

**ALAMEDA COUNTY FLOOD AND  
WATER CONSERVATION DISTRICT – ZONE 7**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**JUNE 30, 2010**

**PREPARED BY THE  
FINANCE AND MANAGEMENT  
SERVICES DEPARTMENT**

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**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT- ZONE 7  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the basic financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Alameda County Flood Control and Water Conservation District – Zone 7, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's June 30, 2009 financial statements and, in the prior auditor's report dated November 23, 2009, they expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Alameda County Flood Control and Water Conservation District – Zone 7 at June 30, 2010, and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is required by the Governmental Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.



September 23, 2010

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**Alameda County Flood Control and Water Conservation District – Zone 7  
Management’s Discussion and Analysis for the Fiscal Year Ended June 30, 2010**

This section presents a narrative overview and analysis of Zone 7’s financial activities for the fiscal year ended June 30, 2010. All amounts, unless otherwise indicated, are expressed in whole dollars.

**Financial Highlights**

- Zone 7’s total assets exceeded its liabilities at the close of this fiscal year by \$371,825,141. Net assets from governmental activities is \$72,657,021 and Business-Type activities is \$299,168,120.
- Net assets increased by \$8,303,555 or 2.3% over the prior fiscal year’s close. Governmental activities increased \$3,495,070, while Business-Type activities increased \$4,808,485.
- Total Zone 7 Expenses decreased \$4,841,053 or 7.23% from the prior year to \$62,153,805.
- Water Sales Revenues in the Business-Type Funds increased \$764,069 or 2.5% to \$30,777,082.
- The El Charro Pipeline I for \$2,564,852 and the UF Plant Ferric Chloride Storage Modification for \$259,680 were capitalized from the Business-Type Funds.
- Construction in Progress at fiscal year-end include the Altamont Water Treatment Plant, Site Acquisition and Pipeline Projects at \$51.8 million, the Mocho Groundwater Wellhead Demineralization Project at \$33.6 million, the Chain of Lakes Wells 1 & 2 at \$15.3 million and the Patterson Pass Water Treatment Plant Improvement Project at \$1.3 million.
- A draw of \$30,500,000 from the \$60 million Line of Credit was made in the Capital Expansion Fund of the Business-Type Funds.

**Overview of the Financial Statements**

This discussion and analysis serves as an introduction to Zone 7’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.

**Zone 7-wide financial statements**

The Zone 7-wide financial statements are designed to provide readers with an overview of Zone 7’s finances, in a manner similar to private-sector business. The statement of net assets presents information on all of the County’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Zone 7 is improving or deteriorating. The statement of activities presents information showing how Zone 7’s net assets 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 Zone 7 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 of Zone 7 include Flood Control and Flood Protection. The business-type activities of include the Water Enterprise.

The government-wide financial statements can be found on pages 10-11 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. Zone 7, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Zone 7's two kinds of funds-governmental and proprietary-use different accounting approaches.

#### Governmental funds

Flood Control (General) and Flood Protection services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual 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 Zone 7'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 Zone 7's programs.

The basic governmental fund financial statements can be found on pages 12-16 of this report.

#### Proprietary funds

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 report the same functions as business-type activities in the government-wide financial statements. Enterprise activities, which include the State Water Project, Water Sales, Capital Improvement Renewal & Replacement, Capital Expansion, Water Facilities Trust and Water Supply Trust, are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Net Activities, using the accrual method of accounting.

The basic proprietary fund financial statements can be found on pages 18-23 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 on pages 25-36 of this report.



## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Zone 7's assets exceeded liabilities by \$371,825,141 at June 30, 2010.

The largest portion of Zone 7's net assets, \$228,907,109 or 62%, 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. While the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Zone 7 Net Assets June 30, 2010

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Assets:</b>						
Current and other assets	\$58,322,304	\$58,371,017	\$120,789,879	\$104,617,390	\$179,112,183	\$162,988,407
Capital assets	14,661,865	14,860,651	214,245,244	208,537,248	228,907,109	223,397,899
Total assets	<u>72,984,169</u>	<u>73,231,668</u>	<u>335,035,123</u>	<u>313,154,638</u>	<u>408,019,292</u>	<u>386,386,306</u>
<b>Liabilities:</b>						
Current liabilities	327,148	4,069,717	5,367,003	17,641,510	5,694,151	21,711,227
Long-term liabilities	0	0	30,500,000	1,153,493	30,500,000	1,153,493
Total liabilities	<u>327,148</u>	<u>4,069,717</u>	<u>35,867,003</u>	<u>18,795,003</u>	<u>36,194,151</u>	<u>22,864,720</u>
<b>Net assets:</b>						
Invested in capital assets net of related debt	14,661,865	14,860,651	214,245,244	208,712,439	228,907,109	223,573,090
Unrestricted-Designated	57,518,054	52,980,686	83,068,988	80,744,502	140,587,042	133,725,188
Unrestricted	477,102	1,320,614	1,853,888	4,902,694	2,330,990	6,223,308
Total net assets	<u>\$72,657,021</u>	<u>\$69,161,951</u>	<u>\$299,168,120</u>	<u>\$294,359,635</u>	<u>\$371,825,141</u>	<u>\$363,521,586</u>

