

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

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2011

**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, 2011**

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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, 2011, 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, financial statements and our report dated September 23, 2010, in which we expressed an unqualified opinion.

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, 2011, 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.

As described in Note 5, the District implemented the provisions of *Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions*.

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.

Maze & Associates

September 21, 2011

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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, 2011**

This section presents a narrative overview and analysis of Zone 7’s financial activities for the fiscal year ended June 30, 2011. 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 \$372 million. Net assets from governmental activities are \$77.3 million and Business-Type activities are \$294.7 million.
- Net assets increased by \$176,500 or 0.05% over the prior fiscal year’s close. Governmental activities increased \$4.7 million, while Business-Type activities decreased \$4.5 million.
- Total Zone 7 Expenses increased \$4.1 million or 6.5% over the prior year to \$66.2 million.
- Total Zone 7 Revenues decreased \$4.1 million or 5.7% from the prior year to \$66.4 million.
- Water Sales Revenues in the Business-Type Funds increased \$1million or 3.2% to \$31.9 million.
- The Altamont Pipeline – Livermore Reach for \$32,425,137, the Mocho Groundwater Demineralization Plant for \$33,751,752, the Chain of Lakes Wells 1 and 2 for \$15,102,829, and the Patterson Pass Water Treatment Plant (PPWTP) improvement project for \$1,304,438 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 for \$18,092,939, the Arroyo Mocho/Lake H Diversion for \$308,314, Santa Rita Pipeline Relocation for \$126,589, PPWTP sewer line for \$120,802, the Chain of Lakes Wells 3 & 4 for \$105,671, the Cope Lake Facilities project for \$62,037, and the Del Valle Water Treatment Plant Chemical System and Parking Lot Improvements for \$7,137.

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 9 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 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 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 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 \$372 million at June 30, 2011.

The largest portion of Zone 7's net assets, \$223.3 million or 60% 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, 2011**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	\$63,075,901	\$58,322,304	\$118,731,001	\$120,789,879	\$181,806,902	\$179,112,183
Capital assets	14,479,216	14,661,865	210,061,388	214,245,244	224,540,604	228,907,109
Total assets	<u>77,555,117</u>	<u>72,984,169</u>	<u>328,792,389</u>	<u>335,035,123</u>	<u>406,347,506</u>	<u>408,019,292</u>
Liabilities:						
Current liabilities	233,000	327,148	3,612,865	5,367,003	3,845,865	5,694,151
Long-term liabilities	0	0	30,500,000	30,500,000	30,500,000	30,500,000
Total liabilities	<u>233,000</u>	<u>327,148</u>	<u>34,112,865</u>	<u>35,867,003</u>	<u>34,345,865</u>	<u>36,194,151</u>
Net assets:						
Invested in capital assets net of related debt	14,479,216	14,661,865	208,841,658	214,245,244	223,320,874	228,907,109
Unrestricted-Designated	58,914,899	57,518,054	79,436,419	83,068,988	138,351,318	140,587,042
Unrestricted	3,928,002	477,102	6,401,447	1,853,888	10,329,449	2,330,990
Total net assets	<u>\$77,322,117</u>	<u>\$72,657,021</u>	<u>\$294,679,524</u>	<u>\$299,168,120</u>	<u>\$372,001,641</u>	<u>\$371,825,141</u>

**Zone 7
Changes in Net Assets
June 30, 2011**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Charges for services	\$3,178,719	\$1,178,982	\$31,879,951	\$30,887,925	\$35,058,670	\$32,066,907
Grants and other contributions	53,229	54,264	444,139	808,207	497,368	862,471
Other program revenues	21,626	23,928	23,991,982	30,443,571	24,013,608	30,467,499
General revenues						
Property taxes	5,745,003	5,918,281			5,745,003	5,918,281
Investment earnings and other	345,843	428,861	735,257	713,341	1,081,100	1,142,202
Total Revenues	<u>9,344,420</u>	<u>7,604,316</u>	<u>57,051,329</u>	<u>62,853,044</u>	<u>66,395,749</u>	<u>70,457,360</u>
Expenses:						
General government	4,063,566	3,547,907			4,063,566	3,547,907
Flood protection	615,758	561,339			615,758	561,339
Special drainage area operations						0
State Water Project			10,670,494	8,787,104	10,670,494	8,787,104
Cost of water sales			30,572,172	30,849,943	30,572,172	30,849,943
Facility use fees - capital improvement projects			4,443,284	5,328,142	4,443,284	5,328,142
Water connection fees - capital expansion			15,853,975	13,079,370	15,853,975	13,079,370
Total Expenses	<u>4,679,324</u>	<u>4,109,246</u>	<u>61,539,925</u>	<u>58,044,559</u>	<u>66,219,249</u>	<u>62,153,805</u>
Increase/(decrease) in net assets before transfers	4,665,096	3,495,070	(4,488,596)	4,808,485	176,500	8,303,555
Transfers						
Extraordinary item						0
Change in net assets	<u>4,665,096</u>	<u>3,495,070</u>	<u>(4,488,596)</u>	<u>4,808,485</u>	<u>176,500</u>	<u>8,303,555</u>
Net assets-beginning	72,657,021	69,161,951	299,168,120	294,359,635	371,825,141	363,521,586
Net assets-ending	<u>\$77,322,117</u>	<u>\$72,657,021</u>	<u>\$294,679,524</u>	<u>\$299,168,120</u>	<u>\$372,001,641</u>	<u>\$371,825,141</u>

