ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT – ZONE 7

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2012

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, 2012

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MAZE & ASSOCIATES

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, 2012, 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, 2011 financial statements and our report dated September 21, 2011, in which we expressed an unqualified opinion.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. 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, 2012, 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.

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

Maze + Associates

October 8, 2012

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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, 2012

This section presents a narrative overview and analysis of Zone 7's financial activities for the fiscal year ended June 30, 2012. All amounts, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- Total assets exceeded its liabilities at the close of this fiscal year by $370 million. Net assets from governmental activities are $74.6 million and Business-Type activities are $295 million.
- Net assets decreased by $2.4 million or 0.7% from the prior fiscal year's close. Governmental activities decreased $2.8 million, while Business-Type activities increased $0.3 million.
- Total expenses increased $13.3 million or 20.1% over the prior year to $79.5 million primarily due to a large capital project – the El Charro Specific Plan.
- Total revenues increased $10.7 million or 16.1% from the prior year to $77.1 million primarily due to improvement in the local economic conditions.
- Water Sales revenues in the Business-Type Funds increased $3.7 million or 11.6% to $35.6 million.
- Construction in Progress at fiscal year-end include the Altamont Water Treatment Plant, Site Acquisition and Pipeline Projects for $17,439,634, the PPWTP sewer line for $826,340, the Santa Rita Pipeline Relocation for $547,993, and other small capital projects.

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 (proprietary) activities include the Water Enterprise.

The government-wide financial statements can be found on pages 11-13 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 (Funds 50 and 76) 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 14-18 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 20-25 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 27-38 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 $370 million at June 30, 2012.

The largest portion of Zone 7's net assets, $220 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.

Net Assets as of June 30

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	$60,672,924	$63,075,901	$123,689,917	$118,731,001	$184,362,841	$181,806,902
Capital assets	14,301,567	14,479,216	205,651,283	210,061,388	219,952,850	224,540,604
Total assets	74,974,491	77,555,117	329,341,200	328,792,389	404,315,691	406,347,506
Liabilities:						
Current liabilities	417,372	233,000	3,821,534	3,612,865	4,238,906	3,845,865
Long-term liabilities	0	0	30,500,000	30,500,000	30,500,000	30,500,000
Total liabilities	417,372	233,000	34,321,534	34,112,865	34,738,906	34,345,865
Net assets:						
Invested in capital assets net of related debt	14,301,567	14,479,216	205,651,283	208,841,658	219,952,850	223,320,874
Unrestricted-Designated	41,751,799	58,914,899	79,220,538	79,436,419	120,972,337	138,351,318
Unrestricted	18,503,753	3,928,002	10,147,845	6,401,447	28,651,598	10,329,449
Total net assets	$74,557,119	$77,322,117	$295,019,666	$294,679,524	$369,576,785	$372,001,641

Changes in Net Assets for Year ended June 30

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Charges for services	$5,505,177	$3,178,719	$35,563,265	$31,879,951	$41,068,442	$35,058,670
Grants and other contributions	61,249	53,229	106,194	444,139	167,443	497,368
Other program revenues	41,461	21,626	29,154,849	23,991,982	29,196,310	24,013,608
General revenues						
Property taxes	5,773,050	5,745,003			5,773,050	5,745,003
Investment earnings and other	257,328	345,843	641,133	735,257	898,461	1,081,100
Total Revenues	11,638,265	9,344,420	65,465,441	57,051,329	77,103,706	66,395,749
Expenses:						
General government	8,499,485	4,063,566			8,499,485	4,063,566
Flood protection	5,903,778	615,758			5,903,778	615,758
Special drainage area operations						0
State Water Project			13,858,280	10,670,494	13,858,280	10,670,494
Cost of water sales			30,711,144	30,572,172	30,711,144	30,572,172
Facility use fees - capital improvement projects			3,864,713	4,443,284	3,864,713	4,443,284
Water connection fees - capital expansion projects			16,691,162	15,853,975	16,691,162	15,853,975
Total Expenses	14,403,263	4,679,324	65,125,299	61,539,925	79,528,562	66,219,249
Increase/(decrease) in net assets before transfers	(2,764,998)	4,665,096	340,142	(4,488,596)	(2,424,856)	176,500
Transfers						
Extraordinary item						0
Change in net assets	-2,764,998	4,665,096	340,142	(4,488,596)	-2,424,856	176,500
Net assets-beginning	77,322,117	72,657,021	294,679,524	299,168,120	372,001,641	371,825,141
Net assets-ending	$74,557,119	$77,322,117	$295,019,666	$294,679,524	$369,576,785	$372,001,641

Zone 7's net assets decreased by $2.4 million during the fiscal year ended June 30, 2012. Total revenue was $77.1 million and is offset by total expenses, including transfers, of $79.5 million.