**Zone 7  
Changes in Net Assets  
June 30, 2010**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Charges for services	\$1,178,982	\$10,423,524	\$30,887,925	\$30,059,518	\$32,066,907	\$40,483,042
Grants and other contributions	54,264	64,915	808,207	80,073	862,471	144,988
Other program revenues	23,928	103,738	30,443,571	20,803,089	30,467,499	20,906,827
General revenues						
Property taxes	5,918,281	6,129,952			5,918,281	6,129,952
Investment earnings and other	428,861	1,187,263	713,341	2,894,501	1,142,202	4,081,764
Total Revenues	<u>7,604,316</u>	<u>17,909,392</u>	<u>62,853,044</u>	<u>53,837,181</u>	<u>70,457,360</u>	<u>71,746,573</u>
<b>Expenses:</b>						
General government	3,547,907	3,397,298			3,547,907	3,397,298
Flood protection	561,339	3,989,212			561,339	3,989,212
Special drainage area operations		587,509				587,509
State Water Project			8,787,104	8,015,944	8,787,104	8,015,944
Cost of water sales			30,849,943	29,947,702	30,849,943	29,947,702
Facility use fees - capital improvement projects			5,328,142	7,366,067	5,328,142	7,366,067
Water connection fees - capital expansion			13,079,370	13,691,126	13,079,370	13,691,126
Total Expenses	<u>4,109,246</u>	<u>7,974,019</u>	<u>58,044,559</u>	<u>59,020,839</u>	<u>62,153,805</u>	<u>66,994,858</u>
Increase/(decrease) in net assets before transfers	3,495,070	9,935,373	4,808,485	(5,183,658)	8,303,555	4,751,715
Transfers		(5,269,405)		5,269,405		
Extraordinary item		(900,534)		(1,570,486)		(2,471,020)
Change in net assets	<u>3,495,070</u>	<u>3,765,434</u>	<u>4,808,485</u>	<u>(1,484,739)</u>	<u>8,303,555</u>	<u>2,280,695</u>
Net assets-beginning	69,161,951	65,396,517	294,359,635	295,844,374	363,521,586	361,240,891
Net assets-ending	<u>\$72,657,021</u>	<u>\$69,161,951</u>	<u>\$299,168,120</u>	<u>\$294,359,635</u>	<u>\$371,825,141</u>	<u>\$363,521,586</u>

Zone 7's net assets increased by \$8,303,555 during the fiscal year ended June 30, 2010. Total revenue were \$70,457,360 and is offset by total expenses, including transfers, of \$62,153,805.

**Governmental activities**

Net assets in Zone 7's flood control governmental activities increased by \$3.5 million. Total revenues were \$7.6 million while total expenses amounted to \$4.1 million.

Revenues: Charges for services decreased \$9.2 million from the prior year mainly due to the one-time transfer of \$9.1 million from the former SDA 7-1 Trust Fund (resulting from the passage of the Flood Protection and Storm Water Drainage Development Impact Fee Fund in May 2009) that was recognized as revenue in the prior year. Other program revenues decreased \$0.1 million because of lower fees and permits activities. Property taxes decreased \$0.2 million, or 3.5% because of lower total assessed value and higher delinquencies. Investment earnings and other decreased \$0.8 million, or 64%, because of considerably lower earnings rates due to the economic downturn. Zone 7 participated in the Prop1A Securitization Program which provided continued property tax revenue of \$491,320 despite the State borrowing of property tax revenue in the same amount.

Expenses: General government increased \$0.1 million, or 4.4 % mainly because of increased professional services and the June 2010 election costs. Flood protection decreased \$3.4 million, or 86%, because \$3.9 million in improvements were acquired in the prior year while no significant improvements occurred in the current year due to the lack of new development. Current year Transfers decreased \$5.3 million because a one-time adjustment was made in the prior year to report the State Water Project Fund (which was previously reported as a governmental fund) as a proprietary fund. Extraordinary item decreased \$0.9 million because of the one-time adjustments to fixed assets made in the prior year.

### **Business-type activities**

Net assets in Zone 7's water enterprise business-type activities increased by \$4.8 million with total revenues of \$62.8 million less total expenses including transfers of \$58.0 million.

Revenues: Charges for services increased \$0.8 million or 2.7% over the prior year as a result of a water rate increase offset by lower volume of water sold. Grants and other contributions increased \$0.7 million over the prior year due to receipt of State grants for the Mocho Demineralization project. Other program revenues increased \$9.6 million over the prior year primarily as a result of a one-time recognition of \$7.7 million connection fee deferred revenue. Investment earnings and other decreased \$2.2 million or 75% because of less cash to invest and lower earnings rates due to the economic downturn.

Expenses: State water project costs increased \$0.8 million or 10% because of increased from expenses incurred by the State. Cost of water sales increased \$0.9 million or 3% because of the start-up of the Mocho Demineralization plant, utilities cost and labor. Facility use fees – capital improvement projects decreased \$2.0 million or 28%, and Water connection fees – capital expansion projects decreased \$0.6 million or 5% because larger projects were completed in the prior year and less projects were initiated in the current year. No Transfers were made in the current year. Extraordinary item decreased \$1.6 million because of the one-time adjustments to fixed assets made in the prior year.

### **Governmental funds**

As of the end of the fiscal year ended June 30, 2010, Zone 7's governmental funds reported combined ending fund balances of \$57,995,156, an increase of \$3,693,856 or 6.8 % as compared to the prior year. Approximately 0.8% or \$477,102 of this total amount constitutes unreserved, undesignated fund balance, which is available for spending. The remainder of fund balance, \$57,518,054, is designated for capital projects, specific projects and programs, and to liquidate existing contracts and purchase orders. Long term liabilities remain at \$0 reflecting no debt.

### **Proprietary funds**

Zone 7's proprietary fund statements provide the same type of information as is found in the government-wide financial statements. The net assets for the enterprise increased by \$4,808,485 or 1.6%. Net assets invested in capital assets net of related debt increased \$5,532,805 reflecting capitalizing of newly completed projects previously mentioned in the financial highlights. Long-term liabilities increased \$30,500,000 because of use of a \$60 million line of credit in the Capital Expansion Fund.

## Governmental Funds Budgetary highlights

A comparative budgetary statement for the Zone's general governmental funds (General Fund) follows:

	Final Budgeted Amounts	Actual Amounts	Budget Variance	
			June 30, 2010	June 30, 2009
<b>Resources (inflow s):</b>				
Taxes	\$6,155,500	\$5,918,281	(\$237,219)	\$100,952
Intergovernmental	54,600	54,264	(336)	6,265
Charges for services	30,000	11,078	(18,922)	(844)
Interest and rentals	725,000	181,743	(543,257)	(245,318)
Other	10,000	23,928	13,928	68,179
Amounts available for appropriation	<u>6,975,100</u>	<u>6,189,294</u>	<u>(785,806)</u>	<u>(70,766)</u>
<b>Charges to appropriations (outflow s):</b>				
Salaries and benefits	1,434,769	1,441,079	(6,310)	(239,536)
Services and supplies	4,801,495	1,908,042	2,893,453	3,199,858
Equipment and capital structures	18,500	0	18,500	443,993
Total changes to appropriations	<u>6,254,764</u>	<u>3,349,121</u>	<u>2,905,643</u>	<u>3,404,315</u>
Excess of resources over charges to appropriations	720,336	2,840,173	2,119,837	3,333,549
Fund balance allocations	(720,336)	0	720,336	35,757
Excess of resources over charges to appropriations	<u>\$0</u>	<u>\$2,840,173</u>	<u>\$2,840,173</u>	<u>\$3,369,306</u>

Zone 7's actual general fund revenues under-realized its budgeted fiscal year 2010 revenues by \$785,806 or 8.9 percent. Approximately \$237,219, or 3.8% in taxes budgeted for fiscal year 2009 were not realized due to the decline in property values and the slow real estate market. Interest and rentals revenue were \$543,257 below budget due to the considerably lower earnings rate resulting from the economic downturn.

