

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

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2014

**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, 2014**

Table of Contents

	<u>Page</u>
FINANCIAL SECTION	
<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	3
<i>Basic Financial Statements</i>	
Government-Wide Financial Statements:	
Statement of Position	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	14
Reconciliation of the Governmental Funds - Fund Balance with the Governmental Activities Statement of Net Position.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Net Change in Fund Balances – Total Governmental Funds with the Change in Net Position of Governmental Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	19
Statement of Net Position – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	24
Notes to Basic Financial Statements.....	27

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of governmental activities, business-type activities and major funds of the Alameda County Flood Control and Water Conservation District – Zone 7 (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents. The prior year comparative totals have been derived from the District's 2013 financial statements and our report dated September 25, 2013, in which we expressed an unmodified opinion.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities and major funds of the District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Maze & Associates

Pleasant Hill, California
October 22, 2014

**Alameda County Flood Control and Water Conservation District – Zone 7
Management’s Discussion and Analysis for the Fiscal Year Ended June 30, 2014**

This section of the Alameda County Flood Control and Water Conservation District – Zone 7’s (Zone 7) annual financial report presents an overview and analysis of Zone 7’s financial activities for the fiscal year ended June 30, 2014. This information is presented in conjunction with the audited basic financial statements, which follow this section.

Financial Highlights

- Zone 7 total assets exceeded liabilities at the close of this fiscal year by \$399 million
- Zone 7 total net position increased by \$10 million or 2.6%
 - Governmental activities increased \$5.9 million
 - Business-Type activities increased \$4.1 million
- Total revenues decreased \$6.1 million or 6.6%
 - Governmental activity revenues increased \$0.1 million
 - Business-Type activity revenues decreased \$6.3 million
- Total expenses increased \$3.1 million or 4.2%
 - Governmental activity expenses increased \$0.9 million
 - Business-Type activity expenses increased \$2.2 million

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) Management’s Discussion and Analysis, (2) Basic Financial Statements, and (3) Notes to the Financial Statements.

Zone 7 Government-Wide Financial Statements

The Zone 7 government-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 Position presents information on all of the Agency’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Zone 7 is improving or deteriorating. The Statement of Activities presents information showing how Zone 7’s net position changed during the most recent fiscal year. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or disbursed.

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 include the Flood Protection Operations Fund and the Flood Protection Drainage Development Impact Fee Fund. The business-type (proprietary) activities include the State Water Facilities Fund, the Water Enterprise Operations Fund, the Water Enterprise Capital Improvement Renewal & Replacement Fund, the Water Enterprise Capital Expansion Fund, and the Water Facilities and Water Supply and Reliability Trust Funds.

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. The two types of funds used by Zone 7 for reporting activities – governmental funds and proprietary funds - use different accounting approaches, as described below.

Flood Protection Operations and Flood Protection Drainage Development Impact Fee 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 governmental 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 Flood Protection programs.

The basic governmental fund financial statements can be found on pages 14-19 of this report.

Proprietary funds are generally used to account for the services of a government's business-type activities (activities supported by fees or charges). Proprietary activities, which include the State Water Facilities Fund, the Water Enterprise Operations Fund, the Water Enterprise Capital Improvement Renewal & Replacement Fund, the Water Enterprise Capital Expansion Fund, and the Water Facilities and Water Supply and Reliability Trusts, are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities, using the accrual method of accounting.

The basic proprietary fund financial statements can be found 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 27-40 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The largest portion of Zone 7's net position, \$242 million or 61%, 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.

Condensed Statement of Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets:						
Current and other assets	\$57,054,555	\$65,714,158	\$106,475,587	\$140,005,021	\$163,530,142	\$205,719,179
Capital assets	30,403,950	16,232,189	211,603,471	202,295,691	242,007,421	218,527,880
Total assets	<u>87,458,505</u>	<u>81,946,347</u>	<u>318,079,058</u>	<u>342,300,712</u>	<u>405,537,563</u>	<u>424,247,059</u>
Liabilities:						
Current liabilities	287,858	710,648	6,458,060	34,752,361	6,745,918	35,463,009
Long-term liabilities						
Total liabilities	<u>287,858</u>	<u>710,648</u>	<u>6,458,060</u>	<u>34,752,361</u>	<u>6,745,918</u>	<u>35,463,009</u>
Net Position:						
Invested in capital assets net of related debt	30,403,950	16,232,189	211,603,471	202,295,691	242,007,421	218,527,880
Unrestricted-Designated	56,766,697	65,003,510	100,017,527	105,252,660	156,784,224	170,256,170
Unrestricted						
Total net position	<u>\$87,170,647</u>	<u>\$81,235,699</u>	<u>\$311,620,998</u>	<u>\$307,548,351</u>	<u>\$398,791,645</u>	<u>\$388,784,050</u>

As the statement above indicates, Zone 7's overall net position increased by \$10 million during the fiscal year ended June 30, 2014. Zone 7's assets exceeded liabilities by \$399 million at June 30, 2014

The net position of the agency's Flood Protection activities increased by \$5.9 million during the 2014 fiscal year.

