

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

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**JUNE 30, 2013**

**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, 2013**

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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, 2013, 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 2012 financial statements and our report dated October 8, 2012, 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, 2013, 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.

## *Emphasis of Matters*

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2013 and had material effects on the financial statements:

Statement 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. See Note 5 to the financial statements for relevant disclosures.

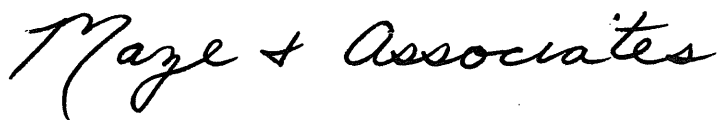
Statement 65 - *Items Previously Reported as Assets and Liabilities*.

The emphasis of these matters does not constitute a modification to our opinions.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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.



Pleasant Hill, California  
September 25, 2013

**Alameda County Flood Control and Water Conservation District – Zone 7  
Management’s Discussion and Analysis for the Fiscal Year Ended June 30, 2013**

This section presents a narrative overview and analysis of Zone 7’s financial activities for the fiscal year ended June 30, 2013. All amounts, unless otherwise indicated, are expressed in whole dollars.

**Financial Highlights**

- Total assets exceeded liabilities at the close of this fiscal year by \$389 million. Net position for governmental activities is \$81 million and for Business-Type activities is \$308 million.
- The total net position increased by \$19.2 million or 5.2% over the prior fiscal year’s close. Governmental activities increased \$6.7 million, while Business-Type activities increased \$12.5 million.
- Total revenues increased \$15.6 million or 20.3% from the prior year to \$92.7 million primarily due to the increase in the number of connection fees collected for new development.
- Total expenses decreased \$6 million or 7.6% from the prior year to \$73.5 million, primarily due to the El Charro Specific Plan project that was funded in the prior year.
- Construction in Progress at fiscal year-end include the Altamont Water Treatment Plant, Site Acquisition and Pipeline Projects for \$17.4 million, Cope Lake Slope repair for \$0.9 million, Del Valle Water Treatment Plant (DVWTP) treatment system repairs for \$0.7 million, DVWTP chemical and sludge handling process improvements for \$0.3 million, 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 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 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 9-11 of this report.

## **Fund financial statements**

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. Zone 7, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Zone 7's two kinds of funds - governmental and proprietary - use different accounting approaches.

### Governmental funds

Flood Control (General) and Flood Protection services (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 12-16 of this report.

### Proprietary funds

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

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

## **Notes to the basic financial statements**

The notes to the basic financial statements provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-37 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. Zone 7's assets exceeded liabilities by \$389 million at June 30, 2013.

The largest portion of Zone 7's net position, \$218.5 million or 56% 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 Position as of June 30

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
<b>Assets:</b>						
Current and other assets	\$65,714,158	\$60,672,924	\$140,005,021	\$123,689,917	\$205,719,179	\$184,362,841
Capital assets	16,232,189	14,301,567	202,295,691	205,651,283	218,527,880	219,952,850
Total assets	<u>81,946,347</u>	<u>74,974,491</u>	<u>342,300,712</u>	<u>329,341,200</u>	<u>424,247,059</u>	<u>404,315,691</u>
<b>Liabilities:</b>						
Current liabilities	710,648	417,372	34,752,361	3,821,534	35,463,009	4,238,906
Long-term liabilities				30,500,000		30,500,000
Total liabilities	<u>710,648</u>	<u>417,372</u>	<u>34,752,361</u>	<u>34,321,534</u>	<u>35,463,009</u>	<u>34,738,906</u>
<b>Net assets:</b>						
Invested in capital assets net of related debt	16,232,189	14,301,567	202,295,691	205,651,283	218,527,880	219,952,850
Unrestricted-Designated	65,003,510	41,751,799	105,252,660	79,220,538	170,256,170	120,972,337
Unrestricted		18,503,753		10,147,845	0	28,651,598
Total net position	<u>\$81,235,699</u>	<u>\$74,557,119</u>	<u>\$307,548,351</u>	<u>\$295,019,666</u>	<u>\$388,784,050</u>	<u>\$369,576,785</u>

