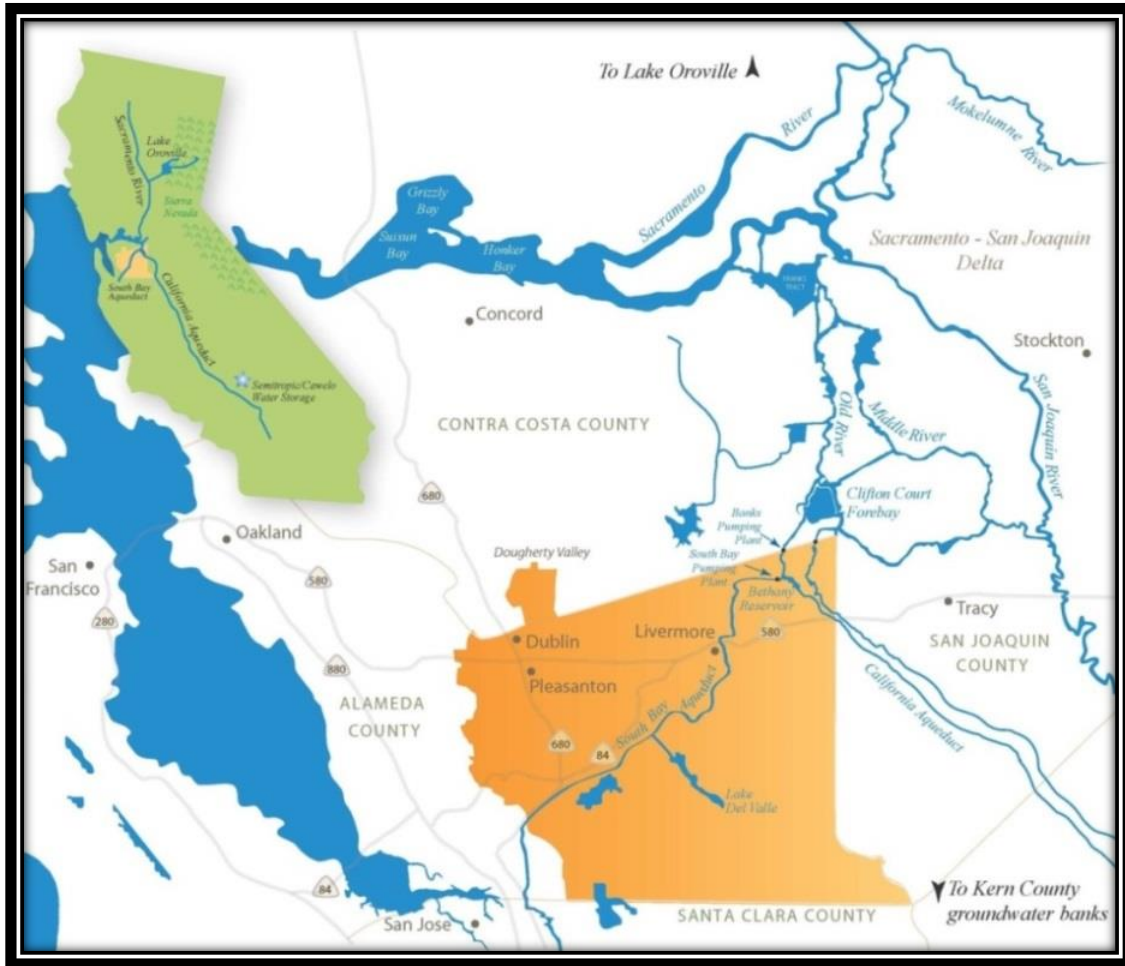
Through coordination with other local agencies in the region and neighboring groundwater basins, Zone 7 was able to notify the State that it will continue sustainable groundwater management for the entire portion of the Livermore Valley groundwater basin that is within the Agency's service area as well as a small portion that lies within Contra Costa County

Since its formation, the Agency has continued to take steps to expand its level of local control and autonomy. Most recently, in 2003, state legislation granted the Agency more authority over issues and projects of exclusive interest to the Agency, allowing the Board to improve economic efficiencies and reduce administrative duplication with the county.

Local control has allowed the Agency to develop master plans that sustainably integrate and optimize water supply reliability, water quality, flood management and environmental stewardship. Meanwhile, the Agency has participated with other water, recycled water, sewer and storm water utilities in the Tri-Valley to explore potential opportunities to pool services/equipment for increased efficiency.

Zone 7's Service Area

The Agency supplies treated drinking water to retailers serving approximately 240,000 people and businesses in Pleasanton, Livermore, Dublin, and through special agreement with the Dublin San Ramon Services District, the Dougherty Valley area in San Ramon. The Agency also supplies untreated irrigation water to local vineyards, farms and golf courses, and provides both flood protection and groundwater management to all of eastern Alameda County. Below is a map of Zone 7's service area (shown in orange):



Mission

Zone 7 Water Agency is committed to providing a reliable supply of high-quality water and an effective flood-control system to the Livermore – Amador Valley. In fulfilling our present and future commitments to the community, we will develop and manage our water resources in a fiscally responsible, innovative, proactive, and environmentally sensitive way.

Vision

To be recognized as the platinum standard water and flood control district in which to live, work and do business by enhancing the quality of life, economic vitality and environmental health of the communities we serve.

Values

- ***Open and Transparent*** - The Board’s meetings and communications shall be open and public, except when the Brown Act authorizes otherwise.
- ***Customer Service*** - Our commitment to the community requires prompt, respectful and courteous relations with our customers, both internal and external, as well as pursuing community partnerships and collaboration with other area public agencies when beneficial to the public.
- ***Integrity*** - We practice the highest ethical standards and maintain open, honest communications at all levels of the organization at all times.

- ***Fiscally Responsible*** - We will operate in a productive, cost effective, transparent and efficient manner to ensure sound financial stability.
- ***Environmentally Sensitive*** - In carrying out our mission, we are dedicated to preserving and enhancing the environment while complying with regulations.
- ***Innovative/Proactive*** - We encourage innovation, creativity and ingenuity, seeking constant improvement and keeping up with the latest economical technologies and management practices.
- ***Safety*** - We are committed to public and employee safety to maintain a healthy work environment. We work safely and provide safe products and services.
- ***Employee Development*** - We foster a respect for diversity, equality, a spirit of performance-based accountability and productivity along with personal and professional growth for all team members so as to achieve excellence through the collective energy that comes from a work environment where each employee can flourish and succeed to their highest potential.

Economic Condition and Fiscal Outlook

Although the Statewide drought continued through the first part of 2016, Northern California largely recovered its surface water supplies by the year's end. By April 2016, water supply conditions had vastly improved, leading Governor Jerry Brown to reassess conservation mandates. Given Zone 7's supply and storage conditions at that time, there was no need to continue mandatory conservation within the service area. In June 2016, the Zone 7 Board lifted the local drought emergency and set a voluntary 10 percent conservation target to support ongoing statewide water conservation efforts. Despite the improved conditions, Zone 7 staff continued working with the water retailers to promote wise use of water throughout 2016.

Actual 2016 water demand on Zone 7 was 34,000 acre-feet. Conservation was about 31 percent Valley-wide compared to 2013 demands, far exceeding the state average. Zone 7 strives to maximize the amount of water placed into storage both locally and outside its service area. In addition to minimizing groundwater pumping, Zone 7 maximized recharge in 2016 by recharging the main groundwater basin and by sending surplus water to Kern County groundwater banks. Zone 7 can recover water from these offsite groundwater banks in dry years, just as it did in 2014 and 2015 to augment supplies.

Most of the Agency's service area lies within the County of Alameda which possesses a large and diverse economic base, consisting of research and high technology, professional services, agriculture, finance, retail trade, medical and health services, government services and many others. The Alameda County Assessor's office reported a 6.99 percent increase above FY 2015-16's assessment roll for FY 2016-17. The net local roll, after all legal exemptions have been applied, totals \$252.3 billion. The primary reason for this year's assessed value growth is again attributed to the recovery in real estate market values, and is the second largest percentage increase within the past eight years. Properties that were afforded temporary reduced assessments in prior years due to market value declines are now receiving increases in their assessed value due to market value increases. These properties are not limited to the mandatory 2% maximum increase on Proposition 13 base year assessments.

Other factors leading to this year's total assessed value growth included the 1.01525% mandatory inflation index being applied to all properties' assessed values that were not affected by assessment declines in prior years. This factor added \$3.6 billion. Sales/transfers of real estate also added \$8.5 billion, new construction activity added \$1.4 billion, and business personal property assessments increased by

\$1.5 billion. The 2016-17 assessment roll accurately reflects assessments of more than 502,000 taxable properties¹.

The non-seasonally adjusted unemployment rates reported through June 2017 for all of Alameda County was 4.0 percent versus 4.9 percent for all of California and 4.4 percent for all of the United States².

All cities within the Agency service area continue to grow, with the cities of Livermore and San Ramon supporting the largest overall populations. Zone 7 provides potable water through special agreement with the Dublin San Ramon Services District, to the Dougherty Valley area in San Ramon. The cities of Dublin and San Ramon have grown the most over the period from 2016 to 2017, at the rate of 4.0 percent and 2.3 percent respectively while the city of Pleasanton has grown 1.2 percent and the city of Livermore has grown 1.7 percent. The population growth from January 1, 2016 to January 1, 2017 in Alameda County (1.0 percent) has outpaced the overall state growth of 0.9 percent³.

Declaration of Local State of Flood Emergency: In order to comply with the California Disaster Assistance Act (CDAA), the Agency declared a Local State of Flood Emergency and requested assistance from the Director of the California Governor’s Office of Emergency Services (Cal OES). Cal OES administers the assistance program that provides financial assistance from the state for costs incurred by local governments as a result of a disaster or emergency situation.

Funding is available for the repair, restoration, or replacement of public facilities and properties that are damaged by the emergency event(s). The program also provides for reimbursement of costs associated with certain emergency activities undertaken in response to a state of emergency proclaimed by the Governor. The program may provide matching fund assistance for cost sharing required under federal public assistance programs in response to a Presidential Emergency Declaration. Thus far, Zone 7 staff estimate that construction costs to address the damage incurred in January and February is approximately \$44 million - plus engineering, planning, biological assessment, CEQA, permitting, construction management and mitigation costs. Staff engaged personnel from the State Office of Emergency Services, U.S. Army Corps of Engineers, and Federal Emergency Management Agency to explore funding assistance opportunities and submitted initial application and cost estimates to meet required external deadlines.



Winter storms occurring January-February 2017 resulted in significant damage to Zone 7’s regional flood control facilities. Through the spring of 2017, over 208 bank slides have been documented. This does not include numbers for estimates of toe erosion of slopes or minor toe-of-slope slumping because such damage may not have immediate impacts to slope stability or be an impediment to flow. For contrast, in recent years Zone 7 has experienced about eight bank slides annually. These exceptional circumstances necessitated a different approach to stream maintenance in order to return the expected level of service to Zone 7 owned or maintained channels.

Oroville Spillway Update: Record rainfall in February 2017 resulted in significant erosion and damage to the Lake Oroville main and emergency spillways. On April 6, 2017 DWR released the Oroville Spillway Recovery plan describing the approach to repair and restore the spillways to original design capacity by November 1, 2017. On April 17, 2017, DWR awarded Kiewit Infrastructure West Co. the contract to reconstruct both the main and emergency spillways for \$275 million. As a State Water Project facility, repairs to the Lake Oroville spillways will be paid for by SWP contractors per the long-term water supply contracts for any costs not recoverable from federal grants or other sources. Zone 7's share is estimated to be \$5.5M or 2%, which will be amortized through 2035. Zone 7 has not been billed for any of the repairs as of 06/30/2017. On November 1, 2017, DWR announced that it has met its goal of repairing and reconstructing the main spillway to handle flows of 100,000 cubic-feet per second this winter.

¹ County of Alameda County Assessor's Office FY 2016-17

² US Department of Labor, Bureau of Labor Statistics, 2017

³ California Department of Finance, Demographic Research Unit, 2016/17 City Populations, E-1

Long-Term Financial Planning/Strategic Planning

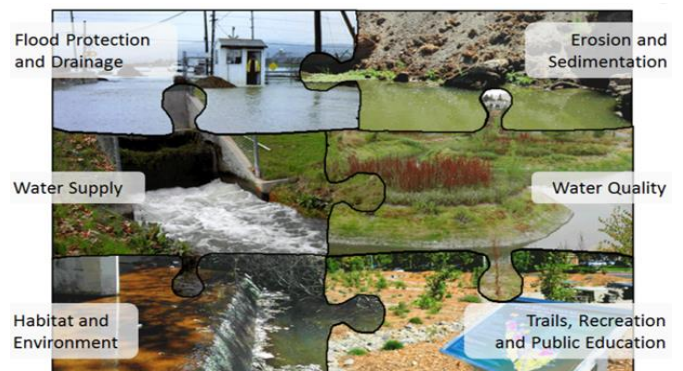
Water Rates

The Agency's largest revenue source is the sale of water, acting as a wholesaler for four water supply retailers in Livermore, Pleasanton, Dublin and by a special agreement with the Dublin San Ramon Services District, the Dougherty Valley area in San Ramon. Treated water sales for FY 2016-17 were \$42.5 million.

- For calendar year 2016, the Board adopted a 13 percent increase plus a Temporary Conservation surcharge of \$0.57 per hundred cubic feet in the wholesale treated water rate. The Board also approved the elimination of a four-tiered variable rate structure and approved a uniform or one-tiered volume-based rate structure for treated water.
- For calendar year 2017, the Board adopted a 13 percent increase and extended the CY 2016 Temporary Conservation surcharge of \$0.57 per hundred cubic feet in the wholesale treated water rate to recover previous and projected revenue shortfalls as part of Calendar Year 2017 rates. The Agency also implemented a fixed rate component that would recover 35% of the Agency's revenue requirements, thereby adjusting its volume-based rate cost recovery proportion from nearly 100% to 65%.

Strategic Planning

As part of the Agency's strategic planning five general strategic planning priorities were identified. These priorities were developed to ensure all of the Agency's efforts are focused on fulfilling the mission of the agency, and to further ensure the most immediate needs are addressed in an efficient and cost-effective manner. The five general priorities (listed below) include a number of specific strategic planning sub-priorities and form the basis for master plans, budgets, capital plans and other resource allocation planning.



- Provide customers with a reliable, cost-effective and safe water supply.
- Provide Eastern Alameda County with an effective system of flood protection.
- Provide the Agency with effective organization, administration and governance.
- Operate the Agency in a fiscally-responsible manner.
- Increase public understanding of the Agency and its functions.

Capital Improvement Plan

The Capital Improvement Plan (CIP) describes the capital investments the Agency intends to make over a multi-year period. The CIP is the basis from which final capital budgeting decisions flow. The Agency prepares a ten-year CIP for the Water System and a five-year CIP for the Flood Protection System. The CIP is updated about every other year. The CIP document is presented to the Board for acceptance and approval.

MGDP Flush Line



For the purpose of the CIP, capital outlay is distinguished from capital projects. Capital outlay includes only those projects or equipment purchases between \$5,000 and \$50,000 and having more than one year of useful life (see Note 1G). Capital outlay is funded through the operating budget. All capital projects or equipment purchases of at least \$50,000 or over and having five years of useful life are included in the capital improvement planning process. The last comprehensive CIP update, the Fiscal Year 2015-16 Capital Improvement Plan: Ten-Year Water System Plan and Five-Year Flood Protection Plan (FY 2015-16 CIP Update), was adopted in October 2014. Normally, Zone 7 updates this document every two years. However, the recent drought—for which the Board declared a Local Drought Emergency from January 29, 2014 to June 16, 2016—required emergency actions such as the acceleration of capital projects (e.g., construction of Chain of Lakes Well No. 5) and the addition of new projects (e.g., Stoneridge Cross Valley Isolation Valve). Furthermore, the combination of reduced

revenues from water sales and the increased costs of water supplies and treated water production negatively affected Zone 7's budget, requiring the deferral of a number of planned projects. Consequently, Zone 7 decided to defer the update of the CIP until water operations stabilized.

The Agency has completed the Fiscal Year (FY) 2018/19 Ten-Year Water System CIP. The Ten-Year Flood System CIP will be developed separately to incorporate the emergency response and funding needs to address major damage to the flood protection system from the past winter and the latest information from the Stream Management Master Plan update.

Asset Management Plan

The purpose of an Asset Management Plan (AMP) is to proactively plan for and implement asset renewal projects. Zone 7 initiated its formal AMP in 2004 (2004 AMP Study), including the development of an asset registry and proposed methodology for forecasting long-term renewals. As part of the 2011 Asset Management Plan Update (2011 AMP Update) the Board adopted Resolution #11-4092 accepting the AMP update to sustain water infrastructure and establishing the needed funding levels via a transfer from the Water Enterprise Fund to the Renewal/Replacement & System-wide Improvements Fund.

The AMP update identified short and long-term renewal/improvement needs and the associated annual funding level necessary to implement these projects. The Board approved an annual funding level of \$11.4 million (in 2011 dollars) with a six-year ramp up to this amount by FY 2016-17. The AMP is updated about every five years.

The 2017 AMP Update is incorporating CIP projects that have been completed, assets that have been renewed since the last AMP update in 2011, future projects, and the long-term renewal of assets. It also identified additional Renewal and Replacement projects. Findings from the 2017 AMP update have been incorporated into the CIP.

DVWTP 3 MG Clearwell Roof



Significant Accomplishments

Water Supply, Reliability and Quality

A mindful management of limited supplies:

With improved water supply conditions during the latter part of the year, Zone 7 was able to meet all its retailers' demands and even lifted conservation requirements. Zone 7 continued to urge the community to be mindful of water use and continue to

conserve water wherever possible. The community continued to curb water use but after nearly five years of drought, water use was up slightly from 2015. Water use for the region was still down approximately 30 percent relative to 2013 levels, far exceeding the state's average urban water conservation of 19.5 percent.

The statewide Sierra snowpack was estimated to be 163% of the April 1st average as of March 31, 2017, compared to 86% the same time last year. April 1st is normally when the snowpack level peaks before the spring melt begins. The snowpack level in northern California, the main source of supply for the SWP during the spring and summer, was at 148% of the April 1st average. Northern Sierra precipitation, which is a strong constituent in SWP allocation, was 83.4 inches and at 201% of average as of March 31, 2017; this is trending higher than the wettest 1982-1983 water year conditions.

Reservoir Conditions in 2017 statewide are good with all reservoirs generally full. Oroville and San Luis Reservoir, the main reservoirs for the SWP, were at 76% and 99% of capacity as of March 31, 2017, equivalent to 99% and 109% of historical averages for this date, respectively.

Bolstering future reliability: Zone 7 made significant investments toward supporting the planning and development of Sites Reservoir, a proposed new off-stream reservoir located 75 miles northwest of Sacramento, California, at a participation level of 20,000 acre-feet (11,380 AF Class 1 water and 8,620 AF of Class 2 water). Investments were also made in studies to evaluate expanding the storage capacities of Lake Del Valle and Los Vaqueros reservoirs.

Water quality: All water supplied during 2016 met the regulatory standards set by the state and federal governments and, in almost all cases, the quality was significantly better than required. To ensure continued high quality, safe drinking water, Zone 7 has begun designing ozonation facilities for both the Del Valle and Patterson Pass water treatment plants.

Capital projects: Zone 7 initiated several significant projects to maintain critical water supply and water quality infrastructure, including 1) rehabilitation project for the Mocho 1 groundwater well; 2) filter valve replacements at the Del Valle Water Treatment Plant; 3) clearwell roof replacement at the Del Valle Water Treatment Plant; 4) replacement of the disinfection equipment at Hopyard Well No. 6; and 5) addition of a new 5 million gallon storage reservoir and a new 12 million gallon per day filtration system at the Patterson Pass Water Treatment Plant.

Delta sustainability: Efforts to improve water reliability for 25 million Californians, including those living in Zone 7's service area, reached a milestone with release of the BDCP/California WaterFix Final Environmental Impact Report/Environmental Impact Statement at the end of 2016. Certification and

permits are expected to be granted in 2017. The California WaterFix is identified as being the least costly per acre-foot of water developed of all the measures evaluated in the WSE Update.

Sustainable Groundwater Management: As part of its longstanding, proactive groundwater basin stewardship, Zone 7 formally announced its intention to become the local GSA and submitted an alternative groundwater management plan that substantially complies with the Sustainable Groundwater Management Act (SGMA). SGMA is historic legislation that allows local agencies to adopt groundwater sustainability plans, to monitor and manage groundwater. If local agencies don't pursue GSA formation, the State can step in and assume management responsibilities.