Zone 7's net assets increased by \$176,500 during the fiscal year ended June 30, 2011. Total revenue was \$66.4 million and is offset by total expenses, including transfers, of \$66.2 million.

Governmental activities

Net assets in Zone 7's flood control governmental activities increased by \$4.7 million. Total revenues were \$9.3 million while total expenses amounted to \$4.7 million.

Revenues: Charges for services increased \$2.0 million from the prior year mainly due to an increase in the number of impervious area applications and an annual adjustment to the Flood Protection and Storm Water Drainage Development Impact Fee (DIF) of \$1.00 or 13.77% for 2011 over the prior year's fee of \$0.879 per square foot of impervious surface created. Other program revenues decreased slightly from the prior year for fees and permits activities. Property taxes decreased \$0.2 million, or 2.9% because of lower total assessed value and higher delinquencies. Investment earnings and other decreased \$0.08 million, or 19.4%, because of considerably lower earnings rates due to the economic downturn.

Expenses: General government increased \$0.5 million, or 14.5% mainly because of increased professional services. Flood protection decreased \$0.05 million, or 9.7%. There is no change for transfers.

Business-type activities

Net assets in Zone 7's water enterprise business-type activities decreased by \$4.5 million with total revenues of \$57.1 million less total expenses including transfers of \$61.5 million.

Revenues: Charges for services increased \$1 million or 3.2% over the prior year as a result of a water rate increase offset by lower volume of water sold. Grants and other contributions decreased \$0.4 million from the prior year due to receipt of State grants for the Mocho Demineralization project in the prior year. Other program revenues decreased \$6.5 million from the prior year. Investment earnings and other increased slightly.

Expenses: State water project costs increased \$1.9 million or 21.4% because of increased from expenses incurred by the State. Cost of water sales decreased \$0.3 million or 0.9% because of the decrease in water treatment related costs due to a lower volume of surface water. Facility use fees – capital improvement projects decreased \$0.9 million or 16.6% because larger projects were completed in the prior year and fewer projects were initiated in the current year. Water connection fees – capital expansion projects increased \$2.8 million or 21.2% mainly due to the South Bay Aqueduct Enlargement/Improvement Project increased costs. No Transfers were made in the current year.

Governmental funds

As of the end of the fiscal year ended June 30, 2011, Zone 7's governmental funds reported combined ending fund balances of \$62.8 million, an increase of \$4.8 million or 8.4 % as compared to the prior year. Fund balances are classified in accordance with Governmental and Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions. Out of the total fund balance of \$62.8 million; \$10.1 million is reserved for encumbrances; \$30.5 million is committed, which have constraints imposed by formal action of the Board and may be altered only by formal action of the Board; \$14.1 million is assigned, which are constrained by management's intent to be used for a specific purpose, but are neither restricted nor committed; and \$8.1 million is unassigned, which are not restricted, committed, or assigned and are available for spending. 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 decreased by \$4.5 million or 1.5%. Net assets invested in capital assets net of related debt decreased \$5.4 million primarily due to the increase in accumulated depreciation. There is no change in long-term liabilities.

