



Lou Ann Texeira
 Executive Officer

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 Martin McNair
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 Special District Member

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 Public Member

George H. Schmidt
 Special District Member

Mary N. Piepho
 County Member

Don Tatzin
 City Member

October 21, 2008 (Agenda)

Contra Costa Local Agency Formation Commission
 651 Pine Street, Sixth Floor
 Martinez, CA 94553

Financial Audit for Fiscal Year 2006-07

Dear Members of the Commission:

RECOMMENDATION

It is recommended that the Commission receive and file the enclosed audit report for the fiscal year ending June 30, 2007.

DISCUSSION

Since the LAFCO budget is no longer part of the County General Fund, where it was included in the County's financial audit, it is important that a separate financial audit of the LAFCO finances be conducted.

The independent auditing firm of R.J. Ricciardi, Inc. prepared the LAFCO financial audit for FY 2006-07. The audit was conducted in accordance with the generally accepted auditing standards as specified in the report.

The report found no material weaknesses and does not propose any changes in how the Commission or staff account for or manage financial resources. The auditors identified no current year observations.

Special thanks are extended to the County Auditor-Controller's Office and LAFCO Executive Assistant Kate Sibley for their assistance in providing R.J. Ricciardi, Inc. with the needed financial information.

Please contact the LAFCO office if you have any questions.

Sincerely,

LOU ANN TEXEIRA
 EXECUTIVE OFFICER

Enclosure

c: R.J. Ricciardi, Inc. CPAs
 Bob Campbell, County Auditor's Office

CONTRA COSTA LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT REPORT

**For the Year Ended
JUNE 30, 2007**

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R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

Commissioners
Contra Costa Local Agency Formation Commission
Martinez, California


In planning and performing our audit of the basic financial statements of the Contra Costa Local Agency Formation Commission (LAFCO) for the fiscal year ended June 30, 2007, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist LAFCO in implementing the recommendations.

This report is intended solely for the information and use of management, the Commissioners, and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank LAFCO's staff for its cooperation during our audit.



R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
October 2, 2008

Contra Costa Local Agency Formation Commission
MANAGEMENT REPORT
For the Year Ended June 30, 2007

We have audited the basic financial statements of LAFCO for the year ended June 30, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of LAFCO. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by LAFCO are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by LAFCO during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's 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 basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining they are reasonable in relation to the basic financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on LAFCO's financial reporting process (that is, cause future basic financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, either individually or in the aggregate, indicate matters that could have a significant effect on LAFCO's financial reporting process.

Contra Costa Local Agency Formation Commission
MANAGEMENT REPORT
For the Year Ended June 30, 2007

Disagreements with Management

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

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 LAFCO's basic 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.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

Contra Costa Local Agency Formation Commission
MANAGEMENT REPORT
For the Year Ended June 30, 2007

Current Year Observations

There were no current year observations.

Prior Year Observations

1) Payroll Reconciliation

Observation:

During the course of the audit it was noted that journal entries to record payroll expenses from Contra Costa County's accounting system are not done on a regular basis. It is imperative that the Board of Commissioners receive correct financial information throughout the year.

Recommendation:

We recommend that LAFCO make the entry to record payroll on a quarterly or monthly basis.

Status:

This recommendation was resolved when LAFCO officially separated its payroll from the County in fiscal year 2007-08.

CONTRA COSTA LOCAL AGENCY FORMATION COMMISSION

MARTINEZ, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

Commissioners
Contra Costa Local Agency Formation Commission
Martinez, California

We have audited the accompanying basic financial statements of the governmental activities and the major fund of Contra Costa Local Agency Formation Commission (LAFCO) as of June 30, 2007 and for the fiscal year then ended, as listed in the table of contents. These basic financial statements are the responsibility of LAFCO's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the financial position of the governmental activities and the major fund of LAFCO as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Management's Discussion and Analysis (page 2-5) and the required supplementary information (page 14) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
October 2, 2008

Contra Costa Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

This section of LAFCO's basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2007. We encourage the reader to consider the information presented here in conjunction with the basic financial statements as a whole.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to LAFCO's audited financial statements, which are comprised of the basic financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*. The Single Governmental Program for Special Purpose Governments reporting model is used which best represents the activities of LAFCO.

The required financial statements include the Combined Government-wide and Fund Financial statements; Statement of Net Assets and Governmental Funds Balance Sheet; Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances; and the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-All Governmental Fund Types.

These statements are supported by notes to the basic financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of LAFCO.

The Basic Financial Statements

The Basic Financial Statements comprise the Combined Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of LAFCO's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of LAFCO's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of LAFCO as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of LAFCO's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of LAFCO's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of LAFCO's activities are grouped into Government Activities, as explained below.

The Fund Financial Statements report LAFCO's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of LAFCO's Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of LAFCO and are presented individually. Major Funds are explained below.