Flood Protection/Stream Management Master Plan

Flood protection work: Repairs to creek banks, debris removal, vegetation management and facility inspections were part of an extensive effort throughout the summer months to prepare for the 2016-17 rainy season. As they do each year, Agency staff worked to ensure the flood control channels were in good working condition to convey stormwater.

Stream Management Master Plan Update (SMMP): The SMMP addresses the challenges of balancing flood protection with water supply, water quality, habitat and environment, and recreation and trails objectives for the Livermore-Amador Valley. Zone 7 continued to implement key aspects of the SMMP and to work on system-wide hydraulic and hydrology models that identify and help prioritize potential problem areas that may require a regional solution to address the impact.

Arroyo Mocho Floodplain and Riparian Forest Restoration Project (Medeiros Parkway): Concept development for the Medeiros Parkway Project began in 2016. The project is aimed at improving regional flood protection and addressing regional sediment management issues by reconnecting the stream with more of its adjacent floodplain

Additional Stream Gauges: The Agency completed the installation of two additional stream gauges to Zone 7's stream gauging network. The new gauges are located on Altamont Creek in Livermore and South San Ramon Creek in Dublin, respectively. These new gauges provide real-time flow-related information during storm events, with daily base flows and temperature readings for ongoing studies. Coupled with the incorporation of new rain gauges that measure precipitation, data from the stream gauges also helps Zone 7 staff track flows in the flood-control channels and respond accordingly. The public can access real-time stream-flow information at the Storm Central website: <https://stormcentral.waterlog.com/public/Zone7>.

Local Hazard Mitigation Plan (LHMP): The process of completing a 5-year update to Zone 7's Local Hazard Mitigation Plan (LHMP) began in spring of 2016. The proposed Plan was shared with the Administrative Committee in May 2017, who directed staff to submit to CalOES and FEMA for review. Once comments are received, the LHMP will go through the final stages of acceptance by the General Manager, Zone 7 Board, State and Federal agencies. The federal Disaster Mitigation Act of 2000 requires cities, counties and special districts to have a LHMP to minimize damage and quicken recovery from disasters such as earthquakes and floods, and to be eligible for federal hazard mitigation funds. The update included a public survey to get public input on the highest priority issues and areas of greatest concern and a review of impacts from natural and manmade disasters to see where infrastructure and services can be strengthened or improved to reduce potential effects and thereby reduce costs after disasters.

Multi- Benefit Projects/Environmental/Community Partnerships

Living Arroyos Program: The Living Arroyos partnership with the City of Livermore, the City of Pleasanton, and Livermore Area Recreation and Park District continued to grow. Volunteers and Living Arroyos staff harvested and planted over 500 willow stakes and performed other maintenance activities along the Arroyo Mocho at the Stanley Reach Project.

Creek cleanups: Zone 7 collaborated extensively with other agencies to help keep local creeks clean by teaming up on debris removal and by helping to promote community creek cleanups w

Financial Accountability & Cost Efficiency

Water rates: Calendar Year 2016 was the first year of the three-year treated water rate increase adopted in 2015. The three-year horizon for the wholesale rate increase provided greater predictability/stability for the Agency and its customers, improved the ability of the Agency to plan for and finance deferred and badly needed equipment replacements, infrastructure maintenance, capital projects and streamlined the rate-setting process to improve efficiency. In October 2016, the board voted to extend the temporary drought surcharge for calendar year 2017 to help the Agency recover from deep financial losses experienced during the drought. The Agency also implemented a fixed rate component that would recover 35% of the Agency's revenue requirements, thereby adjusting its volume-based rate cost recovery proportion from nearly 100% to 65%.

North Canyons Building Purchase: On April 28, 2017, the agency closed escrow on the purchase of its administration building for \$9.6M. This purchase eliminated the \$1M per year lease payment and saved approximately \$3M in purchase cost by purchasing the building in advance of the year 2020 end of lease and pre-agreed price.

Transparency: In August 2017, the Agency was awarded a District Transparency Certificate of Excellence by the Special District Leadership Foundation. In 2015, the Board of Directors also approved a one-year trial for video recording/televising monthly board meetings on community television and posting archived video links to the Agency's website. Videotaping and subsequent replay on TV30 began in 2016.

Financial Policies

Financial Management Framework

The financial management framework adopted by Zone 7 on November 16, 2011, assures that Zone 7 prudently manages and adequately plans for the funding of current and future operational requirements and capital resources necessary to achieve the Agency's mission and maintains financial and accounting records of all transactions in accordance with general law and generally accepted accounting principles and practices. It provides staff with a framework to develop policies and procedures to ensure Zone 7's mission by providing financial health and stability to the Agency. The framework guides staff in the assessment, levy and collection of taxes, the adoption of the Agency budget, and the appropriation, accounting, and transfer of funds. All relevant financial policies are available on the Agency's website at <http://www.zone7water.com/publications-reports/financial-documents>. Here is a summary of some of the policies:

Financial Reserves

The Financial Reserve policy was initially adopted by the Board in 2005 and updated with the adoption of an Interim Reserve policy on April 17, 2013. On September 28, 2016, the Board adopted a Final Reserve Policy (Resolution No. 16-166). The 2016 revisions help to further strengthen the Agency's financial position.

The policy covers reserves for: Water Enterprise Fund Operating, Emergency Rate Stabilization and Drought Contingency Reserves, Flood Protection Operating and Capital Project Reserves, Water Renewal, Replacement & System-wide Improvements Capital Reserves, and Water Expansion Capital Reserves.

Investment Policy

The Investment policy was adopted by the Board in May 2017 (Resolution No. 17-42). The Agency's Investment Policy is in compliance with the California Government Code, Section 53600 et seq. The investment of idle funds is delegated by Agency's Board to the Assistant General Manager – Finance as the Treasurer who assumes full responsibility for the transactions of the investment program. The objectives of the investment policy are safety of principal, liquidity, return on investment or yield and diversity. The Investment Policy applies to the Agency's pooled investment fund which encompasses all monies under the direct oversight of the Agency Treasurer. As of June 30, 2017, the Agency did not have any investments independent of those managed by the County Treasurer.

Debt Policy

The Debt policy was adopted by the Board in June 2017 (Resolution No. 17-52). This Debt Policy provides the guidelines under which specific projects outlined in the biennial planning process and documented in the Capital Improvement Plan may be best financed. Debt issuance should be evaluated on a case-by-case basis as well as within the Agency's general debt management program. The Agency recognizes that changes in the capital markets and other unforeseen circumstances may require action deviating from this Debt Management Policy. In cases requiring any exception to this policy, approval

from the Board will be required. The Debt Management Policy is not applicable to intra-agency borrowing. As of June 30, 2017, the Agency did not have any outstanding debt.

Budget Controls

The Agency 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 Program. 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 and operating projects) and the capital budget (consisting of capital project expenditures).

The Agency also maintains an encumbrance accounting system as one process to accomplish budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund at the fund level require Board approval. Budget and actual comparisons are provided in this report for the Governmental Fund (Flood Protection). The guidelines used by the Agency in developing this formal budget process are those recommended by the Government Finance Officers Association (GFOA).

Internal Control

The Agency management is responsible for establishing and maintaining adequate internal controls to assure the Agency operations are effective and efficient, that applicable laws and regulations are followed, and financial reports are reliable. Existing internal controls are monitored and changes are implemented as needed. These controls are designed to provide reasonable, but not absolute, assurance that (1) assets are safeguarded against waste, fraud and inefficient use; and (2) the Agency's financial records can be relied upon to produce financial statements in accordance with accounting principles generally accepted in the United States of America. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and that cost-benefit analyses require estimates and judgments by management. We believe that the Agency's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Independent Audit

An independent audit by certified public accountants is important in determining the reliability of the Agency's financial statements. The importance of such verification has been recognized by the federal and state governments, and the general public. The Agency contracted with the accounting firm of Maze & Associates for this audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America. The firm's report has been included in the financial section of this report.

Awards

The Agency has received the following awards:

- For the fourth consecutive year, the Agency received the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award for the FY 2016-18 budgets. Additionally, the Agency received the “Excellence Award in Operating Budget” for the third time from the California Society of Municipal Finance Officers (CSMFO) for its FY 2016-17 Budget Book.
- The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Agency for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the 1st year that the Agency has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this CAFR represents the culmination of a concerted team effort by the entire staff of the Finance and Accounting Departments, Office of the General Manager, and other departmental staff, who have demonstrated their professionalism, dedication and efficiency in the preparation of this report. We also thank the Agency’s auditors, Maze & Associates, for their assistance and guidance. Finally, we wish to express our sincere appreciation to the Agency’s Board of Directors for providing policy direction and a firm foundation of support for pursuit of excellence in all realms of professional endeavors.

Respectfully submitted,



G.F. Duerig

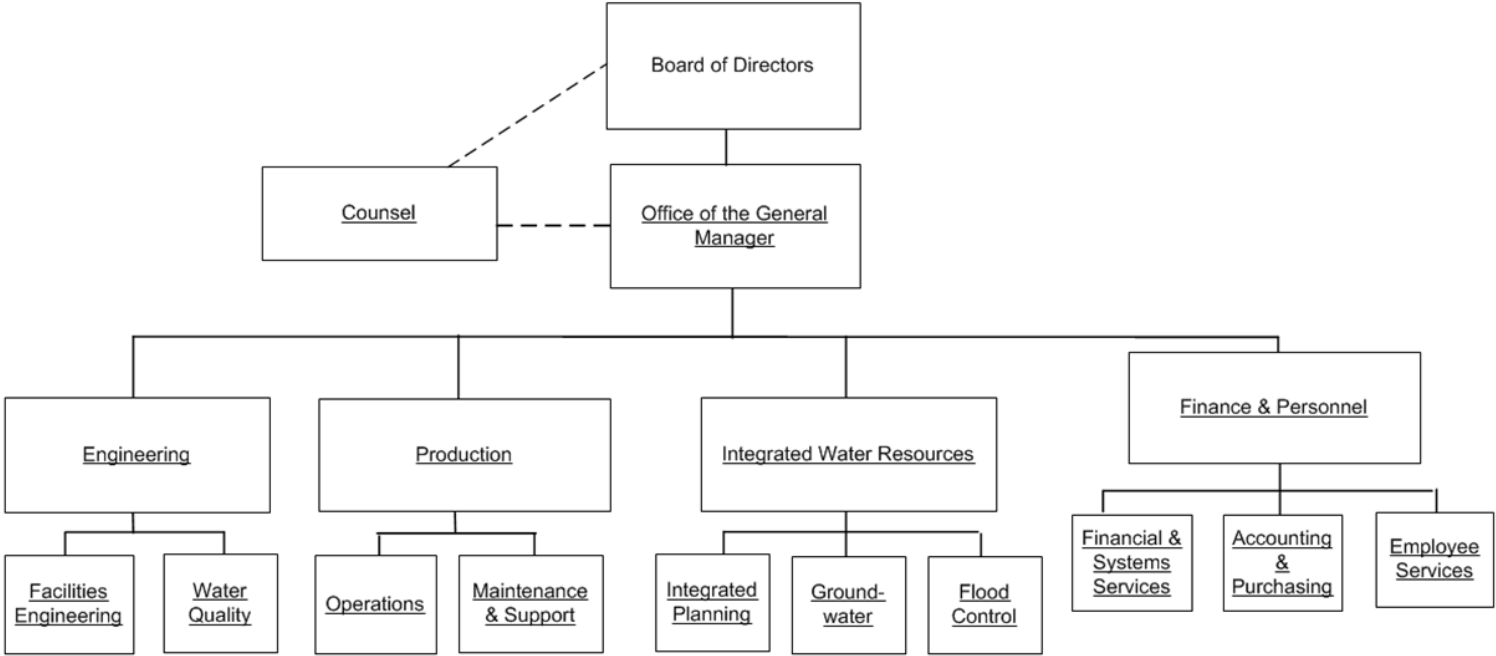
General Manager



Osborn K. Solitei

Treasurer/Assistant General Manager –
Finance

Alameda County Flood Control & Water Conservation District -
Zone 7 Water Agency
Functional Organizational Chart
FY 16/17



LIST OF ELECTED OFFICIALS AND AGENCY MANAGEMENT



John Greci, *President*

Board Member since 1994 -- Term Expires June 30, 2018



Jim McGrail, *Vice President*

Board Member since 2014 -- Term Expires June 30, 2018



Angela Ramirez Holmes

Board Member since 2012 -- Term Expires June 30, 2020



Sandy Figuers

Board Member since 2008 -- Term Expires June 30, 2020



Bill Stevens

Board Member since 1998 -- Term Expires June 30, 2018



Sarah Palmer

Board Member since 2006 -- Term Expires June 30, 2018



Dick Quigley

Board Member since 2004 -- Term Expires June 30, 2020

AGENCY MANAGEMENT

G.F. Duerig, General Manager

Osborn Solitei, Treasurer/Assistant General Manager – Finance

**Alameda County Flood Control and Water Conservation
District, Zone 7**

**2017 Comprehensive Annual Financial Report
Project Team**

Audit/Financial Statement Coordinator

Osborn K. Solitei, Treasurer/Assistant General Manager – Finance

Tamara Baptista

Financial & Systems Services &
Manager

Margaret Chun

Accounting Services Manager

Teri Yasuda

Senior Auditor/Accountant

JaVia Green

Staff Analyst

Mike Wallace

Staff Analyst



Government Finance Officers Association

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

Presented to

**Alameda County Flood Control
& Water Conservation District - Zone 7
Water Agency, California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alameda County Flood Control and
Water Conservation District – Zone 7 Water Agency
Livermore, California

Report on Financial Statements

We have audited the accompanying financial statements of governmental activities, business-type activities and major funds of the Alameda County Flood Control and Water Conservation District – Zone 7 Water Agency (Agency), California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency'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 audits 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 audits 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 Agency'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 Agency'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 governmental activities, business-type activities and major funds of the Agency as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Agency's June 30, 2016 financial statements, and we expressed an unmodified audit opinions on those audited financial statements in our report dated December 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Change in Accounting Principle

Management adopted the provisions of the following Governmental Accounting Standards Board Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, which became effective during the year ended June 30, 2017 as discussed in Note 1N to the financial statements.

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 Agency's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards 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 December 4, 2017 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.

Maze + Associates

Pleasant Hill, California
December 4, 2017

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Alameda County Flood Control and Water Conservation District – Zone 7 Water Agency Management’s Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (Unaudited)

The Government Accounting Standards Board Statement Number 34 requires that management prepare a Management’s Discussion and Analysis (“MD&A”) section as a component of the audited Financial Statements.

The Alameda County Flood Control and Water Conservation District – Zone 7 Water Agency (“Agency”) MD&A presents management’s analysis of the Agency’s financial condition and activities for the year ended June 30, 2017 and 2016. The MD&A is intended to serve as an introduction to the Agency’s basic Financial Statements. This information should be read in conjunction with the audited financial statements that follow this section. A narrative overview and comparative analysis of fiscal year 2017 to 2016 information is presented in this report. Readers are encouraged to consider the information presented here as complementary to the information contained in the accompanying financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

The information in this MD&A is presented in the following order:

- Financial Highlights
- Overview of Financial Statements
- Capital Assets
- Debt Administration
- Request for Information

Financial Highlights

- The Agency’s net position increased by \$33.2 million or 8.2 percent from \$407.4 million to \$440.6 million mainly due to increased revenue from water sales and a slight increase in property tax.
- Total revenues increased by \$2.9 million or 2.4 percent from \$119.1 million to \$122 million mainly due to increased revenue from water sales as a result of improved water demands and slight increase in property tax offset by a decrease in connection and development fee.
- Total expenses decreased by \$19.2 million or 17.8 percent from \$108 million to \$88.8 million mainly due to a decrease in water enterprise operations by \$3.8 million, previous year expenses includes \$17.3 retirement of the Altamont Water Treatment Plant asset, the decreases were offset by increased Flood Protection activities due to a stormy season.
- Capital assets increased by \$7.4 million or 3.4 percent from \$219.3 million to \$226.7 million due to the acquisition of the North Canyons administration office building.
- In June 2016, the Board lifted the local drought emergency and set a voluntary 10 percent conservation target to support ongoing statewide water conservation efforts.
- In October 2016, the Board approved changing the water rate structure to include recovering 35 percent of revenue requirements through a fixed charge and 65 percent as volume-based rates. The Board also approved the continuation of the temporary conservation surcharge of \$0.57 per 100 Cubic Feet (CCF) or \$248 per AF in 2017 which will sunset on December 31, 2017.

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

Overview of Financial Statements

This discussion and analysis serves as an introduction to the Agency's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains other required supplementary information in addition to the basic financial statements.

Agency-wide financial statements

The Agency-wide financial statements are designed to provide readers with an overview of the Agency's finances. The Agency-wide financial statements present the financial picture of the Agency from the economic resources measurement focus using the accrual basis of accounting.

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

The statement of activities presents information showing how the Agency's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide statements distinguish functions of the Agency that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include the Flood Protection Fund and Flood Protection Development Impact Fee Fund. The business-type (proprietary) activities include the Water Enterprise System.

The government-wide financial statements can be found in the financial section of this report.

Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency's two kinds of funds - governmental and proprietary - use different accounting approaches.

Governmental funds

The Agency's governmental funds consist of two funds; Flood Protection Operations and Flood Protection Development Impact Fee. These funds 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 accounting method which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed near-term view of the Agency's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Agency-wide financial statements. However, unlike the Agency-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as the balances of spendable resources available at the end of the 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 *Agency-wide statements* are provided to facilitate this comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found in the financial section of this report.

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

Proprietary funds

The Agency's proprietary funds consist of five enterprise funds; Water Enterprise Operations, State Water Facilities, Water Enterprise Capital Expansion, Water Facilities and Water Supply. Proprietary funds are generally used to account for services for a government's business-type activities (activities supported by fees or charges). Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user rates, charges, and fees. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities, using the accrual method of accounting.

The basic proprietary fund financial statements can be found in the financial Section of this report.

Notes to the basic financial statements

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

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Agency's progress in funding its obligation to provide pension and other post-employment healthcare benefits to its employees. Such required supplemental information can be found in the financial section of this report.

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

Government-wide Financial Analysis

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide an indication of the Agency's financial condition and also indicate whether the financial condition of the Agency improved during the last fiscal year. The Agency's net position reflects the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. An increase in net position over time typically indicates an improvement in financial condition. A summary of the Agency's Statement of Net Position is presented below:

Statement of Net Position

June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current assets	\$ 80,709,495	\$ 77,352,331	\$ 155,503,933	\$ 130,624,594	\$ 236,213,428	\$ 207,976,925
Capital assets	31,990,546	30,334,638	194,732,197	188,968,433	226,722,743	219,303,071
TOTAL ASSETS	112,700,041	107,686,969	350,236,130	319,593,027	462,936,171	427,279,996
Deferred Outflows of Resources						
Pension related	812,725	1,158,722	9,274,131	10,091,004	10,086,856	11,249,726
Liabilities:						
Current liabilities	662,001	626,967	3,715,573	3,935,175	4,377,574	4,562,142
Long-term liabilities	2,053,641	2,570,042	23,882,201	22,852,530	25,935,842	25,422,572
TOTAL LIABILITIES	2,715,642	3,197,009	27,597,774	26,787,705	30,313,416	29,984,714
Deferred Inflows of Resources						
Pension related	172,949	121,551	1,973,550	1,058,555	2,146,499	1,180,106
Net Position:						
Net Investment in capital assets	31,990,546	30,334,638	194,732,197	188,968,433	226,722,743	219,303,071
Restricted	58,149,272	56,059,067	97,494,721	82,151,910	155,643,993	138,210,977
Unrestricted	20,484,357	19,133,427	37,712,019	30,717,427	58,196,376	49,850,854
TOTAL NET POSITION	\$ 110,624,175	\$ 105,527,132	\$ 329,938,937	\$ 301,837,770	\$ 440,563,112	\$ 407,364,902

As the above table indicates, the total assets increased by \$35.6 million from \$427.3 million to \$462.9 million during the fiscal year ended June 30, 2017. The increase is mainly due to increased revenue from water sales and property tax growth caused by increased construction activities in the service area. The government-wide statement of net position for the Agency's governmental and business-type activities indicates that as of June 30, 2017, total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$440.6 million compared to \$407.4 million at June 30, 2016.