### Changes in Net Position for Year ended June 30

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
Charges for services	\$5,117,561	\$5,505,177	\$38,236,282	\$35,563,265	\$43,353,843	\$41,068,442
Grants and other contributions	61,578	61,249	68,416	106,194	129,994	167,443
Other program revenues	13,520	41,461	42,732,054	29,154,849	42,745,574	29,196,310
General revenues						
Property taxes	5,959,083	5,773,050			5,959,083	5,773,050
Investment earnings and other	179,858	257,328	362,588	641,133	542,446	898,461
Total Revenues	<u>11,331,600</u>	<u>11,638,265</u>	<u>81,399,340</u>	<u>65,465,441</u>	<u>92,730,940</u>	<u>77,103,706</u>
<b>Expenses:</b>						
General government	3,947,332	8,499,485			3,947,332	8,499,485
Flood protection	705,688	5,903,778			705,688	5,903,778
Special drainage area operations						
State Water Project			14,002,380	13,858,280	14,002,380	13,858,280
Cost of water sales			34,181,740	30,711,144	34,181,740	30,711,144
Facility use fees - capital improvement projects			2,387,938	3,864,713	2,387,938	3,864,713
Water connection fees - capital expansion projects			18,298,597	16,691,162	18,298,597	16,691,162
Total Expenses	<u>4,653,020</u>	<u>14,403,263</u>	<u>68,870,655</u>	<u>65,125,299</u>	<u>73,523,675</u>	<u>79,528,562</u>
Increase/(decrease) in net position before transfers	6,678,580	(2,764,998)	12,528,685	340,142	19,207,265	(2,424,856)
Transfers						
Extraordinary item						
Change in net position	<u>6,678,580</u>	<u>-2,764,998</u>	<u>12,528,685</u>	<u>340,142</u>	<u>19,207,265</u>	<u>-2,424,856</u>
Net position-beginning	74,557,119	77,322,117	295,019,666	294,679,524	369,576,785	372,001,641
Net position-ending	<u>\$81,235,699</u>	<u>\$74,557,119</u>	<u>\$307,548,351</u>	<u>\$295,019,666</u>	<u>\$388,784,050</u>	<u>\$369,576,785</u>

Zone 7's net position increased by \$19.2 million during the fiscal year ended June 30, 2013. Total revenue was \$92.7 million and total expenses, including transfers, were \$73.5 million.

### **Governmental activities**

The net position for Zone 7's flood control governmental activities increased by \$6.7 million. Total revenues were \$11.3 million while total expenses amounted to \$4.6 million.

Revenues: Charges for services decreased \$0.4 million from the prior year mainly due to a decrease in the number of impervious area applications. Other program revenues decreased \$0.03 million, or 67.4% from the prior year for fees and permits activities. Investment earnings and other decreased \$0.08 million, or 30.1%, because of considerably lower earnings rates due to the economic downturn. Property taxes increased \$0.2 million, or 3.2% because of slightly higher total assessed value and higher delinquencies.

Expenses: General government decreased \$9.7 million, or 67.7% mainly due to the El Charro Specific Plan project in the prior year.

### **Business-type activities**

The net position for Zone 7's water enterprise business-type activities increased by \$12.5 million, with total revenues of \$81.4 million and total expenses (including transfers) of \$68.9 million.

Revenues: Charges for services increased \$2.7 million or 7.5% over the prior year as a result of a water rate increase and a higher volume of water sold. Other program revenues increased \$13.6 million, or 46.6% over the prior year due to the increase in the number of connection fees for new development. The increases in revenues are mostly offset by the decrease of \$0.3 million, or 43.4% in investment earnings due to lower earnings rates.

Expenses: State water project costs increased \$0.1 million or 1% because of slightly increased expenses incurred by the State. Cost of water sales increased \$3.5 million or 11.3% because of the increase in water purchases and water storage costs. Facility use fees - Capital improvement project expenses decreased \$1.5 million or 38.2% because there were fewer capital projects during this year. Water connection fees – capital expansion projects increased \$1.6 million or 9.6% 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, 2013, Zone 7's governmental funds reported combined ending fund balances of \$65 million, an increase of \$4.7 million or 7.9% 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. \$2.6 million is reserved for encumbrances and the balance of \$62.4 million is committed, due to constraints imposed by formal action of the Board. 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 position for the enterprise increased \$12.5 million. The net investment in capital assets decreased \$3.4 million. There is a change in long-term liabilities due to the December 2013 expiration of the agency's line of credit. The \$30.5 million line of credit is reported as a current liability.

## General Fund budgetary highlights

A comparative budgetary statement for Zone 7's General Fund follows:

	Final	Actual	Budget Variance	
	Budgeted		June 30, 2013	June 30, 2012
	Amounts	Amounts		
<b>Resources (inflows):</b>				
Taxes	\$5,873,311	\$5,959,083	\$85,772	(\$72,333)
Intergovernmental	54,000	61,578	7,578	7,249
Charges for services	10,000	35,661	25,661	30,651
Interest and rentals	130,118	82,011	(48,107)	(1,135)
Other	28,690	13,163	(15,527)	14,140
Amounts available for appropriation	<u>6,096,119</u>	<u>6,151,496</u>	<u>55,377</u>	<u>(21,428)</u>
<b>Charges to appropriations (outflows):</b>				
Salaries and benefits	1,148,163	2,157,645	(1,009,482)	(781,554)
Services and supplies	7,648,065	3,198,269	4,449,796	5,532,221
Total charges to appropriations	<u>8,796,228</u>	<u>5,355,914</u>	<u>3,440,314</u>	<u>4,750,667</u>
Excess of resources over charges to appropriations	(2,700,109)	795,582	3,495,691	4,729,239
Fund balance allocations	<u>2,700,109</u>	<u>0</u>	<u>(2,700,109)</u>	<u>(7,197,825)</u>
Excess of resources over charges to appropriations	<u>\$0</u>	<u>\$795,582</u>	<u>\$795,582</u>	<u>(\$2,468,586)</u>