Governmental activities

Net assets in Zone 7's flood control governmental activities decreased by $2.8 million. Total revenues were $11.6 million while total expenses amounted to $14.4 million.

Revenues: Charges for services increased $2.3 million from the prior year mainly due to an increase in the number of impervious area applications. Other program revenues increased from the prior year for fees and permits activities. Property taxes decreased slightly because of lower total assessed value and higher delinquencies. Investment earnings and other decreased $0.09 million, or 25.6%, because of considerably lower earnings rates due to the economic downturn.

Expenses: General government increased $9.7 million, or 207.8% mainly due to a large capital project – the El Charro Specific Plan.

Business-type activities

Net assets in Zone 7's water enterprise business-type activities increased by $0.3 million with total revenues of $65.5 million less total expenses including transfers of $65.2 million.

Revenues: Charges for services increased $3.7 million or 11.6% over the prior year as a result of a water rate increase and a higher volume of water sold. Grants and other contributions decreased $0.3 million from the prior year due to receipt of State grants for the Mocho Demineralization project in the prior year. Other program revenues decreased $5.2 million from the prior year.

Expenses: State water project costs increased $3.2 million or 29.9% because of increased expenses incurred by the State. Cost of water sales increased $0.2 million or 0.6% because of the increase in water treatment related costs due to a higher depreciation expense. Facility use fees - Capital improvement project expenses decreased $0.6 million or $13% because there were fewer capital projects during this year. Water connection fees – capital expansion projects increased $0.8 million or 5.3% mainly due to the South Bay Aqueduct Enlargement/Improvement Project increased costs.

Governmental funds

As of the end of the fiscal year ended June 30, 2012, Zone 7's governmental funds reported combined ending fund balances of $60.3 million, a decrease of $2.6 million or 4.29% 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 $60.3 million; $36 million is committed, which have constraints imposed by formal action of the Board and may be altered only by formal action of the Board; $17.8 million is assigned, which are constrained by management's intent to be used for a specific purpose; $4.9 million is unassigned, which are not restricted, committed, or assigned and are available for spending; and $1.6 million is reserved for encumbrances. There were no long term liabilities.

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 $0.3 million or 0.1%. Net assets invested in capital assets net of related debt decreased $3.2 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, 2012	June 30, 2011
Resources (inflows):				
Taxes	$5,845,383	$5,773,050	($72,333)	$639,800
Intergovernmental	54,000	61,249	7,249	(771)
Charges for services	10,200	40,851	30,651	(7,229)
Interest and rentals	117,460	116,325	(1,135)	(161,820)
Other	25,284	39,424	14,140	5,026
Amounts available for appropriation	6,052,327	6,030,899	(21,428)	475,006
Charges to appropriations (outflows):				
Salaries and benefits	1,134,002	1,915,556	(781,554)	(503,402)
Services and supplies	12,116,150	6,583,929	5,532,221	6,610,646
Total changes to appropriations	13,250,152	8,499,485	4,750,667	6,107,244
Excess of resources over charges to appropriations	(7,197,825)	(2,468,586)	4,729,239	6,582,250

Zone 7's actual general fund revenues came under the budget by $4.8 million or 55.9%.

Variations between budget and actual expenditures in the general fund reflect overall expenditures less than the adjusted budget by $4.8 million or 55.9%. The variance is primarily due to good storm season resulting in less than planned storm repairs, which is the major expense category in this fund.

Capital assets and debt administration

A summary of changes in Capital Assets, Proprietary Enterprise Fund and Governmental General Fund, can be found on pages 32-33. 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, 2012 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. 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. Adequate funds are available to pay off the Line of Credit when due.

Economic factors and next year's budget and rates

- The Water Conservation Act of 2009 (SBX7-7) sets an overall goal of reducing per capita urban water use by 20% by the end of 2020, and calls for agricultural water suppliers to prepare and adopt water management plans. Water conservation and other recycling efforts are nearing the level of "demand hardening" or maximum potential as all new construction and landscaping is utilizing improved ecological designs, and older systems have been updated.