Zone 7's business-type activities produced an increase in net position of \$4.1 million. The net investment in capital assets increased by \$9.3 million. The current liabilities were reduced due to the payoff of the agency's \$30.5 million line of credit in December 2013.

Condensed Statement of Changes in Net Position for Year ended June 30, 2014

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Charges for services	\$4,823,378	\$5,117,561	\$35,665,613	\$38,236,282	\$40,488,991	\$43,353,843
Grants and other contributions	64,318	61,578	385,730	68,416	450,048	129,994
Other program revenues	187,136	13,520	38,639,022	42,732,054	38,826,158	42,745,574
General revenues						
Property taxes	6,201,653	5,959,083			6,201,653	5,959,083
Investment earnings and other	189,800	179,858	437,661	362,588	627,461	542,446
Total Revenues	11,466,285	11,331,600	75,128,026	81,399,340	86,594,311	92,730,940
Expenses:						
Flood Protection Operations	1,488,735	3,947,332			1,488,735	3,947,332
Flood Protection Drainage DIF	4,029,268	705,688			4,029,268	705,688
State Water Project			13,681,891	14,002,380	13,681,891	14,002,380
Water Enterprise Operations			34,748,111	34,181,740	34,748,111	34,181,740
Facility Use fees - Capital Improvements			3,139,842	2,387,938	3,139,842	2,387,938
Water Connection Fees - Capital Expansion			19,498,869	18,298,597	19,498,869	18,298,597
Total Expenses	5,518,003	4,653,020	71,068,713	68,870,655	76,586,716	73,523,675
Increase/(decrease) in net assets before transfers	5,948,282	6,678,580	4,059,313	12,528,685	10,007,595	19,207,265
Transfers	(13,334)		13,334			
Extraordinary item						
Change in net assets	5,934,948	6,678,580	4,072,647	12,528,685	10,007,595	19,207,265
Net position-beginning	81,235,699	74,557,119	307,548,351	295,019,666	388,784,050	369,576,785
Net position-ending	\$87,170,647	\$81,235,699	\$311,620,998	\$307,548,351	\$398,791,645	\$388,784,050

As reflected in the statement above, total revenues for the agency were \$86.6 million and total expenses, including transfers, were \$76.6 million.

Flood Protection activities generated revenues of \$11.5 million. Charges for services decreased \$0.3 million compared to 2013 mainly due to a decrease in the number of impervious area applications. Other program revenues for fees and permit activities increased \$0.2 million. Property taxes revenues increased \$0.2 million, or 4.1% due to slightly higher assessed property values.

Flood Protection operations activities expenses decreased \$2.5 million due to an increase in capital activity in the fund, which is not reflected on this report. Flood Protection Drainage Development Impact Fee expenses increased \$3.3 million primarily due to the Watershed Protection Property purchase. Total governmental activity expenses, including transfers, were \$5.5 million.

Water Enterprise business-type activities generated revenues totaling \$75.1 million. Business-type activities showed an overall decrease of \$6.3 million as compared to 2013. Charges for services decreased \$2.6 million or 6.7% from the prior year as a result of lower water sales (due to water conservation for the drought). Other program revenues decreased \$4.1 million, or 9.6% from the prior year due to the decrease in connection fee revenue received for new development.

Total expenses for agency business-type activities, including transfers, were \$71 million. State Water Project costs decreased \$0.3 million or 2.3% as result of slightly lower expenses incurred by the State. The cost of water sales increased \$0.6 million or 1.7% due to an increase in water purchases and water storage costs. Capital improvement project expenses increased \$0.8 million or \$31.5% due to the drought emergency capital projects implemented. Capital expansion project expenses increased \$1.2 million or 6.6% primarily due to drought emergency capital projects.

Governmental Funds Budgetary Highlights

As of the fiscal year ending June 30, 2014, Zone 7's governmental funds reported combined ending fund balances of \$56.8 million, a decrease of \$8.2 million or 12.7% 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. \$1.1 million is reserved for encumbrances and the balance of \$55.6 million is committed, due to constraints imposed by formal action of the Board. There were no long-term liabilities.

A comparative budgetary statement for the Zone's Flood Protection funds follows:

	Final Budgeted Amounts	Actual Amounts	Budget Variance	
			June 30, 2014	June 30, 2013
Resources (inflows):				
Taxes	\$5,979,557	\$6,201,653	\$222,096	\$85,772
Intergovernmental	54,690	64,318	9,628	7,578
Charges for services	3,000	57,142	54,142	25,661
Interest and rentals	128,100	97,429	(30,671)	(48,107)
Other	35,000	158,576	123,576	(15,527)
Amounts available for appropriation	6,200,347	6,579,118	378,771	55,377
Charges to appropriations (outflows):				
Salaries and benefits	2,100,065	2,235,984	(135,919)	(1,009,482)
Services and supplies	8,403,210	2,344,569	6,058,641	4,449,796
Equipment and capital structures	15,444,833	11,079,943	4,364,890	
Total changes to appropriations	25,948,108	15,660,496	10,287,612	3,440,314
Excess of resources over charges to appropriations	(19,747,761)	(9,081,378)	10,666,383	3,495,691
Other Financing Sources		(13,334)	13,334	
Net change in fund balance	(19,747,761)	(9,094,712)	10,653,049	3,495,691
Fund balance beginning		24,354,979		
Fund balance ending		15,260,267		