Zone 7's actual general fund revenues are over the budget by \$0.05 million or 0.9%.

Variations between budget and actual expenditures in the general fund reflect overall expenditures less than the adjusted budget by \$3.4 million or 64.2%. 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 30-32. Highlights include capitalizing the Patterson Pass Water Treatment Plant and Patterson Pass road sanitary sewer pipeline, the Santa Rita pipeline relocation project and the Construction in Progress mentioned above in the Financial Highlights. Further detail of Capital Assets as of June 30, 2013 can be found under Note 3.

At the end of the current fiscal year, the \$30.5 million line of credit, which expires December 2013, is reported as a current liability. Interest for the line of credit 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. 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. 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 new water rate payers and connection fee revenue.
- A leveling-off in property values has resulted in stabilization of the 2012 and 2013 assessment roll. Alameda County's average unemployment rate has decreased markedly, now registering 7.8 percent as of July 2013, below the 2012 rate of 9.0 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 2013/14.

## **Requests for Information**

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

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

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 STATEMENT OF NET POSITION  
 JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash in county treasury (Note 2)	\$64,906,791	\$129,462,574	\$194,369,365
Accounts receivable, net	807,367	10,452,447	11,259,814
Prepaid expenses		90,000	90,000
Total current assets	<u>65,714,158</u>	<u>140,005,021</u>	<u>205,719,179</u>
Noncurrent assets			
Capital assets (Note 3):			
Rights of way, water entitlements, easements and construction in progress	8,988,821	58,959,521	67,948,342
Depreciable, net	7,243,368	143,336,170	150,579,538
Total noncurrent assets	<u>16,232,189</u>	<u>202,295,691</u>	<u>218,527,880</u>
Total assets	<u>81,946,347</u>	<u>342,300,712</u>	<u>424,247,059</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	710,648	2,771,476	3,482,124
Deposits-water facilities trust		336,635	336,635
Line of Credit (Note 4)		30,500,000	30,500,000
Compensated absences (Note 1J)		1,144,250	1,144,250
Total current liabilities	<u>710,648</u>	<u>34,752,361</u>	<u>35,463,009</u>
Total liabilities	<u>710,648</u>	<u>34,752,361</u>	<u>35,463,009</u>
NET POSITION (Note 5)			
Net investment in capital assets	16,232,189	202,295,691	218,527,880
Unrestricted-designated for			
Capital projects	60,596,601	65,125,317	125,721,918
Specific projects and programs	4,406,909	40,127,343	44,534,252
Total net position	<u>\$81,235,699</u>	<u>\$307,548,351</u>	<u>\$388,784,050</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, 2013

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Other Program Revenues	
<b>Governmental activities:</b>					
General government	\$3,947,332	\$35,661	\$61,578	\$13,163	\$110,402
Flood protection	705,688	5,081,900		357	5,082,257
Total governmental activities	<u>4,653,020</u>	<u>5,117,561</u>	<u>61,578</u>	<u>13,520</u>	<u>5,192,659</u>
<b>Business-type activities:</b>					
State water project	14,002,380		68,416	11,942,972	12,011,388
Water sales	34,181,740	38,223,901		1,187,780	39,411,681
Facility use fees-capital improvement	2,387,938	9,001		576,353	585,354
Water connection fees capital expansion	18,298,597	3,380		29,024,949	29,028,329
Total business-type activities	<u>68,870,655</u>	<u>38,236,282</u>	<u>68,416</u>	<u>42,732,054</u>	<u>81,036,752</u>
<b>Total</b>	<u>\$73,523,675</u>	<u>\$43,353,843</u>	<u>\$129,994</u>	<u>\$42,745,574</u>	<u>\$86,229,411</u>

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

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
(\$3,836,930)		(\$3,836,930)
4,376,569		4,376,569
539,639		539,639
	(\$1,990,992)	(1,990,992)
	5,229,941	5,229,941
	(1,802,584)	(1,802,584)
	10,729,732	10,729,732
	12,166,097	12,166,097
539,639	12,166,097	12,705,736
5,559,295		5,559,295
334,675		334,675
65,113		65,113
161,622	331,588	493,210
18,236	31,000	49,236
6,138,941	362,588	6,501,529
6,678,580	12,528,685	19,207,265
74,557,119	295,019,666	369,576,785
\$81,235,699	\$307,548,351	\$388,784,050