Variations between budget and actual expenditures in the general fund reflect overall expenditures less than the adjusted budget by \$2,905,643 or 46%. The lower expenditures were mainly because of services and supplies planned for repairs caused by flood damage were avoided as a result of the mild storm season the occurred during the fiscal year.

### **Capital assets and debt administration**

A summary of changes in Capital Assets, for the Proprietary Enterprise Fund and Governmental Activities, can be found on pages 30-31. Highlights include capitalizing the El Charro Pipeline I and the Construction in Progress mentioned above in the Financial Highlights. Further detail of Capital Assets as of June 30, 2010 can be found under Note 3.

At the end of the current fiscal year, Zone 7 had long-term obligations outstanding of \$30.5 million. A draw of \$30,500,000 from a \$60 million Line of Credit was made in the Capital Expansion Fund of the Business-type funds to fund projects. The line of credit expires on December 31, 2013.

### **Economic factors and next year's budget and rates**

- The assessed value of Alameda County properties within Zone 7's service area is anticipated to reflected low growth.
- The failure of sub-prime housing loans that caused the failure of some lending institutions and is expected to cause further decline in new developments within Zone 7's service area.

All of the above factors were considered in preparing Zone 7's budget for fiscal year 2011.

The County adopted its fiscal year 2010 budget before the State of California finalized its own budget. The State anticipated a budget shortfall of over \$40 billion and it is not known what impact in the state's budget will have on the County of Alameda's budget.

### **Requests for Information**

This financial report is designed to provide our customers, ratepayers, investors and creditors with a general overview of Zone 7's finances and to demonstrate accountability for the money it receives. Below is the contact information for questions about this report or requests for additional financial information.

Zone 7 Water Agency, 100 North Canyons Parkway, Livermore, CA 94551

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash in county treasury (Note 2)	\$58,117,695	\$111,082,963	\$169,200,658
Accounts receivable, net	204,609	9,616,916	9,821,525
Prepaid expenses		90,000	90,000
Total current assets	<u>58,322,304</u>	<u>120,789,879</u>	<u>179,112,183</u>
Noncurrent assets			
Capital assets (Note 3):			
Rights of way, water entitlements and construction in progress	6,870,550	139,401,608	146,272,158
Depreciable, net	<u>7,791,315</u>	<u>74,843,636</u>	<u>82,634,951</u>
Total noncurrent assets	<u>14,661,865</u>	<u>214,245,244</u>	<u>228,907,109</u>
Total assets	<u>72,984,169</u>	<u>335,035,123</u>	<u>408,019,292</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	327,148	3,910,686	4,237,834
Deposits-water facilities trust		343,012	343,012
Compensated absences (Note 1J)		<u>1,113,305</u>	<u>1,113,305</u>
Total current liabilities	<u>327,148</u>	<u>5,367,003</u>	<u>5,694,151</u>
Noncurrent liabilities			
Line of credit (Note 4A)		<u>30,500,000</u>	<u>30,500,000</u>
Total noncurrent liabilities		<u>30,500,000</u>	<u>30,500,000</u>
Total liabilities	<u>327,148</u>	<u>35,867,003</u>	<u>36,194,151</u>
NET ASSETS (Note 5)			
Invested in capital assets, net of related debt	14,661,865	214,245,244	228,907,109
Unrestricted-designated for			
Capital projects	33,588,659	43,769,762	77,358,421
Specific projects and programs	23,929,395	39,299,226	63,228,621
Unrestricted	<u>477,102</u>	<u>1,853,888</u>	<u>2,330,990</u>
Total net assets	<u>\$72,657,021</u>	<u>\$299,168,120</u>	<u>\$371,825,141</u>

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Other Program Revenues		Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>								
General government	\$3,547,907	\$11,078	\$54,264	\$23,928	\$89,270	(\$3,458,637)		(\$3,458,637)
Flood protection	561,339	1,167,904			1,167,904	606,565		606,565
Total governmental activities	4,109,246	1,178,982	54,264	23,928	1,257,174	(2,852,072)		(2,852,072)
<b>Business-type activities:</b>								
State water project	8,787,104		61,567	9,686,655	9,748,222		\$961,118	961,118
Water sales	30,849,943	30,884,920		157,753	31,042,673		192,730	192,730
Facility use fees-capital improvement	5,328,144	1,940	393,480	533,820	929,240		(4,398,904)	(4,398,904)
Water connection fees capital expansion	13,079,370	1,065	353,160	20,065,345	20,419,570		7,340,200	7,340,200
Total business-type activities	58,044,561	30,887,925	808,207	30,443,573	62,139,705		4,095,144	4,095,144
<b>Total</b>	<b>\$62,153,807</b>	<b>\$32,066,907</b>	<b>\$862,471</b>	<b>\$30,467,501</b>	<b>\$63,396,879</b>	<b>(2,852,072)</b>	<b>4,095,144</b>	<b>1,243,072</b>
<b>General revenues:</b>								
<b>Property taxes:</b>								
Secured						5,553,515		5,553,515
Unsecured						325,506		325,506
Supplemental						39,260		39,260
Investment earnings						411,890	682,341	1,094,231
Rental charges						16,971	31,000	47,971
Total general revenues, expenditures, and transfers						6,347,142	713,341	7,060,483
Change in net assets						3,495,070	4,808,485	8,303,555
Net assets-beginning of year						69,161,951	294,359,635	363,521,586
Net Assets-end of year						\$72,657,021	\$299,168,120	\$371,825,141