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, 2011	June 30, 2010
Resources (inflow s):				
Taxes	\$5,105,203	\$5,745,003	\$639,800	(\$237,219)
Intergovernmental	54,000	53,229	(771)	(336)
Charges for services	20,000	12,771	(7,229)	(18,922)
Interest and rentals	317,000	155,180	(161,820)	(543,257)
Other	16,600	21,626	5,026	13,928
Amounts available for appropriation	<u>5,512,803</u>	<u>5,987,809</u>	<u>475,006</u>	<u>(785,806)</u>
Charges to appropriations (outflow s):				
Salaries and benefits	1,112,161	1,615,463	(503,302)	(6,310)
Services and supplies	8,876,100	2,265,454	6,610,646	2,893,453
Total changes to appropriations	<u>9,988,261</u>	<u>3,880,917</u>	<u>6,107,344</u>	<u>2,905,643</u>
Excess of resources over charges to appropriations	(4,475,458)	2,106,892	6,582,350	2,119,837
Fund balance allocations	4,475,458	0	(4,475,458)	720,336
Excess of resources over charges to appropriations	<u>\$0</u>	<u>\$2,106,892</u>	<u>\$2,106,892</u>	<u>\$2,840,173</u>

Zone 7's actual general fund revenues over-realized its budgeted fiscal year 2011 revenues by \$475,006 or 8.6%. Approximately \$639,800 or 12.5% in taxes budgeted for fiscal year 2011 was higher than anticipated due to conservative budget estimates. Interest and rentals revenue were \$161,820 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 \$6.1 million or 157.4%. The lower expenditures were mainly because of an additional appropriation of \$4.3M for the El Charro Specific Plan, which wasn't spent.

Capital assets and debt administration

A summary of changes in Capital Assets, Proprietary Enterprise Fund and Governmental General Fund, can be found on pages 30. Highlights include capitalizing the Mocho Groundwater Demineralization facility and the Chain of Lakes Wells 1 & 2 and the Construction in Progress mentioned above in the Financial Highlights. Further detail of Capital Assets as of June 30, 2011 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. In the prior year, 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's interest is calculated at a fluctuating rate per annum of 81.41% of the Prime Rate in effect from time to time, less 2.2%, the prime rate minus 2 points and it expires on December 31, 2013.

Economic factors and next year's budget and rates

- As part of the California Delta Water Bonds package that was approved by the governor on Nov 10, 2009, there was legislation that requires the state to achieve a 20% reduction in urban per capita water use in California by December 31, 2020 (SBX7-7). This impacts water deliveries and therefore impacts waters sales.
- The assessed value of Alameda County properties within Zone 7's service area is anticipated to reflect 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 2012.

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, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash in county treasury (Note 2)	\$62,627,113	\$111,710,416	\$174,337,529
Accounts receivable, net	448,788	6,796,766	7,245,554
Prepaid expenses		223,819	223,819
Total current assets	<u>63,075,901</u>	<u>118,731,001</u>	<u>181,806,902</u>
Noncurrent assets			
Capital assets (Note 3):			
Rights of way, water entitlements and construction in progress	6,870,550	57,258,300	64,128,850
Depreciable, net	7,608,666	152,803,088	160,411,754
Total noncurrent assets	<u>14,479,216</u>	<u>210,061,388</u>	<u>224,540,604</u>
Total assets	<u>77,555,117</u>	<u>328,792,389</u>	<u>406,347,506</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	233,000	2,079,778	2,312,778
Deposits-water facilities trust		380,997	380,997
Compensated absences (Note 1J)		1,152,090	1,152,090
Total current liabilities	<u>233,000</u>	<u>3,612,865</u>	<u>3,845,865</u>
Noncurrent liabilities			
Line of credit (Note 4)		30,500,000	30,500,000
Total noncurrent liabilities		<u>30,500,000</u>	<u>30,500,000</u>
Total liabilities	<u>233,000</u>	<u>34,112,865</u>	<u>34,345,865</u>
NET ASSETS (Note 5)			
Invested in capital assets, net of related debt	14,479,216	208,841,658	223,320,874
Unrestricted-designated for			
Capital projects	36,227,580	40,041,672	76,269,252
Specific projects and programs	22,687,319	39,394,747	62,082,066
Unrestricted	3,928,002	6,401,447	10,329,449
Total net assets	<u>\$77,322,117</u>	<u>\$294,679,524</u>	<u>\$372,001,641</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, 2011