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 GOVERNMENTAL FUNDS  
 BALANCE SHEET  
 AS OF JUNE 30, 2013  
 WITH SUMMARIZED TOTALS AS OF JUNE 30, 2012

	General	Flood Protection and Storm Water Drainage Development	Totals	
		Impact Fee	2013	2012
<b>ASSETS</b>				
Current assets				
Cash in county treasury (Note 2)	\$24,990,434	\$39,916,357	\$64,906,791	\$59,446,259
Accounts receivable, net	365	807,002	807,367	1,226,665
Total assets	<u>\$24,990,799</u>	<u>\$40,723,359</u>	<u>\$65,714,158</u>	<u>\$60,672,924</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued expenses	<u>\$635,820</u>	<u>\$74,828</u>	<u>\$710,648</u>	<u>\$417,372</u>
Total liabilities	<u>635,820</u>	<u>74,828</u>	<u>710,648</u>	<u>417,372</u>
<b>FUND BALANCES (Note 5)</b>				
Nonspendable:				
Encumbrances	1,638,556	962,668	2,601,224	1,594,908
Committed	22,716,423	39,685,863	62,402,286	35,956,891
Assigned				17,823,912
Unassigned				4,879,841
Total fund balances	<u>24,354,979</u>	<u>40,648,531</u>	<u>65,003,510</u>	<u>60,255,552</u>
Total liabilities and fund balances	<u>\$24,990,799</u>	<u>\$40,723,359</u>	<u>\$65,714,158</u>	<u>\$60,672,924</u>

See accompanying notes to financial statements



ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 RECONCILIATION OF  
 GOVERNMENTAL FUNDS - FUND BALANCE  
 WITH THE GOVERNMENTAL ACTIVITIES  
 STATEMENT OF NET POSITION  
 JUNE 30, 2013

	2013
TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$65,003,510
<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><b>CAPITAL ASSETS</b></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>	16,232,189
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$81,235,699

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, 2013  
 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	General	Flood Protection and Storm Water	Totals	
		Drainage Development Impact Fee	2013	2012
<b>REVENUES</b>				
Property taxes	\$5,959,083		\$5,959,083	\$5,773,050
Intergovernmental revenues	61,578		61,578	61,249
Charges for services	35,661	\$5,081,900	5,117,561	5,505,177
Interest and rentals	82,011	97,847	179,858	257,328
Other revenues	13,163	357	13,520	41,461
<b>Total revenues</b>	<b>6,151,496</b>	<b>5,180,104</b>	<b>11,331,600</b>	<b>11,638,265</b>
<b>EXPENDITURES</b>				
Salaries and employee benefits transferred from district-wide	2,157,645	473,707	2,631,352	2,243,556
Services and supplies	3,198,269	300,275	3,498,544	6,851,120
Equipment and capital structure		451,740	451,740	5,130,850
Other		2,006	2,006	88
<b>Total expenditures</b>	<b>5,355,914</b>	<b>1,227,728</b>	<b>6,583,642</b>	<b>14,225,614</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>795,582</b>	<b>3,952,376</b>	<b>4,747,958</b>	<b>(2,587,349)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>795,582</b>	<b>3,952,376</b>	<b>4,747,958</b>	<b>(2,587,349)</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>23,559,397</b>	<b>36,696,155</b>	<b>60,255,552</b>	<b>62,842,901</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$24,354,979</b>	<b>\$40,648,531</b>	<b>\$65,003,510</b>	<b>\$60,255,552</b>

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 RECONCILIATION OF THE  
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
 WITH THE  
 CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2013

2013

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 \$4,747,958

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	2,113,271
Depreciation expense is deducted from the fund balance	<u>(182,649)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$6,678,580

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$5,873,311	\$5,873,311	\$5,959,083	\$85,772
Intergovernmental revenue	54,000	54,000	61,578	7,578
Charges for services	10,000	10,000	35,661	25,661
Interest and rentals	130,118	130,118	82,011	(48,107)
Other revenue	28,690	28,690	13,163	(15,527)
<b>TOTAL REVENUES</b>	<u>6,096,119</u>	<u>6,096,119</u>	<u>6,151,496</u>	<u>55,377</u>
<b>EXPENDITURES</b>				
Salaries and benefits	1,148,163	1,148,163	2,157,645	(1,009,482)
Services and supplies	4,505,985	7,648,065	3,198,269	4,449,796
<b>TOTAL EXPENDITURES</b>	<u>5,654,148</u>	<u>8,796,228</u>	<u>5,355,914</u>	<u>3,440,314</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<u>441,971</u>	<u>(2,700,109)</u>	<u>795,582</u>	<u>3,495,691</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$441,971</u>	<u>(\$2,700,109)</u>	<u>795,582</u>	<u>\$3,495,691</u>
Fund balance, beginning of year			<u>23,559,397</u>	
Fund balance, end of year			<u>\$24,354,979</u>	