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7

GOVERNMENTAL FUNDS  
 BALANCE SHEET

AS OF JUNE 30, 2010

WITH SUMMARIZED TOTALS AS OF JUNE 30, 2009

ASSETS	General	Flood Protection	Totals	
			2010	2009
Current assets				
Cash in county treasury (Note 2)	\$24,233,075	\$33,884,620	\$58,117,695	\$58,333,266
Accounts receivable, net		204,609	204,609	37,751
Total assets	<u>\$24,233,075</u>	<u>\$34,089,229</u>	<u>\$58,322,304</u>	<u>\$58,371,017</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	\$311,984	\$15,164	\$327,148	\$4,069,717
Total liabilities	<u>311,984</u>	<u>15,164</u>	<u>327,148</u>	<u>4,069,717</u>
FUND BALANCES (Note 5)				
Reserved for:				
Encumbrances	96,510	83,281	179,791	
Unreserved, designated for:				
Capital projects		33,505,378	33,505,378	32,794,924
Specific projects and programs	23,347,479	485,406	23,832,885	20,185,762
Undesignated:				
General fund	477,102		477,102	1,320,614
Special revenue fund				
Total fund balances	<u>23,921,091</u>	<u>34,074,065</u>	<u>57,995,156</u>	<u>54,301,300</u>
Total liabilities and fund balances	<u>\$24,233,075</u>	<u>\$34,089,229</u>	<u>\$58,322,304</u>	<u>\$58,371,017</u>

See accompanying notes to financial statements



ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 RECONCILIATION OF  
 GOVERNMENTAL FUNDS - FUND BALANCE  
 WITH THE GOVERNMENTAL ACTIVITIES  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2010  
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	2010	2009
TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$57,995,156	\$54,301,300
<p>Amounts reported for Governmental Activities in the Statement of            Net Assets are different from those reported in the Governmental Funds            above because of the following:</p>		
<p><b>CAPITAL ASSETS</b></p>		
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	14,661,865	14,860,651
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$72,657,021</b>	<b>\$69,161,951</b>

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
ZONE 7

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2010

WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	General	Flood Protection	Totals	
			2010	2009
<b>REVENUES</b>				
Property taxes	\$5,918,281		\$5,918,281	\$6,129,952
Intergovernmental revenues	54,264		54,264	64,915
Charges for services	11,078	\$1,167,904	1,178,982	10,423,524
Interest and rentals	181,743	247,118	428,861	1,352,354
Other revenues	23,928		23,928	103,738
<b>Total revenues</b>	<b>6,189,294</b>	<b>1,415,022</b>	<b>7,604,316</b>	<b>18,074,483</b>
<b>EXPENDITURES</b>				
Salaries and employee benefits transferred from district-wide	1,441,079	262,821	1,703,900	1,857,126
Services and supplies	1,908,042	298,518	2,206,560	2,194,896
Equipment and capital structures				3,921,997
<b>Total expenditures</b>	<b>3,349,121</b>	<b>561,339</b>	<b>3,910,460</b>	<b>7,974,019</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>2,840,173</b>	<b>853,683</b>	<b>3,693,856</b>	<b>10,100,464</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (out)				(1,319)
<b>Total other financing sources (uses)</b>				<b>(1,319)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,840,173</b>	<b>853,683</b>	<b>3,693,856</b>	<b>10,099,145</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>21,080,918</b>	<b>33,220,382</b>	<b>54,301,300</b>	<b>44,202,155</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$23,921,091</b>	<b>\$34,074,065</b>	<b>\$57,995,156</b>	<b>\$54,301,300</b>

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 RECONCILIATION OF THE  
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
 WITH THE  
 CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2010  
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	2010	2009
<p>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 Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.</p>		
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$3,693,856	\$10,099,145
<p>Amounts reported for governmental activities in the Statement of Activities are different because of the following:</p>		
<p><b>CAPITAL ASSETS TRANSACTIONS</b></p>		
<p>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.</p>		
Depreciation expense is deducted from the fund balance	(198,786)	(\$163,772)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$3,495,070	\$9,935,373

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$6,155,500	\$6,155,500	\$5,918,281	(\$237,219)
Intergovernmental revenue	54,600	54,600	54,264	(336)
Charges for services	30,000	30,000	11,078	(18,922)
Interest and rentals	725,000	725,000	181,743	(543,257)
Other revenue	10,000	10,000	23,928	13,928
<b>TOTAL REVENUES</b>	<b>6,975,100</b>	<b>6,975,100</b>	<b>6,189,294</b>	<b>(785,806)</b>
<b>EXPENDITURES</b>				
Salaries and benefits	1,434,769	1,434,769	1,441,079	(6,310)
Services and supplies	4,737,300	4,801,495	1,908,042	2,893,453
Equipment and capital structures	18,500	18,500		18,500
<b>TOTAL EXPENDITURES</b>	<b>6,190,569</b>	<b>6,254,764</b>	<b>3,349,121</b>	<b>2,905,643</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$784,531</b>	<b>\$720,336</b>	<b>2,840,173</b>	<b>(\$3,691,449)</b>
Fund balance, beginning of year			<b>21,080,918</b>	
Fund balance, end of year			<b>\$23,921,091</b>	

See accompanying notes to financial statements

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ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2010

WITH SUMMARIZED TOTALS AS OF JUNE 30, 2009

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement	Capital Expansion
<b>ASSETS</b>				
Current assets:				
Cash in county treasury (Note 2)	\$7,015,548	\$18,012,606	\$19,977,715	\$57,963,208
Receivables, net		5,910,668		3,706,248
Prepaid deposits		90,000		
Total current assets	7,015,548	24,013,274	19,977,715	61,669,456
Noncurrent assets:				
Capital assets (Note 3), right of ways, water entitlements and construction in progress Improvements, net of depreciation		139,401,608 74,843,636		
Total noncurrent assets		214,245,244		
Total assets	7,015,548	238,258,518	19,977,715	61,669,456
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses		1,726,525	289,644	1,894,517
Deposits				
Unearned revenue				
Compensated absences (Note 1J)		1,113,305		
Total current liabilities		2,839,830	289,644	1,894,517
Long-term liabilities:				
Line of Credit (Note 4A)				30,500,000
Total long-term liabilities				30,500,000
Total liabilities		2,839,830	289,644	32,394,517
<b>NET ASSETS (Note 5)</b>				
Invested in capital assets		214,245,244		
Unrestricted-designated for:				
Capital projects		5,414,890	17,742,969	20,611,903
Designated projects	7,015,548	13,904,666	1,945,102	8,663,036
Unrestricted		1,853,888		
Total net assets	7,015,548	235,418,688	19,688,071	29,274,939
Total liabilities and net assets	\$7,015,548	\$238,258,518	\$19,977,715	\$61,669,456