The largest portion of the Agency's net position, \$226.7 million or 51 percent reflects its investment in capital assets (e.g. land, buildings, equipment and infrastructure). These capital assets are used to provide services to citizens; therefore, these assets are not available for future spending.

For governmental activities, net investment in capital assets increased by \$1.7 million or 5.5 percent and the investment in capital assets for business-type activities increased by \$5.8 million or 3.1 percent mainly due to the acquisition of the North Canyons Administration Office Building.

Deferred outflows of resources is the amount of the effect of the GASB Statement No. 68 that defers Alameda County Employees' Retirement Association ("ACERA") pension contributions after the measurement date until the next fiscal year as a subsequent offset to the net pension liability. The deferred outflows of resources due to GASB Statement No. 68 at June 30, 2017 and 2016 were \$10.1 million and \$11.2 million, respectively.

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

Deferred inflows of resources is the result of GASB Statement No. 68 and is the deferred difference between expected and actual investment returns in the ACERA pension fund which will be amortized as a component of pension expense over time. The deferred inflows of resources for June 30, 2017 and 2016 were \$2.1 million and \$1.2 million, respectively.

For Fiscal year ended June 30, 2017, total liabilities reflects an increase of \$0.3 million from \$30.0 million to \$30.3 million mainly due to a \$0.5 million increase the net pension liability.

The total net position increased by \$33.2 million or 8.1 percent from \$407.4 million to \$440.6 million mainly due to increased revenues from water sales as a result of improved water demands and the Agency restructuring of the water rates to include a fixed charge component and offset by a slight decrease in water connection fees and development impact fee revenues.

Statement of Net Position June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current assets	\$ 77,352,331	\$ 67,436,221	\$ 130,624,594	\$ 103,463,809	\$ 207,976,925	\$ 170,900,030
Capital assets	30,334,638	30,385,318	188,968,433	212,562,797	219,303,071	242,948,115
TOTAL ASSETS	107,686,969	97,821,539	319,593,027	316,026,606	427,279,996	413,848,145
Deferred Outflows of Resources						
Pension related	1,158,722	988,972	10,091,004	9,102,575	11,249,726	10,091,547
Liabilities:						
Current liabilities	626,967	249,075	3,935,175	4,059,034	4,562,142	4,308,109
Long-term liabilities	2,570,042	2,179,671	22,852,530	20,431,988	25,422,572	22,611,659
TOTAL LIABILITIES	3,197,009	2,428,746	26,787,705	24,491,022	29,984,714	26,919,768
Deferred Inflows of Resources						
Pension related	121,551	79,322	1,058,555	730,082	1,180,106	809,404
Net Position:						
Net Investment in capital assets	30,334,638	30,385,318	188,968,433	212,562,797	219,303,071	242,948,115
Restricted	56,059,067	49,177,969	82,151,910	50,917,217	138,210,977	100,095,186
Unrestricted	19,133,427	16,739,156	30,717,427	36,428,063	49,850,854	53,167,219
TOTAL NET POSITION	\$ 105,527,132	\$ 96,302,443	\$ 301,837,770	\$ 299,908,077	\$ 407,364,902	\$ 396,210,520

As the above table indicates, the total assets increased by \$13.4 million from \$413.8 million to \$427.3 million during the fiscal year ended June 30, 2016. The increase is mainly due to an increase revenue from water connection and development impact fees and property tax growth caused by increased construction activities in the service area. The government-wide statement of net position for the Agency's governmental and business-type activities indicates that as of June 30, 2016, total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$407.4 million compared to \$396.2 million at June 30, 2015.

The largest portion of the Agency's net position, \$219.3 million or 54 percent reflects its investment in capital assets (e.g. land, buildings, equipment and infrastructure). These capital assets are used to provide services to citizens; therefore, these assets are not available for future spending.

For governmental activities, net investment in capital assets decreased slightly by \$0.05 million or 0.2 percent and the investment in capital assets for business-type activities decreased \$23.6 million or 9.7 percent mainly due to the retirement of the Altamont Water Treatment Plant asset.

Management’s Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

Deferred outflows of resources is the amount of the effect of the GASB Statement No. 68 that defers Alameda County Employees’ Retirement Association (“ACERA”) pension contributions after the measurement date until the next fiscal year as a subsequent offset to the net pension liability. The deferred outflows of resources due to GASB Statement No. 68 at June 30, 2016 and 2015 were \$11.2 million and 10.1 million, respectively.

Deferred inflows of resources is the result of GASB Statement No. 68 and is deferred difference between expected and actual investment returns in ACERA pension fund which will be amortized as a component of pension expense over time. The deferred inflows of resources for June 30, 2016 and 2015 were \$1.2 million and \$0.8 million, respectively.

For Fiscal year ended June 30, 2016, total liabilities reflects an increase of \$3.1 million from \$26.9 million to \$30.0 million mainly due to a \$2.7 million increase the net pension liability.

The total net position increased by \$11.2 million or 2.8 percent from \$396.2 million to \$407.4 million mainly due to increased revenues from connection fees and development impact fee as a result of new development and offset by decreased revenues in water sales due to reduction in demand for water in response to mandated cutbacks.

Statement of Activities and Changes in Net Position

For the Years Ended June 30, 2017 and 2016

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Revenues:						
Charges for services	\$ 3,554,796	\$ 7,432,934	\$ 98,547,121	\$ 87,940,258	\$ 102,101,917	\$ 95,373,192
Grants and other contributions	181,418	71,562	10,179,114	15,285,044	10,360,532	15,356,606
Capital grants and contributions	13,263	40,202	-	-	13,263	40,202
General revenues:						
Property taxes	7,895,448	7,329,117	-	-	7,895,448	7,329,117
Investment earnings and others	647,869	488,127	989,916	569,917	1,637,785	1,058,044
Total revenues	12,292,794	15,361,942	109,716,151	103,795,219	122,008,945	119,157,161
Expenses:						
Flood Protection Operations	5,341,751	5,328,998	-	-	5,341,751	5,328,998
Flood Protection Development Impact Fee	1,841,555	794,922	-	-	1,841,555	794,922
State Water Project	-	-	20,985,604	20,621,344	20,985,604	20,621,344
Water Enterprise	-	-	60,641,826	81,257,514	60,641,826	81,257,514
Total expenses	7,183,306	6,123,920	81,627,430	101,878,858	88,810,736	108,002,778
Change in net position before transfers	5,109,488	9,238,022	28,088,721	1,916,361	33,198,209	11,154,383
Transfers	(12,445)	(13,333)	12,445	13,333	-	-
Change in net position	5,097,043	9,224,689	28,101,166	1,929,694	33,198,209	11,154,383
Net position at beginning of year	105,527,132	96,302,443	301,837,771	299,908,077	407,364,903	396,210,520
Net position at end of year	\$ 110,624,175	\$ 105,527,132	\$ 329,938,937	\$ 301,837,771	\$ 440,563,112	\$ 407,364,903

The statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which impact the change in net position. The Agency’s overall net position increased \$33.2 million from the prior year. The table above indicates the Agency total revenues increased by \$2.9 million or 2.4 percent to \$122 million from \$119.1 million in the prior year. The increase is mainly due to increased revenues from water sales and property tax offset by a decrease in revenue from intergovernmental revenue, water connection fee and development impact fees.

Although the Statewide drought continued through the first part of 2016, Northern California largely recovered its surface water supplies by the year’s end. By April 2016, water supply conditions had vastly improved, leading Governor Jerry Brown to reassess conservation mandates. Given the Agency’s supply and storage conditions at that time, there was no need to continue mandatory conservation within the service area. In June 2016, the Board lifted the local drought emergency and set a voluntary 10 percent conservation target to support ongoing statewide water conservation efforts. Despite the improved conditions, staff continued working with the water retailers to promote wise use of water throughout 2016. The improved water supply conditions, changes in the water rate

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

structure, and lifting of the local drought emergency have significantly improved the Agency's water sales revenue.

Statement of Activities and Changes in Net Position

For the Years Ended June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Charges for services	\$ 7,432,934	\$ 8,482,390	\$ 87,940,258	\$ 70,027,422	\$ 95,373,192	\$ 78,509,812
Grants and other contributions	71,562	112,334	15,285,044	5,012,899	15,356,606	5,125,233
Capital grants and contributions	40,202	713	-	-	40,202	713
General revenues:						
Property taxes	7,329,117	6,759,202	-	-	7,329,117	6,759,202
Investment earnings and others	488,127	260,490	569,917	365,112	1,058,044	625,602
Total revenues	15,361,942	15,615,129	103,795,219	75,405,433	119,157,161	91,020,562
Expenses:						
Flood Protection Operations	5,328,998	4,705,166	-	-	5,328,998	4,705,166
Flood Protection Development Impact Fee	794,922	499,169	-	-	794,922	499,169
State Water Project	-	-	20,621,344	16,359,406	20,621,344	16,359,406
Water Enterprise	-	-	81,257,514	59,122,995	81,257,514	59,122,995
Total expenses	6,123,920	5,204,335	101,878,858	75,482,401	108,002,778	80,686,736
Change in net position before transfers	9,238,022	10,410,794	1,916,361	(76,968)	11,154,383	10,333,826
Transfers	(13,333)	(13,333)	13,333	13,333	-	-
Change in net position	9,224,689	10,397,461	1,929,694	(63,635)	11,154,383	10,333,826
Net position at beginning of year	96,302,443	85,904,982	299,908,077	299,971,712	396,210,520	385,876,694
Net position at end of year	\$ 105,527,132	\$ 96,302,443	\$ 301,837,771	\$ 299,908,077	\$ 407,364,903	\$ 396,210,520

The statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which impact the change in net position. The Agency's overall net position increased \$11.1 million from the prior year. The table above indicates the Agency total revenues increased by \$28.1 million or 30.9 percent to \$119.1 million from \$91 million in the prior year. The increase is mainly due to increased revenues from property tax and water connection.

On April 1, 2015, Governor Brown issued an Executive Order which was still in effect as of April 2016, requiring 25% water conservation measures statewide for residential use relative to 2013 use. Calendar year 2016 began with conservation levels hovering around 44%. The Governor reassessed the current State conservation mandate and issued Executive Order B-37-16 directing water suppliers to locally assess and set their water conservation targets. These cutbacks had a significant impact on the Agency's water sales revenue.

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

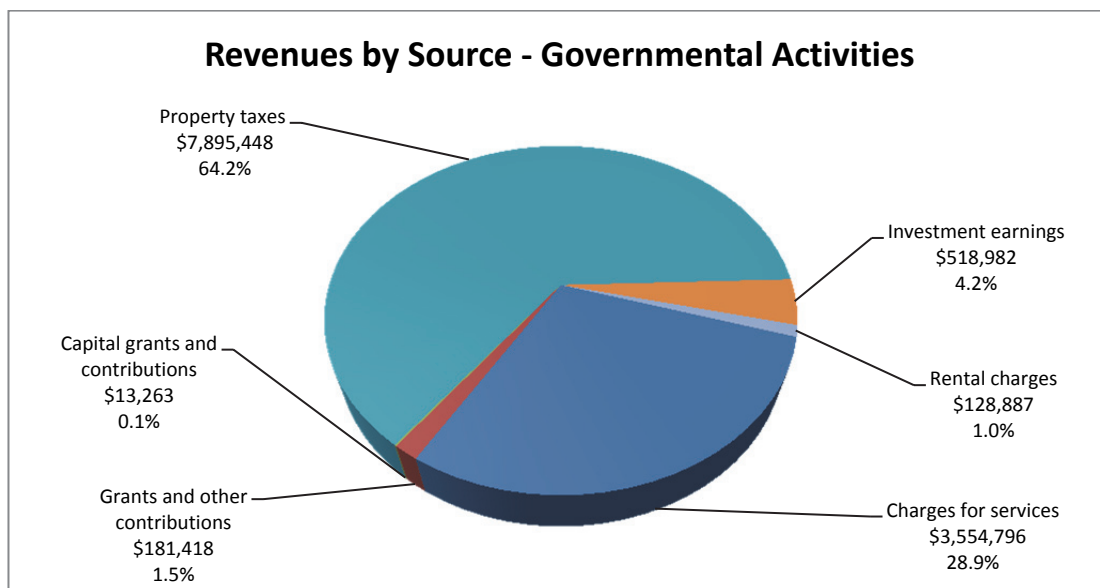
Governmental activities

The net position for the Agency's governmental activities increased by \$5.1 million from \$105.5 million to \$110.6 million during the current year, mainly due to increase in property taxes, interest and investment income and offset by decrease in development impact fee and the recognition of the net pension liability pursuant to GASB Statement No. 68 at June 30, 2017. Total revenues were \$12.3 million while total expenses, including transfers amounted to \$7.2 million.

Revenues: Significant changes in revenue are as follows:

Total revenues decreased \$3.1 million from the prior year or 20 percent.

- Charges for services decreased by \$3.9 million or 52 percent mainly due to development impact fee revenue from the Livermore service area. In prior year, the Livermore service area received a \$1.4 million in one-time development impact fee.
- Property taxes increased \$0.6 million, or 7.7 percent because of slightly higher total assessed value.



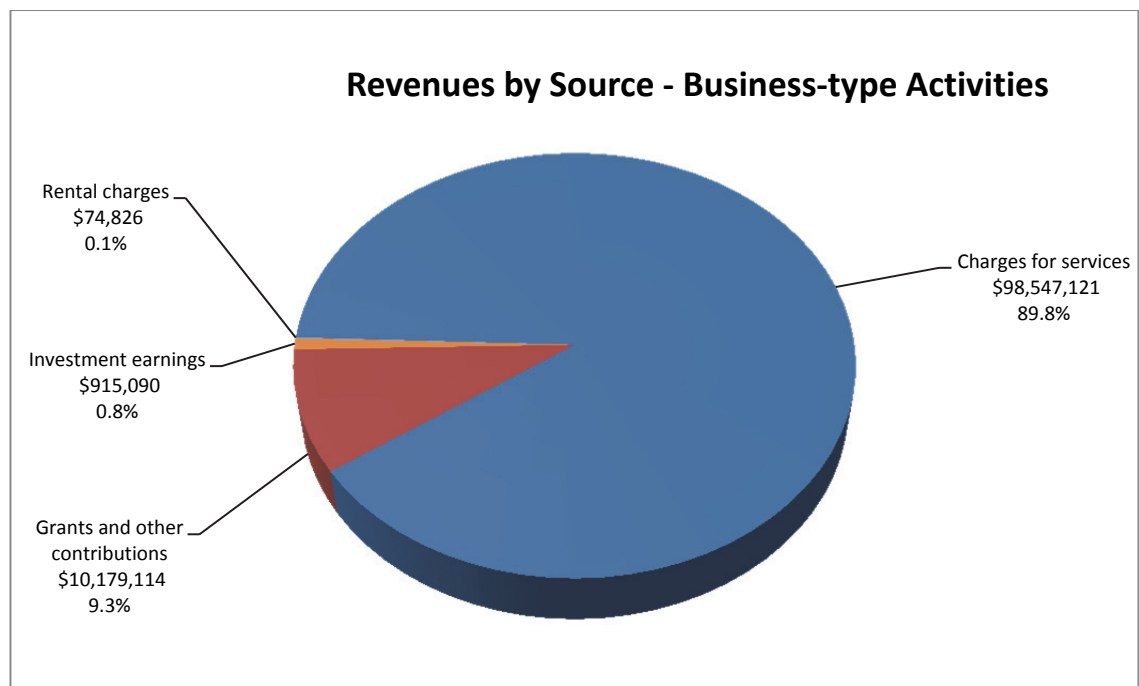
Expenses: Total expenses increased by \$1.1 million or 17.3 percent in the governmental activities mainly due to the acquisition of the North Canyons Administration building.

Management’s Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

Business-type activities

The net position for the Agency’s business-type activities increased by \$28.1 million from \$301.8 million to \$329.9 million during the current year. Operating revenues increased by \$9.8 million from \$70.2 million to \$80.0 million. This increase is mainly due to a combination of several factors:

- Water sales increased by \$14.9 million mainly due to \$3.6 million increase in water demand and changes in the rate structure which include recovering 35 percent of revenue requirement through fixed charges and 65 percent as volume-based rates. The fixed charge generated \$7.2 million in revenue. The Board also approved the continuation of the temporary conservation surcharge of \$0.57 per 100 Cubic Feet (CCF) or \$248 per AF in 2017 which generated \$4.1 million in revenue.
- Water connection fee revenue decreased by \$6.0 million mainly due to a slight decrease in the water connections from 1,600 connections in FY 2015-16 to 1,337 connections in FY 2016-17.
- Other revenues increased by \$0.7 million mainly due to increase in the Dougherty Valley surcharge assessment.
- Total revenues as of June 2017 were \$109.7 million and total expenses (including transfers) were \$103.8 million.



Expenses: Significant changes in expenses are as follows:

Total expenses decreased \$20.3 million over the prior year or 19.9 percent.

- State water project costs slightly increased \$0.3 million or 1.8 percent because of higher pass-through expenses incurred by the State of California (“State”).
- Water enterprise expenses decreased \$20.6 million or 25.4 percent mainly due to the retirement of the Altamont Water Treatment (AWTP) project (\$17.3M) in the prior year.

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

Governmental funds

The Agency's governmental funds consist of two funds; Flood Protection Operations and Flood Protection Development Impact Fee. As of June 30, 2017, the Agency's governmental funds reported combined ending fund balance of \$80.0 million.

- **Flood Protection Operations Fund** – This fund provides for general administration, maintenance and operation of regional flood protection facilities. The Agency manages a watershed of 425 square miles in eastern Alameda County, receiving drainage from parts of Contra Costa, Santa Clara and San Joaquin Counties. More than 37 miles of flood control channels and regional drainage facilities are owned and maintained by the Agency. This fund finances a comprehensive year-round maintenance program that includes repairing slides and erosion, refurbishing access roads and associated drainage ditches, installing and repairing gates and fences, and maintaining landscaped areas. This fund pays for renewal/replacement and improvement projects for the existing flood protection system. As of June 30, 2017, its fund balance was \$21.9 million and increase of \$1.2 million from prior fiscal year. The increase was mainly due to \$0.6 million increase in property tax a result of growth in assessed property valuations in the service area. The \$21.9 million fund balance is committed as follows; \$11.5 million for capital projects, \$7.0 million for operating contingency and \$3.4 million of encumbrances.
- **Flood Protection Development Impact Fee Fund** – The purpose of this fund is to ensure that the Agency is able to meet future needs for expansion-related flood control facilities. The program is primarily intended to provide funding for any flood control facilities required for new development. Funds are expended on the planning, design, lands and right of way acquisition, environmental review, permitting, and construction for drainage projects. As of June 30, 2017, its restricted fund balance was \$58.1 million, an increase of \$2.1 million from prior fiscal year. The increase in fund balance was mainly due to less expense incurred during the year than revenue received.

Proprietary funds

The Agency's proprietary fund statements provide the same type of information as is found in the government-wide financial statements, but in more detail.

- **State Water Facilities Fund** – This fund finances the "fixed cost" payment to the State Department of Water Resources ("DWR") to import water to the Agency. The purpose is to pay the costs for use of the State water delivery system, which includes repayment of voter approved, State incurred, long-term debt. Net position of the State Water Facilities Fund as of June 30, 2017 was \$16.4 million, an increase of \$3.4 million from the prior fiscal year.

Operating revenue increased by \$0.6 million due to an increase in the Dougherty Valley Surcharge Assessment. Intergovernmental revenue decreased by \$2.5 million mainly due to DWR refunds offset by a slight increase of property tax override levy by \$0.8 million and property. Operating expenses increased by \$0.4 million or 1.8 percent due to a pass-through from DWR for fixed charges associated with the State Water Project, increased to cover DWR cash flow shortages.

- **Water Enterprise Operations** is a fund that accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss in the fund is intended to be entirely or predominately self-supported from user charges. The purpose of Water Enterprise Operations is to ensure that the current water treatment and delivery systems are maintained effectively and that capital replacement and improvement needs are funded. This also pays for capital projects including the renewal, replacement and improvement of the current water treatment and delivery system.

Net position of the Water Enterprise Operations Fund as of June 30, 2017 was \$224.8 million, an increase of \$13.3 million from prior fiscal year. Operating revenues increased by \$14.9 million, mainly due to higher water sales revenue as a result of improved water demand and changes in the rate structure which include recovering 35 percent of revenue requirement through fixed charges and 65 percent as volume-based rates.