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Other Program Revenues	
Governmental activities:					
General government	\$4,063,566	\$12,771	\$53,229	\$21,626	\$87,626
Flood protection	615,758	3,165,948			3,165,948
Total governmental activities	4,679,324	3,178,719	53,229	21,626	3,253,574
Business-type activities:					
State water project	10,670,494		75,277	12,206,165	12,281,442
Water sales	30,572,172	31,878,981	5,580	120,576	32,005,137
Facility use fees-capital improvement	4,443,284	810	66,109	444,443	511,362
Water connection fees capital expansion	15,853,975	160	297,173	11,220,798	11,518,131
Total business-type activities	61,539,925	31,879,951	444,139	23,991,982	56,316,072
Total	\$66,219,249	\$35,058,670	\$497,368	\$24,013,608	\$59,569,646
General revenues:					
Property taxes:					
Secured					
Unsecured					
Supplemental					
Investment earnings					
Rental charges					
Total general revenues					
Change in net assets					
Net assets-beginning of year					
Net Assets-end of year					

See accompanying notes to financial statements

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
(\$3,975,940)		(\$3,975,940)
2,550,190		2,550,190
(1,425,750)		(1,425,750)
	\$1,610,948	1,610,948
	1,432,965	1,432,965
	(3,931,922)	(3,931,922)
	(4,335,844)	(4,335,844)
	(5,223,853)	(5,223,853)
(1,425,750)	(5,223,853)	(6,649,603)
5,367,779		5,367,779
320,381		320,381
56,843		56,843
328,384	704,257	1,032,641
17,459	31,000	48,459
6,090,846	735,257	6,826,103
4,665,096	(4,488,596)	176,500
72,657,021	299,168,120	371,825,141
\$77,322,117	\$294,679,524	\$372,001,641

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 AS OF JUNE 30, 2011
 WITH SUMMARIZED TOTALS AS OF JUNE 30, 2010

	General	Flood Protection	Totals	
			2011	2010
ASSETS				
Current assets				
Cash in county treasury (Note 2)	\$26,251,179	\$36,375,934	\$62,627,113	\$58,117,695
Accounts receivable, net		448,788	448,788	204,609
Total assets	<u>\$26,251,179</u>	<u>\$36,824,722</u>	<u>\$63,075,901</u>	<u>\$58,322,304</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	\$223,196	\$9,804	\$233,000	\$327,148
Total liabilities	<u>223,196</u>	<u>9,804</u>	<u>233,000</u>	<u>327,148</u>
FUND BALANCES (Note 5)				
Nonspendable:				
Encumbrances	4,388,273	5,715,710	10,103,983	
Committed		31,099,208	31,099,208	57,518,054
Assigned	13,511,708		13,511,708	
Unassigned	8,128,002		8,128,002	477,102
Total fund balances	<u>26,027,983</u>	<u>36,814,918</u>	<u>62,842,901</u>	<u>57,995,156</u>
Total liabilities and fund balances	<u>\$26,251,179</u>	<u>\$36,824,722</u>	<u>\$63,075,901</u>	<u>\$58,322,304</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, 2011
 WITH COMPARATIVE TOTALS FOR JUNE 30, 2010

	2011	2010
TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$62,842,901	\$57,995,156
<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>CAPITAL ASSETS</p>		
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	14,479,216	14,661,865
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$77,322,117	\$72,657,021

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, 2011
 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2010

	General	Flood Protection	Totals	
			2011	2010
REVENUES				
Property taxes	\$5,745,003		\$5,745,003	\$5,918,281
Intergovernmental revenues	53,229		53,229	54,264
Charges for services	12,771	\$3,165,948	3,178,719	1,178,982
Interest and rentals	155,180	190,663	345,843	428,861
Other revenues	21,626		21,626	23,928
Total revenues	5,987,809	3,356,611	9,344,420	7,604,316
EXPENDITURES				
Salaries and employee benefits transferred from district-wide	1,615,463	321,973	1,937,436	1,703,900
Services and supplies	2,265,454	293,659	2,559,113	2,206,560
Other		126	126	
Total expenditures	3,880,917	615,758	4,496,675	3,910,460
EXCESS OF REVENUES OVER EXPENDITURES	2,106,892	2,740,853	4,847,745	3,693,856
NET CHANGE IN FUND BALANCES	2,106,892	2,740,853	4,847,745	3,693,856
FUND BALANCES, BEGINNING OF YEAR	23,921,091	34,074,065	57,995,156	54,301,300
FUND BALANCES, END OF YEAR	\$26,027,983	\$36,814,918	\$62,842,901	\$57,995,156