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 POSITION

JUNE 30, 2013

WITH SUMMARIZED TOTALS AS OF JUNE 30, 2012

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement	Capital Expansion
<b>ASSETS</b>				
Current assets:				
Cash in county treasury (Note 2)	\$8,642,285	\$27,674,749	\$25,091,668	\$59,750,803
Receivables, net		7,984,324	43,350	2,424,773
Prepaid deposits		90,000		
Total current assets	<u>8,642,285</u>	<u>35,749,073</u>	<u>25,135,018</u>	<u>62,175,576</u>
Noncurrent assets:				
Capital assets (Note 3), right of ways, water entitlements and construction in progress		58,959,521		
Improvements, net of depreciation		<u>143,336,170</u>		
Total noncurrent assets		<u>202,295,691</u>		
Total assets	<u>8,642,285</u>	<u>238,044,764</u>	<u>25,135,018</u>	<u>62,175,576</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses		2,586,199	154,269	31,008
Deposits				
Line of Credit (Note 4)				30,500,000
Compensated absences (Note 1J)		<u>1,144,250</u>		
Total current liabilities		<u>3,730,449</u>	<u>154,269</u>	<u>30,531,008</u>
Long-term liabilities:				
Line of Credit (Note 4)				
Total long-term liabilities				
Total liabilities		<u>3,730,449</u>	<u>154,269</u>	<u>30,531,008</u>
<b>NET POSITION (Note 5)</b>				
Net Investment in capital assets		202,295,691		
Unrestricted-designated for:				
Capital projects		8,500,000	24,980,749	31,644,568
Designated projects	8,642,285	23,518,624		
Unrestricted				
Total net position	<u>8,642,285</u>	<u>234,314,315</u>	<u>24,980,749</u>	<u>31,644,568</u>
Total liabilities and net position	<u>\$8,642,285</u>	<u>\$238,044,764</u>	<u>\$25,135,018</u>	<u>\$62,175,576</u>

See accompanying notes to financial statements

Water Facilities Trust	Water Supply Trust	Totals	
		2013	2012
\$3,550,387	\$4,752,682	\$129,462,574	\$114,231,341
		10,452,447	9,368,576
		90,000	90,000
<u>3,550,387</u>	<u>4,752,682</u>	<u>140,005,021</u>	<u>123,689,917</u>
		58,959,521	58,489,629
		143,336,170	147,161,654
		202,295,691	205,651,283
<u>3,550,387</u>	<u>4,752,682</u>	<u>342,300,712</u>	<u>329,341,200</u>
		2,771,476	2,352,560
336,635		336,635	353,039
		30,500,000	
		1,144,250	1,115,935
<u>336,635</u>		<u>34,752,361</u>	<u>3,821,534</u>
			30,500,000
			30,500,000
<u>336,635</u>		<u>34,752,361</u>	<u>34,321,534</u>
		202,295,691	205,651,283
3,213,752	4,752,682	65,125,317	37,928,558
		40,127,343	41,291,980
			10,147,845
<u>3,213,752</u>	<u>4,752,682</u>	<u>307,548,351</u>	<u>295,019,666</u>
<u>\$3,550,387</u>	<u>\$4,752,682</u>	<u>\$342,300,712</u>	<u>\$329,341,200</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, 2013  
 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement	Capital Expansion
<b>OPERATING REVENUES</b>				
Property taxes	\$9,517,243			
Water sales		\$38,130,264		
Intergovernmental revenue	68,416			
Connection and development fees			\$576,353	\$26,907,174
Charges for services		58,206	9,001	3,380
Other revenues	2,425,729	1,187,780		2,117,775
<b>Total operating revenues</b>	<b>12,011,388</b>	<b>39,376,250</b>	<b>585,354</b>	<b>29,028,329</b>
<b>OPERATING EXPENSES</b>				
Salaries, wages and benefits		12,516,864	1,105,252	491,133
Contractual services		2,408,535	2,348,825	781,429
Supplies		128,160		
Chemical purchases		1,777,427		
Water purchases	14,002,380	3,454,373		15,621,447
Water storage		2,153,424		1,343,470
Utilities		2,391,932	408	1,517
Maintenance and repairs		1,312,559		
Equipment and building rents		132,363	532,341	414,043
Office expenses		1,743,762	10,434	161,399
Risk management		335,047		
Depreciation (Note 3)		5,827,294		
Expenses capitalized			(1,609,322)	(515,841)
<b>Total operating expenses</b>	<b>14,002,380</b>	<b>34,181,740</b>	<b>2,387,938</b>	<b>18,298,597</b>
<b>Operating income (loss)</b>	<b>(1,990,992)</b>	<b>5,194,510</b>	<b>(1,802,584)</b>	<b>10,729,732</b>
<b>NONOPERATING REVENUES</b>				
Interest income and rental fees	29,454	103,628	59,543	148,503
<b>Total nonoperating revenues</b>	<b>29,454</b>	<b>103,628</b>	<b>59,543</b>	<b>148,503</b>
<b>Income (loss) before transfers</b>	<b>(1,961,538)</b>	<b>5,298,138</b>	<b>(1,743,041)</b>	<b>10,878,235</b>
Transfers in		2,283,378	6,702,981	
Transfers (out)		(6,758,215)	(1,712,303)	(515,841)
<b>Change in net position</b>	<b>(1,961,538)</b>	<b>823,301</b>	<b>3,247,637</b>	<b>10,362,394</b>
<b>Net position, beginning of year</b>	<b>10,603,823</b>	<b>233,491,014</b>	<b>21,733,112</b>	<b>21,282,174</b>
<b>Net position, end of year</b>	<b>\$8,642,285</b>	<b>\$234,314,315</b>	<b>\$24,980,749</b>	<b>\$31,644,568</b>