- New development within the service area has been picking up, albeit at a low but steady rate, providing slight growth in new water rate payers and connection fee revenue.

- A leveling-off in property values has resulted in stabilization of the 2011 and 2012 assessment roll, sustaining the lower level of property tax revenue for the 2010/11 year. Alameda County's average unemployment rate has decreased markedly, now registering 9.0% as of April 2012, below the 2011 rate of 10.2 percent, exhibiting signs of slow but steady economic stabilization.

All of the above factors were considered in preparing Zone 7's budget for fiscal year 2013.

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

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ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash in county treasury (Note 2)	$59,446,259	$114,231,341	$173,677,600
Accounts receivable, net	1,226,665	9,368,576	10,595,241
Prepaid expenses		90,000	90,000
Total current assets	60,672,924	123,689,917	184,362,841
Noncurrent assets			
Capital assets (Note 3):			
Rights of way, water entitlements, easements and construction in progress	6,875,550	58,489,629	65,365,179
Depreciable, net	7,426,017	147,161,654	154,587,671
Total noncurrent assets	14,301,567	205,651,283	219,952,850
Total assets	74,974,491	329,341,200	404,315,691
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	417,372	2,352,560	2,769,932
Deposits-water facilities trust		353,039	353,039
Compensated absences (Note 1J)		1,115,935	1,115,935
Total current liabilities	417,372	3,821,534	4,238,906
Noncurrent liabilities			
Line of credit (Note 4)		30,500,000	30,500,000
Total noncurrent liabilities		30,500,000	30,500,000
Total liabilities	417,372	34,321,534	34,738,906
NET ASSETS (Note 5)			
Invested in capital assets, net of related debt	14,301,567	205,651,283	219,952,850
Unrestricted-designated for			
Capital projects	36,696,155	37,928,558	74,624,713
Specific projects and programs	5,055,644	41,291,980	46,347,624
Unrestricted	18,503,753	10,147,845	28,651,598
Total net assets	$74,557,119	$295,019,666	$369,576,785

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, 2012

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Other Program Revenues	Total
Governmental activities:					
General government	$8,499,485	$40,851	$61,249	$39,424	$141,524
Flood protection	5,903,778	5,464,326		2,037	5,466,363
Total governmental activities	14,403,263	5,505,177	61,249	41,461	5,607,887
Business-type activities:					
State water project	13,858,280		92,639	15,489,732	15,582,371
Water sales	30,711,144	35,547,771		379,468	35,927,239
Facility use fees-capital improvement	3,864,713	11,230	10,166	552,453	573,849
Water connection fees capital expansion	16,691,162	4,264	3,389	12,733,196	12,740,849
Total business-type activities	65,125,299	35,563,265	106,194	29,154,849	64,824,308
Total	$79,528,562	$41,068,442	$167,443	$29,196,310	$70,432,195

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
($8,357,961)		($8,357,961)
(437,415)		(437,415)
(8,795,376)		(8,795,376)
	$1,724,091	1,724,091
	5,216,095	5,216,095
	(3,290,864)	(3,290,864)
	(3,950,313)	(3,950,313)
	(300,991)	(300,991)
(8,795,376)	(300,991)	(9,096,367)
5,392,724		5,392,724
330,976		330,976
49,350		49,350
239,596	610,133	849,729
17,732	31,000	48,732
6,030,378	641,133	6,671,511
(2,764,998)	340,142	(2,424,856)
77,322,117	294,679,524	372,001,641
$74,557,119	$295,019,666	$369,576,785

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7
GOVERNMENTAL FUNDS
BALANCE SHEET
AS OF JUNE 30, 2012
WITH SUMMARIZED TOTALS AS OF JUNE 30, 2011

	General	Flood Protection	Totals 2012	Totals 2011
ASSETS				
Current assets				
Cash in county treasury (Note 2)	$23,948,959	$35,497,300	$59,446,259	$62,627,113
Accounts receivable, net		1,226,665	1,226,665	448,788
Total assets	$23,948,959	$36,723,965	$60,672,924	$63,075,901
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	$389,562	$27,810	$417,372	$233,000
Total liabilities	389,562	27,810	417,372	233,000
FUND BALANCES (Note 5)				
Nonspendable: Encumbrances	855,644	739,264	1,594,908	10,103,983
Committed		35,956,891	35,956,891	31,099,208
Assigned	17,823,912		17,823,912	13,511,708
Unassigned	4,879,841		4,879,841	8,128,002
Total fund balances	23,559,397	36,696,155	60,255,552	62,842,901
Total liabilities and fund balances	$23,948,959	$36,723,965	$60,672,924	$63,075,901