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, 2011
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010

	2011	2010
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.		
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$4,847,745	\$3,693,856
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.		
Depreciation expense is deducted from the fund balance	(182,649)	(\$198,786)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$4,665,096	\$3,495,070

See accompanying notes to financial statements

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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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	Positive (Negative)
REVENUES				
Property taxes	\$5,105,203	\$5,105,203	\$5,745,003	\$639,800
Intergovernmental revenue	54,000	54,000	53,229	(771)
Charges for services	20,000	20,000	12,771	(7,229)
Interest and rentals	317,000	317,000	155,180	(161,820)
Other revenue	16,600	16,600	21,626	5,026
TOTAL REVENUES	5,512,803	5,512,803	5,987,809	475,006
EXPENDITURES				
Salaries and benefits	1,112,061	1,112,061	1,615,463	(503,402)
Services and supplies	4,473,896	8,876,100	2,265,454	6,610,646
TOTAL EXPENDITURES	5,585,957	9,988,161	3,880,917	6,107,244
NET CHANGE IN FUND BALANCE	(\$73,154)	(\$4,475,358)	2,106,892	(\$5,632,238)
Fund balance, beginning of year			23,921,091	
Fund balance, end of year			\$26,027,983	

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

WITH SUMMARIZED TOTALS AS OF JUNE 30, 2010

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement	Capital Expansion
ASSETS				
Current assets:				
Cash in county treasury (Note 2)	\$8,723,883	\$18,526,673	\$21,525,384	\$54,713,583
Receivables, net		5,818,485	29,520	948,761
Prepaid deposits		223,819		
Total current assets	8,723,883	24,568,977	21,554,904	55,662,344
Noncurrent assets:				
Capital assets (Note 3), right of ways, water entitlements and construction in progress		57,258,300		
Improvements, net of depreciation		152,803,088		
Total noncurrent assets		210,061,388		
Total assets	8,723,883	234,630,365	21,554,904	55,662,344
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses		1,482,609	543,515	53,654
Deposits				
Compensated absences (Note 1J)		1,152,090		
Total current liabilities		2,634,699	543,515	53,654
Long-term liabilities:				
Line of Credit (Note 4)				30,500,000
Total long-term liabilities				30,500,000
Total liabilities		2,634,699	543,515	30,553,654
NET ASSETS (Note 5)				
Invested in capital assets		208,841,658		
Unrestricted-designated for:				
Capital projects		5,044,146	18,697,511	16,300,015
Designated projects	8,723,883	11,708,415	2,313,878	8,808,675
Unrestricted		6,401,447		
Total net assets	8,723,883	231,995,666	21,011,389	25,108,690
Total liabilities and net assets	\$8,723,883	\$234,630,365	\$21,554,904	\$55,662,344

See accompanying notes to financial statements

Water Facilities Trust	Water Supply Trust	Totals	
		2011	2010
\$3,500,345	\$4,720,548	\$111,710,416	\$111,082,963
		6,796,766	9,616,916
		223,819	90,000
<u>3,500,345</u>	<u>4,720,548</u>	<u>118,731,001</u>	<u>120,789,879</u>
		57,258,300	139,401,608
		152,803,088	74,843,636
		210,061,388	214,245,244
<u>3,500,345</u>	<u>4,720,548</u>	<u>328,792,389</u>	<u>335,035,123</u>
		2,079,778	3,910,686
380,997		380,997	343,012
		1,152,090	1,113,305
<u>380,997</u>		<u>3,612,865</u>	<u>5,367,003</u>
		30,500,000	30,500,000
		30,500,000	30,500,000
<u>380,997</u>		<u>34,112,865</u>	<u>35,867,003</u>
		208,841,658	214,245,244
3,119,348	4,720,548	40,041,672	43,769,762
		39,394,747	39,299,226
		6,401,447	1,853,888
<u>3,119,348</u>	<u>4,720,548</u>	<u>294,679,524</u>	<u>299,168,120</u>
<u>\$3,500,345</u>	<u>\$4,720,548</u>	<u>\$328,792,389</u>	<u>\$335,035,123</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, 2011

WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2010

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement	Capital Expansion
OPERATING REVENUES				
Property taxes	\$9,860,412			
Water sales		\$31,785,517		
Intergovernmental revenue	75,277	5,580	\$66,109	\$297,173
Connection and development fees			407,130	9,290,465
Charges for services		68,902	810	160
Other revenues	2,345,753	120,576	37,313	1,930,333
Total operating revenues	12,281,442	31,980,575	511,362	11,518,131
OPERATING EXPENSES				
Salaries, wages and benefits		11,917,473	2,021,007	873,463
Contractual services		2,399,390	1,772,249	475,432
Supplies		118,003		
Chemical purchases		1,542,425		
Water purchases	10,670,494	4,418,112		12,587,907
Water storage		924,278		1,391,836
Utilities		1,727,147	353,834	111,631
Maintenance and repairs		1,348,377		
Equipment and building rents		89,901	510,623	399,974
Office expenses		1,201,319	53,589	186,563
Risk management		203,728		
Depreciation (Note 3)		4,682,019		
Expenses capitalized			(268,018)	(172,831)
Total operating expenses	10,670,494	30,572,172	4,443,284	15,853,975
Operating income (loss)	1,610,948	1,408,403	(3,931,922)	(4,335,844)
NONOPERATING REVENUES				
Interest income and rental fees	97,387	142,618	108,367	342,425
Total nonoperating revenues	97,387	142,618	108,367	342,425
Income (loss) before transfers	1,708,335	1,551,021	(3,823,555)	(3,993,419)
Transfers in		84,126,119	22,861,346	66,181,501
Transfers out		(89,100,162)	(17,714,473)	(66,354,331)
Change in net assets	1,708,335	(3,423,022)	1,323,318	(4,166,249)
Net assets, beginning of year	7,015,548	235,418,688	19,688,071	29,274,939
Total net assets, end of Year	\$8,723,883	\$231,995,666	\$21,011,389	\$25,108,690

See accompanying notes to financial statements

Water Facilities Trust	Water Supply Trust	Totals	
		2011	2010
		\$9,860,412	\$8,085,099
		31,785,517	30,777,082
		444,139	808,207
		9,697,595	19,601,871
		69,872	80,388
\$24,562		4,458,537	2,787,058
<u>24,562</u>		<u>56,316,072</u>	<u>62,139,705</u>
		14,811,943	14,921,512
		4,647,071	13,607,139
		118,003	107,342
		1,542,425	1,835,254
		27,676,513	23,437,087
		2,316,114	1,357,216
		2,192,612	2,994,183
		1,348,377	1,819,856
		1,000,498	979,275
		1,441,471	2,295,170
		203,728	155,165
		4,682,019	3,701,744
		(440,849)	(9,166,382)
		<u>61,539,925</u>	<u>58,044,561</u>
24,562		(5,223,853)	4,095,144
<u>18,897</u>	<u>\$25,563</u>	<u>735,257</u>	<u>713,341</u>
<u>18,897</u>	<u>25,563</u>	<u>735,257</u>	<u>713,341</u>
<u>43,459</u>	<u>25,563</u>	<u>(4,488,596)</u>	<u>4,808,485</u>
		173,168,966	13,643,103
		(173,168,966)	(13,643,103)
<u>43,459</u>	<u>25,563</u>	<u>(4,488,596)</u>	<u>4,808,485</u>
<u>3,075,889</u>	<u>4,694,985</u>	<u>299,168,120</u>	<u>294,359,635</u>
<u>\$3,119,348</u>	<u>\$4,720,548</u>	<u>\$294,679,524</u>	<u>\$299,168,120</u>

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2011
 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2010

