

**SONOMA COUNTY
LOCAL AGENCY FORMATION COMMISSION**

**ANNUAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2007 AND 2006**

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LOCAL AGENCY FORMATION COMMISSION**

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For the Fiscal Year Ended
June 30, 2007 and 2006**

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RODNEY A. DOLE
AUDITOR-CONTROLLER
TREASURER -TAX COLLECTOR



DONNA M. DUNK
ASSISTANT
AUDITOR-CONTROLLER

ROBERT BOITANO
ASSISTANT
TREASURER

PAM JOHNSTON
ASSISTANT
TAX COLLECTOR / AUDITOR

Sonoma County Local Agency Formation Commission
Santa Rosa, CA

Auditor-Controller's Report

We have audited the accompanying financial statements of the Sonoma County Local Agency Formation Commission (the Commission), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on the 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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note III.C of the Notes to the Basic Financial Statements, the Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

In our opinion, except for the effects, if any, of the impairment to auditor independence, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2007 and 2006 and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by the Government 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.

Sonoma County Auditor-Controller

June 27, 2008

Management's Discussion and Analysis

As management of the Local Agency Formation Commission of the County of Sonoma (the Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal years that ended June 30, 2006 and 2007. We encourage readers to consider the information presented here in conjunction with the Commission's financial statements and the accompanying notes to the basic financial statements.

Financial Highlights

- The assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by \$45,509 (net assets). Of this amount, \$45,509 (unrestricted net assets) may be used to meet the Commission's ongoing obligations.
- The Commission's total net assets increased by \$6,676. This increase is in part a result of higher revenues received from processing fees than were projected.
- As of the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of \$45,509, an increase of \$6,676, in comparison with the prior year. The entire amount (\$45,509) is available for spending at the Commission's discretion (unreserved fund balance).
- As of the close of the fiscal year, June 30, 2007, unreserved fund balance for the general fund was \$45,509, or 14%, of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements comprise three components: 1) government-wide financial statements, 2) governmental fund financial statements, and 3) notes to the basic financial statements. The Commission uses a general fund (i.e. a type of governmental fund) to account for all activities.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of activities presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Governmental fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of near-term financing decisions.

As mentioned before, the Commission uses a governmental fund to account for its activities. The Commission adopts an annual appropriated budget for its fund. Budgetary comparison schedules have been provided on pages 16 and 17 for the general fund to demonstrate compliance with this budget.

The basic financial statements can be found on pages 6 – 9 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 10 – 15 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an agency's financial position. In the case of the Commission, assets exceeded liabilities by \$45,509 at the close of the most recent fiscal year. The entire balance of unrestricted net assets (\$45,509) may be used to meet the Commission's ongoing obligations.

Net Assets

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 46,057	39,167
Total assets	<u>46,057</u>	<u>39,167</u>
Current liabilities	548	334
Total liabilities	<u>548</u>	<u>334</u>
Net assets:		
Unrestricted	<u>45,509</u>	<u>38,833</u>
Total net assets	<u>\$ 45,509</u>	<u>38,833</u>

At the end of the current fiscal year, the Commission is able to report a positive balance in the category of net assets. The same held true for the prior fiscal year.

Governmental activities. Governmental activities increased the Commission’s net assets by \$6,676. This increase is due in part to greater revenues received from processing fees than were projected.

Changes in Net Assets

	2007	2006
Program Revenues:		
Charges for services	\$ 74,715	\$ 28,018
General Revenues:		
Intergovernmental	255,178	241,343
Investment earnings	9,799	6,492
Total revenues	339,692	275,853
Program Expenses:		
Salaries and benefits	227,160	202,786
Service and supplies	105,856	84,370
Total expenses	333,016	287,156
Change in net assets	6,676	(11,303)
Net assets, beginning of the year	38,833	50,136
Net assets, end of the year	\$ 45,509	\$ 38,833

Financial Analysis of the Commission’s Fund

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental funds. The focus of the Commission’s governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commission’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Commission’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Commission’s governmental fund reported an ending fund balance of \$45,509, an increase of \$6,676 in comparison with the prior year. The full amount of fund balance constitutes unreserved fund balance, which is available for spending at the Commission’s discretion.

The general fund is the only fund of the Commission. At the end of the current fiscal year, unreserved fund balance of the general fund was \$45,509. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 14% of total general fund expenditures.

General Fund Budgetary Highlights

Material differences between the original budget and the final amended budget as of June 30, 2007 can be briefly summarized as follows:

- \$15,000 increase in legal services due to legal costs associated with defending a lawsuit against the Commission and legal work on a major reorganization proposal.
- \$10,000 increase in county services due to a change in status, from "permanent" to "extra-help," and higher salary of the executive officer position.
- \$18,870 increase in relocation expense due to payment of the Commission's share of the costs of relocating the LAFCO office.