See accompanying notes to financial statements

Water Facilities Trust	Water Supply Trust	Totals	
		2010	2009
\$3,418,901	\$4,694,985	\$111,082,963	\$96,231,393
		9,616,916	8,295,997
		90,000	90,000
<u>3,418,901</u>	<u>4,694,985</u>	<u>120,789,879</u>	<u>104,617,390</u>
		139,401,608	133,059,758
		74,843,636	75,477,490
		<u>214,245,244</u>	<u>208,537,248</u>
<u>3,418,901</u>	<u>4,694,985</u>	<u>335,035,123</u>	<u>313,154,638</u>
		3,910,686	8,666,192
343,012		343,012	415,845
			8,559,473
		1,113,305	1,153,493
<u>343,012</u>		<u>5,367,003</u>	<u>18,795,003</u>
		<u>30,500,000</u>	
		<u>30,500,000</u>	
<u>343,012</u>		<u>35,867,003</u>	<u>18,795,003</u>
		214,245,244	208,712,439
3,075,889	4,694,985	43,769,762	44,608,852
		39,299,226	36,135,650
		1,853,888	4,902,694
<u>3,075,889</u>	<u>4,694,985</u>	<u>299,168,120</u>	<u>294,359,635</u>
<u>\$3,418,901</u>	<u>\$4,694,985</u>	<u>\$335,035,123</u>	<u>\$313,154,638</u>

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
ZONE 7

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010

WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement	Capital Expansion
<b>OPERATING REVENUES</b>				
Property taxes	\$8,085,099			
Water sales		\$30,777,082		
Intergovernmental revenue	61,567		\$393,480	\$353,160
Connection and development fees			533,820	19,068,051
Charges for services		77,383	1,940	1,065
Other revenues	1,601,556	157,753		997,294
<b>Total operating revenues</b>	<b>9,748,222</b>	<b>31,012,218</b>	<b>929,240</b>	<b>20,419,570</b>
<b>OPERATING EXPENSES</b>				
Salaries, wages and benefits		12,015,971	1,675,139	1,230,402
Contractual services		2,181,871	3,551,515	7,873,753
Supplies		107,342		
Chemical purchases		1,834,443		811
Water purchases	8,787,104	4,683,079		9,966,904
Water storage		92,684		1,264,532
Utilities		2,435,536	406,391	152,256
Maintenance and repairs		1,763,989	55,867	
Equipment and building rents		91,958	493,491	393,826
Office expenses		1,786,161	185,980	323,029
Risk management		155,165		
Depreciation (Note 3)		3,701,744		
Expenses capitalized			(1,040,239)	(8,126,143)
<b>Total operating expenses</b>	<b>8,787,104</b>	<b>30,849,943</b>	<b>5,328,144</b>	<b>13,079,370</b>
<b>Operating income (loss)</b>	<b>961,118</b>	<b>162,275</b>	<b>(4,398,904)</b>	<b>7,340,200</b>
<b>NONOPERATING REVENUES</b>				
Interest income and rental fees	34,282	181,884	142,537	294,981
<b>Total nonoperating revenues</b>	<b>34,282</b>	<b>181,884</b>	<b>142,537</b>	<b>294,981</b>
<b>Income (loss) before transfers</b>	<b>995,400</b>	<b>344,159</b>	<b>(4,256,367)</b>	<b>7,635,181</b>
Transfers in (out)		3,852,953	4,273,190	(8,126,143)
<b>Change in net assets</b>	<b>995,400</b>	<b>4,197,112</b>	<b>16,823</b>	<b>(490,962)</b>
Net assets, beginning of year	6,020,148	231,221,576	19,671,248	29,765,901
Prior period adjustment				
<b>Total net assets, end of Year</b>	<b>\$7,015,548</b>	<b>\$235,418,688</b>	<b>\$19,688,071</b>	<b>\$29,274,939</b>

See accompanying notes to financial statements



Water Facilities Trust	Water Supply Trust	Totals	
		2010	2009
		\$8,085,099	\$7,077,008
		30,777,082	30,013,013
		808,207	80,073
		19,601,871	11,852,496
		80,388	46,505
\$30,455		2,787,058	1,873,585
30,455		62,139,705	50,942,680
		14,921,512	14,312,786
		13,607,139	56,428,951
		107,342	116,193
		1,835,254	2,446,022
		23,437,087	17,674,911
		1,357,216	1,912,900
		2,994,183	1,976,898
		1,819,856	2,375,760
		979,275	969,846
		2,295,170	3,019,674
		155,165	132,352
		3,701,744	3,672,329
		(9,166,382)	(46,017,783)
		58,044,561	59,020,839
30,455		4,095,144	(8,078,159)
25,409	\$34,248	713,341	2,893,182
25,409	34,248	713,341	2,893,182
55,864	34,248	4,808,485	(5,184,977)
			1,319
55,864	34,248	4,808,485	(5,183,658)
3,020,025	4,660,737	294,359,635	301,113,779
			(1,570,486)
\$3,075,889	\$4,694,985	\$299,168,120	\$294,359,635