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement	Capital Expansion
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$12,281,442	\$31,938,939	\$74,712	\$4,985,153
Connection and development fees			407,130	9,290,465
Payment to employees		(11,878,688)	(2,021,007)	(873,463)
Payments to suppliers	<u>(10,670,494)</u>	<u>(14,216,596)</u>	<u>(2,168,406)</u>	<u>(16,821,375)</u>
Net cash provided (used) by operating activities	<u>1,610,948</u>	<u>5,843,655</u>	<u>(3,707,571)</u>	<u>(3,419,220)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interest income	<u>97,387</u>	<u>142,618</u>	<u>108,367</u>	<u>342,425</u>
Cash flows from noncapital financing activities	<u>97,387</u>	<u>142,618</u>	<u>108,367</u>	<u>342,425</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of property, plant, and equipment		(498,163)		
Transfers in		84,126,119	22,861,346	66,181,501
Transfers out		<u>(89,100,162)</u>	<u>(17,714,473)</u>	<u>(66,354,331)</u>
Cash flows from (used for) capital and related financing activities		<u>(5,472,206)</u>	<u>5,146,873</u>	<u>(172,830)</u>
Net increase (decrease) in cash and cash equivalents	1,708,335	514,067	1,547,669	(3,249,625)
Cash and investments at beginning of period	<u>7,015,548</u>	<u>18,012,606</u>	<u>19,977,715</u>	<u>57,963,208</u>
Cash and investments at end of period	<u><u>\$8,723,883</u></u>	<u><u>\$18,526,673</u></u>	<u><u>\$21,525,384</u></u>	<u><u>\$54,713,583</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$1,610,948	\$1,408,403	(\$3,931,922)	(\$4,335,844)
Adjustments to reconcile operating income to cash flows				
Depreciation		4,682,019		
Changes in assets and liabilities				
Receivables		92,183	(29,520)	2,757,487
Accounts payable and accrued expenses		(243,916)	253,871	(1,840,863)
Compensated absences		38,785		
Deposits		<u>(133,819)</u>		
Net cash provided (used) by operating activities	<u><u>\$1,610,948</u></u>	<u><u>\$5,843,655</u></u>	<u><u>(\$3,707,571)</u></u>	<u><u>(\$3,419,220)</u></u>

See accompanying notes to financial statements

Water Facilities Trust	Water Supply Trust	Total	
		2011	2010
\$62,547		\$49,342,793	\$32,584,609
		9,697,595	19,601,871
		(14,773,158)	(13,808,207)
		(43,876,871)	(14,830,304)
<u>62,547</u>		<u>390,359</u>	<u>23,547,969</u>
18,897	\$25,563	735,257	713,341
<u>18,897</u>	<u>25,563</u>	<u>735,257</u>	<u>713,341</u>
		(498,163)	(9,409,740)
		173,168,966	8,126,143
		(173,168,966)	(8,126,143)
		<u>(498,163)</u>	<u>(9,409,740)</u>
81,444	25,563	627,453	14,851,570
<u>3,418,901</u>	<u>4,694,985</u>	<u>111,082,963</u>	<u>96,231,393</u>
<u>\$3,500,345</u>	<u>\$4,720,548</u>	<u>\$111,710,416</u>	<u>\$111,082,963</u>
\$24,562		(\$5,223,853)	\$4,095,144
		4,682,019	3,701,744
		2,820,150	(1,320,919)
		(1,830,908)	24,591,001
		38,785	1,113,305
<u>37,985</u>		<u>(95,834)</u>	<u>(8,632,306)</u>
<u>\$62,547</u>		<u>\$390,359</u>	<u>\$23,547,969</u>

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**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011**

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, 2011**

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, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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 District 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. Additions, improvements, and other capital outlays that are 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, 2011**

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, 2011, the balance of compensated absences is \$1,152,090.

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.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011, the District's cash and investments amounted to \$174,337,529 of which \$62,627,113 and \$111,710,416 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, 2011, 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, 2011:

	Balance at June 30, 2010	Additions	Balance at June 30, 2011
<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	2,148,044	\$182,649	2,330,693
Total accumulated depreciation	2,148,044	182,649	2,330,693
Net capital assets being depreciated	7,791,315	(182,649)	7,608,666
Governmental activity capital assets, net	<u>\$14,661,865</u>	<u>(\$182,649)</u>	<u>\$14,479,216</u>

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 – CAPITAL ASSETS (Continued)