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, 2012
WITH COMPARATIVE TOTALS FOR JUNE 30, 2011

	2012	2011
TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$60,255,552	$62,842,901
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:		
CAPITAL ASSETS		
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	14,301,567	14,479,216
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$74,557,119	$77,322,117

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, 2012
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2011

	General	Flood Protection	Totals 2012	Totals 2011
REVENUES				
Property taxes	$5,773,050		$5,773,050	$5,745,003
Intergovernmental revenues	61,249		61,249	53,229
Charges for services	40,851	$5,464,326	5,505,177	3,178,719
Interest and rentals	116,325	141,003	257,328	345,843
Other revenues	39,424	2,037	41,461	21,626
Total revenues	6,030,899	5,607,366	11,638,265	9,344,420
EXPENDITURES				
Salaries and employee benefits transferred from district-wide	1,915,556	328,000	2,243,556	1,937,436
Services and supplies	6,583,929	267,191	6,851,120	2,559,113
Equipment and capital structure		5,130,850	5,130,850	
Other		88	88	126
Total expenditures	8,499,485	5,726,129	14,225,614	4,496,675
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,468,586)	(118,763)	(2,587,349)	4,847,745
NET CHANGE IN FUND BALANCES	(2,468,586)	(118,763)	(2,587,349)	4,847,745
FUND BALANCES, BEGINNING OF YEAR	26,027,983	36,814,918	62,842,901	57,995,156
FUND BALANCES, END OF YEAR	$23,559,397	$36,696,155	$60,255,552	$62,842,901

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, 2012
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011

	2012	2011
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	($2,587,349)	$4,847,745
Amounts reported for governmental activities in the Statement of Activities are different because of the following:		
CAPITAL ASSETS TRANSACTIONS		
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.		
The capital outlay expenditures are therefore added back to fund balance	5,000	
Depreciation expense is deducted from the fund balance	(182,649)	(182,649)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	($2,764,998)	$4,665,096

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, 2012

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts Budgetary Basis	Positive (Negative)
REVENUES				
Property taxes	$5,845,383	$5,845,383	$5,773,050	($72,333)
Intergovernmental revenue	54,000	54,000	61,249	7,249
Charges for services	10,200	10,200	40,851	30,651
Interest and rentals	117,460	117,460	116,325	(1,135)
Other revenue	25,284	25,284	39,424	14,140
TOTAL REVENUES	6,052,327	6,052,327	6,030,899	(21,428)
EXPENDITURES				
Salaries and benefits	1,134,002	1,134,002	1,915,556	(781,554)
Services and supplies	7,547,998	12,116,150	6,583,929	5,532,221
TOTAL EXPENDITURES	8,682,000	13,250,152	8,499,485	4,750,667
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(2,629,673)	(7,197,825)	(2,468,586)	4,729,239
NET CHANGE IN FUND BALANCE	($2,629,673)	($7,197,825)	(2,468,586)	$4,729,239
Fund balance, beginning of year			26,027,983	
Fund balance, end of year			$23,559,397	

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, 2012
WITH SUMMARIZED TOTALS AS OF JUNE 30, 2011

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement	Capital Expansion
ASSETS				
Current assets:				
Cash in county treasury (Note 2)	$10,466,482	$22,373,067	$22,160,026	$50,969,184
Receivables, net	137,341	8,348,759	3,095	879,381
Prepaid deposits		90,000		
Total current assets	10,603,823	30,811,826	22,163,121	51,848,565
Noncurrent assets:				
Capital assets (Note 3), right of ways, water entitlements and construction in progress		58,489,629		
Improvements, net of depreciation		147,161,654		
Total noncurrent assets		205,651,283		
Total assets	10,603,823	236,463,109	22,163,121	51,848,565
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses		1,856,160	430,009	66,391
Deposits				
Compensated absences (Note 1J)		1,115,935		
Total current liabilities		2,972,095	430,009	66,391
Long-term liabilities:				
Line of Credit (Note 4)				30,500,000
Total long-term liabilities				30,500,000
Total liabilities		2,972,095	430,009	30,566,391
NET ASSETS (Note 5)				
Invested in capital assets		205,651,283		
Unrestricted-designated for:				
Capital projects		6,600,000	19,041,132	12,287,426
Designated projects	10,603,823	11,091,886	2,691,980	8,994,748
Unrestricted		10,147,845		
Total net assets	10,603,823	233,491,014	21,733,112	21,282,174
Total liabilities and net assets	$10,603,823	$236,463,109	$22,163,121	$51,848,565