Zone 7's actual Flood Protection Operations Fund revenues are over the budget by \$0.4 million or 6.1%. Variations between budget and actual expenditures in the general fund reflect overall expenditures less than the adjusted budget by \$10.3 million or 65.7%. 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 for both business type activities and governmental activities can be found on pages 33-34. Further detail of Capital Assets as of June 30, 2014 can be found in Note 3. Highlights for the fiscal year include capitalization of the following assets:

Del Valle Water Treatment Plant Filter #2 Rehabilitation	\$543,756
DWR Land Acquisition Adjacent to the Patterson Pass Treatment Plant	314,263
Busch Valley Well #1 Land	1,106,594
Watershed Protection Property	18,590,757

Rates and Other Economic Factors

- 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. Failure to meet this goal currently results in an agency not being eligible for state grants. 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. Water demands continue to decrease while fixed costs remain high.
- New development within the service area has been picking up, providing slight growth in the number of water rate payers and in connection fee revenue. Property Values in Zone 7’s service area have increased slightly, showing signs of a slow economic recovery. Alameda County’s average unemployment rate has decreased markedly, registering 5.9 percent as of April 2014, below the 2013 rate of 8.6 percent.
- Calendar Year 2013 was the driest year in recorded history in many parts of California, including in the Livermore-Amador Valley. On January 17, 2014, Governor Jerry Brown declared a State of Emergency in California due to drought conditions and asked all citizens to cut back water use by 20 percent. On January 29, 2014 the Board of Directors, declared a local state of Drought Emergency and a Drought Emergency Response Plan was approved that included emergency capital projects and accelerated preventive maintenance aimed at minimizing impacts on water deliveries. On January 31, 2014, the California Department of Water Resources (DWR) announced it was reducing State Water Project allocations from an already-low 5 percent down to zero for the first time in history. On April 16, 2014, Zone 7’s 2014 Annual Review of Sustainable Water Supply was presented to the Board. Among other things, it clarified the need for Zone 7’s water retailers to achieve conservation consistent with “Stage 2 Actions” under Zone 7’s Urban Water Management Plan. Zone 7 notified it’s treated and untreated water customers that they will receive only 75 percent of their requested supplies in 2014 and to take certain actions to achieve 25 percent savings.

Significant financial impacts have been identified due to the agency’s projected 25 percent loss in water sales revenue, in combination with drought-emergency capital projects and increased drought-related operations and maintenance costs.

All of the above factors were considered in preparing Zone 7’s budget for fiscal year 2014/15.

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 POSITION
 JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash in County treasury (Note 2)	\$55,017,628	\$100,224,101	\$155,241,729
Accounts receivable, net	2,036,927	6,161,486	8,198,413
Prepaid expenses		90,000	90,000
Total current assets	<u>57,054,555</u>	<u>106,475,587</u>	<u>163,530,142</u>
Noncurrent assets			
Capital assets (Note 4):			
Rights of way, water entitlements, easements and construction in progress	23,343,231	73,279,176	96,622,407
Depreciable, net	7,060,719	138,324,295	145,385,014
Total noncurrent assets	<u>30,403,950</u>	<u>211,603,471</u>	<u>242,007,421</u>
Total assets	<u>87,458,505</u>	<u>318,079,058</u>	<u>405,537,563</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	287,858	4,881,752	5,169,610
Deposits-water facilities trust		343,518	343,518
Compensated absences (Note 1J)		1,232,790	1,232,790
Total current liabilities	<u>287,858</u>	<u>6,458,060</u>	<u>6,745,918</u>
Total liabilities	<u>287,858</u>	<u>6,458,060</u>	<u>6,745,918</u>
NET POSITION (Note 6)			
Net investment in capital assets	30,403,950	211,603,471	242,007,421
Unrestricted-designated for			
Capital projects	50,909,178	52,037,227	102,946,405
Specific projects and programs	5,857,519	47,980,300	53,837,819
Unrestricted			
Total net position	<u>\$87,170,647</u>	<u>\$311,620,998</u>	<u>\$398,791,645</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, 2014

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Other Program Revenues	
Governmental activities:					
Flood Protection Operations	\$1,488,735	\$57,142	\$64,318	\$158,576	\$280,036
Flood Protection Drainage DIF	4,029,268	4,766,236		28,560	4,794,796
Total governmental activities	5,518,003	4,823,378	64,318	187,136	5,074,832
Business-type activities:					
State Water Project	13,681,891		79,667	13,707,794	13,787,461
Water Enterprise Operations	34,748,111	35,665,118	300,199	433,781	36,399,098
Facility use fees-Capital Improvement	3,139,842	495	4,105	402,268	406,868
Water connection fees Capital Expansion	19,498,869		1,759	24,095,179	24,096,938
Total business-type activities	71,068,713	35,665,613	385,730	38,639,022	74,690,365
Total	\$76,586,716	\$40,488,991	\$450,048	\$38,826,158	\$79,765,197