<i>Business-Type Activities</i>	Balance at June 30, 2010	Additions and Transfers	Retirements	Balance at June 30, 2011
Capital assets not being depreciated:				
Rights of way	\$294,800	\$264,918		\$559,718
Water entitlements	36,655,364			36,655,364
Easements		1,219,730		1,219,730
Construction in progress	102,451,444	(83,627,956)		18,823,488
 Total capital assets not being depreciated	 <u>139,401,608</u>	 <u>(82,143,308)</u>		 <u>57,258,300</u>
Capital assets being depreciated:				
Equipment	2,704,370	57,315	(\$35,252)	2,726,433
Treatment plants	70,358,922	35,056,190		105,415,112
Office building	1,264,251			1,264,251
Reservoir	1,934,197			1,934,197
Pipelines	19,693,236	32,425,137		52,118,373
Wellfields	11,332,500	15,102,829		26,435,329
Supervisory Control and Data Acquisition project	9,704,664			9,704,664
Other infrastructure	487,550			487,550
 Total capital assets being depreciated	 <u>117,479,690</u>	 <u>82,641,471</u>	 <u>(35,252)</u>	 <u>200,085,909</u>
Less accumulated depreciation for:				
Equipment	2,139,158	209,574	(35,252)	2,313,480
Treatment plants	25,188,411	3,059,092		28,247,503
Office building	721,920	31,606		753,526
Reservoir	812,576	48,355		860,931
Pipelines	8,333,713	521,195		8,854,908
Wellfields	2,749,147	314,777		3,063,924
Supervisory Control and Data Acquisition project	2,668,783	485,233		3,154,016
Other infrastructure	22,346	12,189		34,535
 Total accumulated depreciation	 <u>42,636,054</u>	 <u>4,682,019</u>	 <u>(35,252)</u>	 <u>47,282,821</u>
 Net capital assets being depreciated	 <u>74,843,636</u>	 <u>77,959,452</u>		 <u>152,803,088</u>
 Business-Type activity capital assets, net	 <u>\$214,245,244</u>	 <u>(\$4,183,856)</u>		 <u>\$210,061,388</u>

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 – CAPITAL ASSETS (Continued)

B. Construction in Progress

Construction in Progress at June 30, 2011 comprises the following projects:

Projects	
Altamont Water Treatment Plant (AWTP)-Site Aquis/Raw H2O	\$15,535,583
Altamont Water Treatment Plant (AWTP)	1,891,636
Altamont Pipeline-County Reach	665,719
Arroyo Mocho/Lake H Diversion	308,314
Santa Rita Pipeline Relocation	126,589
Patterson Pass Water Treatment Plant (PPWTP)-Sewer Line Project	120,802
Chain of Lakes Wells 3 & 4	105,671
Cope Lake Facilities Project	62,037
Del Valle Chemical Parking Lot Improvement	7,137
Total	\$18,823,488

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. Effective January 19, 2011 the Board approved reducing the line to a maximum amount of \$30,500,000. 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, 2011 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

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.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 – NET ASSETS AND FUND BALANCES (Continued)

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

Fund Balance

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

The District'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 District to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the District 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:

Nonspendables represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances 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 action of the Board of Directors. Encumbrances and nonspendable amounts subject to Board commitments are included along with spendable resources.

Assigned fund balances are amounts constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Board of Director or its designee and may be changed at the discretion of the Board of Directors or its designee. This category includes encumbrances; nonspendables, when it is the District's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds. On February 16, 2005, the District adopted a Reserve Fund Policy which established the Operating and Emergency Reserve. This reserve is to be used in the case of a flood control emergency pending receipt of any State or Federal reimbursements. As of June 30, 2011, the reserve is \$4,200,000 which is included in unassigned fund balance.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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 17.89%. The Plan requires participants in Tier 2 to contribute from 6.16%-10.19% of their salary of which the District contributes up to 16.66%. 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, 2009, which is the latest actuarial valuation available. Significant actuarial assumptions used in the valuation include (a) valuation interest rate of 7.9% and (b) projected salary increases of 4.7%-8% per year reflecting 3.50% for inflation and .50% 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 21 years remaining from January 1, 2011. 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>
2008-2009	\$468,449	\$2,606,413	\$3,074,862
2009-2010	423,182	2,750,842	3,174,024
2010-2011	716,787	2,663,052	3,379,839

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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 December 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, 2011**

NOTE 9 - 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. \$729,497 was paid for the year ended June 30, 2011.

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, 2011, the District paid \$1,098,557. A schedule of future rents is as follows:

For the Year Ending June 30	Lease Obligation
2012	\$1,120,582
2013	1,143,017
2014	1,165,901
2015	1,189,198
2016	1,212,958
2017 - 2021	4,546,017
Totals	\$10,377,673

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

**MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

**FOR THE YEAR ENDED
JUNE 30, 2011**

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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, 2011

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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, 2011, 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.

Maze & Associates

September 21, 2011

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, 2011 and have issued our report thereon dated September 21, 2011. 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 City is included in Note 1 to the financial statements. The following pronouncements became effective during the year ended June 30, 2011:

- **Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions**

This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Disclosure of the policies in the notes to the financial statements is required.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

- **Statement No. 59 Financial Instruments Omnibus**

The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This is a technical clean up pronouncement that had no material impact to the financial statements.

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.

Mage & Associates

September 21, 2011

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