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

The Board also approved the continuation of the temporary conservation surcharge of \$0.57 per 100 Cubic Feet (CCF) or \$248 per AF in 2017 which generated additional \$4.1 million in revenue.

Intergovernmental revenue increased by \$3.3 million primarily due to a \$2.8 million state reimbursement grant for drought emergency projects. Operating expenses decreased by \$3.8 million or 9.0 percent mainly due to decreased contractual services by \$2.9 million and water storage costs by \$1.9 million, offset by a slight increase in salaries and benefits of \$0.6 million and water purchases of \$0.8 million

- **Water Expansion** – The purpose of this fund is to ensure that the Agency is able to meet future needs for increased water demands. The program is primarily intended to provide funding for new facilities and additional water supplies to serve additional capacity requirements of new development, many of them fixed (i.e., bond payment obligations for debt incurred by others to increase capacity). As of June 30, 2017, the net position for the fund was \$81.1 million, an increase of \$11.9 million from prior fiscal year.

Operating revenues were \$5.7 million less than the prior fiscal year. The decrease is mainly due to a \$6.0 million or 15.3 percent decrease in connection fee revenues for FY 2016-17 as a result of a decrease in the number of water connections from 1,600 connections in FY 2015-16 to 1,337 connections in FY 2016-17. Operating expenses were \$0.4 million or 2 percent more than prior fiscal year primarily due to staff time spent on expansion related capital projects. Non-operating revenues (expenses) increased by \$11.7 million from prior year mainly due to the retirement of the Altamont Water Treatment (AWTP) project (\$17.3M) in the prior year.

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

Governmental Funds Budgetary highlights

A comparative budgetary statement for the Agency's governmental fund (Special Revenue Fund) follows:

	Final Budgeted	Actual	Budget Variance	
	Amounts	Amounts	June 30, 2017	June 30, 2016
Resources (inflows):				
Property Taxes	\$7,725,739	\$7,895,448	\$169,709	\$856,988
Intergovernmental revenues	64,700	137,326	72,626	6,862
Charges for services	47,544	34,589	(12,955)	(24,047)
Interest and rentals	54,146	280,408	226,262	130,933
Other	110,910	13,263	(97,647)	5,202
Amounts available for appropriation	<u>\$8,003,039</u>	<u>\$8,361,034</u>	<u>\$357,995</u>	<u>\$975,938</u>
Charges to appropriations (outflows):				
Flood Protection:				
Salaries and employee benefits	2,030,194	1,785,156	245,038	171,708
Services and supplies	6,649,236	3,796,882	2,852,354	3,897,597
Capital outlay:				
Equipment and capital structures	1,982,550	1,534,626	447,924	4,191,785
Total changes to appropriations	<u>\$10,661,980</u>	<u>\$7,116,664</u>	<u>\$3,545,316</u>	<u>\$8,261,090</u>
Excess of resources over charges to appropriations	(2,658,941)	1,244,370	3,903,311	9,237,029
Other Financing Sources (Uses)				
Transfers (out) (Note 3)	(13,333)	(12,445)	(888)	13,333
Net change in fund balance	<u>(\$2,672,274)</u>	1,231,925	<u>\$3,904,199</u>	<u>\$9,223,696</u>
Fund balance, beginning of year		<u>20,666,297</u>		
Fund balance, end of year		<u><u>\$21,898,222</u></u>		

The Agency's actual special revenue fund revenues are over the budget by \$0.4 million or 4.5 percent due to slightly higher assessed value and an increase in interest earnings and rentals.

Variations between budget and actual expenditures in the special revenue fund reflect overall expenditures less than the final budget by \$3.5 million. The variance is primarily due the re-prioritization and deferral of capital projects whiles the Stream Management Master Plan (SMMP) and five-year Capital Improvement Program is being developed.

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

Capital assets

As of June 30, 2017, the agency's investment in capital assets totaled \$226.7 million (net of accumulated depreciation) which is an increase of \$7.4 million from the capital assets balance of \$219.3 million at June 30, 2016. The increase in capital assets was primarily due to the acquisition of the North Canyons Administration Office Building.

There were many capital project activities in FY 2016-17. They include the Del Valle Water Treatment Plant (DVWTP) Filter Valves Replacement, 3 MG Clearwell Roof Replacement and Rehabilitation Project, flood control slope repairs and planning for major projects such as the Patterson Pass Water Treatment Plant (PPWTP) New Media Filters, Clearwell and the Ozone at PPWTP and DVWTP. Additional information on the Agency's capital assets is provided in Note 4 of the financial statements.

	2017		2016		2017 vs. 2016		2015		2016 vs. 2015	
	\$		\$		\$ Change	% Change	\$		\$ Change	% Change
Easements	\$ 1.4	\$ 1.4	\$ -	0%	\$ 1.4	-	0%	\$ -	-	0%
Land	9.6	8.2	1.4	17%	8.2	-	0%	4.3	4%	
Treatment Plants	115.7	114.2	1.5	1%	109.9	(22.1)	-89%	-	0.0%	
Construction in Progress	4.7	2.6	2.1	82%	24.7	(0.2)	-0.2%	-	0%	
Office Building	7.1	1.3	5.8	82%	1.3	-	0%	-	0%	
Pipelines	53.9	53.9	-	0%	54.1	(0.2)	-0.2%	-	0%	
Reservoirs	1.9	1.9	-	0%	1.9	-	0%	-	0%	
Water Entitlements	36.7	36.7	-	0%	36.7	-	0%	-	0%	
Wellfields	30.7	30.3	0.4	1%	30.3	-	0%	-	0%	
Supervisory Control and Data Acquisition project	9.7	9.7	-	0%	9.7	-	0%	-	0%	
Other	5.5	5.1	0.4	8%	5.1	-	0%	-	0%	
Subtotal	276.9	265.1	11.8	4%	283.1	(18.1)	-6%			
Less Accumulated depreciation/amortization	82.1	76.2	6.0	8%	70.6	5.6	8%			
Capital assets, net	\$ 194.7	\$ 189.0	\$ 5.8	3%	\$ 212.6	\$ (23.6)	-11%			

	2017		2016		2017 vs. 2016		2015		2016 vs. 2015	
	\$		\$		\$ Change	% Change	\$		\$ Change	% Change
Easements	\$ -	\$ -	\$ -	0%	\$ -	-	0%	\$ -	-	0%
Land	20.3	20.0	0.3	2%	20.0	-	0%	-	0%	
Treatment Plants	-	-	-	0%	-	-	0%	-	0%	
Flood Control Channels	12.4	12.4	-	0%	12.4	-	0%	-	0%	
Construction in Progress	0.4	0.3	0.1	46%	0.05	0.2	431%	-	-	
Office Building	1.5	-	1.5	100%	-	-	0%	-	0%	
Pipelines	-	-	-	0%	-	-	0%	-	0%	
Reservoirs	-	-	-	0%	-	-	0%	-	0%	
Water Entitlements	-	-	-	0%	-	-	0%	-	0%	
Wellfields	-	-	-	0%	-	-	0%	-	0%	
Supervisory Control and Data Acquisition project	-	-	-	0%	-	-	0%	-	0%	
Other	1.0	1.0	-	0%	1.0	-	0%	-	0%	
Subtotal	35.6	33.7	1.9	6%	33.5	0.2	1%			
Less Accumulated depreciation/amortization	3.6	3.4	0.3	8%	3.1	0.3	8%			
Capital assets, net	\$ 32.0	\$ 30.3	\$ 1.7	5%	\$ 30.4	\$ (0.1)	-0.2%			

Management's Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

Debt Administration

The Agency operates under a pay-as-you-go basis which minimizes any debt financing.

Currently, the Agency does not maintain any outstanding debt obligations. However, the Agency partners with other public agencies and pays for debt incurred on the Agency's behalf. For example, the Agency pays the debt service obligation for Cawelo Water District for the Groundwater Banking Program which is in the Capital Improvement Plan (CIP). Similarly, the State incurs debt for capital projects to maintain, improve or expand the State Water Project infrastructure. The Agency, under the terms of its contract with the State, is obligated to pay its share of the debt payments regardless of the amount of water purchased.

The Agency has a bonded indebtedness limit that shall not exceed 5 percent of the assessed valuation of all taxable property in any zone lying, in whole or in part of the agency's service area, per Alameda County Flood Control and Water Conservation District Act, (ACT 20), §36.6.

Economic factors and next year's budget and rates

- Although the Statewide drought continued through the first part of 2016, Northern California largely recovered its surface water supplies by the year's end. By April 2016, water supply conditions had vastly improved, leading Governor Jerry Brown to reassess conservation mandates. Given Zone 7's supply and storage conditions at that time, there was no need to continue mandatory conservation within the service area. In June 2016, the Board lifted the local drought emergency and set a voluntary 10 percent conservation target to support ongoing statewide water conservation efforts. Despite the improved conditions, staff continued working with the water retailers to promote wise use of water throughout 2016.
- Actual 2016 water demand on Zone 7 was 34,000 acre-feet. Conservation was about 31 percent Valley-wide compared to 2013 demands, far exceeding the state average. Zone 7 strives to maximize the amount of water placed into storage both locally and outside its service area. In addition to minimizing groundwater pumping, Zone 7 maximized recharge in 2016 by recharging the main groundwater basin and by sending surplus water to Kern County groundwater banks. Zone 7 can recover water from these offsite groundwater banks in dry years, just as it did in 2014 and 2015 to augment supplies.
- In FY2016-17, the service area continued to experience improvement in the number of new home and commercial permits being pulled, such as the Jordan, Schafer, Heritage, Wallis Ranch Development, Dublin, and KB Homes in Livermore. Also, development in the Gale Ranch development in Dougherty Valley, Commons at Gateway, Civic Gateway and Township Square Apartments in Pleasanton.
- Alameda County's average unemployment rates markedly improved, registering 4.0 percent as of June 2017 versus the 4.9 percent for California and 4.4 percent for all of the United States.
- Other economic issues facing the Agency include the fiscal impacts of per capita water demands decreasing while fixed costs remain high, declining reliability of the State Water Project resulting in higher imported water purchase costs from other sources combined with the continued increasing need to allocate funds to the Asset Management Program (AMP) for infrastructure maintenance and improvements.

Management’s Discussion and Analysis for the Years Ended June 30, 2017 and 2016 (continued)

- In October 19, 2016, the Board approved changing the water rate structure to include recovering 35 percent of revenue requirements through a fixed charge and 65 percent as volume-based rates. The Board also approved the continuation of the temporary conservation surcharge of \$0.57 per 100 Cubic Feet (CCF) or \$248 per AF in 2017 which will sunset on December 31, 2017. The Agency will recover \$14.2 million and \$15.7 million for CY 2017 and CY 2018, respectively as fixed charge to retailers and the adopted volume-based rates are as follows:

<u>Volume-based Rate</u>	<u>CY 2017</u>	<u>CY 2018</u>
Rate per CCF	\$ 1.98	\$ 2.04
Temporary Surcharge per CCF	0.57	-
Total per CCF	<u>\$ 2.55</u>	<u>\$ 2.04</u>

The above factors were considered in preparing the Agency’s FY 2017-18 Budget and the water rates for calendar years 2017 and 2018.

Requests for Information

This financial report is designed to provide our customers, ratepayers, investors and creditors with a general overview of the Agency’s finances and to demonstrate accountability for the money it receives. Requests for additional financial information should be addressed to the Finance Department, Zone 7 Water Agency, 100 N. Canyons Parkway, Livermore, CA 94551. This report is also available online at <http://www.zone7water.com>.

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ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY

STATEMENT OF NET POSITION

JUNE 30, 2017

WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total	
			2017	2016
ASSETS				
Current assets				
Pooled Cash in County Treasury (Note 2)	\$79,828,699	\$143,603,619	\$223,432,318	\$189,081,183
Cash in bank (Note 2)	90,503	2,569,732	2,660,235	
Accounts receivable, net	790,293	8,342,082	9,132,375	14,185,811
Prepaid expenses		988,500	988,500	4,709,931
Total current assets	80,709,495	155,503,933	236,213,428	207,976,925
Noncurrent assets				
Capital assets (Note 4):				
Rights of way, water entitlements, easements and construction in progress	20,703,507	52,299,861	73,003,368	69,035,606
Depreciable, net	11,287,039	142,432,336	153,719,375	150,267,465
Total noncurrent assets	31,990,546	194,732,197	226,722,743	219,303,071
Total assets	112,700,041	350,236,130	462,936,171	427,279,996
DEFERRED OUTFLOW OF RESOURCES				
Pension related (Note 6)	812,725	9,274,131	10,086,856	11,249,727
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	662,001	2,572,503	3,234,504	3,430,940
Deposits-water facilities		342,940	342,940	332,725
Unearned revenue				
Compensated absences (Note 1K)		800,130	800,130	798,477
Total current liabilities	662,001	3,715,573	4,377,574	4,562,142
Noncurrent liabilities				
Compensated absences (Note 1K)		447,774	447,774	470,706
Net pension liability (Note 6)	2,053,641	23,434,427	25,488,068	24,951,866
Total noncurrent liabilities	2,053,641	23,882,201	25,935,842	25,422,572
Total liabilities	2,715,642	27,597,774	30,313,416	29,984,714
DEFERRED INFLOW OF RESOURCES				
Pension related (Note 6)	172,949	1,973,550	2,146,499	1,180,106
NET POSITION (Note 5)				
Net investment in capital assets	31,990,546	194,732,197	226,722,743	219,303,071
Restricted for				
Capital Projects and Water Expansion	58,149,272	97,494,721	155,643,993	138,210,977
Unrestricted	20,484,357	37,712,019	58,196,376	49,850,855
Total net position	\$110,624,175	\$329,938,937	\$440,563,112	\$407,364,903

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2017
 WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Total
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Flood Protection Operations	\$5,341,751	\$34,589	\$137,326	\$185,178
Flood Protection Development Impact Fee	1,841,555	3,520,207	44,092	3,564,299
Total governmental activities	7,183,306	3,554,796	181,418	3,749,477
Business-type activities:				
State Water Project	20,985,604	20,795,420	3,512,179	24,307,599
Water Enterprise	60,641,826	77,751,701	6,666,935	84,418,636
Total business-type activities	81,627,430	98,547,121	10,179,114	108,726,235
Total	\$88,810,736	\$102,101,917	\$10,360,532	\$112,475,712
General revenues:				
Property taxes:				
Secured				
Unsecured				
Supplemental				
Investment earnings				
Rental charges				
Other				
Total general revenues				
Transfers, net				
Change in net position				
Net position-beginning of year				
Net position-end of year				

See accompanying notes to financial statements

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total	
		2017	2016
(\$5,156,573)		(\$5,156,573)	(\$5,193,631)
1,722,744		1,722,744	6,614,409
(3,433,829)		(3,433,829)	1,420,778
	\$3,321,995	3,321,995	4,855,567
	23,776,810	23,776,810	(3,509,123)
	27,098,805	27,098,805	1,346,444
(3,433,829)	27,098,805	23,664,976	2,767,222
7,290,201		7,290,201	6,772,787
361,388		361,388	364,167
243,859		243,859	192,163
518,982	915,090	1,434,072	838,827
128,887	74,826	203,713	196,861
			22,356
8,543,317	989,916	9,533,233	8,387,161
(12,445)	12,445		
5,097,043	28,101,166	33,198,209	11,154,383
105,527,132	301,837,771	407,364,903	396,210,520
<u>\$110,624,175</u>	<u>\$329,938,937</u>	<u>\$440,563,112</u>	<u>\$407,364,903</u>

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 AS OF JUNE 30, 2017

WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Flood Protection Operations	Flood Protection Development Impact Fee	Totals	
			2017	2016
ASSETS				
Current assets				
Cash in County treasury (Note 2)	\$22,548,470	\$57,280,229	\$79,828,699	\$75,970,975
Cash in Agency treasury (Note 2)		90,503	90,503	
Accounts receivable, net	446	789,847	790,293	1,381,356
Total assets	\$22,548,916	\$58,160,579	\$80,709,495	\$77,352,331
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	\$650,694	\$11,307	\$662,001	\$626,967
Total liabilities	650,694	11,307	662,001	626,967
FUND BALANCES (Note 5)				
Restricted		58,149,272	58,149,272	56,059,067
Committed:				
Flood Protection Capital Projects	11,484,627		11,484,627	15,683,435
Flood Protection Operating Contingency	7,035,225		7,035,225	4,333,049
Flood Protection Encumbrances	3,378,370		3,378,370	649,813
Total fund balances	21,898,222	58,149,272	80,047,494	76,725,364
Total liabilities and fund balances	\$22,548,916	\$58,160,579	\$80,709,495	\$77,352,331

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 RECONCILIATION OF
 GOVERNMENTAL FUNDS - FUND BALANCE
 WITH THE GOVERNMENTAL ACTIVITIES
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	2017
TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$80,047,494
<p>Amounts reported for Governmental Activities in the Statement of Net position are different from those reported in the Governmental Funds above because of the following:</p>	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	31,990,546
LONG TERM LIABILITIES	
Net pension liability and related deferred inflows and outflows of resources	(1,413,865)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$110,624,175

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2017
 WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Flood Protection Operations	Flood Protection Development Impact Fee	Totals	
			2017	2016
REVENUES				
Property taxes	\$7,895,448		\$7,895,448	\$7,329,117
Intergovernmental revenues	137,326	\$44,092	181,418	71,562
Charges for services	34,589	3,520,207	3,554,796	7,432,934
Interest and rentals	280,408	367,461	647,869	465,771
Other revenues	13,263		13,263	62,558
	<u>8,361,034</u>	<u>3,931,760</u>	<u>12,292,794</u>	<u>15,361,942</u>
EXPENDITURES				
Current:				
Flood protection:				
Salaries and employee benefits				
transferred from district-wide	1,785,156	176,568	1,961,724	2,455,453
Services and supplies	3,796,882	390,361	4,187,243	3,354,938
Capital outlay:				
Equipment and capital infrastructure	1,534,626	1,274,626	2,809,252	
	<u>7,116,664</u>	<u>1,841,555</u>	<u>8,958,219</u>	<u>5,810,391</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,244,370</u>	<u>2,090,205</u>	<u>3,334,575</u>	<u>9,551,551</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 3)	(12,445)		(12,445)	(13,333)
NET CHANGE IN FUND BALANCES	1,231,925	2,090,205	3,322,130	9,538,218
FUND BALANCES, BEGINNING OF YEAR	<u>20,666,297</u>	<u>56,059,067</u>	<u>76,725,364</u>	<u>67,187,146</u>
FUND BALANCES, END OF YEAR	<u><u>\$21,898,222</u></u>	<u><u>\$58,149,272</u></u>	<u><u>\$80,047,494</u></u>	<u><u>\$76,725,364</u></u>

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 RECONCILIATION OF THE
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 WITH THE
 CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2017

2017

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$3,322,130
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance	1,919,946
Depreciation expense is deducted from the fund balance	(264,038)

ACCRUAL OF NONCURRENT ITEMS

Net pension liability and related deferred inflows and outflows of resources	<u>119,005</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$5,097,043</u></u>
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See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 FLOOD PROTECTION OPERATIONS
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$7,725,739	\$7,725,739	\$7,895,448	\$169,709
Intergovernmental revenue	64,700	64,700	137,326	72,626
Charges for services	47,544	47,544	34,589	(12,955)
Interest and rentals	54,146	54,146	280,408	226,262
Other revenue	110,910	110,910	13,263	(97,647)
TOTAL REVENUES	8,003,039	8,003,039	8,361,034	357,995
EXPENDITURES				
Current:				
Flood protection:				
Salaries and benefits	2,030,194	2,030,194	1,785,156	245,038
Services and supplies	6,649,236	6,649,236	3,796,882	2,852,354
Capital outlay:				
Equipment and capital structure	1,022,550	1,982,550	1,534,626	447,924
TOTAL EXPENDITURES	9,701,980	10,661,980	7,116,664	3,545,316
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(1,698,941)	(2,658,941)	1,244,370	3,903,311
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 3)	(13,333)	(13,333)	(12,445)	(888)
NET CHANGE IN FUND BALANCE	(\$1,712,274)	(\$2,672,274)	1,231,925	\$3,904,199
Fund balance, beginning of year			20,666,297	
Fund balance, end of year			\$21,898,222	