General revenues:
 Property taxes:
 Secured
 Unsecured
 Supplemental
 Investment earnings
 Rental charges
 Total general revenues

Transfers, net

Change in net position

Net position-beginning of year

Net position-end of year

See accompanying notes to financial statements

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
(\$1,208,699)		(\$1,208,699)
765,528		765,528
(443,171)		(443,171)
	\$105,570	105,570
	1,650,987	1,650,987
	(2,732,974)	(2,732,974)
	4,598,069	4,598,069
	3,621,652	3,621,652
(443,171)	3,621,652	3,178,481
5,755,844		5,755,844
325,557		325,557
120,252		120,252
133,926	390,865	524,791
55,874	46,796	102,670
6,391,453	437,661	6,829,114
(13,334)	13,334	
5,934,948	4,072,647	10,007,595
81,235,699	307,548,351	388,784,050
<u>\$87,170,647</u>	<u>\$311,620,998</u>	<u>\$398,791,645</u>

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 AS OF JUNE 30, 2014
 WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2013

	Flood Protection Operations	Flood Protection and Drainage Development Impact Fee	Totals	
			2014	2013
ASSETS				
Current assets				
Cash in County treasury (Note 2)	\$15,506,938	\$39,510,690	\$55,017,628	\$64,906,791
Accounts receivable, net		2,036,927	2,036,927	807,367
Total assets	\$15,506,938	\$41,547,617	\$57,054,555	\$65,714,158
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	\$246,671	\$41,187	\$287,858	\$710,648
Total liabilities	246,671	41,187	287,858	710,648
FUND BALANCES (Note 6)				
Nonspendable:				
Encumbrances	649,473	472,350	1,121,823	2,601,224
Committed	14,610,794	41,034,080	55,644,874	62,402,286
Assigned				
Unassigned				
Total fund balances	15,260,267	41,506,430	56,766,697	65,003,510
Total liabilities and fund balances	\$15,506,938	\$41,547,617	\$57,054,555	\$65,714,158

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 POSITION
 JUNE 30, 2014

	2014
TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$56,766,697
<p>Amounts reported for Governmental Activities in the Statement of Net position are different from those reported in the Governmental Funds above because of the following:</p>	
<p>CAPITAL ASSETS</p>	
<p>Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.</p>	30,403,950
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$87,170,647

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, 2014
 WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2013

	Flood Protection Operations	Flood Protection and Drainage Development Impact Fee	Totals	
			2014	2013
REVENUES				
Property taxes	\$6,201,653		\$6,201,653	\$5,959,083
Intergovernmental revenues	64,318		64,318	61,578
Charges for services	57,142	\$4,766,236	4,823,378	5,117,561
Interest and rentals	97,429	92,371	189,800	179,858
Other revenues	158,576	28,560	187,136	13,520
Total revenues	6,579,118	4,887,167	11,466,285	11,331,600
EXPENDITURES				
Salaries and employee benefits transferred from district-wide	2,235,984	299,795	2,535,779	2,631,352
Services and supplies	2,344,569	305,552	2,650,121	3,500,550
Equipment and capital structure	11,079,943	3,423,921	14,503,864	451,740
Total expenditures	15,660,496	4,029,268	19,689,764	6,583,642
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,081,378)	857,899	(8,223,479)	4,747,958
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(13,334)		(13,334)	
NET CHANGE IN FUND BALANCES	(9,094,712)	857,899	(8,236,813)	4,747,958
FUND BALANCES, BEGINNING OF YEAR	24,354,979	40,648,531	65,003,510	60,255,552
FUND BALANCES, END OF YEAR	\$15,260,267	\$41,506,430	\$56,766,697	\$65,003,510

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 POSITION OF GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2014

	2014
The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.	
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	(\$8,236,813)
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	14,354,410
Depreciation expense is deducted from the fund balance	(182,649)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$5,934,948

See accompanying notes to financial statements

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ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7
 FLOOD PROTECTION OPERATIONS
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$5,979,557	\$5,979,557	\$6,201,653	\$222,096
Intergovernmental revenue	54,690	54,690	64,318	9,628
Charges for services	3,000	3,000	57,142	54,142
Interest and rentals	128,100	128,100	97,429	(30,671)
Other revenue	35,000	35,000	158,576	123,576
TOTAL REVENUES	<u>6,200,347</u>	<u>6,200,347</u>	<u>6,579,118</u>	<u>378,771</u>
EXPENDITURES				
Salaries and benefits	2,100,065	2,100,065	2,235,984	(135,919)
Services and supplies	5,987,539	8,403,210	2,344,569	6,058,641
Equipment and capital structure	14,142,761	15,444,833	11,079,943	4,364,890
TOTAL EXPENDITURES	<u>22,230,365</u>	<u>25,948,108</u>	<u>15,660,496</u>	<u>10,287,612</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(16,030,018)</u>	<u>(19,747,761)</u>	<u>(9,081,378)</u>	<u>10,666,383</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)			(13,334)	13,334
NET CHANGE IN FUND BALANCE	<u>(\$16,030,018)</u>	<u>(\$19,747,761)</u>	(9,094,712)	<u>\$10,653,049</u>
Fund balance, beginning of year			<u>24,354,979</u>	
Fund balance, end of year			<u>\$15,260,267</u>	

