ORANGE COUNTY LAFCO

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City Member

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Lou Penrose
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County Member

STAFF

Luis Tapia
Executive Officer

Scott Smith
General Counsel

MEETING DATE: November 18, 2026

8b | Commission Discussion

TO: Local Agency Formation Commission of Orange County

FROM: Executive Officer

SUBJECT: Fiscal Year 2025-2026 OC LAFCO Audited Financial Statements

BACKGROUND

The Fiscal Year 2025-26 OC LAFCO Audited Financial Statements, provided as **Attachment 2**, consist of seven parts:

- Independent Auditor's Report: An audit report cover letter from Davis Farr outlining the auditor's professional responsibilities, accounting basis, and opinion on whether the financial statements comply with Generally Accepted Accounting Practices. (Pages 1-3)

- Management's Discussion and Analysis: This section summarizes the financial statements and explains any major changes from the prior fiscal year to the current fiscal year. (Pages 4-8)

- OC LAFCO Government-Wide Financial Statements: These two statements are different from the rest of the financial statements in that they include the long-term assets and long-term liabilities of the Commission. (Pages 9-10)

- OC LAFCO Fund Financial Statements: A depiction of the agency's government activities and each major fund for FY 2025-26. These statements differ from the government-wide statements in that they have a current resource/boundary focus and, as such, exclude the long-term assets and liabilities. (Pages 11-14)

- Notes to the Basic Financial Statements: The footnotes provide information in greater detail on OC LAFCO's financial policies, other post-employment benefits, and other financial matters. (Pages 15-39)

- Required Supplemental Information: This includes various schedules and details for the agency's pension liability, OPEB liability, the Schedule of Revenues, Expenditures and Changes in

Fund Balance-Budget and Actual, and notes to the required supplemental information. (Pages 40-51)

- Independent Auditor's Report on Internal Control: A report identifying and disclosing any material weakness or significant deficiencies in internal controls. (Pages 53-54)

In preparation for and during the audit, OC LAFCO's staff and accountant jointly prepared materials and worked directly with the independent auditor's team at Davis Farr LLP. In addition to reviewing these documents, the audit team performed fieldwork at the OC LAFCO office to complete the audit process.

OC LAFCO'S FISCAL YEAR 2025-26 AUDITED FINANCIAL STATEMENTS

The auditor found OC LAFCO's financial reporting to be in compliance with Generally Accepted Accounting Principles and expressed an Unqualified Opinion, which is the highest level of opinion an entity can receive. Additionally, the Report on Internal Controls noted that no material weaknesses or significant deficiencies in internal controls were identified during the audit process.

The auditors identified a material misstatement related to the presentation of deferred inflows of resources for pensions. The misstatement resulted from the transition between accounting firms, which used different procedures for separately reporting pension-related deferred inflows. Corrective procedures have been implemented to ensure pension-related deferred inflows are properly reported going forward.

RECOMMENDED ACTION

Staff Recommends the Commission:

1. Receive and File OC LAFCO's Fiscal Year 2025-26 audited financial statements prepared by Davis Farr LLP.

Respectfully Submitted,

LUIS TAPIA

Josh Byerrum

Attachments:

1. Auditor Communications to Those in Governance
2. OC LAFCO Audited Financial Statements for Fiscal Year 2025-26

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Commissioners
Orange County Local Agency Formation Commission
Santa Ana, California

We have audited the financial statements of the governmental activities and each major fund of Orange County Local Agency Formation Commission (the "Commission") as of and for the year ended June 30, 2026, and have issued our report thereon dated November 6, 2026. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 4, 2026, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Commission solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence under the American Institute of Certified Public Accountants ("AICPA") independence standards, contained in the Code of Professional Conduct.

We identified independence threats related to the preparation of the financial statements and proposing journal entries. We have applied certain safeguards to reduce the threats to an acceptable level, including using an independent party within the firm to perform a quality control review of the financial statements, and obtaining confirmation from the Orange County Local Agency Formation Commission management that their review of the financial statements included comparing the financial statements and footnotes to the underlying accounting records and approving journal entries.

Significant Risks Identified

As required by auditing standards, we identify audit risks at the beginning of the audit for purpose of planning our audit procedures. We identified the following significant risks:

- GASB Statement No. 103: We evaluated the commission's financial reporting under GASB 103, including the presentation and disclosure requirements, to determine whether the related reporting was appropriate.