See accompanying notes to financial statements

Water Facilities Trust	Water Supply Trust	Totals 2012	Totals 2011
$3,522,216	$4,740,366	$114,231,341	$111,710,416
		9,368,576	6,796,766
		90,000	223,819
3,522,216	4,740,366	123,689,917	118,731,001
		58,489,629	57,258,300
		147,161,654	152,803,088
		205,651,283	210,061,388
3,522,216	4,740,366	329,341,200	328,792,389
		2,352,560	2,079,778
353,039		353,039	380,997
		1,115,935	1,152,090
353,039		3,821,534	3,612,865
		30,500,000	30,500,000
		30,500,000	30,500,000
353,039		34,321,534	34,112,865
		205,651,283	208,841,658
		37,928,558	40,041,672
3,169,177	4,740,366	41,291,980	39,394,747
		10,147,845	6,401,447
3,169,177	4,740,366	295,019,666	294,679,524
$3,522,216	$4,740,366	$329,341,200	$328,792,389

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, 2012
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2011

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement	Capital Expansion
OPERATING REVENUES				
Property taxes	$12,017,106			
Water sales		$35,398,908		
Intergovernmental revenue	92,639		$10,166	$3,389
Connection and development fees			547,570	10,798,372
Charges for services		113,890	11,230	4,264
Other revenues	3,472,626	379,468	4,883	1,934,824
Total operating revenues	15,582,371	35,892,266	573,849	12,740,849
OPERATING EXPENSES				
Salaries, wages and benefits		12,529,536	1,378,299	644,277
Contractual services		2,246,105	2,579,724	382,069
Supplies		115,792		
Chemical purchases		1,854,047		
Water purchases	13,858,280	2,104,846		13,645,489
Water storage		1,102,075		1,341,997
Utilities		1,984,768	157,744	43,201
Maintenance and repairs		1,183,573		
Equipment and building rents		99,677	531,904	404,128
Office expenses		1,342,687	338,217	343,744
Risk management		354,389		
Depreciation (Note 3)		5,793,649		
Expenses capitalized			(1,121,175)	(113,743)
Total operating expenses	13,858,280	30,711,144	3,864,713	16,691,162
Operating income (loss)	1,724,091	5,181,122	(3,290,864)	(3,950,313)
NONOPERATING REVENUES				
Interest income and rental fees	155,849	123,456	89,614	237,540
Total nonoperating revenues	155,849	123,456	89,614	237,540
Income (loss) before transfers	1,879,940	5,304,578	(3,201,250)	(3,712,773)
Transfers in		1,360,610	5,044,148	681,352
Transfers (out)		(5,169,840)	(1,121,175)	(795,095)
Change in net assets	1,879,940	1,495,348	721,723	(3,826,516)
Net assets, beginning of year	8,723,883	231,995,666	21,011,389	25,108,690
Total net assets, end of Year	$10,603,823	$233,491,014	$21,733,112	$21,282,174

See accompanying notes to financial statements

Water Facilities Trust	Water Supply Trust	Totals 2012	Totals 2011
		$12,017,106	$9,860,412
		35,398,908	31,785,517
		106,194	444,139
		11,345,942	9,697,595
		129,384	69,872
$34,973		5,826,774	4,458,537
34,973		64,824,308	56,316,072
		14,552,112	14,811,943
		5,207,898	4,647,071
		115,792	118,003
		1,854,047	1,542,425
		29,608,615	27,676,513
		2,444,072	2,316,114
		2,185,713	2,192,612
		1,183,573	1,348,377
		1,035,709	1,000,498
		2,024,648	1,441,471
		354,389	203,728
		5,793,649	4,682,019
		(1,234,918)	(440,849)
		65,125,299	61,539,925
34,973		(300,991)	(5,223,853)
14,856	$19,818	641,133	735,257
14,856	19,818	641,133	735,257
49,829	19,818	340,142	(4,488,596)
		7,086,110	173,168,966
		(7,086,110)	(173,168,966)
49,829	19,818	340,142	(4,488,596)
3,119,348	4,720,548	294,679,524	299,168,120
$3,169,177	$4,740,366	$295,019,666	$294,679,524