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2014

WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2013

	State Water Facilities	Water Enterprise Operations	Water Enterprise Capital Improvement Renewal & Replacement	Water Enterprise Capital Expansion
ASSETS				
Current assets:				
Cash in County treasury (Note 2)	\$8,849,889	\$30,246,734	\$20,445,377	\$32,306,197
Receivables, net		4,401,048		1,760,438
Prepaid deposits		90,000		
Total current assets	8,849,889	34,737,782	20,445,377	34,066,635
Noncurrent assets:				
Capital assets (Note 4), right of ways, water entitlements and construction in progress		73,279,176		
Improvements, net of depreciation		138,324,295		
Total noncurrent assets		211,603,471		
Total assets	8,849,889	246,341,253	20,445,377	34,066,635
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses		2,406,967	1,754,403	720,382
Deposits				
Line of Credit (Note 5)				
Compensated absences (Note 1J)		1,232,790		
Total current liabilities		3,639,757	1,754,403	720,382
Total liabilities		3,639,757	1,754,403	720,382
NET POSITION (Note 6)				
Net Investment in capital assets		211,603,471		
Unrestricted-designated for:				
Capital projects			18,690,974	33,346,253
Designated projects	8,849,889	31,098,025		
Total net position	8,849,889	242,701,496	18,690,974	33,346,253
Total liabilities and net position	\$8,849,889	\$246,341,253	\$20,445,377	\$34,066,635

See accompanying notes to financial statements

Water Facilities Trust	Water Supply and Reliability Trust	Totals	
		2014	2013
\$3,611,924	\$4,763,980	\$100,224,101	\$129,462,574
		6,161,486	10,452,447
		90,000	90,000
<u>3,611,924</u>	<u>4,763,980</u>	<u>106,475,587</u>	<u>140,005,021</u>
		73,279,176	58,959,521
		138,324,295	143,336,170
		211,603,471	202,295,691
<u>3,611,924</u>	<u>4,763,980</u>	<u>318,079,058</u>	<u>342,300,712</u>
		4,881,752	2,771,476
343,518		343,518	336,635
			30,500,000
		1,232,790	1,144,250
<u>343,518</u>		<u>6,458,060</u>	<u>34,752,361</u>
<u>343,518</u>		<u>6,458,060</u>	<u>34,752,361</u>
		211,603,471	202,295,691
		52,037,227	65,125,317
<u>3,268,406</u>	<u>4,763,980</u>	<u>47,980,300</u>	<u>40,127,343</u>
<u>3,268,406</u>	<u>4,763,980</u>	<u>311,620,998</u>	<u>307,548,351</u>
<u>\$3,611,924</u>	<u>\$4,763,980</u>	<u>\$318,079,058</u>	<u>\$342,300,712</u>

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2013

	State Water Facilities	Water Enterprise Operations	Water Enterprise Capital Improvement Renewal & Replacement	Water Enterprise Capital Expansion
OPERATING REVENUES				
Property taxes	\$11,016,532			
Water sales		\$35,616,588		
Intergovernmental revenue	79,667	300,199	\$4,105	\$1,759
Connection and development fees			402,268	21,570,977
Charges for services		2,443	495	
Other revenues	2,691,262	433,781		2,524,202
Total operating revenues	13,787,461	36,353,011	406,868	24,096,938
OPERATING EXPENSES				
Salaries, wages and benefits		13,895,496	1,487,230	402,790
Contractual services		2,945,938	12,921,746	3,028,489
Technology supplies		126,647		
Chemical purchases		1,788,873		
Water purchases	13,681,891	3,991,642		17,201,005
Water storage		705,050		1,344,102
Utilities		2,286,535	106	77
Maintenance and repairs		1,412,248	7,279	
Equipment and building rents		85,935	542,885	418,577
Other services and supplies		1,346,736	288,247	131,922
Risk management		335,047		
Depreciation (Note 4)		5,876,693		
Expenses capitalized		(48,729)	(12,107,651)	(3,028,093)
Total operating expenses	13,681,891	34,748,111	3,139,842	19,498,869
Operating income (loss)	105,570	1,604,900	(2,732,974)	4,598,069
NONOPERATING REVENUES				
Interest income and rental fees	102,034	133,203	50,850	131,709
Total nonoperating revenues	102,034	133,203	50,850	131,709
Income (loss) before transfers	207,604	1,738,103	(2,682,124)	4,729,778
Transfers in		15,149,078	8,500,000	
Transfers (out)		(8,500,000)	(12,107,651)	(3,028,093)
Change in net position	207,604	8,387,181	(6,289,775)	1,701,685
Net position, beginning of year	8,642,285	234,314,315	24,980,749	31,644,568
Net position, end of year	\$8,849,889	\$242,701,496	\$18,690,974	\$33,346,253