- Revenue recognition: We tested a sample of revenues to ensure proper revenue recognition accounting standards and cutoff periods are being applied.

- Management override of controls: In accordance with professional auditing standards, we identified the risk of management override of internal controls as a significant risk. We performed testing of non-routine journal entries to identify unusual or inappropriate entries and evaluated the business purpose, supporting documentation, and authorization of selected entries.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. As described in Note 1 to the financial statements during the year, the Commission adopted Government Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements*, and GASB Statement No. 104, *Disclosure of Certain Capital Assets*. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are Management's estimate of transactions related to OPEB and pension liabilities based on actuarial information. We evaluated the key factors and assumptions used to develop the amounts by the actuary and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Orange County Local Agency Formation Commission's financial statements relate to Pension and OPEB.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There was a material corrected misstatement as a result of our audit procedures that impacted deferred inflows of resources related to pensions.

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, which could be significant to the Commission's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the letter dated November 6, 2026.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that they regularly consult with Platinum Strategies, Inc. regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Commission, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Commission's auditors.

Restriction on Use

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

Davis Farr LLP

Irvine, California
November 6, 2026

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

Year ended June 30, 2026

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

Year ended June 30, 2026

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Independent Auditor's Report

Board of Commissioners
Orange County Local Agency Formation Commission
Santa Ana, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the governmental activities and each major fund of the Orange County Local Agency Formation Commission (the "Commission"), as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Orange County Local Agency Formation Commission as of June 30, 2026, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Orange County Local Agency Formation Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

During the year ended June 30, 2026, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 103, Financial Reporting Model Improvements. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Orange

County Local Agency Formation Commission's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios of the Measurement Date, the Schedule of Plan Contributions - Defined Benefit Pension Plan, the Schedule of the Proportionate Share of the Net OPEB Liability and Related Ratios of the Measurement Date, and the Schedule of Contributions – OPEB Plan* be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Report on Summarized Comparative Information

We have previously audited the Orange County Local Agency Formation Commission's June 30, 2025 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2025 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2026 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
November 6, 2026

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2026

The following management's discussion and analysis of the financial performance of the Orange County Local Agency Formation Commission (the Commission) provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2026. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Officer at 2677 North Main Street, Suite 1050, Santa Ana, CA 92705.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

The annual report consists of management's discussions and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include the government-wide financial statements, the fund financial statements, and notes to the financial statements.

Government-wide financial statements. The Statement of Net Position and the Statement of Activities present financial data for the Commission as a whole and provide a longer-term view of the Commission's finances. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenues and expenses are reported regardless of when cash is received or paid. The Commission's net position is one way to measure its financial position. Over time, increases and decreases in net position are one indicator of whether the Commission's financial health is improving or deteriorating.

Fund financial statements. All of the Commission's basic services are reported in its governmental funds, the General Fund and the Special Revenue Fund, which focus on how money flows into and out of the funds and the balances left at year end that are available for spending. The funds are reported using modified accrual accounting which measures cash and other current financial resources that can readily be converted to cash. The fund financial statements provide a short-term view of the Commission's operations and help determine whether there are more or fewer financial resources that can be spent in the near future. A reconciliation following the fund financial statements explains the differences between the government-wide and fund financial statements.

Notes to the financial statements delve deeper into the Commission's finances as reported in the financial statements. The information in the notes is as important to understanding the Commission's finances as the information in the financial statements

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2026

ANALYSIS OF THE COMMISSION'S FINANCES

Table 1
Statement of Net Position
June 30, 2026 and 2025

	2026	2025	Change
Assets:			
Current assets	$ 2,393,676	1,808,682	584,994
Capital assets, net	435,335	551,885	(116,550)
Total assets	2,829,011	2,360,567	468,444
Deferred outflow of resources	233,829	337,188	(103,359)
Liabilities:			
Current liabilities	65,277	53,962	11,315
Non-current liabilities	1,100,427	1,948,319	(847,892)
Total liabilities	1,165,704	2,002,281	(836,577)
Deferred inflows of resources	869,660	378,307	491,353
Net position:			
Net investment in capital assets	(47,421)	(31,029)	(16,392)
Unrestricted	1,074,897	348,196	726,701
Total net position	$ 1,027,476	317,167	710,309

Table 1 shows that as of June 30, 2026, the Commission's total assets increased by $468,444, primarily due to an increase in cash and investments, offset by depreciation and amortization of capital assets, primarily the right to use asset for office space. Current liabilities increased by $11,315, as higher accounts payable and accrued liabilities were offset by the elimination of unearned revenue. Non-current liabilities decreased $847,892, primarily due to decreases in the net pension liability and the office lease liability, offset by an increase in compensated absences. Net position increased $710,309.