The Government-wide Financial Statements

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of LAFCO as a whole.

The Statement of Net Assets and the Statement of Activities present information about the following:

Contra Costa Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Governmental Activities – LAFCO's basic services are considered to be governmental activities. These services are supported by specific general revenues from local agencies.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of LAFCO's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Major Funds present the major activities of LAFCO for the year, and may change from year to year as a result of changes in the pattern of LAFCO's activities.

In LAFCO's case, there is only one Major Governmental Fund.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented for the General Fund.

Analyses of Major Funds

Governmental Funds

General Fund revenue increased this fiscal year due primarily to and increases in revenue to cover the cost of municipal service reviews. Actual revenues were more than budgeted amounts by \$27,822 due an increase in application activity.

General Fund expenditures were \$578,555, an increase of \$173,909 from the prior year primarily due to Municipal service review costs. Expenditures were \$120,980 less than budgeted due to the timing of municipal service reviews and service contracts.

Governmental Activities

Table 1
Governmental Net Assets

| | 2007 Governmental Activities | 2006 Governmental Activities |
|----------------------------------|------------------------------------|------------------------------------|
| Cash and investments | \$ 292,833 | \$ 185,290 |
| Total assets | <u>292,833</u> | <u>185,290</u> |
| Accounts payable | 15,085 | 12,757 |
| Due to other government agencies | 43,308 | 57,594 |
| Total liabilities | <u>58,393</u> | <u>70,351</u> |
| Net assets | | |
| Unrestricted | 234,440 | 114,939 |
| Total net assets | <u>\$ 234,440</u> | <u>\$ 114,939</u> |

Contra Costa Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

LAFCO's governmental net assets amounted to \$234,440 as of June 30, 2007, an increase of \$119,500 from 2006. This increase is the Change in Net Assets reflected in the Statement of Activities shown in Table 2. LAFCO's net assets as of June 30, 2007 comprised the following:

- Cash and investments comprised \$292,833 of cash on deposit with the Contra Costa County Treasury.
- Accounts payable totaling \$15,085.
- Due to other government agencies totaling \$43,308.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. LAFCO had \$234,440 of unrestricted net assets as of June 30, 2007.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Assets summarized below.

Table 2
Changes in Governmental Net Assets

| | 2007 Governmental Activities | 2006 Governmental Activities |
|-----------------------------|------------------------------------|------------------------------------|
| <u>Expenses</u> | | |
| Services and supplies | \$ 578,555 | \$ 404,646 |
| Total expenses | 578,555 | 404,646 |
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for Services | 70,410 | 53,073 |
| Total program revenues | 70,410 | 53,073 |
| General revenues: | | |
| Intergovernmental | 627,645 | 279,910 |
| Total general revenues | 627,645 | 279,910 |
| Total revenues | 698,055 | 332,983 |
| <u>Change in net assets</u> | \$ 119,500 | \$ (71,663) |

As Table 2 above shows, \$70,410, or 10% of LAFCO's fiscal year 2007 governmental revenue, came from program revenues and \$627,645, or 90%, came from general revenues such as contributions from local agencies.

Program revenues were composed of Boundary Proposal Fees of \$70,410.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Capital Assets

LAFCO has no capital assets.

Contra Costa Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Debt Administration

LAFCO does not utilize long-term debt to fund operations or growth.

Economic Outlook and Major Initiatives

Financial planning is based on specific assumptions from recent trends, State of California economic forecasts and historical growth patterns in the various communities served by LAFCO.

The economic condition of LAFCO as it appears on the balance sheet reflects financial stability and the potential for organizational growth. LAFCO continues to be encouraged by development throughout its boundaries. LAFCO will continue to maintain a watchful eye over expenditures and remain committed to sound fiscal management practices to deliver the highest quality service to the citizens of the area.

Contacting LAFCO's Financial Management

The basic financial statements are intended to provide citizens, taxpayers, and creditors with a general overview of LAFCO's finances. Questions about this Report should be directed to Contra Costa Local Agency Formation Commission, 651 Pine Street, Martinez, California 94553.

Contra Costa Local Agency Formation Commission
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
 June 30, 2007

| | General | Adjustments | Statement of Net Assets |
|--------------------------------------|------------|-------------|----------------------------|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 292,833 | \$ - | \$ 292,833 |
| Total assets | \$ 292,833 | - | 292,833 |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ 15,086 | - | 15,086 |
| Due to other governments | 43,308 | - | 43,308 |
| Total liabilities | 58,394 | - | 58,394 |
| <u>FUND BALANCES/NET ASSETS</u> | | | |
| Fund balances: | | | |
| Unreserved fund balance | 234,439 | (234,439) | - |
| Total fund balances | 234,439 | (234,439) | - |
| Total liabilities, and fund balances | \$ 292,833 | | |
| Net assets: | | | |
| Unrestricted | | 234,439 | 234,439 |
| Total net assets | | \$ 234,439 | \$ 234,439 |

The accompanying notes are an integral part of these financial statements.