See accompanying notes to financial statements

Water Facilities Trust	Water Supply and Reliability Trust	Totals	
		2014	2013
		\$11,016,532	\$9,517,243
		35,616,588	38,130,264
		385,730	68,416
		21,973,245	27,483,527
		2,938	70,587
\$46,087		5,695,332	5,766,715
46,087		74,690,365	81,036,752
		15,785,516	14,113,249
		18,896,173	5,538,789
		126,647	128,160
		1,788,873	1,777,427
		34,874,538	33,078,200
		2,049,152	3,496,894
		2,286,718	2,393,857
		1,419,527	1,312,559
		1,047,397	1,078,747
		1,766,905	1,915,595
		335,047	335,047
		5,876,693	5,827,294
		(15,184,473)	(2,125,163)
		71,068,713	68,870,655
46,087		3,621,652	12,166,097
8,567	\$11,298	437,661	362,588
8,567	11,298	437,661	362,588
54,654	11,298	4,059,313	12,528,685
		23,649,078	8,986,359
		(23,635,744)	(8,986,359)
54,654	11,298	4,072,647	12,528,685
3,213,752	4,752,682	307,548,351	295,019,666
\$3,268,406	\$4,763,980	\$311,620,998	\$307,548,351

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
 ZONE 7
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2014
 WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2013

	State Water Facilities	Water Enterprise Operations	Water Enterprise Capital Improvement Renewal & Replacement
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$13,787,461	\$39,936,287	\$47,950
Connection and development fees			402,268
Payments to employees		(13,806,956)	(1,487,230)
Payments to suppliers	(13,681,891)	(15,155,154)	(52,478)
Net cash provided (used) by operating activities	105,570	10,974,177	(1,089,490)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in		15,149,078	8,500,000
Transfers (out)		(8,500,000)	(12,107,651)
Interest income	102,034	133,203	50,850
Cash flows from noncapital financing activities	102,034	6,782,281	(3,556,801)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of property, plant, and equipment		(15,184,473)	
Principal retirement of long term debt			
Cash flows from (used for) capital and related financing activities		(15,184,473)	
Net increase (decrease) in cash and cash equivalents	207,604	2,571,985	(4,646,291)
Cash and investments at beginning of period	8,642,285	27,674,749	25,091,668
Cash and investments at end of period	\$8,849,889	\$30,246,734	\$20,445,377
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$105,570	\$1,604,900	(\$2,732,974)
Adjustments to reconcile operating income to cash flows			
Depreciation		5,876,693	
Changes in assets and liabilities			
Receivables		3,583,276	43,350
Accounts payable and accrued expenses		(179,232)	1,600,134
Compensated absences		88,540	
Deposits			
Net cash provided (used) by operating activities	\$105,570	\$10,974,177	(\$1,089,490)

See accompanying notes to financial statements

Water Enterprise Capital Expansion	Water Facilities Trust	Water Supply and Reliability Trust	Total	
			2014	2013
\$3,190,296	\$52,970		\$57,014,964	\$52,452,950
21,570,977			21,973,245	27,483,527
(402,790)			(15,696,976)	(14,084,934)
(18,406,705)			(47,296,228)	(48,511,196)
<u>5,951,778</u>	<u>52,970</u>		<u>15,995,005</u>	<u>17,340,347</u>
			23,649,078	8,986,359
(3,028,093)			(23,635,744)	(8,986,359)
131,709	8,567	\$11,298	437,661	362,588
<u>(2,896,384)</u>	<u>8,567</u>	<u>11,298</u>	<u>450,995</u>	<u>362,588</u>
			(15,184,473)	(2,471,702)
<u>(30,500,000)</u>			<u>(30,500,000)</u>	
<u>(30,500,000)</u>			<u>(45,684,473)</u>	<u>(2,471,702)</u>
(27,444,606)	61,537	11,298	(29,238,473)	15,231,233
<u>59,750,803</u>	<u>3,550,387</u>	<u>4,752,682</u>	<u>129,462,574</u>	<u>114,231,341</u>
<u>\$32,306,197</u>	<u>\$3,611,924</u>	<u>\$4,763,980</u>	<u>\$100,224,101</u>	<u>\$129,462,574</u>
\$4,598,069	\$46,087		\$3,621,652	\$12,166,097
			5,876,693	5,827,294
664,335			4,290,961	(1,083,871)
689,374			2,110,276	418,916
			88,540	28,315
	6,883		6,883	(16,404)
<u>\$5,951,778</u>	<u>\$52,970</u>		<u>\$15,995,005</u>	<u>\$17,340,347</u>

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**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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 position 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 position are available, restricted resources are used for qualified expenditures for capital improvement projects before any unrestricted resources are spent.

Fund Financial Statements

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

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

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District reports the following governmental funds:

- The *Flood Protection Operations Fund* (200) 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 Drainage Development Impact Fee Fund* (210) is used for the acquisition, construction, engineering and improvement of the flood protection and /or storm water drainage elements of the Stream Management Master Plan of Zone 7, or to reduce the principal or interest of any bonded indebtedness thereof.