See accompanying notes to financial statements



Water Facilities Trust	Water Supply Trust	Totals	
		2013	2012
		\$9,517,243	\$12,017,106
		38,130,264	35,398,908
		68,416	106,194
		27,483,527	11,345,942
		70,587	129,384
\$35,431		5,766,715	5,826,774
<u>35,431</u>		<u>81,036,752</u>	<u>64,824,308</u>
		14,113,249	14,552,112
		5,538,789	5,207,898
		128,160	115,792
		1,777,427	1,854,047
		33,078,200	29,608,615
		3,496,894	2,444,072
		2,393,857	2,185,713
		1,312,559	1,183,573
		1,078,747	1,035,709
		1,915,595	2,024,648
		335,047	354,389
		5,827,294	5,793,649
		<u>(2,125,163)</u>	<u>(1,234,918)</u>
		68,870,655	65,125,299
35,431		12,166,097	(300,991)
<u>9,144</u>	<u>\$12,316</u>	<u>362,588</u>	<u>641,133</u>
<u>9,144</u>	<u>12,316</u>	<u>362,588</u>	<u>641,133</u>
<u>44,575</u>	<u>12,316</u>	<u>12,528,685</u>	<u>340,142</u>
		8,986,359	7,086,110
		<u>(8,986,359)</u>	<u>(7,086,110)</u>
<u>44,575</u>	<u>12,316</u>	<u>12,528,685</u>	<u>340,142</u>
<u>3,169,177</u>	<u>4,740,366</u>	<u>295,019,666</u>	<u>294,679,524</u>
<u>\$3,213,752</u>	<u>\$4,752,682</u>	<u>\$307,548,351</u>	<u>\$295,019,666</u>

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
 ZONE 7  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2013  
 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	State Water Project	Water Sales	Capital Improvement Renewal & Replacement
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$12,148,729	\$39,740,685	(\$31,254)
Connection and development fees			576,353
Payments to employees		(12,488,549)	(1,105,252)
Payments to suppliers	(14,002,380)	(15,107,543)	(1,558,426)
Net cash provided (used) by operating activities	(1,853,651)	12,144,593	(2,118,579)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers in		2,283,378	6,702,981
Transfers (out)		(6,758,215)	(1,712,303)
Interest income	29,454	103,628	59,543
Cash flows from noncapital financing activities	29,454	(4,371,209)	5,050,221
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of property, plant, and equipment		(2,471,702)	
Cash flows from (used for) capital and related financing activities		(2,471,702)	
Net increase (decrease) in cash and cash equivalents	(1,824,197)	5,301,682	2,931,642
Cash and investments at beginning of period	10,466,482	22,373,067	22,160,026
Cash and investments at end of period	\$8,642,285	\$27,674,749	\$25,091,668
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	(\$1,990,992)	\$5,194,510	(\$1,802,584)
Adjustments to reconcile operating income to cash flows			
Depreciation		5,827,294	
Changes in assets and liabilities			
Receivables	137,341	364,435	(40,255)
Prepaid deposits			
Accounts payable and accrued expenses		730,039	(275,740)
Compensated absences		28,315	
Deposits			
Net cash provided (used) by operating activities	(1,853,651)	\$12,144,593	(\$2,118,579)