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017
 WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	State Water Facilities	Water Enterprise Operations	Water Enterprise Capital Expansion	Non-Major Enterprise Funds	Totals	
					2017	2016
ASSETS						
Current assets:						
Cash in County treasury (Note 2)	\$15,465,157	\$42,373,396	\$77,746,525	\$8,018,541	\$143,603,619	\$113,110,208
Cash in Agency treasury (Note 2)		102,300	2,467,432		2,569,732	
Receivables, net		6,889,596	1,452,486		8,342,082	12,804,455
Prepaid deposits	898,500	90,000			988,500	4,709,931
Total current assets	<u>16,363,657</u>	<u>49,455,292</u>	<u>81,666,443</u>	<u>8,018,541</u>	<u>155,503,933</u>	<u>130,624,594</u>
Noncurrent assets:						
Capital assets (Note 4):						
Right of ways, water entitlements and construction in progress		52,299,861			52,299,861	48,792,289
Improvements, net of depreciation		142,432,336			142,432,336	140,176,144
Total noncurrent assets		<u>194,732,197</u>			<u>194,732,197</u>	<u>188,968,433</u>
Total assets	<u>16,363,657</u>	<u>244,187,489</u>	<u>81,666,443</u>	<u>8,018,541</u>	<u>350,236,130</u>	<u>319,593,027</u>
DEFERRED OUTFLOW OF RESOURCES						
Pension related (Note 6)		9,034,229	239,902		9,274,131	10,091,004
LIABILITIES						
Current liabilities:						
Accounts payable and accrued expenses		2,454,471	118,032		2,572,503	2,803,973
Deposits				342,940	342,940	332,725
Unearned Revenue						
Compensated absences (Note 1J)		800,130			800,130	798,477
Total current liabilities		<u>3,254,601</u>	<u>118,032</u>	<u>342,940</u>	<u>3,715,573</u>	<u>3,935,175</u>
Noncurrent liabilities:						
Compensated absences (Note 1J)		447,774			447,774	470,706
Net pension liability (Note 6)		22,828,229	606,198		23,434,427	22,381,824
Total noncurrent liabilities		<u>23,276,003</u>	<u>606,198</u>		<u>23,882,201</u>	<u>22,852,530</u>
Total liabilities		<u>26,530,604</u>	<u>724,230</u>	<u>342,940</u>	<u>27,597,774</u>	<u>26,787,705</u>
DEFERRED INFLOW OF RESOURCES						
Pension related (Note 6)		1,922,499	51,051		1,973,550	1,058,555
NET POSITION (Note 5)						
Net Investment in capital assets Restricted for		194,732,197			194,732,197	188,968,433
Capital Projects and Water Expansion Unrestricted	16,363,657	30,036,418	81,131,064	7,675,601	97,494,721	82,151,910
Total net position	<u>16,363,657</u>	<u>224,768,615</u>	<u>81,131,064</u>	<u>7,675,601</u>	<u>329,938,937</u>	<u>301,837,771</u>
Total liabilities, deferred inflows and net position	<u>\$16,363,657</u>	<u>\$253,221,718</u>	<u>\$81,906,345</u>	<u>\$8,018,541</u>	<u>\$359,510,261</u>	<u>\$329,684,031</u>

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017
 WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	State Water Facilities	Water Enterprise Operations	Water Enterprise Capital Expansion	Non-Major Enterprise Funds	Totals	
					2017	2016
OPERATING REVENUES						
Water sales		\$42,975,960			\$42,975,960	\$28,110,974
Connection and development fees			\$33,128,280		33,128,280	39,135,444
Charges for services		1,201,296			1,201,296	976,853
Other revenues	\$2,270,670	76,152	327,892	\$42,121	2,716,835	2,000,146
Total operating revenues	2,270,670	44,253,408	33,456,172	42,121	80,022,371	70,223,417
OPERATING EXPENSES						
Salaries, wages and benefits		19,282,818	659,758		19,942,576	18,969,911
Contractual services		2,101,745	322,112		2,423,857	5,485,599
Technical supplies		120,612			120,612	117,754
Chemical purchases		1,767,573			1,767,573	1,861,443
Water purchases	20,985,604	3,132,972	18,955,358		43,073,934	41,896,290
Water storage		722,455	1,346,209		2,068,664	3,989,716
Utilities		1,413,714	325		1,414,039	1,376,686
Maintenance and repairs		1,093,932			1,093,932	1,366,627
Equipment and building rents		581,483	371,570		953,053	1,221,495
Other services and supplies		1,474,626	628,434		2,103,060	1,940,636
Risk management		575,423			575,423	435,213
Depreciation (Note 4)		6,090,707			6,090,707	5,947,283
Total operating expenses	20,985,604	38,358,060	22,283,766		81,627,430	84,608,653
Operating income (loss)	(18,714,934)	5,895,348	11,172,406	42,121	(1,605,059)	(14,385,236)
NONOPERATING REVENUES and (EXPENSES)						
Retirement of capital assets						(17,270,205)
Property taxes	18,524,750				18,524,750	17,716,841
Intergovernmental revenue	3,512,179	3,457,917	3,209,018		10,179,114	15,285,044
Interest income and rental fees	105,139	333,977	496,370	54,430	989,916	569,917
Total nonoperating revenues (expenses)	22,142,068	3,791,894	3,705,388	54,430	29,693,780	16,301,597
Income (loss) before transfers	3,427,134	9,687,242	14,877,794	96,551	28,088,721	1,916,361
Transfers in (Note 3)		3,589,815	615,253		4,205,068	17,289,838
Transfers (out) (Note 3)			(3,577,370)	(615,253)	(4,192,623)	(17,276,505)
Change in net position	3,427,134	13,277,057	11,915,677	(518,702)	28,101,166	1,929,694
Net position, beginning of year	12,936,523	211,491,558	69,215,387	8,194,303	301,837,771	299,908,077
Net position, end of year	\$16,363,657	\$224,768,615	\$81,131,064	\$7,675,601	\$329,938,937	\$301,837,771

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2017
 WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	State Water Facilities	Water Enterprise Operations	Water Enterprise Capital Expansion	Non-Major Enterprise Funds	Total	
					2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$3,015,796	\$45,492,602	\$3,302,397	\$52,336	\$51,863,131	\$22,587,514
Connection and development fees			36,353,259		36,353,259	40,866,813
Payments to employees		(16,706,512)	(472,872)		(17,179,384)	(17,248,613)
Payments to suppliers	(20,985,604)	(13,323,476)	(21,516,537)		(55,825,617)	(59,779,916)
Net cash provided (used) by operating activities	(17,969,808)	15,462,614	17,666,247	52,336	15,211,389	(13,574,202)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in		3,589,815	615,253		4,205,068	17,289,838
Transfers (out)			(3,577,370)	(615,253)	(4,192,623)	(17,276,505)
Property tax	18,524,750				18,524,750	17,716,841
Intergovernmental	3,512,179	3,457,917	3,209,018		10,179,114	15,285,044
Cash flows from noncapital financing activities	22,036,929	7,047,732	246,901	(615,253)	28,716,309	33,015,218
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Gain (Loss) on disposal of capital asset						(17,270,205)
Purchase of property, plant, and equipment		(11,854,471)			(11,854,471)	17,647,081
Cash flows from (used for) capital and related financing activities		(11,854,471)			(11,854,471)	376,876
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received on investments	105,139	333,977	496,370	54,430	989,916	569,917
Cash flows from investing activities	105,139	333,977	496,370	54,430	989,916	569,917
Net increase (decrease) in cash and cash equivalents	4,172,260	10,989,852	18,409,518	(508,487)	33,063,143	20,387,809
Pooled cash in County treasury at beginning of period	11,292,897	31,485,844	61,804,439	8,527,028	113,110,208	92,722,399
Pooled cash in County treasury at end of period	\$15,465,157	\$42,475,696	\$80,213,957	\$8,018,541	\$146,173,351	\$113,110,208
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	(\$18,714,934)	\$5,895,348	\$11,172,406	\$42,121	(\$1,605,059)	(\$14,385,236)
Adjustments to reconcile operating income (loss) to cash flows						
Depreciation		6,090,707			6,090,707	5,947,283
Changes in assets and liabilities						
Receivables		1,237,394	3,224,979		4,462,373	(2,153,045)
Prepays	745,126	1,800	2,974,505		3,721,431	(4,619,931)
Accounts payable and accrued expenses		(338,941)	107,471		(231,470)	(72,457)
Unearned revenue						(16,000)
Compensated absences		(21,279)			(21,279)	61,304
Deposits				10,215	10,215	3,886
Net pension liability, deferred inflows and deferred outflows		2,597,585	186,886		2,784,471	1,659,994
Net cash provided (used) by operating activities	(17,969,808)	15,462,614	17,666,247	52,336	15,211,389	(13,574,202)
Non cash transactions						
Capital asset retirements						(17,270,205)

See accompanying notes to financial statements

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**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The Alameda County Flood Control and Water Conservation District – Zone 7 Water Agency (Agency) is a public corporation, organized and existing under the constitution and laws of the State of California. The Agency provides various services including the purchase, treatment and sales of water and the maintenance of flood control channels within the boundaries of its service area. The financial statements of the Agency have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for governmental accounting and financial reported purposes.

B. Basis of Presentation

Government-Wide Statements

The statement of net position and statement of activities display information about the primary government (the Agency). These statements distinguish between the *governmental* and *business-type activity* of the Agency. 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.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activity of the Agency and for each function of the Agency'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 are available, restricted resources are used for qualified expenditures for capital improvement projects before any unrestricted resources are spent.

Fund Financial Statements

The fund financial statements provide information about the Agency's funds. The fund financial statements present all governmental funds and the water enterprise funds.

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

Major governmental funds are identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The Agency may also select other funds it believes should be presented as major funds.

The Agency reported the following major governmental funds in the accompanying financial statements:

- The *Flood Protection Operations Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the Agency that are not accounted for through other funds.
- The *Flood Protection Development Impact Fee Fund* is used for the acquisition, construction, engineering and improvement of the flood protection and /or storm water drainage elements of the Stream Management Master Plan of Zone 7, or to reduce the principal or interest of any bonded indebtedness thereof.

The Agency reports the following major proprietary funds:

- The *State Water Facilities Fund* is used for fixed State water charges and State water project bonded indebtedness.
- The *Water Enterprise Operations Fund* account for enterprise operation and administration, emergency and support services, variable State water charges, water facilities maintenance and operation, renewal and replacement program, water facilities, water resources and water supply planning.
- The *Water Enterprise Capital Expansion Fund* is used for Water Enterprise capital expansion projects and water purchases.

The Agency reports the following non-major proprietary funds:

- The *Water Facilities Fund* is used for Chain of Lakes mitigation and planning reserve, quarry discharge exports, miscellaneous fees and deposits, and permit inspection deposits.
- The *Water Supply and Reliability Fund* is used for future water, water storage and Delta-related projects.

C. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Agency 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 the grant revenue is received; and revenue from investments is recognized when earned.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Enterprise Operations fund is the sale of water to outside customers. Operating expenses for the fund 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.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows the Agency defines cash and cash equivalents to include all cash and temporary investments with original maturities of three months or less from the date of acquisition, including restricted assets, and all pooled deposits.

E. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Receivables

Accounts receivable arise from billings to customers for water and certain improvements made to customers' property. Uncollectible amounts from individual customers are not significant.

G. Capital Assets

Capital assets are those purchased or acquired with a useful life greater than one year and an original cost greater than \$250,000 for infrastructure, buildings, building improvements, land improvements and software. The Agency capitalizes equipment and land with a useful life greater than one year and an original cost greater than \$5,000. These assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Donated works of art and similar items and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

Capital Assets	Useful Life
Treatment plants	40 years
Treatment plants improvements	10 - 40 years
Sludge drying ponds	40 years
Pipeline	40 years
Equipment	3-10 years
Reservoir	40 years
Office building	40 years
Wellfields	40 years
Flood control channels	50 years
Rights of way	Indefinite
Water entitlement	Indefinite

H. Budgets and Budgetary Accounting

Formal budgets are employed as a management control during the year for the Funds.

Budgets for the Governmental Funds are prepared to include encumbrances at year end. Budget comparisons presented are on this Non-GAAP budgetary basis.

I. Encumbrances – Governmental Fund Financial Statements

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the Flood Protection Operations Fund and Flood Protection Development Impact Fee Fund. Encumbrances at year end are reported as reservation of fund balances since they do not constitute expenditures or liabilities.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Property Taxes

The Agency receives property taxes and fixed state water charges from Alameda County. The Agency recognizes property taxes as revenue in the fiscal year of levy, based on the assessed value as of September 1 of the preceding fiscal year. They become a lien on the first day of the year they are levied. Secured property tax is levied on September 1 and due in two installments, on November 1 and March 1. They become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on July 1, and become delinquent on August 31. The Agency elected to receive the property taxes from the County under the Teeter Bill. Under this program the Agency receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

K. Compensated Absences

The Agency’s policy allows employees to accumulate earned but unused vacation and overtime compensation, subject to a vesting policy. The cost of vacation is recorded in the period it is earned. The Agency will recognize accrued vacation to the maximum of vacation earned during the preceding two years prior to separation of service. Accumulated employee sick leave benefits are not recognized as liabilities of the Agency, as these benefits do not vest with the employee. Therefore, sick leave is recorded as an expenditure in the period that the benefit is taken. As of June 30, 2017, the balance of compensated absences is:

Beginning Balance	\$1,269,183
Additions/Payments	<u>(21,279)</u>
Ending Balance	<u>\$1,247,904</u>
Current Portion	<u>\$800,130</u>
Non-current Portion	<u>\$447,774</u>

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position or balance sheet will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

**ALAMEDA COUNTY FLOOD CONTROL AND
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

N. Implementation of Governmental Accounting Standards Board (GASB) Pronouncement

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement, which became effective during the year ended June 30, 2017.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB Statement No. 74) establishes new accounting and financial reporting requirements for OPEB plans, as well as for certain nonemployer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB Statement No. 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. This statement did not have a significant impact to the Agency's financial statements.

GASB Statement No. 77, Tax Abatement Disclosures, requires governments that enter into tax abatement agreements to disclose additional information about the agreements including a brief descriptive information, the gross dollar amount of taxes abated during the period, and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This statement did not have a significant impact to the Agency's financial statements.

GASB Statement No. 78, Pensions Provided through Certain Multiple Employer Defined Benefit Pension Plans, which addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). It also establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for those pensions. This statement did not have a significant impact to the Agency's financial statements.

GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14, to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments, which was established in paragraph 53 of Statement No. 14, The Financial Reporting Entity. This statement did not have a significant impact to the Agency's financial statements.

**ALAMEDA COUNTY FLOOD CONTROL AND
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FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement did not have a significant impact to the Agency's financial statements.

O. New GASB Pronouncements

In June 2014, the GASB issued *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75), which establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB plans improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions and Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. GASB Statement No. 75 is effective for the Agency's fiscal year ending June 30, 2018.

In March 2016, the GASB issued *Statement No. 81, Irrevocable Split-Interest Agreements*, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize revenues, assets, liabilities, and deferred inflows of resources. GASB Statement No. 81 is effective for the Agency's fiscal year ending June 30, 2018.

In November 2016, the GASB issued *Statement No. 83, Certain Asset Retirement Obligations* (GASB Statement No. 83), to address accounting and financial reporting for certain asserts retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB Statement No. 83 statement requires the current value of a government's AROs to annually be adjusted for the effects of general inflation or deflation, and relevant factors that may significantly change the estimated asset retirement outlays. This statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. GASB Statement No. 83 is effective for the Agency's fiscal year ending June 30, 2019.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2017, the GASB issued **Statement No. 84, *Fiduciary Activities*** (GASB Statement No. 84), to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement establishes criteria for identifying fiduciary activities of all state and local governments. It also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB Statement No. 84 is effective for the Agency's fiscal year ending June 30, 2020.

In March 2017, the GASB issued **Statement No. 85, *Omnibus 2017*** (GASB Statement No. 85), to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB Statement No. 85 is effective for the District's fiscal year ending June 30, 2018.

In May 2017, the GASB issued **Statement No. 86, *Certain Debt Extinguishment Issues*** (GASB Statement No. 86), to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement requires additional disclosure for all in-substance defeasance transactions. It also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB Statement No. 86 is effective for the Agency's fiscal year ending June 30, 2018.

In June 2017, the GASB issued **Statement No. 87, *Leases*** (GASB Statement No. 87), 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 also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB Statement No. 87 is effective for the Agency's fiscal year ending June 30, 2021.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 2 – CASH AND INVESTMENTS

The Agency follows the County’s practice of pooling cash and investments with the County Treasurer.

Summary of the cash and investments is as follows:

	2017	2016
Pooled Cash and Investment in County Treasury	\$223,432,318	\$189,081,183
Cash in Bank	2,660,235	
Total	\$226,092,553	\$189,081,183
Cash and Investments in Governmental Funds	\$79,919,202	\$75,970,975
Cash in Proprietary Funds	146,173,351	113,110,208
Total	\$226,092,553	\$189,081,183

Investment in the Alameda County Treasurer’s Investment Pool

A portion of the Agency’s cash is pooled with the Alameda County Treasurer, who acts as disbursing agent for the Agency. The fair value of the Agency’s investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency’s pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the Treasurer is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter.

Investment Guidelines

The Agency’s pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of principal, liquidity and yield.

The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the County investment policy is available upon request from the Alameda County Auditor-Controller’s Office at 1221 Oak Street, Room 249, Oakland, California, 94612.

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. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 2 – CASH AND INVESTMENTS (Continued)

As of June 30, 2017, approximately 58.6 percent of the securities in the Treasury Pool had maturities of one year or less as reported by Alameda County Treasurer.

Disclosures Relating to Credit Risk

Generally, 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 Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government 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. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty 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.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2017 Alameda County Comprehensive Annual Financial Report.

Fair Value Hierarchy

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

As of June 30, 2017 the Agency had \$223,432,318 of cash and investments pooled with the Alameda County Treasurer that is exempt from the fair value hierarchy. The fair value of the pooled investment fund is provided by the Alameda County Treasurer and is valued using quoted prices for identical instruments in markets that are not active. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
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FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 3 – INTERFUND TRANSFERS

Transfers during the fiscal year ended June 30, 2017, comprised of the following:

Fund Making Transfer	Fund Receiving Transfers	Amount Transferred
Governmental Fund		
Flood Protection Operations	Water Enterprise Operations Funds	\$12,445 (A)
Enterprise Funds:		
Water Enterprise Capital Expansion	Water Enterprise Operations Funds	3,577,370 (B)
Water Enterprise Supply Trust	Water Enterprise Capital Expansion	615,253 (A)
		<u>\$4,205,068</u>

(A) Transfer to fund vehicle replacement.

(B) Transfer of completed construction projects and other fixed assets.