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2010  
 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$9,748,222	\$30,621,022	\$490,130
Connection and development fees			533,820
Payment to employees		(10,902,666)	(1,675,139)
Payments to suppliers	<u>(8,787,104)</u>	<u>(16,126,626)</u>	<u>(4,224,382)</u>
Net cash provided (used) by operating activities	<u>961,118</u>	<u>3,591,730</u>	<u>(4,875,571)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Interest income	<u>34,282</u>	<u>181,884</u>	<u>142,537</u>
Cash flows from noncapital financing activities	<u>34,282</u>	<u>181,884</u>	<u>142,537</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of property, plant, and equipment		(9,409,740)	
Net proceeds from line of credit			
Transfers in		3,852,953	4,273,190
Transfers out			
Cash flows from (used for) capital and related financing activities		<u>(5,556,787)</u>	<u>4,273,190</u>
Net increase (decrease) in cash and cash equivalents	995,400	(1,783,173)	(459,844)
Cash and investments at beginning of period	<u>6,020,148</u>	<u>19,795,779</u>	<u>20,437,559</u>
Cash and investments at end of period	<u>\$7,015,548</u>	<u>\$18,012,606</u>	<u>\$19,977,715</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$961,118	\$162,275	(\$4,398,904)
Adjustments to reconcile operating income to cash flows			
Depreciation		3,701,744	
Prior period adjustment			
Changes in assets and liabilities			
Receivables		(391,196)	94,710
Accounts payable and accrued expenses		(994,398)	(571,377)
Compensated absences		1,113,305	
Deposits and unearned revenues			
Net cash provided (used) by operating activities	<u>\$961,118</u>	<u>\$3,591,730</u>	<u>(\$4,875,571)</u>

See accompanying notes to financial statements

Capital Expansion	Water Facilities Trust	Water Supply Trust	Total	
			2010	2009
(\$8,232,387)	(\$42,378)		\$32,584,609	\$38,142,681
19,068,051			19,601,871	12,501,324
(1,230,402)			(13,808,207)	(14,293,299)
14,307,808			(14,830,304)	(39,628,221)
<u>23,913,070</u>	<u>(42,378)</u>		<u>23,547,969</u>	<u>(3,277,515)</u>
<u>294,981</u>	<u>25,409</u>	<u>34,248</u>	<u>713,341</u>	<u>2,893,182</u>
<u>294,981</u>	<u>25,409</u>	<u>34,248</u>	<u>713,341</u>	<u>2,893,182</u>
			(9,409,740)	(44,808,855)
			8,126,143	6,585,457
<u>(8,126,143)</u>			<u>(8,126,143)</u>	<u>(6,584,138)</u>
<u>(8,126,143)</u>			<u>(9,409,740)</u>	<u>(44,807,536)</u>
16,081,908	(16,969)	34,248	14,851,570	(45,191,869)
41,881,300	3,435,870	4,660,737	96,231,393	141,423,262
<u>\$57,963,208</u>	<u>\$3,418,901</u>	<u>\$4,694,985</u>	<u>\$111,082,963</u>	<u>\$96,231,393</u>
\$7,340,200	\$30,455		\$4,095,144	(\$8,078,159)
			3,701,744	3,672,329
				(1,570,486)
(1,024,433)			(1,320,919)	(298,675)
26,156,776			24,591,001	2,821,253
			1,113,305	19,487
<u>(8,559,473)</u>	<u>(72,833)</u>		<u>(8,632,306)</u>	<u>156,736</u>
<u>\$23,913,070</u>	<u>(\$42,378)</u>		<u>\$23,547,969</u>	<u>(\$3,277,515)</u>

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**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General**

The Alameda County Flood Control and Water Conservation District – Zone 7 (the District) is a public corporation, organized and existing under the constitution and laws of the State of California. The District 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 District 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 assets and statement of activities display information about the primary government (the District). These statements distinguish between the *governmental* and *business-type activity* of the District. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from the business-type activity, which rely to a significant extent on fees charged to external parties.

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

When both restricted and unrestricted net assets 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 District's funds. The fund financial statements present all governmental funds and the water enterprise fund.

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.

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The District reports the following governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District that are not accounted for through other funds.
- The *Flood Protection* is for flood protection and storm water drainage facilities and is reserved for reimbursement to developers.

The District reports the following proprietary funds:

- The *State Water Project* is used for fixed State water charges and State water project bonded indebtedness.
- The *Water Sales* account for enterprise operation and administration, emergency and support services, variable State water charges, water facilities maintenance and operation, water facilities, water resources and water supply planning.
- The *Capital Improvement Renewal and Replacement* is used for improvement, renewal and replacement program.
- The *Capital Expansion* is used for Water Enterprise capital expansion projects.
- The *Water Facilities Trust* is used for Chain of Lakes mitigation and planning reserve, quarry discharge exports, miscellaneous fess and deposits, and permit inspection deposits.
- The *Water Supply Trust* 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 District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

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.

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

For its business-type activities and enterprise fund, the District has elected, under Governmental Accounting Standard's Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The District has elected not to follow subsequent private-sector guidance of FASB after November 30, 1989.

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

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

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***F. Capital Assets***

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. 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	100 years
Rights of way	Indefinite
Water entitlement	Indefinite

***G. Budgets and Budgetary Accounting***

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

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

***H. 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 General Funds and Flood Protection 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  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***I. Property Taxes***

The District receives property taxes from Alameda County. The District 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 District elected to receive the property taxes from the County under the Teeter Bill. Under this program the District receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

***J. Compensated Absences***

The District'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 District 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 District, as these benefits do not vest with the employee. Therefore, sick leave is recorded as expenditure in the period that the benefit is taken. As of June 30, 2010, the balance of compensated absences is \$1,113,305.

***K. 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.

***L. Closed Funds***

During fiscal year ended June 30, 2010, the District closed the SDA Operations Fund

***M. Reclassification***

For the year ended June 30, 2010, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform with the fiscal year 2010 presentation.

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 2 - CASH AND INVESTMENTS**

The District's cash and investments is controlled and invested by the Alameda County Treasurer. Investments are stated at fair value as required by generally accepted accounting principles. Pooled investment earning are allocated by the Treasurer to each fund based on the cash and investment balances in these funds at the end of each accounting period. At June 30, 2010, the District's cash and investments amounted to \$169,200,658 of which \$58,117,695 and \$111,082,963 were reflected in the District's Governmental and Business-Type Funds, respectively. The make up of these investments can be found in the Alameda County Treasurer's Investment Pool Market Value Report as of June 30, 2010, however the majority of the Pool is comprised of collateralized securities (Treasury Notes, Bills Federal Agencies and Commercial Paper).