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2011

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$15,445,030	$33,495,811	$52,704
Connection and development fees			547,570
Payments to employees		(12,565,691)	(1,378,299)
Payments to suppliers	(13,858,280)	(12,014,408)	(2,599,920)
Net cash provided (used) by operating activities	1,586,750	8,915,712	(3,377,945)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interest income	155,849	123,456	89,614
Cash flows from noncapital financing activities	155,849	123,456	89,614
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of property, plant, and equipment		(1,383,544)	
Transfers in		1,360,610	5,044,148
Transfers (out)		(5,169,840)	(1,121,175)
Cash flows from (used for) capital and related financing activities		(5,192,774)	3,922,973
Net increase (decrease) in cash and cash equivalents	1,742,599	3,846,394	634,642
Cash and investments at beginning of period	8,723,883	18,526,673	21,525,384
Cash and investments at end of period	$10,466,482	$22,373,067	$22,160,026
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	$1,724,091	$5,181,122	($3,290,864)
Adjustments to reconcile operating income to cash flows			
Depreciation		5,793,649	
Changes in assets and liabilities			
Receivables	(137,341)	(2,530,274)	26,425
Prepaid deposits		133,819	
Accounts payable and accrued expenses		373,551	(113,506)
Compensated absences		(36,155)	
Deposits			
Net cash provided (used) by operating activities	$1,586,750	$8,915,712	($3,377,945)

See accompanying notes to financial statements

Capital Expansion	Water Facilities Trust	Water Supply Trust	Total 2012	Total 2011
$2,011,857	$7,015		$51,012,417	$49,342,793
10,798,372			11,345,942	9,697,595
(644,277)			(14,588,267)	(14,773,158)
(16,034,148)			(44,506,756)	(43,876,871)
(3,868,196)	7,015		3,263,336	390,359
237,540	14,856	$19,818	641,133	735,257
237,540	14,856	19,818	641,133	735,257
			(1,383,544)	(498,163)
681,352			7,086,110	173,168,966
(795,095)			(7,086,110)	(173,168,966)
(113,743)			(1,383,544)	(498,163)
(3,744,399)	21,871	19,818	2,520,925	627,453
54,713,583	3,500,345	4,720,548	111,710,416	111,082,963
$50,969,184	$3,522,216	$4,740,366	$114,231,341	$111,710,416
($3,950,313)	$34,973		($300,991)	($5,223,853)
			5,793,649	4,682,019
69,380			(2,571,810)	2,820,150
			133,819	
12,737			272,782	(1,830,908)
			(36,155)	38,785
	(27,958)		(27,958)	(95,834)
($3,868,196)	$7,015		$3,263,336	$390,359

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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.

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 & 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.

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.

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.

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, 2012, the balance of compensated absences is $1,115,935.

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.

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, 2012, the District's cash and investments amounted to $173,677,600 of which $59,446,259 and $114,231,341 were reflected in the District's Governmental and Business-Type Activities, 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, 2012, 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, 2012:

Governmental Activities	Balance at June 30, 2011	Additions	Balance at June 30, 2012
Capital assets not being depreciated:			
Rights of way	$6,870,550	$5,000	$6,875,550
Total capital assets not being depreciated	6,870,550	5,000	6,875,550
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	2,330,693	182,649	2,513,342
Total accumulated depreciation	2,330,693	182,649	2,513,342
Net capital assets being depreciated	7,608,666	(182,649)	7,426,017
Governmental activity capital assets, net	$14,479,216	($177,649)	$14,301,567

NOTE 3 – CAPITAL ASSETS (Continued)