The District reports the following proprietary funds:

- The *State Water Facilities Fund* (110) is used for fixed State water charges and State water project bonded indebtedness.
- The *Water Enterprise Operations Fund* (100) 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 *Water Enterprise Capital Improvement Renewal and Replacement Fund* (120) is used for improvement, renewal and replacement program.
- The *Water Enterprise Capital Expansion Fund* (130) is used for Water Enterprise capital expansion projects.
- The *Water Facilities Trust Fund* (300) is used for Chain of Lakes mitigation and planning reserve, quarry discharge exports, miscellaneous fees and deposits, and permit inspection deposits.
- The *Water Supply and Reliability Trust Fund* (310) 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 the grant revenue is received; and revenue from investments is recognized when earned.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Enterprise Operations fund is the sale of water to outside customers. Operating expenses for the fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows the 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 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
FOR THE YEAR ENDED JUNE 30, 2014**

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 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 Funds.

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 Flood Protection Operations Fund and Flood Protection Drainage Development Impact Fee Fund. Encumbrances at year end are reported as reservation of fund balances since they do not constitute expenditures or liabilities.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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 an expenditure in the period that the benefit is taken. As of June 30, 2014, the balance of compensated absences is \$1,232,790.

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, 2014, the District's cash and investments amounted to \$155,241,729 of which \$55,017,628 and \$100,224,101 were reflected in the District's Governmental and Business-Type Activities, respectively. The composition of the County investment pool can be found in the Alameda County Treasurer's Investment Pool Market Value Report as of June 30, 2014, however the majority of the Pool is comprised of collateralized securities (Treasury Notes, Bills, Federal Agencies and Commercial Paper).

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 3 – INTERFUND TRANSFERS

Transfers during the fiscal year ended June 30, 2014, comprised of the following:

Fund Making Transfer	Fund Receiving Transfers	Amount Transferred	
Governmental Fund			
Flood Protection Operations	Water Enterprise Operations	\$13,334	(A)
Enterprise Funds:			
Water Enterprise Operations	Water Enterprise Capital Improvement Renewal & Replacement	8,500,000	(B)
Water Enterprise Capital Improvement Renewal & Replacement	Water Enterprise Operations	12,107,651	(C)
Water Enterprise Capital Expansion	Water Enterprise Operations	<u>3,028,093</u>	(C)
		<u><u>\$23,649,078</u></u>	

- (A) Transfer to fund vehicle replacement.
- (B) Transfer to fund capital improvements.
- (C) Transfer of completed construction projects and other fixed assets.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 4 – CAPITAL ASSETS

A. Summary

The following is a summary of capital assets as of June 30, 2014:

	Balance at June 30, 2013	Additions	Balance at June 30, 2014
<i>Governmental Activities</i>			
Capital assets not being depreciated:			
Rights of way	\$6,875,550	\$13,112,378	\$19,987,928
Construction in progress	2,113,271	1,242,032	3,355,303
	<hr/>	<hr/>	<hr/>
Total capital assets not being depreciated	8,988,821	14,354,410	23,343,231
	<hr/>	<hr/>	<hr/>
Capital assets being depreciated:			
Flood control channels	9,939,359		9,939,359
	<hr/>	<hr/>	<hr/>
Total capital assets being depreciated	9,939,359		9,939,359
	<hr/>	<hr/>	<hr/>
Less accumulated depreciation for:			
Flood control channels	2,695,991	182,649	2,878,640
	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	2,695,991	182,649	2,878,640
	<hr/>	<hr/>	<hr/>
Net capital assets being depreciated	7,243,368	(182,649)	7,060,719
	<hr/>	<hr/>	<hr/>
Governmental activity capital assets, net	<u>\$16,232,189</u>	<u>\$14,171,761</u>	<u>\$30,403,950</u>

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 4 – CAPITAL ASSETS (Continued)

<i>Business-Type Activities</i>	Balance at June 30, 2013	Additions and Transfers	Retirements	Balance at June 30, 2014
Capital assets not being depreciated:				
Rights of way	\$1,277,897	\$6,899,236		\$8,177,133
Water entitlements	36,655,364			36,655,364
Easements	1,350,090			1,350,090
Construction in progress	19,676,170	7,420,419		27,096,589
 Total capital assets not being depreciated	 58,959,521	 14,319,655		 73,279,176
Capital assets being depreciated:				
Equipment	3,174,898	321,062	\$34,132	3,461,828
Treatment plants	106,522,163	543,756		107,065,919
Office building	1,264,251			1,264,251
Reservoir	1,934,197			1,934,197
Pipelines	52,670,181			52,670,181
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	 202,193,233	 864,818	 34,132	 203,023,919
Less accumulated depreciation for:				
Equipment	2,646,025	228,311	34,132	2,840,204
Treatment plants	34,439,311	3,116,660		37,555,971
Office building	816,738	31,606		848,344
Reservoir	957,641	48,355		1,005,996
Pipelines	11,428,263	1,293,456		12,721,719
Wellfields	4,385,690	660,883		5,046,573
Supervisory Control and Data Acquisition project	4,124,482	485,233		4,609,715
Other infrastructure	58,913	12,189		71,102
 Total accumulated depreciation	 58,857,063	 5,876,693	 34,132	 64,699,624
 Net capital assets being depreciated	 143,336,170	 (5,011,875)		 138,324,295
 Business-Type activity capital assets, net	 \$202,295,691	 \$9,307,780		 \$211,603,471