Changes in net position

A summary of the government-wide *Statement of Activities* follows:

The increase or decrease in net position can provide an indication as to whether the overall financial position of the Commission improved or deteriorated during the year.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2026

Table 2
Statement of Activities
Years ended June 30, 2026 and 2025

	2026	2025	Change
Revenues:			
Apportionments	$ 1,692,010	1,581,320	110,690
Charges for Services	12,521	85,137	(72,616)
Interest and Other Revenues	89,029	70,699	18,330
Total revenues	1,793,560	1,737,156	56,404
Expenses:			
General Government	1,067,244	1,357,537	(290,293)
Interest	16,007	18,882	(2,875)
Total expenses	1,083,251	1,376,419	(293,168)
Changes in net position	710,309	360,737	349,572
Beginning net position, as previously reported	317,167	(22,029)	339,196
Restatement	-	(21,541)	(21,541)
Beginning net position, as restated	317,167	(43,570)	360,737
Ending net position	$ 1,027,476	317,167	710,309

In fiscal year 2026, the Commission's budget included a $56,404 revenue increase, driven primarily by higher apportionment revenues, reduced reserve use, and higher investment income from larger balances in the Local Agency Investment Fund, offset by a decrease in charges for services as filing fees from applications decreased. Expenditures decreased by $293,168 primarily due to a decrease in pension expense, as the Commission's share of the OCERS net pension liability declined following strong plan investment returns, and lower salaries due to staff vacancies during the year, including the Assistant Executive Officer and Policy Analyst I positions, and the transition in the Executive Officer Position. Expenditures for professional services and supplies decreased, primarily legal, other professional services, and travel costs.

General Fund

The General Fund is the Commission's primary operating fund and is considered a governmental fund for financial reporting purposes. The fund balance increased by $573,679 during the fiscal year to $2,328,399, as revenues of $1,781,039 exceeded expenditures of $1,207,360. The increase in fund balance is due to the vacancy in the Assistant Executive Officer and analyst positions, and transition in the Executive Officer position, and lower-than-expected expenditures for services and supplies.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2026

SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY

Capital Assets - Governmental Activities
Years ended June 30, 2026 and 2025

	2026	2025	Change
Capital assets:			
Furniture and fixtures	$ 16,314	16,314	-
Equipment	21,085	21,085	-
Leasehold improvements	103,169	103,169	-
Software/Website	30,000	30,000	-
Right to use asset	912,526	912,526	-
Total capital assets	1,083,094	1,083,094	-
Accumulated depreciation	(647,759)	(531,209)	(116,550)
Capital assets, net	$ 435,335	551,885	(116,550)

At the end of fiscal year 2026, the Commission's net capital assets totaled $435,335 (net of accumulated depreciation), a decrease of $116,550 from the prior year. This includes furniture and fixtures, equipment, leasehold improvements, software/website, and the right to use assets for an office space lease and an equipment lease. The Commission had no capital additions during the year, so the decrease reflects $116,550 of depreciation and amortization. (See Note 3 for further information).

Long-term Liabilities
Years ended June 30, 2026 and 2025

	2026	2025	Change
Compensated Absences	$ 51,007	46,218	4,789
Lease Liability	482,756	582,914	(100,158)
Total Liabilities	$ 533,763	629,132	(95,369)

The Commission's long-term liabilities decreased by $95,368 during the year, primarily due to scheduled lease payments, partially offset by an increase in compensated absences. The compensated absences liability represents the value of vacation or sick leave that is more likely than not to be used or paid out upon termination. Lease payable consists of the Commission's office space lease, which ends in August 2030, and its copier lease. Of the lease payable, $106,291 is due within one year. Additional information on long-term liabilities may be found in Note 5 of the Notes to Financial Statements.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2026