Business-Type Activities	Balance at June 30, 2011	Additions and Transfers	Retirements	Balance at June 30, 2012
Capital assets not being depreciated:				
Rights of way	$559,718	$718,179		$1,277,897
Water entitlements	36,655,364			36,655,364
Easements	1,219,730	73,327		1,293,057
Construction in progress	18,823,488	439,823		19,263,311
Total capital assets not being depreciated	57,258,300	1,231,329		58,489,629
Capital assets being depreciated:				
Equipment	2,726,433	148,626	($6,035)	2,869,024
Treatment plants	105,415,112			105,415,112
Office building	1,264,251			1,264,251
Reservoir	1,934,197			1,934,197
Pipelines	52,118,373	3,589		52,121,962
Wellfields	26,435,329			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	200,085,909	152,215	(6,035)	200,232,089
Less accumulated depreciation for:				
Equipment	2,313,480	185,356	(6,035)	2,492,801
Treatment plants	28,247,503	3,088,985		31,336,488
Office building	753,526	31,606		785,132
Reservoir	860,931	48,355		909,286
Pipelines	8,854,906	1,281,042		10,135,948
Wellfields	3,063,924	660,883		3,724,807
Supervisory Control and Data Acquisition project	3,154,016	485,233		3,639,249
Other infrastructure	34,535	12,189		46,724
Total accumulated depreciation	47,282,821	5,793,649	(6,035)	53,070,435
Net capital assets being depreciated	152,803,088	(5,641,434)		147,161,654
Business-Type activity capital assets, net	$210,061,388	($4,410,105)		$205,651,283

NOTE 3 – CAPITAL ASSETS (Continued)

B. Construction in Progress

Construction in Progress at June 30, 2012 comprises the following projects:

Projects	
Patterson Pass Water Treatment Plant PPWTP-Sewer Line Project	$826,340
Santa Rita Pipeline Relocation	547,993
Del Valle Water Treatment Plant-DVWTP Sludge Handling Imprv	1,370
Altamont Water Treatment PlantAWTP-Site Aquis/Raw H2O T	15,512,884
Altamont Water Treatment Plant	1,334,358
Altamont Pipeline-County Reach	592,392
Arroyo Mocho/Lake H Diversion	326,201
Cope Lake Facilities Project	121,773
Total	$19,263,311

NOTE 4 – 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, and a debt service of 1.0 times net revenues has to be maintained. As of June 30, 2012 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.

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, 2012, the reserve is $4,200,000 which is included in unassigned fund balance.

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 9.39%-14.14% of their salary of which the District contributes up to 17.61%. The Plan requires participants in Tier 2 to contribute from 6.30%-10.29% of their salary of which the District contributes up to 16.35%. 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, 2010, which is the latest actuarial valuation available. Significant actuarial assumptions used in the valuation include (a) investment rate of return of 7.9%, (b) projected salary increases of 4.7%-8% per year reflecting 3.50% for inflation and .50% across the board, and (c) cost of living adjustments of 3% for Tier 1 and 2% for Tier 2. The Plan uses the Entry Age Normal Cost Method with a supplemental present value. The amortization period for the supplemental present value is 24 years, with 21 years remaining from January 1, 2012. The Plan uses the level percent of projected payroll method to amortize the unfunded actuarial accrued liability (22-year declining).

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:

Fiscal Year	Employee	Employer	Total
2009-2010	$423,182	$2,750,842	$3,174,024
2010-2011	716,787	2,663,052	3,379,839
2011-2012	689,817	2,688,349	3,378,166

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 2027 based on the December 31, 2010 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 2027.

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	$25,000,000	$1,000,000
Workers' Compensation	Statutory Limit	3,000,000
Property	610,000,000	50,000
Crime	10,000,000	2,500
Pollution	10,000,000	500,000
Watercraft	1,000,000	1,000

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. $881,306 was paid for the year ended June 30, 2012.

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, 2012, the District paid $1,120,582. A schedule of future rents is as follows:

For the Year Ending June 30	Lease Obligation
2013	$1,143,017
2014	1,165,901
2015	1,189,198
2016	1,212,958
2017	1,237,241
2018-2021	3,308,776
Totals	$9,257,091

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT – ZONE 7

MEMORANDUM ON INTERNAL CONTROL AND REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED JUNE 30, 2012

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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, 2012

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MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

Board of Directors
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 (the District) as of and for the year ended June 30, 2012, 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

October 8, 2012

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MAZE & ASSOCIATES

REQUIRED COMMUNICATIONS

Board of Directors
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 (the District) as of and for the year ended June 30, 2012 and have issued our report thereon dated October 8, 2012. 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 were no changes made to the District's accounting policies for fiscal year ended June 30, 2012.

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.

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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.

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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.

Maze & Associates

October 8, 2012