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 4 – CAPITAL ASSETS (Continued)

B. Construction in Progress

Construction in Progress at June 30, 2014 comprises the following projects:

Governmental Activities

Projects	
Arroyo Mocho-Stanley Reach	\$2,254,536
Cope Lake Slope Repair (50%)	935,692
Arroyo Las Positas Improvements	165,075
Total	\$3,355,303

Business-Type Activities

Projects	
Altamont Water Treatment Plant (AWTP) - Site Acquisition and Raw Water	\$15,524,166
Del Valle Water Treatment Plant (DVWTP) Superpulsator Rehabilitation	2,792,178
Altamont Water Treatment Plant	1,334,628
DVWTP Sludge Handling Improvement	1,142,877
Cope Lake - Lake I Pipeline	1,387,459
Chain of Lakes Well 5	1,726,490
Cope Lake Slope Repair (50%)	935,692
DVWTP Caustic Soda System	612,894
Altamont Pipeline - County Reach	592,392
Arroyo Mocho/Lake H Diversion	350,613
Patterson Pass Water Treatment Plant (PPWTP) Ultra Filtration Clarifier Corrosion Control Improvements	347,073
Mocho Groundwater Demin Plant Concrete Sump Pump Replacement	103,448
Busch Valley Well 1	127,194
PPWTP Ferric Chloride and Caustic	58,950
DVWTP 4.5 MG Clearwell Recoat	49,689
DVWTP Aqua Ammonia Facility	10,846
Total	\$27,096,589

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 5 – 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 due January 1, 2014. Effective January 19, 2011 the Board approved reducing the line to a maximum amount of \$30,500,000. During the fiscal year ending June 30, 2014, the District paid off the credit line.

NOTE 6 – NET POSITION AND FUND BALANCES

Net Position

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

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

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

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

Fund Balance

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

The 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:

Nonspendable 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.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 6 – NET POSITION AND FUND BALANCES (Continued)

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

Committed fund balances have constraints imposed by formal action of the Board of Directors which may be altered only by formal 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 fund balance and residual fund deficits, if any, of other governmental funds.

NOTE 7 – 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 7.46%-14.59% of their salary of which the District contributes up to 19.58%. The Plan requires participants in Tier 2 to contribute from 5.08%-10.39% of their salary of which the District contributes up to 18.66%. Contributions necessary to fund the Plan on an actuarial basis are determined by the Alameda County Employees Retirement Association.

The California Public Employees' Pension Reform Act (CalPEPRA) of 2013 (AB340) was passed on September 12, 2012 and became effective on January 1, 2013. It affects new members who enter the plan on or after January 1, 2013. New plan provisions include new benefit formulas, a limit on pensionable income, 3-year final average salary, and new cost sharing by members. A new Tier 4 has been created for members covered under AB340. The Plan requires participants in Tier 4 to contribute 8.12% of their salary of which the District contributes up to 17.75%.

The actuarial accrued liability presented below was computed as part of an actuarial valuation performed as of December 31, 2013, which is the latest actuarial valuation available. Significant actuarial assumptions used in the valuation include (a) investment rate of return of 7.8%, (b) projected salary increases of 4.6%-7.2% 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 and Tier 4. The Plan uses the Entry Age Cost Method with a supplemental present value. The amortization period for the supplemental present value is 24 years, with 19 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).

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 7 – RETIREMENT PLAN (Continued)

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
2011-2012	\$689,817	\$2,688,349	\$3,378,166
2012-2013	701,287	2,818,583	3,519,870
2013-2014	749,151	3,251,299	4,000,450

NOTE 8 - 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.

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 8 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT (Continued)

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 2028 based on the December 31, 2013 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 2028.

NOTE 9 - 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	\$35,000,000	\$1,000,000
Workers' Compensation	Statutory Limit	3,000,000
Property	600,000,000	50,000
Crime	10,000,000	2,500
Pollution	10,000,000	500,000

NOTE 10 - COMMITMENT AND CONTINGENT LIABILITIES

A. *Litigation*

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

B. *Other Contingencies*

In June, 2006, the District entered into a Water Banking and Exchange Program with Cawelo Water District. The District's capital cost is approximately \$19,000,000 to be financed by 30-year revenue bonds issued by Cawelo. In addition, the District will pay for transportation of the water to and from the banking site. No payment for transportation of water was made for the year ended June 30, 2014.

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:

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 10 - COMMITMENT AND CONTINGENT LIABILITIES (Continued)

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. This agreement has been amended to extend through December 31, 2030.

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, 2014, the District paid \$1,165,901. A schedule of future rents is as follows:

For the Year Ending June 30	Lease Obligation
2015	\$1,189,198
2016	1,212,958
2017	1,237,241
2018	1,262,026
2019	1,287,173
2020-2021	759,577
Totals	\$6,948,173