**NOTE 3 – CAPITAL ASSETS**

**A. Summary**

The following is a summary of capital assets as of June 30, 2010:

	Balance at June 30, 2009	Additions	Balance at June 30, 2010
<i>Governmental Activities</i>			
Capital assets not being depreciated:			
Rights of way	\$6,870,550		\$6,870,550
Total capital assets not being depreciated	6,870,550		6,870,550
Capital assets being depreciated:			
Flood control channels	9,939,359		9,939,359
Total capital assets being depreciated	9,939,359		9,939,359
Less accumulated depreciation for:			
Flood control channels	1,949,258	\$198,786	2,148,044
Total accumulated depreciation	1,949,258	198,786	2,148,044
Net capital assets being depreciated	7,990,101	(198,786)	7,791,315
Governmental activity capital assets, net	\$14,860,651	(\$198,786)	\$14,661,865

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 – CAPITAL ASSETS (Continued)**

<i>Business-Type Activities</i>	Balance at June 30, 2009	Additions and Transfers	Retirements	Balance at June 30, 2010
Capital assets not being depreciated:				
Rights of way	\$294,800			\$294,800
Water entitlements	36,655,364			36,655,364
Construction in progress	96,109,594	\$6,341,850		102,451,444
Total capital assets not being depreciated	<u>133,059,758</u>	<u>6,341,850</u>		<u>139,401,608</u>
Capital assets being depreciated:				
Equipment	2,658,762	243,358	(\$197,750)	2,704,370
Treatment plants	70,099,242	259,680		70,358,922
Office building	1,264,251			1,264,251
Reservoir	1,934,197			1,934,197
Pipelines	17,128,384	2,564,852		19,693,236
Wellfields	11,332,500			11,332,500
Supervisory Control and Data Acquisition project	9,704,664			9,704,664
Other infrastructure	487,550			487,550
Total capital assets being depreciated	<u>114,609,550</u>	<u>3,067,890</u>	<u>(197,750)</u>	<u>117,479,690</u>
Less accumulated depreciation for:				
Equipment	2,097,353	239,555	(197,750)	2,139,158
Treatment plants	22,981,782	2,206,629		25,188,411
Office building	690,314	31,606		721,920
Reservoir	764,221	48,355		812,576
Pipelines	7,938,848	394,865		8,333,713
Wellfields	2,465,835	283,312		2,749,147
Supervisory Control and Data Acquisition project	2,183,550	485,233		2,668,783
Other infrastructure	10,157	12,189		22,346
Total accumulated depreciation	<u>39,132,060</u>	<u>3,701,744</u>	<u>(197,750)</u>	<u>42,636,054</u>
Net capital assets being depreciated	<u>75,477,490</u>	<u>(633,854)</u>		<u>74,843,636</u>
Business-Type activity capital assets, net	<u>\$208,537,248</u>	<u>\$5,707,996</u>		<u>\$214,245,244</u>

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 – CAPITAL ASSETS (Continued)**

***B. Construction in Progress***

Construction in Progress at June 30, 2010 comprises the following projects:

Projects	
Altamont Pipeline-Livermore Reach	\$33,700,048
Mocho Grandwater Demineralization	33,671,246
Altamont Water Treatment Plant (AWTP)-Site Aquis/Raw H2O	15,525,857
Chain of Lakes Wells 1 & 2	15,271,801
Altamont Water Treatment Plant (AWTP)	1,889,990
Patterson Pass Water Treatment Plant (PPWTP)-Improvement Project	1,302,074
Altamont Pipeline-County Reach	665,719
Arroyo Mocho/Lake H Diversion	290,763
Chain of Lakes Wells 3 & 4	105,671
Patterson Pass Water Treatment Plant (PPWTP)-Sewer Line Project	28,275
Total	\$102,451,444

**NOTE 4 – LONG-TERM LIABILITIES**

***Line of Credit***

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 term of six years. The line carries a variable interest rate based on a calculation of 81.41% of bank's Prime rate, less 2.2%. There are no prepayment penalties, an unused portion fee of 0.05% per year applies, a debt service of 1.0 times net revenues has to be maintained. As of June 30, 2010 the outstanding balance for the line of credit was \$30,500,000 at an interest rate of 0.45%.

**NOTE 5 – NET ASSETS AND FUND BALANCES**

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

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets, 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 District 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 Assets which is not restricted to use.

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 6 – RETIREMENT PLAN**

All qualified permanent employees participate in the Plan. Members are eligible to retire at age 50 with ten years of service, at age 70 regardless of years of service or at any age with thirty years of service. A year of qualifying service equals one year of full time employment.

The Plan requires participants in Tier 1 to contribute from 9.10%-14.00% of their salary of which the District contributes up to 14.84%. The Plan requires participants in Tier 2 to contribute from 6.16%-10.19% of their salary of which the District contributes up to 13.31%. Contributions necessary to fund the Plan on an actuarial basis are determined by the Alameda County Employees Retirement Association.

The actuarial accrued liability presented below was computed as part of an actuarial valuation performed as of December 31, 2008, which is the latest actuarial valuation available. Significant actuarial assumptions used in the valuation include (a) valuation interest rate of 8% and (b) projected salary increases of 4.7%-8% per year reflecting 3.75% for inflation and 25% across the board. The Plan uses the Entry Age Normal Method with a supplemental present value. The amortization period for the supplemental present value is 24 years, with 22 years remaining from January 1, 2010. The Plan uses the level percent of projected payroll method to amortize the unfunded actuarial accrued liability.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability.

In valuing Plan assets used in determining funding status, the actuary spreads realized and unrealized gains and losses over 5 years.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Plan wide trend information may be found in the Association's Annual Reports.

Annual contributions paid by the District to the Plan are equal to the annual required contributions which were as follows:

<u>Fiscal Year</u>	<u>Employee</u>	<u>Employer</u>	<u>Total</u>
2007-2008	\$481,298	\$2,545,998	\$3,027,296
2008-2009	468,449	2,606,413	3,074,862
2009-2010	423,182	2,750,842	3,174,024

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 7 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT**

The District, through the County of Alameda (County), is a participant under the Alameda County Employees' Retirement Association's (ACERA) 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 District 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 District 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 District. Accordingly, the District believes it has already accounted for the payments to be made from the SRBR indirectly through its pension contributions and therefore the District'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 2025 based on the 12/31/2006 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 2025.