See accompanying notes to financial statements

Capital Expansion	Water Facilities Trust	Water Supply Trust	Total	
			2013	2012
\$575,763	\$19,027		\$52,452,950	\$51,012,417
26,907,174			27,483,527	11,345,942
(491,133)			(14,084,934)	(14,588,267)
<u>(17,842,847)</u>			<u>(48,511,196)</u>	<u>(44,506,756)</u>
9,148,957	19,027		17,340,347	3,263,336
			8,986,359	7,086,110
(515,841)			(8,986,359)	(7,086,110)
148,503	9,144	\$12,316	362,588	641,133
<u>(367,338)</u>	9,144	12,316	362,588	641,133
			(2,471,702)	(1,383,544)
			(2,471,702)	(1,383,544)
8,781,619	28,171	12,316	15,231,233	2,520,925
50,969,184	3,522,216	4,740,366	114,231,341	111,710,416
<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>
\$10,729,732	\$35,431		\$12,166,097	(\$300,991)
			5,827,294	5,793,649
(1,545,392)			(1,083,871)	(2,571,810)
(35,383)			418,916	133,819
			28,315	272,782
	(16,404)		(16,404)	(36,155)
<u>\$9,148,957</u>	<u>\$19,027</u>		<u>\$17,340,347</u>	<u>\$3,263,336</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, 2013**

**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 fund.

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

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**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 and Storm Water Drainage Development Impact Fee Fund* is used for the acquisition, construction, engineering and improvement of the flood protection and /or storm water drainage elements of the Stream Management Master Plan of Zone 7, or to reduce the principal or interest of any bonded indebtedness thereof.

The 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 fees 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.

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**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 fund is the sale of water to outside customers. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***D. Cash and Cash Equivalents***

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

***E. Receivables***

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

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**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 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 and Storm Water 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, 2013**

**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, 2013, the balance of compensated absences is \$1,144,250.

***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, 2013, the District's cash and investments amounted to \$194,369,365 of which \$64,906,791 and \$129,462, 574 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, 2013, 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, 2013**

**NOTE 3 – CAPITAL ASSETS**

**A. Summary**

The following is a summary of capital assets as of June 30, 2013:

	Balance at June 30, 2012	Additions	Balance at June 30, 2013
<i>Governmental Activities</i>			
Capital assets not being depreciated:			
Rights of way	\$6,875,550		\$6,875,550
Construction in progress		\$2,113,271	2,113,271
Total capital assets not being depreciated	<u>6,875,550</u>	<u>2,113,271</u>	<u>8,988,821</u>
Capital assets being depreciated:			
Flood control channels	<u>9,939,359</u>		<u>9,939,359</u>
Total capital assets being depreciated	<u>9,939,359</u>		<u>9,939,359</u>
Less accumulated depreciation for:			
Flood control channels	<u>2,513,342</u>	182,649	<u>2,695,991</u>
Total accumulated depreciation	<u>2,513,342</u>	<u>182,649</u>	<u>2,695,991</u>
Net capital assets being depreciated	<u>7,426,017</u>	<u>(182,649)</u>	<u>7,243,368</u>
Governmental activity capital assets, net	<u>\$14,301,567</u>	<u>\$1,930,622</u>	<u>\$16,232,189</u>

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

<i>Business-Type Activities</i>	Balance at June 30, 2012	Additions and Transfers	Retirements	Balance at June 30, 2013
Capital assets not being depreciated:				
Rights of way	\$1,277,897			\$1,277,897
Water entitlements	36,655,364			36,655,364
Easements	1,293,057	\$57,033		1,350,090
Construction in progress	19,263,311	412,859		19,676,170
Total capital assets not being depreciated	<u>58,489,629</u>	<u>469,892</u>		<u>58,959,521</u>
Capital assets being depreciated:				
Equipment	2,869,024	346,540	(\$40,666)	3,174,898
Treatment plants	105,415,112	1,107,051		106,522,163
Office building	1,264,251			1,264,251
Reservoir	1,934,197			1,934,197
Pipelines	52,121,962	548,219		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	<u>200,232,089</u>	<u>2,001,810</u>	<u>(40,666)</u>	<u>202,193,233</u>
Less accumulated depreciation for:				
Equipment	2,492,801	193,890	(40,666)	2,646,025
Treatment plants	31,336,488	3,102,823		34,439,311
Office building	785,132	31,606		816,738
Reservoir	909,286	48,355		957,641
Pipelines	10,135,948	1,292,315		11,428,263
Wellfields	3,724,807	660,883		4,385,690
Supervisory Control and Data Acquisition project	3,639,249	485,233		4,124,482
Other infrastructure	46,724	12,189		58,913
Total accumulated depreciation	<u>53,070,435</u>	<u>5,827,294</u>	<u>(40,666)</u>	<u>58,857,063</u>
Net capital assets being depreciated	<u>147,161,654</u>	<u>(3,825,484)</u>		<u>143,336,170</u>
Business-Type activity capital assets, net	<u>\$205,651,283</u>	<u>(\$3,355,592)</u>		<u>\$202,295,691</u>