Economic Factors and Next Year's Budgets and Rates

- Economic factors in communities within the County and staffing available in cities and districts for processing applications impact applications to LAFCO. The Commission has no control over the number or types of applications submitted for consideration or when they are submitted. As examples, for FY 2005-06, revenues from processing fees totaled less than \$17,000 while, between July 1, 2006 and June 30, 2007, more than \$71,000 was received from such fees. Because of this variability, the Commission projects and budgets revenues from processing fees conservatively. The executive officer's retirement in February 2007 and subsequent re-hiring as "extra-help" staff for a transition period resulted in higher salary/benefit and services and supplies costs than had been anticipated during 2006-07. This transition was projected to extend into 2007-08, with accompanying costs.
- Legal services expenditures in FY 2006-07 reflected, among other charges, costs associated with defending a lawsuit against the Commission and extensive legal work required in processing a major reorganization proposal. Legal work on expected proposals was anticipated at a similar level during the next year.

All of these factors were considered in preparing the Commission's budget for the fiscal year ending June 30, 2008.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma Local Agency Formation Commission, 575 Administration Drive, Room 104A, Santa Rosa, California 95403.

LOCAL AGENCY FORMATION COMMISSION
Comparative Statement of Net Assets
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash and investments	\$ 46,057	\$ 28,985
Accounts receivable	<u>-</u>	<u>10,182</u>
Total assets	<u>46,057</u>	<u>39,167</u>
Liabilities		
Accounts payable	<u>548</u>	<u>334</u>
Total liabilities	<u>548</u>	<u>334</u>
Net Assets		
Unrestricted	<u>45,509</u>	<u>38,833</u>
Total net assets	<u>\$ 45,509</u>	<u>\$ 38,833</u>

The notes to the basic financial statements are an integral part of this statement.

LOCAL AGENCY FORMATION COMMISSION
Comparative Statement of Activities
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Program Expenses		
Salaries and benefits	\$ 227,160	\$ 202,786
Services and supplies	<u>105,856</u>	<u>84,370</u>
Total program expenses	<u>333,016</u>	<u>287,156</u>
 Program Revenues		
Charges for services	<u>74,715</u>	<u>28,018</u>
Net program revenues (expenses)	<u>(258,301)</u>	<u>(259,138)</u>
 General Revenues		
Intergovernmental	255,178	241,343
Investment earnings	<u>9,799</u>	<u>6,492</u>
Total general revenues	<u>264,977</u>	<u>247,835</u>
 Change in net assets	6,676	(11,303)
Net assets, beginning of year	<u>38,833</u>	<u>50,136</u>
Net assets, end of year	<u>\$ 45,509</u>	<u>\$ 38,833</u>

The notes to the basic financial statements are an integral part of this statement.

LOCAL AGENCY FORMATION COMMISSION
Comparative Balance Sheet
Governmental Fund
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash and investments	\$ 46,057	\$ 28,985
Accounts receivable	0	10,182
Total assets	<u>\$ 46,057</u>	<u>\$ 39,167</u>
 Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$ 548	\$ 334
Total liabilities	<u>548</u>	<u>334</u>
 Fund balance:		
Unreserved	<u>45,509</u>	<u>38,833</u>
Total fund balance	<u>45,509</u>	<u>38,833</u>
Total liabilities and fund balance	<u>\$ 46,057</u>	<u>\$ 39,167</u>

The notes to the basic financial statements are an integral part of this statement.

LOCAL AGENCY FORMATION COMMISSION
Comparative Statement of Revenues,
Expenditures and Changes in Fund Balance
Governmental Fund
For the Fiscal Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Investment earnings	\$ 9,799	\$ 6,492
County, Cities & Special Districts	255,178	241,343
Legal service & Process Fees	<u>74,715</u>	<u>28,018</u>
Total revenues	<u>339,692</u>	<u>275,853</u>
 Expenditures		
Salaries and benefits	227,160	202,786
Services and supplies	<u>105,856</u>	<u>84,370</u>
Total expenditures	<u>333,016</u>	<u>287,156</u>
Excess (deficiency) of revenue over (under) expenditures	<u>6,676</u>	<u>(11,303)</u>
Net change in fund balances	6,676	(11,303)
Fund balance, beginning of year	<u>38,833</u>	<u>50,136</u>
Fund balance, end of year	<u>\$ 45,509</u>	<u>\$ 38,833</u>

The notes to the basic financial statements are an integral part of this statement.