NOTE 4 – CAPITAL ASSETS

A. Summary

The following is a summary of capital assets as of June 30, 2017:

	Balance at June 30, 2016	Additions	Balance at June 30, 2017
<i>Governmental Activities</i>			
Capital assets not being depreciated:			
Rights of way	\$19,987,928	\$342,412	\$20,330,340
Construction in progress	255,389	117,778	373,167
Total capital assets not being depreciated	<u>20,243,317</u>	<u>460,190</u>	<u>20,703,507</u>
Capital assets being depreciated:			
Flood control channels	12,393,619		12,393,619
Other infrastructure	1,048,885		1,048,885
Office building		1,459,756	1,459,756
Total capital assets being depreciated	<u>13,442,504</u>	<u>1,459,756</u>	<u>14,902,260</u>
Less accumulated depreciation for:			
Flood control channels	3,305,294	231,734	3,537,028
Other infrastructure	45,889	26,222	72,111
Office building		6,082	6,082
Total accumulated depreciation	<u>3,351,183</u>	<u>264,038</u>	<u>3,615,221</u>
Net capital assets being depreciated	<u>10,091,321</u>	<u>1,195,718</u>	<u>11,287,039</u>
Governmental activity capital assets, net	<u>\$30,334,638</u>	<u>\$1,655,908</u>	<u>\$31,990,546</u>

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 4 – CAPITAL ASSETS (Continued)

<i>Business-Type Activities</i>	Balance at June 30, 2016	Additions	Retirements	Balance at June 30, 2017
Capital assets not being depreciated:				
Rights of way	\$8,183,433	\$1,369,648		\$9,553,081
Water entitlements	36,655,364			36,655,364
Easements	1,350,090			1,350,090
Construction in progress	2,603,403	2,137,923		4,741,326
Total capital assets not being depreciated	48,792,290	3,507,571		52,299,861
Capital assets being depreciated:				
Equipment	3,520,263	538,248	\$125,167	3,933,344
Treatment plants	114,153,529	1,591,568		115,745,097
Office building	1,264,251	5,839,025		7,103,276
Reservoir	1,934,197			1,934,197
Pipelines	53,929,751			53,929,751
Wellfields	30,309,325	378,059		30,687,384
Supervisory Control and Data Acquisition project	9,704,664			9,704,664
Other infrastructure	1,536,435			1,536,435
Total capital assets being depreciated	216,352,415	8,346,900	125,167	224,574,148
Less accumulated depreciation for:				
Equipment	2,877,718	259,062	125,167	3,011,613
Treatment plants	43,856,478	3,204,445		47,060,923
Office building	911,556	55,936		967,492
Reservoir	1,102,706	48,355		1,151,061
Pipelines	15,216,863	1,241,532		16,458,395
Wellfields	6,489,402	757,733		7,247,135
Supervisory Control and Data Acquisition project	5,580,181	485,233		6,065,414
Other infrastructure	141,368	38,411		179,779
Total accumulated depreciation	76,176,272	6,090,707	125,167	82,141,812
Net capital assets being depreciated	140,176,143	2,256,193		142,432,336
Business-Type activity capital assets, net	\$188,968,433	\$5,763,764		\$194,732,197

**ALAMEDA COUNTY FLOOD CONTROL AND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 4 – CAPITAL ASSETS (Continued)

B. Construction in Progress

Construction in Progress at June 30, 2017 comprises the following projects:

Governmental Activities:

Projects	
Arroyo Mocho Medieros	\$316,958
Arroyo Mocho Granada/Murrieta	7,220
Arroyo Mocho-Stanley Reach	48,989
Total	\$373,167

Business-Type Activities:

Projects	
Busch Valley Well #1	\$1,820,077
Arroyo Mocho/Lake H Diversion	399,090
DVWTP Ozonation	1,507,915
Stoneridge Well NaOCI Tank R/R	249,346
DVWTP 4.5 MG Clearwell Interior Recoating	78,970
Patterson Pass Water Treatment Plant Ozonation	85,903
Patterson Pass Water Treatment Plant Upgrades	589,178
DVWTP Aqua Ammonia Facility	10,847
Total	\$4,741,326

C. Depreciation Allocation

Capital depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

Flood Protection	\$264,038
Total depreciation governmental activities	\$264,038

Business-Type Activities:

Water Enterprise Operations	\$6,090,707
Total depreciation business-type activities	\$6,090,707

**ALAMEDA COUNTY FLOOD CONTROL AND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 5 – NET POSITION AND FUND BALANCES

Net Position

Net Position is the excess of all the Agency's assets over all its liabilities, regardless of fund. Net Position are divided into three captions under GASB Statement 34. These captions apply only to Net Position and are described below:

Net investment in capital assets describes the portion of Net Position which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position, if any, which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and fees charged for the provision of future water resources.

Unrestricted describes the portion of Net Position which is not restricted to use.

Fund Balance

Governmental fund balances represent the net current position of each fund. Net current positions generally represent a fund's cash and receivables, less its liabilities.

The Agency's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the Agency to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Agency prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Restricted fund balances, if any, have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by formal action of the Board of Directors which may be altered only by formal resolution of the Board of Directors. Encumbrances and nonspendable amounts subject to Board commitments are included along with spendable resources.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
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FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 6 – RETIREMENT PLAN

A. Alameda County Employees’ Retirement Association Pension Plan

Plan Descriptions – Substantially all Agency permanent employees are required to participate in the Alameda County Employees’ Retirement Association (ACERA), a cost-sharing multiple employer public defined benefit retirement plan (Plan). The latest available actuarial and financial information for the Plan is for the year ended December 31, 2016. ACERA issues a publicly available financial report that includes financial statements and supplemental information of the Plan. That report is available by writing to Alameda County Employees’ Retirement Association, 475 14th Street #1000, Oakland, California 94612.

Benefits Provided – The Plan provides for retirement, disability, and death and survivor benefits. Annual cost of living (COL) adjustments to retirement allowances can be granted by the Retirement Board as provided by State statutes. Retirement benefits are based on age, length of service, date of membership and final average salary.

Subject to vested status, employees can withdraw contributions plus interests credited, or leave them as a deferred retirement when they terminate, or transfer to a reciprocal retirement system.

The Plans’ provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Tier 1	Tier 2	Tier 4
Hire date	Prior to July 1, 1983	July 1, 1983 to December 31, 2012	On or after January 1, 2013
Benefit formula	2.6% at 62	2.43% at 65	2.5% at 67
Benefit vesting schedule	Age 50 with 5 years of service and a total of 10 years of qualifying membership, or age 70 regardless of service, or after 30 years, regardless of age		Age 52 with 5 years of service or age 70 regardless of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	4% - 100%	2% - 100%	4% - 100%
Required employee contribution rates	7.33-15.37%	5.01-10.88%	8.06%
Required employer contribution rates	26%	25.2%	23.92%

Contributions – The Plan requires employees to pay a portion of the basic retirement benefit and a portion of future COL costs. However, the Agency has paid the majority of the employees’ basic contributions in accordance with the Memorandum of Understanding (MOU). Employees must pay the COL portion of the employee rate. For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were \$1,761,031.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2017, the Agency reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$25,488,068

**ALAMEDA COUNTY FLOOD CONTROL AND
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6 – RETIREMENT PLAN (Continued)

The Agency’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of December 31, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016 using standard update procedures. The Agency’s proportion of the net pension liability was based on a projection of the Agency’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Agency’s proportionate share of the net pension liability for the Plan is as follows:

Reporting Date for Employer under GASB 68 as of June 30	Proportion of the Net Pension Liability	Proportionate share of Net Pension Liability	Covered payroll	Net Pension Liability as a percentage of its covered payroll
2015	1.60%	\$22,241,545	\$12,505,557	177.85%
2016	1.18%	24,951,866	12,840,271	194.33%
2017	1.46%	25,488,068	12,351,170	206.36%

For the year ended June 30, 2017, the Agency recognized pension expense of \$2,665,446. At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$1,833,785	
Differences between expected and actual experience		\$1,757,400
Changes of assumptions	4,276,591	
Change in proportion and differences between employer contributions and proportionate share of contributions	215,184	389,099
Net difference between projected and actual earnings on pension plan investments	3,761,296	
Total	<u>\$10,086,856</u>	<u>\$2,146,499</u>

The \$1,833,785 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 6 – RETIREMENT PLAN (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2018	\$2,223,649
2019	2,223,648
2020	1,630,913
2021	(1,909)
2022	30,271

Actuarial Assumptions – The total pension liabilities in the December 31, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	December 31, 2015
Measurement Date	December 31, 2016
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level percent of payroll
Actuarial Assumptions:	
Discount Rate	7.60%
Inflation Rate	3.25%
Payroll Growth	3.75%
Projected Salary Increase	4.60% - 7.20% (1)
Cost of Living Adjustments	Tier 1: 3.00% Tiers 2 and 4: 2.00%
Investment Rate of Return	7.60% (2)
Mortality	RP-2000 Combined Healthy Mortality Table

(1) Vary by service, including inflation

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

Discount Rate – The discount rate used to measure the total pension liability was 7.60% for the Plan. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as December 31, 2016.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 6 – RETIREMENT PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined in 2014 using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Large Cap Equity	25.60%	5.91%
Domestic Small Cap Equity	6.40%	6.47%
Developed International Equity	20.25%	6.88%
Emerging Markets Equity	6.75%	8.24%
U.S. Core Fixed Income	11.25%	0.73%
High Yield Bonds	1.50%	2.67%
International Bonds	2.25%	0.42%
Real Estate	6.00%	4.95%
Commodities	2.00%	4.25%
Absolute Return (Hedge Fund)	7.50%	3.17%
Real Return	3.00%	0.70%
Private Equity	7.50%	11.94%
Total	100%	

A change in the discount rate would affect the measurement of the Total Pension Liability (TPL). A lower discount rate results in a higher TPL and higher discount rates results in a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the Net Pension Liability (NPL) can be very significant for a relatively small change in the discount rate. The following presents the Agency's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plan, as well as what the Agency's proportionate share of the 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:

1% Decrease	6.60%
Net Pension Liability	\$36,860,047
Current Discount Rate	7.60%
Net Pension Liability	\$25,488,068
1% Increase	8.60%
Net Pension Liability	\$15,948,196

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 7 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT

The Agency, through the County of Alameda (County), is a participant under the Alameda County Employees' Retirement Association's (ACERA) defined contribution plan for other post employment benefits as established by the California Legislature under Article 5.5 of the County Employees Retirement Law of 1937. Retired employees from the Agency receive a monthly medical allowance toward the cost of their retiree health insurance from the Supplemental Retiree Benefit Reserve (SRBR). The SRBR is a funded trust that receives 50% of the investment earnings that are in excess of the target investment return of the ACERA pension fund. The Agency funds the premiums for current active employees while ACERA funds the premiums for retirees.

As the underlying cost for non-Medicare eligible retirees is higher than the blended average of actives and non-Medicare eligible retirees, there is an implicit subsidy inherent in the cost allocation process. GASB 45 requires employers using a blended rate for active and non-Medicare eligible retirees to recognize the implicit subsidy liability.

The SRBR is used to fund these benefits for eligible retirees, including retirees from the County and other employers who contribute to the ACERA pension fund, including the Agency. Accordingly, the Agency believes it has already accounted for the payments to be made from the SRBR indirectly through its pension contributions and therefore the Agency's only GASB 45 liability is for the implicit subsidy. Furthermore, as the Board of Retirement cannot make payments to retirees after the SRBR is exhausted, the liability for these benefits is capped at the amount of SRBR assets, therefore, the unfunded liability for these benefits is, by definition, zero.

The funding of these benefits is limited to investment earnings to a special reserve allocated in accordance with the statute. The Board of Retirement has no authority to demand funding from employers or member participants to fund these benefits. If these reserves were depleted, benefits provided by the program will cease. Under the current actuarial assumptions it is anticipated that the reserves will be sufficient to fund the program through the year 2038 based on the December 31, 2015 valuation. Because of the limitations on the Board of Retirement's ability to provide these benefits, this program is considered to be 100% funded through 2038.

NOTE 8 – INSURANCE

The Agency is self-insured for claims under the County of Alameda self-insurance/excess insurance program. The County is a member of the California State Association-Excess Insurance Authority (CSAC-EIA), a California Counties Joint Powers Authority whose purpose is to develop and fund programs of excess and primary insurance for its member counties.

Type of Coverage	Coverage Limit	Self-Insured/Deductible
General Liability, including Auto Liability	\$25,000,000	\$1,000,000
Workers' Compensation	Statutory Limit	3,000,000
Property	600,000,000	50,000
Crime	15,000,000	2,500
Pollution	10,000,000	250,000

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 9 – COMMITMENT AND CONTINGENT LIABILITIES

A. Litigation

The Agency is subject to various lawsuits or claims in the normal course of business including challenges over certain rates and changes and from time to time is involved in lawsuits in which damages are sought. The ultimate outcome of these matters is not presently determinable. In the opinion of the Agency, these actions when finally adjudicated will not have a material adverse effect on the financial position of the Agency.

B. Water Supply Commitments

As part of its water management activities the Agency has entered into various water supply commitment contracts to reduce the risk of supply shortages. Under these water right agreements, the Agency has agreed to pay annual amounts for the delivery of committed levels of water supplies.

As part of its water management activities the Agency has entered into various water supply commitment contracts to reduce the risk of supply shortages. Under these water right agreements, the Agency has agreed to pay annual amounts for the delivery of committed levels of water supplies.

California Department of Water Resources: The Agency has a cost-sharing water supply contract with the Department of Water Resources (DWR) which provides for the annual allocation of 80,619 acre feet (AF) of water through 2035. DWR as project manager and administrator, developed, constructed, operates and maintains the State Water Project (SWP) to provide water to the Agency and the other water wholesalers. The Agency costs under the contract consists of a variable operating cost component and a semi-fixed capital cost component, including debt service on bonds issued by DWR to construct the project and it determines the cost annually. In fiscal years 2017 and 2016, the costs under the contract were \$17.3 million and \$17.2 million, respectively.

Effective November 7th, 2003, Amendment No. 24 to the Water Supply Contract between the DWR and the Agency was executed to set forth their agreement regarding the Agency's responsibility for the repayment of costs for the development and construction of the South Bay Aqueduct Enlargement. The Agency's estimated obligation, including interest, was \$314.7 million. In fiscal years 2017 and 2016, the costs under Amendment No. 24 were \$20.2 million and \$19.9 million, respectively with a remaining obligation of \$214.9 million as of June 30, 2017 to be paid by 2035.

Byron-Bethany Irrigation District: The Agency has a water supply agreement through December 31, 2030 with the District which provides for the annual delivery of water supplies from 2,000 acre-feet up to a maximum of 5,000 AF when BBID has surplus supplies available. The Agency is required to pay a flat rate cost per AF set forth in the agreement for water delivered, but has an annual take-or-pay minimum of \$90,000 regardless of whether water is delivered. In fiscal years 2017 and 2016, the costs under the agreement were \$90,000 each year.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 9 – COMMITMENT AND CONTINGENT LIABILITIES (Continued)

Groundwater Banking and Exchange Program (The "Program"): In June, 2006, the Agency entered into a Water Banking and Exchange Program Agreement whereby Cawelo stores up to 120,000 AF of water deposited by the Agency in facilities Cawelo developed, constructed, owns and operates. The Agency may request the return of up to 10,000 AF of stored water per year. In addition, the Agreement provides for an exchange of water acquired under the Agency's DWR agreement and Cawelo's own contract providing DWR water rights. The Program contemplated by this Agreement will provide additional groundwater storage for the Agency resulting in better use of its SWP supplies and will provide improved reliability of supplies and overall higher groundwater levels for Cawelo, by transferring to Cawelo, for Cawelo's sole use, up to one half of Agency's delivered water. In exchange for these water rights, the Agency reimburses Cawelo certain operating and maintenance costs, pays certain fees which vary based on water stored, returned or exchanged, and makes fixed capital payments. In fiscal years 2017 and 2016, the costs under the agreement were \$1.3 million and \$2.3 million, respectively.

Semitropic Water Storage District: In January 1998, the Agency, along with other water wholesalers entered into a Water Banking and Exchange Program Agreement with Semitropic Water Storage District and its Improvement District that entitles the Agency to storage of up to 65,000 AF, withdrawal, and exchange rights for the Agency's SWP supplies. In January 2005, an amendment was executed, enabling the Agency to participate in the Stored Water Recovery Unit Program. In fiscal years 2017 and 2016, the Agency's share of operating, maintenance and capital costs and certain fees under the agreement were \$769,000 and \$1.7 million, respectively.

C. Operating Lease

On June 4, 2003, the Agency executed a lease-buy-option agreement with a developer to build a new administrative-engineering building in Livermore, California. The agreement calls for a 15 year operating lease, with annual rents to start at \$986,831 increasing to \$1,302,133 in year 15, with a purchase option of \$12,153,000. Occupancy started February 19, 2005. For the fiscal year ended June 30, 2017, the Agency paid \$1,075,931. Purchase of the building was negotiated and completed in April 2017 in the amount of \$9 million and the lease was terminated.

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REQUIRED SUPPLEMENTARY INFORMATION

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**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

COST-SHARING EMPLOYER DEFINED PENSION PLAN:

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

This schedule reports the proportion (percentage) of the collective net pension liability, the proportionate share (amount) of the collective net pension liability, the employer's covered employee payroll, the proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered employee payroll and the pension plan's fiduciary net position as a percentage of the total pension liability.

SCHEDULE OF CONTRIBUTIONS

This schedule reports the cost sharing employer's contributions to the plan which are actuarially determined, the employer's actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered employee payroll.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*

**SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY AND RELATED RATIO AS OF
THE MEASUREMENT DATE**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Plan's proportion of the Net Pension Liability (Asset)	1.5%	1.2%	1.6%
Plan's proportion share of the Net Pension Liability (Asset)	\$25,488,068	\$24,951,866	\$22,241,545
Plan's Covered Payroll	12,536,863	13,014,942	12,318,588
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	203.30%	191.72%	180.55%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	1.5%	1.2%	1.6%
Plan's Proportionate Share of Aggregate Employer Contributions	3,770,297	3,808,259	3,415,865

*- Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*

SCHEDULE OF CONTRIBUTIONS

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Actuarially determined contribution	\$4,616,119	\$4,568,731	\$4,324,438
Contributions in relation to the actuarially determined contributions	(4,616,119)	(4,568,731)	(4,324,438)
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$12,351,170	\$12,840,271	\$12,505,557
Contributions as a percentage of covered payroll	37.37%	35.58%	34.58%

Notes to Schedule

Valuation date:	December 31, 2015	December 31, 2014	December 31, 2013
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Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	(1)
Inflation	3.25%
Salary increases	(2)
Investment rate of return	7.60% (3)
Mortality	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020
Post Retirement Benefit Increase	Contract COLA 2.00% - 3.00% of retirement income

(1) The actuarial value of assets is determined by recognizing any difference between the actual and the expected market return over 10 six-month interest crediting periods. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves.

(2) Depending on age, service and type of employment

(3) Net of pension plan investment expenses, including inflation

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

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SUPPLEMENTARY INFORMATION

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 NON-MAJOR WATER ENTERPRISE FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Water Facilities	Water Supply and Reliability	Totals	
			2017	2016
ASSETS				
Current assets:				
Cash in County treasury	\$3,801,330	\$4,217,211	\$8,018,541	\$8,527,028
Total current assets	<u>3,801,330</u>	<u>4,217,211</u>	<u>8,018,541</u>	<u>8,527,028</u>
Total assets	<u>3,801,330</u>	<u>4,217,211</u>	<u>8,018,541</u>	<u>8,527,028</u>
LIABILITIES				
Current liabilities:				
Deposits	342,940		342,940	332,725
Total current liabilities	<u>342,940</u>		<u>342,940</u>	<u>332,725</u>
Total liabilities	<u>342,940</u>		<u>342,940</u>	<u>332,725</u>
NET POSITION				
Unrestricted	3,458,390	4,217,211	7,675,601	8,194,303
Total net position	<u>3,458,390</u>	<u>4,217,211</u>	<u>7,675,601</u>	<u>8,194,303</u>
Total liabilities and net position	<u>\$3,801,330</u>	<u>\$4,217,211</u>	<u>\$8,018,541</u>	<u>\$8,527,028</u>

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 NON-MAJOR WATER ENTERPRISE FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017
 WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Water Facilities	Water Supply and Reliability	Totals	
			2017	2016
OPERATING REVENUES				
Other revenues	\$42,121		\$42,121	\$52,438
Operating income	42,121		42,121	52,438
NONOPERATING REVENUES				
Interest income and rental fees	24,325	\$30,105	54,430	40,438
Income (loss) before transfers	66,446	30,105	96,551	92,876
Transfers (out) (Note 3)		(615,253)	(615,253)	
Change in net position	66,446	(585,148)	(518,702)	92,876
Net position, beginning of year	3,391,944	4,802,359	8,194,303	8,101,427
Net position, end of year	\$3,458,390	\$4,217,211	\$7,675,601	\$8,194,303

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7 WATER AGENCY
 NON-MAJOR WATER ENTERPRISE FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2017
 WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Water Facilities	Water Supply and Reliability	Total	
			2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$52,336		\$52,336	\$56,324
Net cash provided (used) by operating activities	52,336		52,336	56,324
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers (out)		(\$615,253)	(615,253)	
Cash flows from noncapital financing activities		(615,253)	(615,253)	
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	24,325	30,105	54,430	40,438
Cash flows from investing activities	24,325	30,105	54,430	40,438
Net increase (decrease) in cash and cash equivalents	76,661	(585,148)	106,766	96,762
Cash and investments at beginning of period	3,724,669	4,802,359	8,527,028	8,430,266
Cash and investments at end of period	\$3,801,330	\$4,217,211	\$8,018,541	\$8,527,028
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$42,121		\$42,121	\$52,438
Adjustments to reconcile operating income (loss) to cash flows				
Changes in assets and liabilities				
Deposits	10,215		10,215	3,886
Net cash provided (used) by operating activities	\$52,336		\$52,336	\$56,324

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Alameda County Flood Control and
Water Conservation District – Zone 7 Water Agency
Livermore, California