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

***B. Construction in Progress***

Construction in Progress at June 30, 2013 comprises the following projects:

Projects	
DV Chemical Sys/ ParkLlot Imprv	\$233,428
Del Valle Water Treatment Plant-DVWTP Sludge Handling Imprv	84,365
Cope Lake Slope Repair (15%)	265,718
DWR Land Acquisition (70%)	11,946
Del Valle Water Treatment Plant-DVWTP Aqua Ammonia Facility	6,658
Del Valle Water Treatment Plant-DVWTP Superpulsator Rehab	136,705
Del Valle Water Treatment Plant-DVWTP Filter #2 Rehab	533,900
DWR Land Acquisition (30%)	5,120
Altamont Water Treatment PlantAWTP-Site Aquis/Raw H2O T	15,522,493
Altamont Water Treatment Plant	1,334,358
Altamont Pipeline-County Reach	592,392
Arroyo Mocho/Lake H Diversion	329,079
Cope Lake Slope Repair (35%)	620,008
Total	\$19,676,170

**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 due January 1, 2014. 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, 2013 the outstanding balance for the line of credit was \$30,500,000 at an interest rate of 0.45%.

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 5 – 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 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.

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 5 – NET POSITION AND FUND BALANCES (Continued)**

*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.

**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 7.48%-14.62% of their salary of which the District contributes up to 19.86%. The Plan requires participants in Tier 2 to contribute from 5.09%-10.40% of their salary of which the District contributes up to 19.19%. 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 8.25% of their salary of which the District contributes up to 17.77%.

The actuarial accrued liability presented below was computed as part of an actuarial valuation performed as of December 31, 2012, 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 Normal Cost Method with a supplemental present value. The amortization period for the supplemental present value is 24 years, with 20 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.

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 6 – RETIREMENT PLAN (Continued)**

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
2010-2011	\$716,787	\$2,663,052	\$3,379,839
2011-2012	689,817	2,688,349	3,378,166
2012-2013	701,287	2,818,583	3,519,870

**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.

**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**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	600,000,000	50,000
Crime	10,000,000	2,500
Pollution	10,000,000	500,000

**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. \$399,762 was paid for the year ended June 30, 2013.

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.



**ALAMEDA COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT – ZONE 7  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 9 - COMMITMENT AND CONTINGENT LIABILITIES (Continued)**

***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, 2013, the District paid \$1,143,017. A schedule of future rents is as follows:

For the Year Ending June 30	Lease Obligation
2014	\$1,165,901
2015	1,189,198
2016	1,212,958
2017	1,237,241
2018	1,262,026
2019-2021	2,046,750
Totals	\$8,114,074

**NOTE 10 – SUBSEQUENT EVENT**

On July, 17 2013 the Board of Directors authorized the General Manager to enter into a land purchase contract in an amount not to exceed \$19,000,000 for the purchase of 5,000 acres of land adjacent to the California Department of Water Resource’s Lake Del Valle property for watershed protection purposes. The purchase of the land was completed on August, 1 2013 for \$18,570,000.

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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, 2013**

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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, 2013**

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## 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, 2013, 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. However, material weaknesses may exist that have not been identified.

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

A handwritten signature in black ink that reads 'Maze & Associates' in a cursive script.

September 25, 2013

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## REQUIRED COMMUNICATIONS

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

We have audited the basic financial statements of the Alameda County Flood Control and Water Conservation District – Zone 7 (the District) for the year ended June 30, 2013. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards.

### Significant Audit Findings

#### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are included in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. The following pronouncements became effective, but did not have a material effect on the financial statements:

GASB 60 - *Accounting and Financial Reporting for Service Concession Arrangements*

GASB 61 - *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34.*

GASB 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

The following pronouncements became effective, and required a format change in the Statement of Net Assets and certain nomenclature revisions in the footnotes accompanying the financial statements

GASB 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB 65 - *Elements of Financial Statements*

#### *Unusual Transactions, Controversial or Emerging Areas*

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### ***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 significantly from those expected. The most sensitive estimates affecting the District's financial statements are depreciation and claims liability.

Management's estimate of depreciation is based on the estimated useful lives of the capital assets and its estimate of claims is based on the District Attorney's estimates of current and potential litigation. We evaluated the key factors and assumptions used to develop the depreciation expense and claims liability and reviewed the current actuary study and determined that they are reasonable in relation to the basic financial statements taken as a whole.

### ***Disclosures***

The financial statement disclosures are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all/certain such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in a management representation letter dated September 25, 2013.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***Other Matters***

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

\*\*\*\*\*

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

Very truly yours,

A handwritten signature in cursive script that reads "Mage + Associates".

September 25, 2013

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