LOCAL AGENCY FORMATION COMMISSION
Notes to the Basic Financial Statements
June 30, 2007 and 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Local Agency Formation Commission (the Commission) is an independent agency established under Government Code Section 56000, et seq, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The Commission is responsible for reviewing, approving or disapproving changes in organization to cities and special districts including annexations, detachments, new formations and incorporations. The Commission is comprised of seven members serving four year terms: two mayors or city council members, two members of the Board of Supervisors, two independent special district members and one member of the public.

The Commission uses the County's Financial Accounting Management Information System (FAMIS) and its budgetary recording and accounting control policies to account for all financial transactions affecting the Commission. The County, through the Auditor-Controller-Treasurer Tax Collector's Office tracks billing and collections for apportionments. The responsibility for the financial statements rests with the Commission's management and Commissioners.

The Commission pays the County of Sonoma for various services. Services include, legal counsel, accounting staff, management and support staff, and as requested by the Commission, reasonable and necessary services from other County departments.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which are supported by intergovernmental revenues, are reported separately.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or section and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

LOCAL AGENCY FORMATION COMMISSION
Notes to the Basic Financial Statements
June 30, 2007 and 2006

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide 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 when a liability is incurred, regardless of the timing of the related cash flows. Apportionments are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements 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. Interest and charges for services are accrued when receipt occurs within 365 days of the end of the accounting period so as to be both measurable and available. Application fees and other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Amounts recorded as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) allocations collected from cities, independent special districts and the County of Sonoma. Internally dedicated resources are reported as general revenues rather than program revenues.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

The Commission reports cash invested in the Sonoma County Treasury external investment pool at fair value in the balance sheet and recognizes the corresponding change in the fair value of investments in the year in which the change occurred.

2. Liabilities

The accounts payable balance consists of amounts owed to vendors and other governments for which invoices were not received and/or paid as of year end.

3. Net Assets

Net assets are classified into three components – 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. These classifications are defined as follows:

LOCAL AGENCY FORMATION COMMISSION
Notes to the Basic Financial Statements
June 30, 2007 and 2006

- Invested in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted net assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This category represents net assets of the entity, not restricted for any project or other purpose.

4. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Implementation of Governmental Accounting Standards Board (GASB) Statements

Effective July 1, 2005, the Commission implemented the following new GASB Statements:

GASB Statement No. 42

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 46

GASB No. 46 - *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34* in December 2004. This statement clarifies the definition of a legally enforceable enabling legislation restriction, specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated, and requires governments to disclose the portion of total net assets that is restricted by enabling legislation. GASB No. 46 is effective for financial statements for periods beginning after June 15, 2005.

LOCAL AGENCY FORMATION COMMISSION
Notes to the Basic Financial Statements
June 30, 2007 and 2006

II. DETAILED NOTES

A. Cash and Investments

Investment in the Sonoma County Treasurer's Investment Pool

The Commission's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for the Commission. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

As of June 30, 2007 and 2006, the Commission's share of the decrease in fair value of investments was \$28 and \$68, respectively.

Investment Guidelines

The Commission's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100-F, Santa Rosa, California, 95403-2871.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming

LOCAL AGENCY FORMATION COMMISSION
Notes to the Basic Financial Statements
June 30, 2007 and 2006

close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2007, approximately 69 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 4 percent had a maturity of more than five years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

LOCAL AGENCY FORMATION COMMISSION
Notes to the Basic Financial Statements
June 30, 2007 and 2006

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2007 Sonoma County CAFR

B. Intergovernmental revenue

Intergovernmental revenue is received from the County of Sonoma, cities and independent special districts. Sonoma LAFCO's net operating costs are apportioned to these governmental organizations according to the following; 40% to be paid by the County of Sonoma, 40% to be paid by cities, and 20% to be paid by independent special districts.

III. OTHER INFORMATION

A. Risk Management

The Local Agency Formation Commission is an independent legal entity. The County employees who manage the Commission are covered under the County of Sonoma's risk management program.

The County's self-insurance coverage is as follows: \$300,000 per occurrence for workers' compensation claims, \$750,000 per occurrence for automobile and general liability claims. The County is entirely self-insured for unemployment claims. The County has established an internal service fund to account for the eventual settlement of lawsuits and claims.

The County participates in the CSAC Excess Insurance Authority (CSAC EIA) excess liability insurance program. The County is covered under this program for \$750,000 to \$15,000,000 per occurrence for liability claims. Amounts in excess of \$300,000 per occurrence for workers' compensation claims within statutory limits are maintained through participation in the CSAC EIA - Excess Workers' Compensation Program. The County maintains "All Risk" coverage for physical loss and damage including flood and earthquake coverage through participation in the CSAC EIA with the following limits and deductibles: \$400,000 per occurrence and \$50,000 deductible for "All-Risk" and flood, earthquake deductible at \$500,000 per occurrence. Boiler and machinery coverage is included in the "All-Risk" coverage.