Contra Costa Local Agency Formation Commission
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
For the period ended June 30, 2007

| | <u>General</u> | <u>Adjustments</u> | <u>Statement of Net Assets</u> |
|------------------------------------------------------------------------------------------------|-------------------|--------------------|------------------------------------|
| Expenditures/expenses: | | | |
| Services and supplies | \$ 578,555 | \$ - | \$ 578,555 |
| Total expenditures/expenses | <u>578,555</u> | <u>-</u> | <u>578,555</u> |
| Program revenues: | | | |
| Charges for services | <u>70,410</u> | <u>-</u> | <u>70,410</u> |
| Net program expense | | | <u>(508,145)</u> |
| General revenues: | | | |
| Intergovernmental | <u>627,645</u> | <u>-</u> | <u>627,645</u> |
| Total general revenues and transfers | <u>627,645</u> | <u>-</u> | <u>627,645</u> |
| Excess (deficiency) of revenues and transfer in over (under) expenditures and transfers out | 119,500 | (119,500) | - |
| Changes in net assets | - | 119,500 | 119,500 |
| Fund balance/Net assets at beginning of period | <u>114,939</u> | <u>-</u> | <u>114,939</u> |
| Fund balance/Net assets at end of period | <u>\$ 234,439</u> | <u>\$ -</u> | <u>\$ 234,439</u> |

The accompanying notes are an integral part of these financial statements.

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - REPORTING ENTITY

A. Organization of LAFCO

The LAFCO was formed in 1963. LAFCO is responsible for coordinating logical and timely changes in local government boundaries, conducting special studies that review ways to reorganize, simplify, and streamline governmental structure, and preparing a sphere of influence for each city and special district within its county. LAFCO's efforts are directed toward seeing that services are provided efficiently and economically while agricultural and open-space lands are protected. LAFCO also conducts service reviews to evaluate the provision of municipal services within its county.

B. Principles that Determine the Scope of Reporting Entity

LAFCO consists of seven members and exercises the powers allowed by state statutes. This follows section 56325 of the Government Code. The basic financial statements of LAFCO consist only of the funds of LAFCO. LAFCO has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by, or dependent on, LAFCO.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

LAFCO's basic financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

LAFCO has chosen to present its basic financial statements using the reporting model for special purpose governments engaged in a single government program.

This model allows the fund financial statements and the government-wide statements to be combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements rather than at the bottom of the statements or in an accompanying schedule.

Government-wide Financial Statements

LAFCO's financial statements reflect only its own activities; it has no component units. The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through intergovernmental revenues and charges for services.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of LAFCO'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 charges paid by the recipients of goods and services offered by the program. Revenues that are not classified as program revenues, including all intergovernmental revenues, are presented as general revenues.

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation (concluded)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. General Fund operations are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate. LAFCO's resources are accounted for based on the purposes for which they are to be spent and the means by which spending activities are controlled. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of LAFCO or meets the following criteria: Total assets, liabilities, revenues or expenditures (or expenses) of the individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type. The General Fund is always a major fund.

Governmental Funds

General Fund: This is the operating fund of LAFCO. The major revenue source for this fund is intergovernmental revenues. Expenditures are made for intergovernmental revenues projects and administration.

B. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *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.

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." LAFCO considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are intergovernmental, certain charges for services and interest revenue. Charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which LAFCO gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed.

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

B. Basis of Accounting (concluded)

LAFCO may fund programs with a combination of charges for services and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. LAFCO's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

C. LAFCO Budget

Pursuant to Section 56381, et seq of the Government Code, LAFCO adopts a preliminary budget by May 1 and a final budget by June 15 of each year.

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Budget/actual comparisons in this report use this budgetary basis. These budgeted amounts are as originally adopted or as amended by LAFCO. Individual amendments were not material in relation to the original appropriations that were amended.

D. Property, Plant and Equipment

LAFCO currently has no fixed assets.

E. Compensated Absences

Compensated absences are comprised of unpaid vacation. Vacation and sick time are accrued as earned. Contra Costa County is responsible for LAFCO's compensated absences liability.

NOTE 3 - CASH AND INVESTMENTS

LAFCO's cash is maintained with the Contra Costa County Treasury in a non-interest bearing account. LAFCO's cash on deposit with the Contra Costa County Treasury at June 30, 2007 was \$292,833.

Credit Risk, Carrying Amount and Market Value of Investments

LAFCO maintains specific cash deposits with Contra Costa County. Contra Costa County is restricted by state code in the types of investments it can make. Furthermore, the Contra Costa County Treasurer has a written investment policy, approved by the Board of Supervisors, which is more restrictive than state code as to terms of maturity and type of investment. Also, Contra Costa County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134. In addition, LAFO has its own investment policy as well.