We have audited, in accordance with the 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, the basic financial statements of the Alameda County Flood Control and Water Conservation District – Zone 7 Water Agency (Agency), as of and for the year ended June 30, 2017, and have issued our report thereon dated December 4, 2017. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated December 4, 2017 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze + Associates

Pleasant Hill, California
December 4, 2017

STATISTICAL SECTION

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Statistical Section

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

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the Agency’s financial performance and well-being have change over time. (Tables 1-4)

Revenue Capacity

These schedules contain information to help the reader assess the Agency’s revenue sources and rate structure. (Pages Tables 4-13)

Debt Capacity

These schedules contain information to help the reader assess the affordability of the Agency’s current levels of outstanding debt and the Agency’s ability to issue additional debt in the future. (Tables 14-15)

Demographic and Economic Information

This schedule offers demographic, economic, and Agency indicators to help the reader understand the environment within which the Agency’s financial activities take place. (Tables 16-18)

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the Agency’s financial report relates to the services the Agency provides and the activities it performs. (Tables 18-20)

ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT - ZONE 7 WATER AGENCY

Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(Table 1)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013 (a)	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$15,924,957	\$14,860,651	\$14,661,865	\$14,479,216	\$14,301,567	\$16,232,189	\$30,403,950	\$30,385,318	\$30,334,638	\$31,990,546
Restricted	32,362,298	32,794,924	57,518,054	58,914,899	36,696,155	60,596,601	41,506,430	49,177,969	56,059,067	58,149,272
Unrestricted	17,109,262	21,506,376	477,102	3,928,002	23,559,397	4,406,909	15,260,267	16,739,156	19,133,427	20,484,357
Total governmental activities net position	\$65,396,517	\$69,161,951	\$72,657,021	\$77,322,117	\$74,557,119	\$81,235,699	\$87,170,647	\$96,302,443	\$105,527,132	\$110,624,175
Business-type activities										
Net investment in capital assets	\$167,732,246	\$208,712,439	\$214,245,244	\$208,841,658	\$205,651,283	\$202,295,691	\$211,603,471	\$212,562,797	\$188,968,433	\$194,732,197
Restricted	92,106,375	44,608,852	43,769,762	40,041,672	37,928,558	65,125,317	42,196,142	50,917,217	82,151,910	97,494,721
Unrestricted	36,005,753	41,038,344	39,299,226	39,394,747	41,291,980	40,127,373	57,821,385	36,428,063	30,717,428	37,712,019
Total business-type activities net position	\$295,844,374	\$294,359,635	\$297,314,232	\$288,278,077	\$284,871,821	\$307,548,381	\$311,620,998	\$299,908,077	\$301,837,771	\$329,938,937
Primary government										
Net investment in capital assets	\$183,657,203	\$223,573,090	\$228,907,109	\$223,320,874	\$219,952,850	\$218,527,880	\$242,007,421	\$242,948,115	\$219,303,071	\$226,722,743
Restricted	124,468,673	77,403,776	101,287,816	98,956,571	74,624,713	125,721,918	83,702,572	100,095,186	138,210,977	155,643,993
Unrestricted	53,115,015	62,544,720	39,776,328	43,322,749	64,851,377	44,534,282	73,081,652	53,167,219	49,850,855	58,196,376
Total primary governmental activities net position	\$361,240,891	\$363,521,586	\$369,971,253	\$365,600,194	\$359,428,940	\$388,784,080	\$398,791,645	\$396,210,520	\$407,364,903	\$440,563,112

(a) The Agency implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position".

ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT - ZONE 7 WATER AGENCY
 Changes in Net Position
 Last Ten Fiscal Years
 (accrual basis of accounting)
 (Table 2)

	2008	2009	2010	2011	2012	2013 (a)	2014	2015	2016	2017
Expenses										
Governmental activities										
Flood Protection Operations	\$4,036,466	\$3,561,070	\$3,547,907	\$4,063,566	\$8,499,485	\$3,947,332	\$1,488,735	\$4,705,166	\$5,328,998	\$5,341,751
Flood Protection Drainage DIF	7,491,450	4,576,721	561,339	615,758	5,903,778	705,688	4,029,268	499,169	794,922	1,841,555
Total governmental activities expenses	11,527,916	8,137,791	4,109,246	4,679,324	14,403,263	4,653,020	5,518,003	5,204,335	6,123,920	7,183,306
Business-type activities										
State Water Project		8,015,944	8,787,104	10,670,494	13,858,280	14,002,380	13,681,891	16,359,406	20,621,344	20,985,604
Water Enterprise Funds	38,369,422	51,004,895	49,257,457	50,869,431	51,267,019	54,868,275	57,386,822	59,122,995	81,257,514	60,641,826
Total business-type activities	38,369,422	59,020,839	58,044,561	61,539,925	65,125,299	68,870,655	71,068,713	75,482,401	101,878,858	81,627,430
Total primary government expenses	\$49,897,338	\$67,158,630	\$62,153,807	\$66,219,249	\$79,528,562	\$73,523,675	\$76,586,716	\$80,686,736	\$108,002,778	\$88,810,736
Program Revenues										
Governmental activities										
Charges for Services	\$35,466	\$34,156	\$11,078	\$12,771	\$40,851	\$35,661	\$57,142	\$450,658	\$7,432,934	\$3,554,796
Operating grants and contributions	231,034	64,915	54,264	53,229	61,249	61,578	64,318	112,334	71,562	181,418
Other program revenues	465,947	10,493,106	1,191,832	3,187,574	5,505,787	5,095,420	4,953,372	8,032,445	40,202	13,263
Total governmental activities program revenues	732,447	10,592,177	1,257,174	3,253,574	5,607,887	5,192,659	5,074,832	8,595,437	7,544,698	3,749,477
Business-type activities										
Charges for Services:										
State Water Project	11,911,136	8,480,378	9,686,655	12,206,165	15,489,732	11,942,972	12,269,322	13,708,844	19,419,226	20,795,420
Water Enterprise Funds	29,972,803	30,059,518	30,857,470	31,855,389	35,528,292	38,200,851	58,073,146	56,318,578	68,521,032	77,751,701
Operating grants and contributions	109,599	80,073	808,207	444,139	106,194	68,416	4,347,897	5,012,899	15,285,044	10,179,114
Capital grants and contributions	5,196,887	12,322,711	20,787,373	11,810,379	13,700,090	30,824,513				-
Total business-type activities program revenues	47,190,425	50,942,680	62,139,705	56,316,072	64,824,308	81,036,752	74,690,365	75,040,321	103,225,302	108,726,235
Total primary government program revenues	\$47,922,872	\$61,534,857	\$63,396,879	\$59,569,646	\$70,432,195	\$86,229,411	\$79,765,197	\$83,635,758	\$110,770,000	\$112,475,712
Net (Expense)/Revenue										
Governmental activities										
	(\$10,795,469)	\$2,454,386	(\$2,852,072)	(\$1,425,750)	(\$8,795,376)	\$539,639	(\$443,171)	\$3,391,102	\$1,420,778	(\$3,433,829)
Business-type activities										
	8,821,003	(8,078,159)	4,095,144	(5,223,853)	(300,991)	12,166,097	3,621,652	(442,080)	1,346,444	27,098,805
Total primary government net revenues	(\$1,974,466)	(\$5,623,773)	\$1,243,072	(\$6,649,603)	(\$9,096,367)	\$12,705,736	\$3,178,481	\$2,949,022	\$2,767,222	\$23,664,976
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes										
Property	\$11,911,136	\$6,129,952	\$5,918,281	\$5,745,003	\$5,773,050	\$5,959,083	\$6,201,653	\$6,759,202	\$7,329,117	\$7,895,448
Investment earnings and rental charges	2,161,502	1,352,354	428,861	345,843	257,328	179,858	189,800	260,490	465,771	647,869
Transfers	1,995,057	(1,319)					(13,334)	(13,333)	(13,333)	(12,445)
Other									22,356	
Total governmental activities	16,067,695	7,480,987	6,347,142	6,090,846	6,030,378	6,138,941	6,378,119	7,006,359	7,803,911	8,530,872
Business-type activities										
Investment earnings	6,023,904	2,862,182	682,341	704,257	610,133	331,588	390,865	314,297	496,700	915,090
Rental charges	31,000	31,000	31,000	31,000	31,000	31,000	46,796	50,815	73,217	74,826
Transfers		1,319					13,334	13,333	13,333	12,445
Total business-type activities	6,054,904	2,894,501	713,341	735,257	641,133	362,588	450,995	378,445	583,250	1,002,361
Total primary government	\$22,122,599	\$10,375,488	\$7,060,483	\$6,826,103	\$6,671,511	\$6,501,529	\$6,829,114	\$7,384,804	\$8,387,161	\$9,533,233
Change in Net Position										
Governmental activities										
	5,272,226	9,935,373	3,495,070	4,665,096	(2,764,998)	6,678,580	5,934,948	10,397,461	9,224,689	5,097,043
Business-type activities										
	14,875,907	(5,183,658)	4,808,485	(4,488,596)	340,142	12,528,685	4,072,647	(63,635)	1,929,694	28,101,166
Total primary government	\$20,148,133	\$4,751,715	\$8,303,555	\$176,500	(\$2,424,856)	\$19,207,265	\$10,007,595	\$10,333,826	\$11,154,383	\$33,198,209

(a) The Agency implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position".

ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT - ZONE 7 WATER AGENCY

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(Table 3)

<u>Fiscal Year</u>	<u>Reserved</u>	<u>Capital project</u>	<u>-----Unreserved-----</u>			<u>Restricted</u>	<u>Committed</u>	<u>Total</u>
			<u>Specific projects and programs</u>	<u>Unassigned</u>				
2008		\$32,362,298	\$10,868,214	\$6,241,048			\$49,471,560	
2009		32,794,924	20,185,762	1,320,614			54,301,300	
2010	\$179,791	33,505,378	23,832,885	477,102			57,995,156	
2011					\$26,027,983	\$36,814,918	62,842,901	
2012					36,696,155	23,559,397	60,255,552	
2013					40,648,531	24,354,979	65,003,510	
2014					41,506,430	15,260,267	56,766,697	
2015					49,177,969	18,009,177	67,187,146	
2016					56,059,067	20,666,297	76,725,364	
2017					58,149,272	21,898,222	80,047,494	

Note: FY 2009/10 and prior fund balance amounts have not been restated for the implementation of GASB Statement 54, which the Agency implemented in FY 2010/11

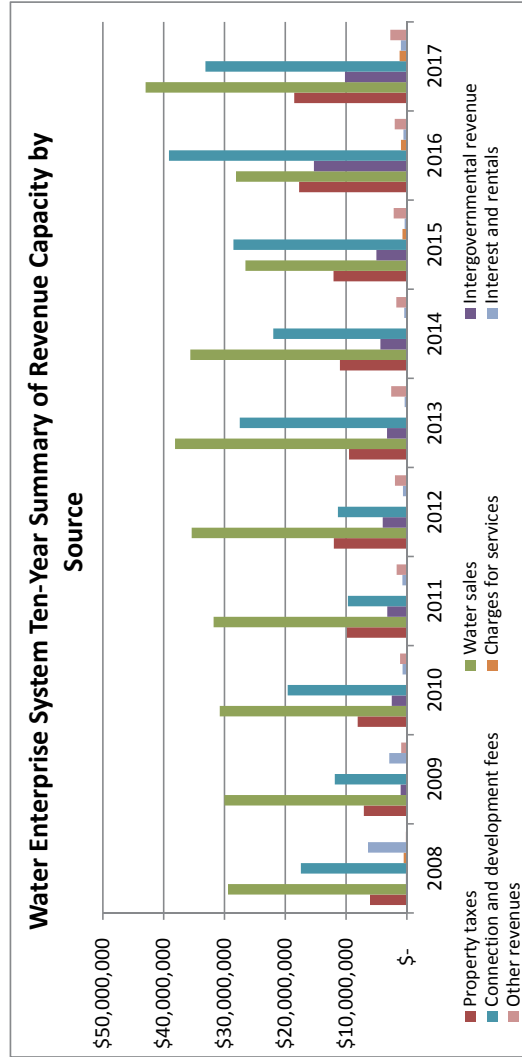
ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT - ZONE 7 WATER AGENCY
 Changes in Fund Balance of Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (Table 4)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Property taxes	\$11,911,136	\$6,129,952	\$5,918,281	\$5,745,003	\$5,773,050	\$5,959,083	\$6,201,653	\$6,759,202	\$7,329,117	\$7,895,448
Intergovernmental revenues	231,034	64,915	54,264	53,229	61,249	61,578	64,318	144,691	71,562	181,418
Charges for services	499,630	10,423,524	1,178,982	3,178,719	5,505,177	5,117,561	4,823,378	8,450,033	7,432,934	3,554,796
Interest and rentals	2,161,502	1,352,354	428,861	345,843	257,328	179,858	189,800	260,490	465,771	647,869
Other revenues	1,783	103,738	23,928	21,626	41,461	13,520	187,136	713	62,558	13,263
Total revenues	14,805,085	18,074,483	7,604,316	9,344,420	11,638,265	11,331,600	11,466,285	15,615,129	15,361,942	12,292,794
Expenditures										
Salaries and employee benefits transferred from district-wide	2,048,297	1,857,126	1,703,900	1,937,436	2,243,556	2,631,352	2,535,779	2,252,655	2,455,453	1,961,724
Services and supplies	9,343,889	2,194,896	2,206,560	2,559,113	6,851,120	3,498,544	2,650,121	2,821,192	3,354,938	4,187,243
Equipment and capital structure		3,921,997		126	5,130,850	451,740	14,503,864	107,500		2,809,252
Other					88	2,006				
Total Expenditures	11,392,186	7,974,019	3,910,460	4,496,675	14,225,614	6,583,642	19,689,764	5,181,347	5,810,391	8,958,219
Excess of revenues over/(under) expenditures	3,412,899	10,100,464	3,693,856	4,847,745	(2,587,349)	4,747,958	(8,223,479)	10,433,782	9,551,551	3,334,575
Other Financing Sources (Uses)										
Transfers in		(1,319)								
Transfers out	1,995,057						(13,334)	(13,333)	(13,333)	(12,445)
Total other financing sources (uses)	1,995,057	(1,319)					(13,334)	(13,333)	(13,333)	(12,445)
Net change in fund balances	\$5,407,956	\$10,099,145	\$3,693,856	\$4,847,745	(\$2,587,349)	\$4,747,958	(\$8,236,813)	\$10,420,449	\$9,538,218	\$3,322,130

Source: Zone 7 Finance Department, Governmental Income Statement

Zone 7 Water Agency
Revenue Capacity
Ten-Year Summary of Revenue by Source
Fiscal Year Ended June 30
(Table 5)

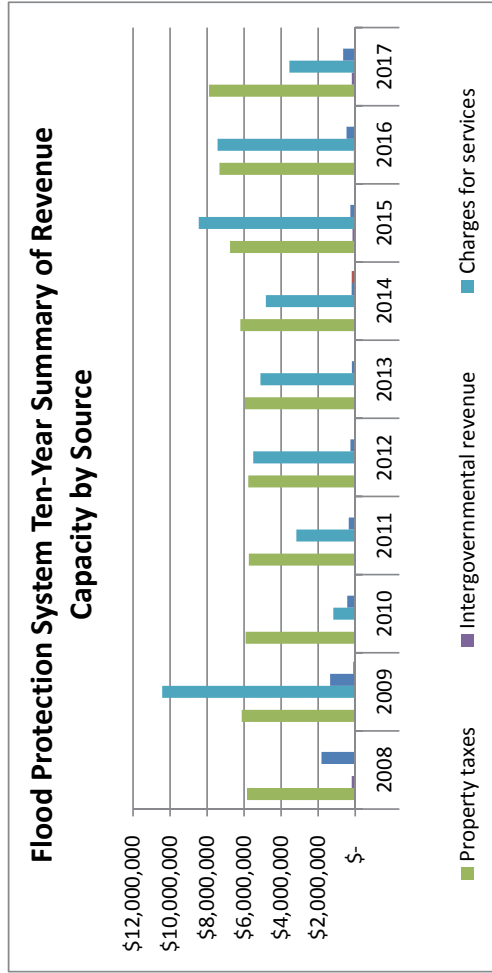
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Property taxes	\$ 6,065,570	\$ 7,077,008	\$ 8,085,099	\$ 9,860,412	\$ 12,017,106	\$ 9,517,243	\$ 11,016,532	\$ 12,060,478	\$ 17,716,841	\$ 18,524,750
Water sales	29,416,874	30,013,013	30,777,082	31,785,517	35,398,908	38,130,264	35,616,588	26,552,568	28,110,974	42,975,960
Intergovernmental revenue	155,339	1,023,004	2,479,844	3,223,559	3,972,942	3,263,820	4,347,890	5,012,899	15,285,044	10,179,114
Connection and development fees	17,433,022	11,852,496	19,601,871	9,697,595	11,345,942	27,483,527	21,973,245	28,521,399	39,135,444	33,128,280
Charges for services	520,463	46,505	80,388	69,872	129,384	70,587	2,938	720,670	976,853	1,201,296
Interest and rentals	6,396,019	2,893,182	713,341	735,257	641,133	362,588	437,661	365,112	569,917	989,916
Other revenues	174,631	930,654	1,115,421	1,679,117	1,960,026	2,571,311	1,733,172	2,172,307	2,000,146	2,716,835
Total Revenues	\$ 60,161,918	\$ 53,835,862	\$ 62,853,046	\$ 57,051,329	\$ 65,465,441	\$ 81,399,340	\$ 75,128,026	\$ 75,405,433	\$ 103,795,219	\$ 109,716,151



Source: Finance

Zone 7 Water Agency
Revenue Capacity
Ten-Year Summary of Revenue by Source
Fiscal Year Ended June 30
(Table 6)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property taxes	\$ 5,845,566	\$ 6,129,952	\$ 5,918,281	\$ 5,745,003	\$ 5,773,050	\$ 5,959,083	\$ 6,201,653	\$ 6,759,202	\$ 7,329,117	\$ 7,895,448
Intergovernmental revenue	185,294	64,915	54,264	53,229	61,249	61,578	64,318	144,691	71,562	181,418
Charges for services	35,466	10,423,524	1,178,982	3,178,719	5,505,177	5,117,561	4,823,378	8,450,033	7,432,934	3,554,796
Interest and rentals	1,820,387	1,352,354	428,861	345,843	257,328	179,858	189,800	260,490	465,771	647,869
Other revenues	1,783	103,738	23,928	21,626	41,461	13,520	187,136	713	62,558	13,263
Total Revenues	\$ 7,888,496	\$ 18,074,483	\$ 7,604,316	\$ 9,344,420	\$ 11,638,265	\$ 11,331,600	\$ 11,466,285	\$ 15,615,129	\$ 15,361,942	\$ 12,292,794

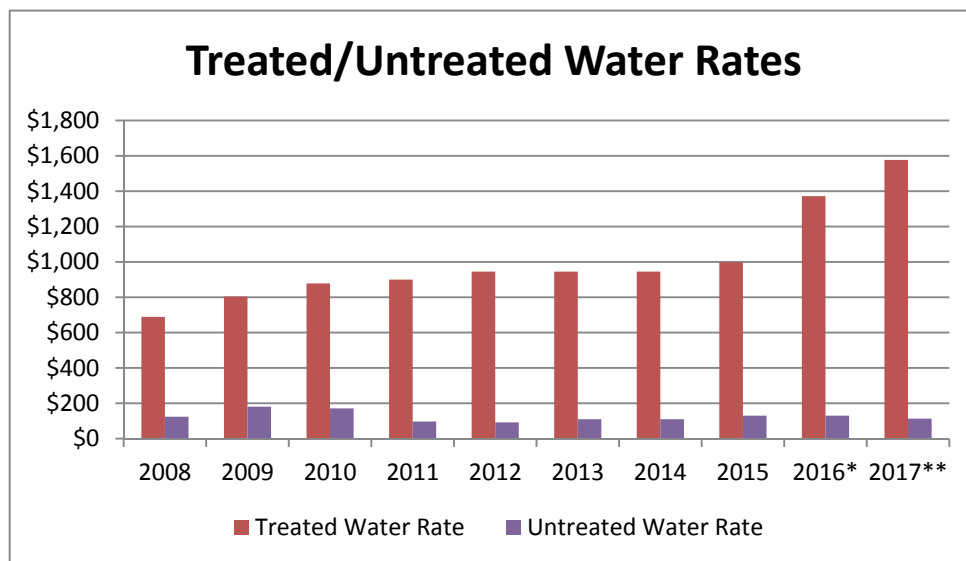


Zone 7 Water Agency
Treated/Untreated Water Rates
Ten-Year History
(In Acre Feet)
(Table 7)