**NOTE 8 - INSURANCE**

The District 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	\$15,000,000	\$1,000,000
Workers' Compensation	Statutory Limit	3,000,000
Property	602,500,000	50,000
Crime	10,000,000	2,500
Pollution	10,000,000	500,000

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 9 – STATE OF CALIFORNIA PROPOSITION 1 A SECURITIZATION**

Proposition 1A was passed by California voters in 2004 to ensure local property tax and sales tax revenues remain with local government thereby safeguarding funding for public safety, health, libraries, parks, and other local services. Provisions can only be suspended if the Governor declares a fiscal necessity and two-thirds of the Legislature concurs.

Under the provisions of Proposition 1A and as part of the fiscal year 2009-10 budget package passed by the California State legislature on July 28, 2009, the State of California borrowed 8% of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fees, triple flip in lieu sales taxes, and supplemental property taxes, apportioned to the District. The State is required to repay the \$491,320 it borrowed from the District, plus interest, by June 30, 2013.

Authorized with the 2009-10 State budget package was the Proposition 1A Securitization Program (Program), administered by the California Statewide Communities Development Authority (“California Communities”), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities. Under the Program, the participating cities receive cash equal to their share of State borrowings and forgo interest they otherwise would have received from the State on the unpaid borrowings. The District is a participant in the Program.

California Communities simultaneously purchased the Proposition 1A receivables from the District and other participants, and issued bonds to provide participants with proceeds to be remitted in two equal installments due on January 15, 2010 and May 3, 2010. All costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. As of June 30, 2010, the District received both installments due under the Program and recorded them as property taxes in the same manner as if the State had not exercised its rights under Proposition 1A. Since sales proceeds to the District equal the book value of State borrowings no gain or loss was incurred.

**NOTE 10 - COMMITMENT AND CONTINGENT LIABILITIES**

***A. Litigation***

The District is a defendant in a number of lawsuits, which have arisen, in the normal course of business including challenges over certain rates and changes. The ultimate outcome of these matters is not presently determinable. In the opinion of the District, these actions when finally adjudicated will not have a material adverse effect on the financial position of the District.

***B. Other Contingencies***

In June, 2006, the District entered into a Water Banking and Exchange Program with Cawelo Water District. The District’s capital cost is approximately \$19,000,000 to be financed by 30-year revenue bonds issued by Cawelo. In addition, the District will pay for transportation of the water to and from the banking site. \$1,264,532 was paid for the year ended June 30, 2010.

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 10 - COMMITMENT AND CONTINGENT LIABILITIES (Continued)**

In compliance with California Environmental Quality Act (CEQA), the District implemented the "Modified Near-Term Project" (the Project), as identified in the Final Environmental Impact Report for the Water Supply Planning Program. The District entered into the following contracts to implement the Project:

A) Effective January 1, 1999, a 15-year agreement with Byron-Bethany Irrigation District to purchase up to 5,000 acre-feet of water per year, with a minimum of 2,000 acre-feet per year available for the District, and a minimum payment of \$90,000 per year.

B) Commencing January 1, 2000, the purchase and permanent transfer of 15,000 acre-feet of State Water Project entitlements from the Lost Hills Water District for a purchase price of \$15,000,000 and assumption of State Water Project "fixed costs" of approximately \$900,000 per year.

**C. Lease Obligation**

On June 4, 2003, the District 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 escalating operating lease, with annual rents to start at \$986,831 to \$1,302,133 through year 15, with a purchase option of \$12,153,000. Occupancy started February 19, 2005. For the fiscal year ended June 30, 2010, the District paid \$1,076,993. A schedule of future rents is as follows:

For the Year Ending June 30	Lease Obligation
2011	\$1,098,557
2012	1,120,582
2013	1,143,017
2014	1,165,901
2015	1,189,198
2016 - 2020	5,758,975
Totals	\$11,476,230



**ALAMEDA COUNTY FLOOD CONTROL AND WATER  
CONSERVATION DISTRICT – ZONE 7**

**MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**FOR THE YEAR ENDED  
JUNE 30, 2010**

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**ALAMEDA COUNTY FLOOD CONTROL AND WATER  
CONSERVATION DISTRICT – ZONE 7  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**For the Year Ended June 30, 2010**

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## MEMORANDUM ON INTERNAL CONTROL

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

In planning and performing our audit of the financial statements of the Alameda County Flood Control and Water Conservation District – Zone 7 as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, Board of Directors, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.



September 23, 2010

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## REQUIRED COMMUNICATIONS

To the Board of Directors of  
the Alameda County Flood Control and Water  
Conservation District – Zone 7

We have audited the financial statements of the Alameda County Flood Control and Water Conservation District – Zone 7 as of and for the year ended June 30, 2010 and have issued our report thereon dated September 23, 2010. Professional standards require that we advise you of the following matters relating to our audit.

**Financial Statement Audit Assurance:** Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

**Other Information Included with the Audited Financial Statements:** Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures are explained in our audit report.

**Accounting Policies:** Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2010. During the fiscal year, the District implemented the following standards:

- **GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*** – Governments have different types of intangible assets, such as easements, water rights, patents, trademarks, and computer software. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies and enhance comparability. The District reviewed its intangible assets to ensure proper recording within the Capital Assets balance.

**Unusual Transactions, Controversial or Emerging Areas:** No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

**Estimates:** Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is depreciation. Management's estimate of depreciation is based on the estimated useful lives of the capital assets. We evaluated the key factors and assumptions used to develop the depreciation expense and determined that they are reasonable in relation to the basic financial statements taken as a whole.

**Disagreements with Management:** For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Retention Issues:** We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as the District's auditors.

**Difficulties:** We encountered no serious difficulties in dealing with management relating to the performance of the audit.

**Audit Adjustments:** For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the District, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.



We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the entity's financial reporting process.

**Uncorrected Misstatements:** Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to management.

\*\*\*\*\*

This report is intended solely for the information and use of the finance committee, Board of Directors, and management and is not intended to be and should not be used by anyone other than these specified parties.

*Maye + Associates*

September 23, 2010

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