The County pays an annual basic premium for excess coverage and is assessed an annual risk premium based on an actuarial review that estimates each of the

LOCAL AGENCY FORMATION COMMISSION
Notes to the Basic Financial Statements
June 30, 2007 and 2006

program's participants' ultimate liabilities. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

B. Fund Balance

In fiscal year 2005-06, the Commission applied unreserved/undesignated fund balance in the amount of \$15,000, as a credit to offset County, Cities and Special Districts apportionments.

C. Auditor Independence

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. Specifically, "Auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant or material to the subject matter of the audit." Although the office of the Auditor-Controller is statutorily obligated to maintain accounts of departments, districts or funds that are contained within the County Treasury, we believe that adequate safeguards and divisions of responsibility exist. Therefore, we believe that subject to this qualification and disclosure, the reader can rely on the auditor's opinion contained in this report.

LOCAL AGENCY FORMATION COMMISSION
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budgets and Actual - Governmental Fund
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
Revenues				
Investment earnings	\$ 4,500	\$ 4,500	\$ 9,799	\$ 5,299
County, Cities & Special Districts	256,631	256,631	255,178	(1,453)
Legal service & Process Fees	32,000	32,000	74,715	42,715
	<u>293,131</u>	<u>293,131</u>	<u>339,692</u>	<u>46,561</u>
Expenditures				
Current:				
Salaries and benefits	0	0	227,160	(227,160)
Services and supplies	293,131	337,001	105,856	231,145
	<u>293,131</u>	<u>337,001</u>	<u>333,016</u>	<u>3,985</u>
Excess of revenues over (under) expenditures	<u>0</u>	<u>(43,870)</u>	<u>6,676</u>	<u>50,546</u>
Net Change in Fund Balance, Budgetary/GAAP Basis	<u>\$ 0</u>	<u>\$ (43,870)</u>	<u>\$ 6,676</u>	<u>\$ 50,546</u>

The notes to required supplementary information are an integral part of this schedule.

LOCAL AGENCY FORMATION COMMISSION
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budgets and Actual - Governmental Fund
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u> Amounts	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
Revenues				
Investment earnings	\$ 3,000	\$ 3,000	\$ 6,492	\$ 3,492
County, Cities & Special Districts	241,344	241,344	241,343	(1)
Legal service & Process Fees	32,000	32,000	28,018	(3,982)
	<u>276,344</u>	<u>276,344</u>	<u>275,853</u>	<u>(491)</u>
Expenditures				
Current:				
Salaries and benefits	0	0	202,786	(202,786)
Services and supplies	292,404	298,544	84,370	214,174
	<u>292,404</u>	<u>298,544</u>	<u>287,156</u>	<u>11,388</u>
Excess of revenues over (under) expenditures	<u>(16,060)</u>	<u>(22,200)</u>	<u>(11,303)</u>	<u>10,897</u>
Net Change in Fund Balance, Budgetary/GAAP Basis	<u>\$ (16,060)</u>	<u>\$ (22,200)</u>	<u>\$ (11,303)</u>	<u>\$ 10,897</u>

The notes to required supplementary information are an integral part of this schedule.

LOCAL AGENCY FORMATION COMMISSION
Notes to Required Supplementary Information
June 30, 2007 and 2006

I. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budgetary revenue estimates represent original estimates modified for any authorized adjustment which was contingent upon new or additional revenue sources. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. All budgets are adopted on a non-GAAP basis. There were amendments to the Commission's budgetary information during the year.

**SONOMA COUNTY
LOCAL AGENCY FORMATION COMMISSION
Roster of Commission Members**

As of June 27, 2008, the Commission consisted of the following members:

<u>Commissioners:</u>	<u>Office</u>	<u>Term Expires</u>
Paul Kelley	Chair, County Member	12/31/2008
Mike Kerns	County Member	12/31/2008
Valerie Brown	County Member, Alternate	12/31/2008
Steve Allen	City Member	05/01/2010
Lisa Schaffner	City Member	05/01/2009
Teresa Barrett	City Member, Alternate	05/01/2011
Jean Kapolchok	Public Member	05/01/2010
Mark Ihde	Public Member	05/01/2010
Raymond Brunton	Special District Member	05/01/2012
Mark Bramfitt	Special District Member	05/01/2010
Albert Giordano	Special District Member, Alternate	05/01/2012

Regular Meetings:

The regular meeting of the Commissioners is held at 2:00 P.M. on the first Wednesday of each month at the County Administration Building, located at 575 Administration Drive, Room 102A, Santa Rosa, California. (707) 565-2577.