Calendar Year	Treated Water Rate		Untreated Water Rate	
	Rate/AF	% Change Year over Year	Rate/AF	% Change Year over Year
2008	\$689	8.5%	\$124	24.0%
2009	\$804	16.7%	\$181	46.0%
2010	\$878	9.2%	\$171	-5.5%
2011	\$900	2.5%	\$97	-43.3%
2012	\$945	5.0%	\$92	-5.2%
2013	\$945	0.0%	\$110	19.6%
2014	\$945	0.0%	\$110	0.0%
2015	\$999	5.7%	\$130	18.2%
2016*	\$1,372	37.3%	\$130	0.0%
2017**	\$1,577	14.9%	\$113	-13.1%

* Includes temporary surcharge of \$248/AF

** Includes \$1,111/AF for Variable and \$466/AF for Fixed.

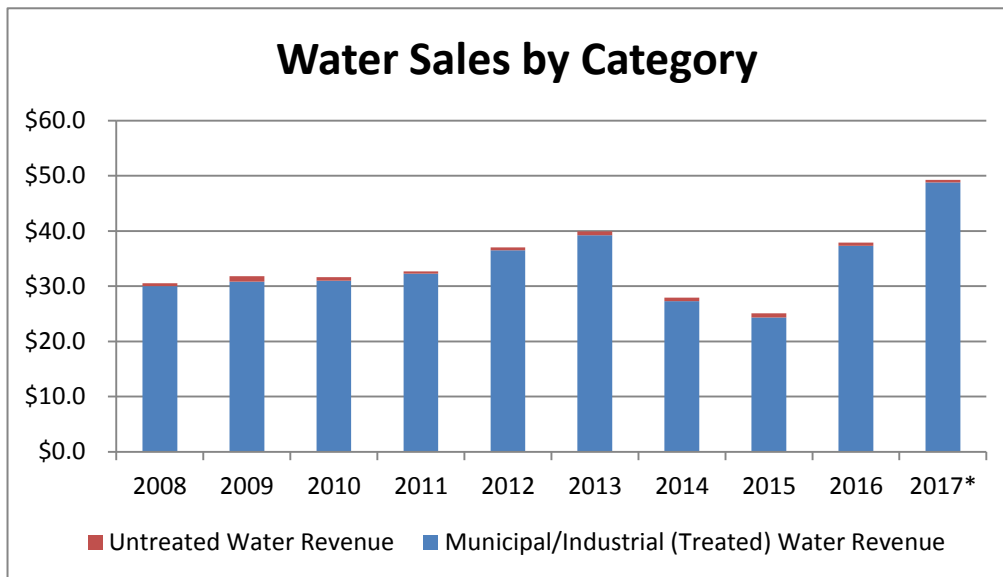


Source: Finance

Zone 7 Water Agency
Water Sales by Category
 Ten-Year History
 (In Millions)
 (Table 8)

Calendar Year	Municipal/Industrial (Treated) Water Revenue	Untreated Water Revenue	Total
2008	\$30.0	\$0.5	\$30.5
2009	\$30.8	\$1.0	\$31.8
2010	\$31.0	\$0.6	\$31.6
2011	\$32.3	\$0.4	\$32.7
2012	\$36.5	\$0.5	\$37.0
2013	\$39.2	\$0.7	\$39.9
2014	\$27.3	\$0.6	\$27.9
2015	\$24.3	\$0.8	\$25.1
2016	\$37.3	\$0.6	\$37.9
2017*	\$48.8	\$0.5	\$49.3

* 2017 Revenue figures are forecasted in order to calculate a full calendar year.



Source: Finance

Zone 7 Water Agency
Principal Treated Water Customers
Current Complete Year Comparison to Nine Years Ago
(Calendar Year)
(Table 9)

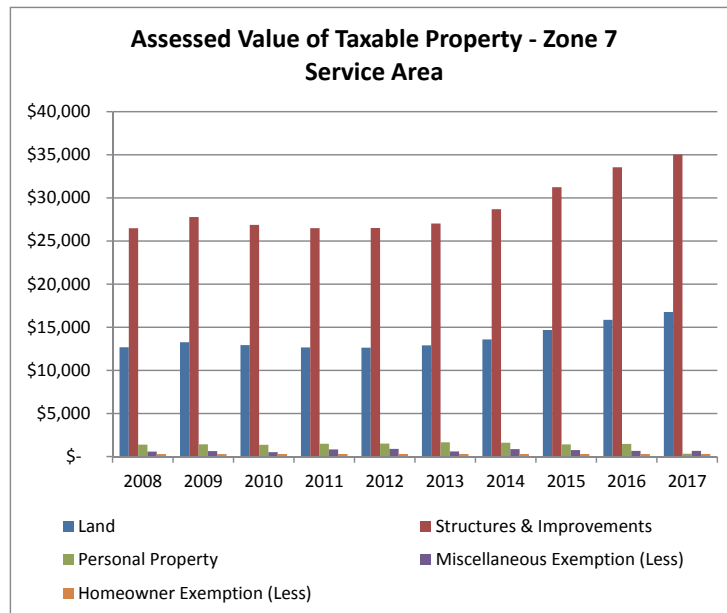
	2016			2007			
Customer	Annual Consumption (AF)	Rank	Percentage of Total Annual Consumption	Customer	Annual Consumption (AF)	Rank	Percentage of Total Annual Consumption
City of Pleasanton	8,646	1	32%	City of Pleasanton	15,806	1	36%
Dublin San Ramon Services District	8,119	2	30%	Dublin San Ramon Services District	10,937	2	25%
City of Livermore	5,134	3	19%	California Water	9,186	3	21%
California Water	4,818	4	18%	City of Livermore	7,258	4	17%
All other treated water customers ¹	604	5	2%	All other treated water customers ¹	260	5	1%
Total Annual Consumption (AF)	27,321		100%	Total Annual Consumption (AF)	43,447		100%

Source: Finance

¹Other treated customers include Lawrence Livermore Lab., Livermore Area Recreation and Park District, Veterans Hospital, Wente and East Bay Regional Park District.

Zone 7 Water Agency
 Assessed Value of Taxable Property - Zone 7 Service Area
 Last Ten Fiscal Years
 Fiscal Year Ended June 30
 (\$ Millions)
 (Table 10)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assessed Value of Taxable Property										
Land	\$ 12,677	\$ 13,263	\$ 12,927	\$ 12,660	\$ 12,635	\$ 12,905	\$ 13,587	\$ 14,680	\$ 15,861	\$ 16,766
Structures & Improvements	26,484	27,777	26,874	26,492	26,507	27,029	28,695	31,246	33,555	35,024
Personal Property	1,388	1,424	1,372	1,491	1,508	1,652	1,611	1,419	1,473	326
Miscellaneous Exemption (Less)	580	637	512	831	891	599	867	755	661	664
Subtotal	39,969	41,827	40,661	39,812	39,759	40,987	43,026	46,590	50,228	51,452
Homeowner Exemption (Less)	292	295	298	297	298	297	299	300	303	304
Net Total	\$ 39,677	\$ 41,532	\$ 40,363	\$ 39,515	\$ 39,461	\$ 40,690	\$ 42,727	\$ 46,290	\$ 49,925	\$ 51,148



Source: Alameda County Assessors Office

Zone 7 Water Agency
Property Tax Rates (1)
Direct and Overlapping Governments
(Rates per \$1,000 of Assessed value)
Last Ten Fiscal Years
(Table 11)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Direct Rates:										
City of Livermore Direct Rates	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
Overlapping Rates (2):										
School District	0.0626%	0.0616%	0.0674%	0.0635%	0.0627%	0.0607%	0.0596%	0.0497%	0.0404%	0.0886%
Community College	0.0164%	0.0183%	0.0195%	0.0211%	0.0214%	0.0219%	0.0214%	0.0217%	0.0198%	0.0246%
Bay Area Rapid Transit	0.0076%	0.0090%	0.0057%	0.0031%	0.0041%	0.0043%	0.0075%	0.0045%	0.0026%	0.0080%
Zone 7 Flood Control	0.0150%	0.0169%	0.0203%	0.0250%	0.0307%	0.0228%	0.0257%	0.0250%	0.0343%	0.0333%
Total Direct and Overlapping Rate	1.1016%	1.1058%	1.1129%	1.1127%	1.1189%	1.1097%	1.1142%	1.1009%	1.0971%	1.1545%

Source: Alameda County Treasurer and Tax Collector

Note:

- (1) The above data represents a single tax area within the Agency's jurisdiction and is presented herein to show readers general trends of property tax rates.
- (2) Overlapping rates are those local and county governments that apply to property owners within the City of Livermore. Not all overlapping rates apply to all property owners. For an overlapping rate to apply, the property has to be located within that district's geographic boundary.

Zone 7 Water Agency
Property Tax Levies and Collections
Last Ten Fiscal Years
(Table 12)

Fiscal Year Ended June 30,	Collected within the Fiscal Year of Levy			Delinquent Tax Collections
	Taxes Levied for the Fiscal Year	Amount	Percentage of Levy	
2008	11,911,136	11,911,136	100%	0%
2009	13,206,960	13,206,960	100%	0%
2010	14,003,380	14,003,380	100%	0%
2011	15,605,415	15,605,415	100%	0%
2012	17,790,156	17,790,156	100%	0%
2013	15,476,326	15,476,326	100%	0%
2014	17,218,185	17,218,185	100%	0%
2015	18,819,680	18,819,680	100%	0%
2016	25,045,958	25,045,958	100%	0%
2017	26,420,199	26,420,199	100%	0%

Source: Finance

Zone 7 Water Agency
Principal Property Tax Payers
Current year and Ten Years Ago
(Fiscal Year)
(Table 13)

2007 ²

2017 ¹

Taxpayer	Taxable Assessed Value	Rank	Percentage of Total Agency Assessed Value	Taxpayer	Taxable Assessed Value	Rank	Percentage of Total Agency Assessed Value
Kaiser Foundation Health Plan	\$ 309,936,863	1	0.62%	Stoneridge Properties	\$ 212,780,782	1	0.64%
Stoneridge Properties	256,416,090	2	0.51%	Pleasanton Property LLC	198,645,778	2	0.60%
Stoneridge Creek Pleasanton CCRC LLC	209,496,089	3	0.42%	NNN Britannia Business Ctr	186,729,481	3	0.56%
Livermore Premium Outlets LLC	203,656,005	4	0.41%	Oracle America Inc/Peoplesoft	180,942,082	4	0.54%
6200 Stoneridge Mall Road Investors LLC	169,630,000	5	0.34%	6200 Stoneridge Mall Road Inv	177,576,444	5	0.53%
Avalon Dublin Station II LP	165,763,129	6	0.33%	Form Factor Inc.	153,562,000	6	0.46%
Stoneridge Residential LLC	156,696,600	7	0.31%	Kaiser Foundation Hospitals	142,060,000	7	0.43%
Tishman Speyer Archstone Smith Hacienda I	154,950,884	8	0.31%	Applera Corporation	135,262,272	8	0.41%
SFI Pleasanton LLC	150,179,616	9	0.30%	Safeway Inc.	126,296,597	9	0.38%
Peoplesoft Properties	133,593,989	10	0.27%	Shops at Waterford LLC	123,249,776	10	0.37%
	\$ 1,910,319,265		3.83%		\$ 1,637,105,212		4.93%

Source:

¹ County of Alameda 2017/18 FY Top 10 Taxpayers by Primary Tax Code Area (secured)

² FY 2015-16 City of Livermore, City of Pleasanton, and City of Dublin's Comprehensive Annual Financial Reports

Zone 7 Water Agency

Water Enterprise Outstanding Debt by Type

(Table 14)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	60,000,000	60,000,000	60,000,000	30,500,000	30,500,000	30,500,000	-	-	-	-

Source: Finance

On January 15, 2008, the District signed an installment sale agreement with the Municipal Finance Corporation and Wells Fargo Bank for a tax-exempt revolving line of credit in the amount of \$60,000,000 for a six-year term. Effective January 19, 2011, the board approved reducing the line to a maximum amount of \$30,500,000. The line carried a variable interest rate based on a calculation of 81.41% of bank's Prime rate, less 2.3%.

Zone 7 Water Agency
 Legal Debt Margin Information
 Last Ten Fiscal Years
 (millions)
 (Table 15)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt Limit	\$ 1,984	\$ 2,077	\$ 2,018	\$ 1,976	\$ 1,973	\$ 2,035	\$ 2,136	\$ 2,315	\$ 2,496	\$ 2,668
Total Net Debt Applicable to Limit	60	60	60	30.5	30.5	30.5	-	-	-	-
Legal Debt Margin	\$ 1,924	\$ 2,017	\$ 1,958	\$ 1,945	\$ 1,943	\$ 2,004	\$ 2,136	\$ 2,315	\$ 2,496	\$ 2,668

Total net debt applicated to the limit as a percentage of the debt limit

	3%	3%	3%	2%	2%	1%	0%	0%	0%	0%
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Source: Alameda County Assessors Office and Agency Finance

Zone 7 Water Agency
Demographic and Economic Statistics
For Alameda County and the Zone 7 Service Area
Ten Fiscal Years (2008-2017)

(Table 16)

Fiscal Year	Zone 7 Service Area (Acres)	Population Served within Zone 7's Service Area ¹	Total Population Alameda County ²	Total Personal Income Alameda County (\$ billions) ³	Per Capita Personal Income		Unemployment Rate		Consumer Price Index Alameda County (% change in CPI) ⁵
					Alameda County	Alameda County ³	Rate	County ⁴	
2008	272,000	211,000	1,491,781	73.50	55,832	6.1	3.0		
2009	272,000	216,000	1,503,827	70.20	52,399	11.1	0.8		
2010	272,000	220,000	1,513,228	72.40	53,047	11.3	1.3		
2011	272,000	224,000	1,526,226	78.20	55,295	10.8	2.7		
2012	272,000	229,000	1,539,145	84.50	57,739	9.5	2.7		
2013	272,000	233,000	1,563,495	87.40	57,473	7.4	2.2		
2014	272,000	239,000	1,583,979	92.40	58,364	5.8	2.7		
2015	272,000	245,000	1,611,318	101.40	64,466	5.2	3.2		
2016	272,000	247,000	1,629,233*	106.50	65,045	4.7	3.1		
2017	272,000	252,315*	1,645,359*	113.6*	66,610*	4.0*	3.0		

Source:

¹ Population of Service Area include cities of; Livermore, Pleasanton, Dublin and Dougherty Valley (Dougherty Valley figures are estimated as 0.336% of City of San Ramon) . CA Department of Finance, Demographic Research Unit (E-1, 1/1/2016-17 City Population Ranking) Demographics/Estimates.

² CA Department of Finance, Demographic Research Unit (E-1, 1/1/2016-17 City Population Ranking), figures are rounded to nearest five hundred.

³ CA Department of Transportation County-level Economic Forecast, 2010-16 History and 2017-40 Forecast, and the Alameda County FY 2015-16 Comprehensive Annual Financial Report.

⁴ Local Area Unemployment reported by US Department of Labor Bureau of Labor Statistics (rates reflected as of June).

⁵ Consumer Price Index provided by US Department of Labor Bureau of Labor Statistics (reflected as of August each year).

* Figures are forecasted estimates.

Zone 7 Water Agency
Principal Employers in Alameda County
Current Complete Year and Nine Years Ago
(Table 17)

Company/Organization	Business Type	Number of Employees January 1, 2016 ¹	Rank	Percentage of Total County Employment ²	Number of Employees June 30, 2007 ¹	Rank	Percentage of Total County Employment ²
Kaiser Permanente Medical Group ³	Health Care	28,481	1	3.59%	25,070	2	3.54%
Safeway Inc., ³	Supermarkets & Other Grocery	11,530	2	1.46%	10,000	4	1.41%
County of Alameda	Local Government	8,690	3	1.10%	8,683	5	1.23%
Chevron Corporation ³	Energy	6,244	4	0.79%	–	20+	–
John Muir Health ³	Health Care	6,181	5	0.78%	–	20+	–
Wells Fargo Bank ³	Financial Services	5,326	6	0.67%	–	20+	–
PG&E Corporation ³	Energy	5,154	7	0.65%	–	20+	–
United States Postal Service ³	Mailing and Shipping	4,980	8	0.63%	8,472	6	1.20%
Lam Research Corporation ³	Manufacturing	4,500	9	0.57%	–	20+	–
Alta Bates Summit Medical Center ³	Health Care	4,122	10	0.52%	–	20+	–
Total Alameda County top 10 Employees		85,208		10.76%	52,225		7.38%

Source: Alameda County FY 2015-16 Comprehensive Annual Financial Report

¹ The number of employees, except for County of Alameda and City of Oakland include Alameda County and Contra Costa County employees
Total employment within County of Alameda is unavailable.

² Percentage calculated based on Alameda County's Employment of 793,000 for 2016 and 708,200 for 2007 (Source: Employment Development Department)

³ Information from InfoGroup USA as of January 1, 2016. Information as of June 30, 2016 is not available, except for County of Alameda employer.

⁴ Information from County of Alameda's database as of June 30, 2016

Zone 7 Water Agency
 Full-time Equivalent District Employees by Function/Program Budget
 Last Ten Fiscal Years
 (Table 18)

Division/Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Office of the General Manager	13.3	13.75	13	10	14	7	7	8	9	10
Integrated Planning						7.5	7.5	8.5	9.5	10.5
Finance:										
Finance and Accounting	14	12	11	10	11	9	9	10	10	10
Employee Services	4	6	6	6	6	7	7	7	4	3
Engineering:										
Facilities Engineering	19.5	16	16	16	15	13	14	12	13	12
Groundwater Protection	6	7	9	9	8	7	7	8.5	7.5	7.5
Water Quality	7	7	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Flood Control	8	3	7	7	6	5	5	6	7	7
Operations	29	29	25	24	24	24	24	24	27	27
Maintenance	10	19	18	19	19	19	19	20	20	20
Total FTE	110.8	112.75	112.5	108.5	110.5	106	107	111.5	114.5	114.5

Source: Finance

Zone 7 Water Agency
Operating Indicators
Fiscal Years 2008-2017
(Table 19)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 ⁴	2017
Water Enterprise System										
Total Groundwater pumped (AF) ¹	6,855	10,084	8,919	6,264	12,105	9,555	8,782	2,565	2,002	2,300
Total Artificial Stream Recharge (AF)	2,229	3,984	6,773	4,555	8,778	7,887	3,826	3,766	8,910	8,300 ²
New water connections	797	539	544	412	489	1,187	928	1,196	1,600	1,338
Total drilling permits issued	182	100	130	140	149	159	176	171	133	155
Flood Protection System										
Flood Protection area managed (miles)	425	425	425	425	425	425	425	425	425	425
Flood Protection channels (miles)	37	37	37	37	37	37	37	37	37	45 ³
Flood Protection encroachment permits issued	20	30	34	30	36	36	30	31	34	24
Flood Protection development reviews	76	47	27	31	15	18	13	13	15	20

Source: Flood Protection, Groundwater and Operations

¹ Calculated on a Water Year basis (October 1 - September 30)

² Total Artificial Stream Recharge calculations are completed at calendar year end, therefore 2017 figure is an estimate.

³ Adjustment based on GIS channel centerline length vs Developer SDA 7-1 Agreement lengths.

Zone 7 Water Agency
 Operating Information
 Capital Asset Statistics
 Fiscal Years 2008-2017
 (Table 20)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of treatment plants	2	3	3	3	3	3	3	3	3	3
Miles of pipeline	35	41	41	41	41	41	41	41	41	41
Number of treated water pumping stations	2	2	2	2	2	2	2	2	2	2
Number of wells operated	7	7	9	9	9	9	10	10	10	10
Total Groundwater storage (AF) ^{1,2}	231,000	228,000	231,000	235,000	227,000	220,000	209,000	213,000	226,000	240,000
Total Groundwater operational storage-water year (AF) ²	103,000	100,000	103,000	107,000	99,000	92,000	81,000	85,000	98,000	115,000

Source: Groundwater and Operations

¹ 2017 Total and Operational Groundwater Storage are estimates based on August water levels. Actual values get calculated at end of year

² Calculated on a Water Year basis (October 1 - September 30)

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