Contra Costa County's investment policy authorizes Contra Costa County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. At June 30, 2007, LAFCO's cash with the Contra Costa County Treasurer was maintained in a non-interest bearing account.

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE 4 - HEALTH INSURANCE

LAFCO's health care benefits for active employees are covered under the Contra Costa County plan. The County of Contra Costa's plan is as follows:

Most employees have a choice of participation in five medical plans: Kaiser Permanente, a private health maintenance organization (HMO); Health Net (HMO); Health Net preferred provider organization (PPO); and the Contra Costa Health Plans (CCHP) A and B, operated by the Contra Costa County Health Services Department.

For Non-CalPERS administered medical plans, the County subvents 80.0 percent of Kaiser, 80.0 percent of Health Net (HMO), 58.0 percent of Health Net (PPO) and 98.0 percent of CCHP A and 90.0 percent of CCHP B premiums for plan members. All permanent employees have a choice of two dental plans: a Contra Costa County self-funded plan administered by Delta Dental, and a PMI Delta Care Plan. The Contra Costa County's self-funded plan is an indemnity program and the PMI Delta Care plan is a prepaid program.

See the basic financial statements for the County of Contra Costa for disclosures related to risk management and employee health care benefits.

NOTE 5 - USE OF ESTIMATES

The basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

NOTE 6 - CONTINGENCIES

LAFCO is involved in various claims and litigation arising in the ordinary course of business. LAFCO management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of such matters should not have a materially adverse effect on LAFCO's financial position or results of operations.

NOTE 7 - FUND EQUITY

A. Fund Balances, Reserves and Designations

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

B. Reserves

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity that provided the funds. LAFCO cannot modify or remove these restrictions or reserves.

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 - FUND EQUITY (concluded)

C. Designations

A portion of the unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period. Designations are imposed by LAFCO to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action.

D. Net Assets

Net Assets is the excess of all LAFCO's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement No. 34. These captions apply only to Net Assets, which is determined only at the government-wide level, and are described below:

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

Restricted describes the portion of Net Assets that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that LAFCO cannot unilaterally alter.

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

All of LAFCO's Net Assets are unrestricted.

NOTE 8 - PENSION PLAN

A LAFCO employee is eligible to participate in pension plans offered by Contra Costa County Employee Retirement Association (CCCERA), a cost sharing multiple employer defined benefit pension plan (the Plan) which acts as a common investment and administrative agent for its participating member employers. CCCERA provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefit provisions under the Plan are established by State statute and County resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of December 31 by CCCERA; LAFCO must contribute these amounts.

A LAFCO employee will pay actuarially required contributions. Retirement age varies and is based on different criteria, described as follows: any time, regardless of age, if the employee has 30 or more years of retirement service credit; any time after age 50, if the employee has 10 or more years of retirement service credit; at age 65, if the employee was a member on or before December 31, 1978; at age 70, regardless of years of retirement service credit.

CCCERA determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, LAFCO's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost.

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

NOTE 8 - PENSION PLAN (concluded)

Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the pension benefit obligation.

CCCERA uses the market related value method of valuing the Plan's assets. The December 2005 valuation conducted by Segal included an assumed investment rate of return of 7.9%, including inflation at 3.75%. Annual salary increases are assumed to vary by duration of service. LAFCO's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period ends January 1, 2023.

CCCERA financial statements can be obtained at the Contra Costa County Employees Retirement Association, 1355 Willow Way, Suite 221, Concord, California 94520.

Contra Costa Local Agency Formation Commission
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

Required Supplemental Information
 Budget and Actual
 General Fund (unaudited)
 For the period ended June 30, 2007

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|-----------------------------------------------|--------------------------------------|-------------------|-------------------------------------------|
| Revenue: | | | |
| Intergovernmental | \$ 616,202 | \$ 627,645 | \$ 11,443 |
| Charges for services | <u>54,031</u> | <u>70,410</u> | <u>16,379</u> |
| Total revenue | <u>670,233</u> | <u>698,055</u> | <u>27,822</u> |
| Expenditures: | | | |
| Salaries and benefits | 283,416 | 292,003 | (8,587) |
| Services and supplies | <u>416,119</u> | <u>286,552</u> | <u>129,567</u> |
| Total expenditures | <u>699,535</u> | <u>578,555</u> | <u>120,980</u> |
| Excess (deficit) of revenue over expenditures | <u>\$ (29,302)</u> | 119,500 | <u>\$ 148,802</u> |
| Fund balance, beginning of period | | <u>114,939</u> | |
| Fund balance, end of period | | <u>\$ 234,439</u> | |

The accompanying notes are an integral part of these basic financial statements.