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Fiscal Year 2026-27 Budget

The Commission adopted its fiscal year 2026-27 General Fund budget on May 13, 2026. Apportionments total $1,505,890, a decrease of $186,120 or 11% from the prior year. Operations are funded by the apportionments, which is allocated at on-third to the County, cities, and independent special districts. Subsequently, the individual amount due from each of the 34 cities and the 34 independent special districts is calculated by the County Auditor Controller using formulas adopted by the City Selection Committee and the Independent Special District Selection Committee, respectively. The expenditures total $1,503,580, a decrease of $334,410 or 18.2% from the prior year primarily due to the vacancy of the Assistant Executive Officer. The Commission will determine if an Assistant Executive Officer is needed prior to the adoption of the budget for FY 2027-28. The budget is expected to have net revenue over expenses of $52,325, which is transferred to reserves.

Staffing

In recent years, salary and benefit expenditures came in well below budget because of the retirement of the Executive Officer, numerous vacancies, and transition of a new Executive Officer. The Commission filled the Executive Officer position by promoting the Assistant Executive Officer internally and has listed the Assistant Executive Office vacant positions in fiscal year 2026-27 as unbudgeted. Staff is evaluating the needs of the agency and if a position is desired then the expenditures could increase from the anticipated budget for the next budget FY 2027-28.

Office Lease

The Commission's Santa Ana office lease runs through August 31, 2030. The offices were sold to Orange County Transportation Authority on October 12, 2024, and while not changes in rent are anticipated at this time, there could be adjustments to the long-term lease in the future.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Statement of Net Position

June 30, 2026
(with comparative information for prior year)

	Governmental Activities	
	2026	2025
Assets:		
Cash and investments (note 2)	$ 2,111,606	1,475,890
Interest receivable	13,198	12,715
Prepaid costs	268,872	320,077
Capital assets - depreciated, net (note 3)	435,335	551,885
Total assets	2,829,011	2,360,567
Deferred outflow of resources:		
Deferred amounts from pension (note 6)	204,580	317,133
Deferred amounts from OPEB (note 7)	29,249	20,055
Total deferred outflow of resources	233,829	337,188
Liabilities:		
Accounts payable	27,821	20,299
Accrued liabilities	37,456	26,540
Unearned revenue	-	7,123
Noncurrent liabilities:		
Due within one year:		
Compensated absences (note 5)	34,005	30,812
Lease liability (note 5)	106,291	100,157
Due in more than one year:		
Compensated absences (note 5)	17,002	15,406
Lease liability (note 5)	376,465	482,757
Net pension liability (note 6)	520,664	1,274,187
Net OPEB liability (note 7)	46,000	45,000
Total liabilities	1,165,704	2,002,281
Deferred inflow of resources:		
Deferred amounts from pension (note 6)	807,660	317,307
Deferred amounts from OPEB (note 7)	62,000	61,000
Total deferred inflow of resources	869,660	378,307
Net position:		
Net investment in capital assets	(47,421)	(31,029)
Unrestricted	1,074,897	348,196
Total net position	$ 1,027,476	317,167

See accompanying notes to the basic financial statements

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Statement of Activities

Year ended June 30, 2026
(with comparative information for prior year)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities 2026	Net (Expense) Revenue and Changes in Net Position: Governmental Activities 2025
Governmental activities:						
General government	$ 1,067,244	12,521	-	-	(1,054,723)	(1,272,400)
Interest	16,007	-	-	-	(16,007)	(18,882)
Total governmental activities	$ 1,083,251	12,521	-	-	(1,070,730)	(1,291,282)
General revenues:						
Apportionments					1,692,010	1,581,320
Investment income					88,666	70,202
Other revenues					363	497
Total general revenues					1,781,039	1,652,019
Change in net position					710,309	360,737
Net position (deficit), beginning of year as previously reported					317,167	(22,029)
Change in accounting principle					-	(21,541)
Net position (deficit), beginning of year as restated					317,167	(43,570)
Net position, end of year					$ 1,027,476	317,167

See accompanying notes to the basic financial statements

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Balance Sheet - Governmental Funds

June 30, 2026
(with comparative information for prior year)

	General Fund	Special Revenue Fund	Total Governmental Funds 2026	Total Governmental Funds 2025
Assets				
Cash and investments	$ 2,111,606	-	2,111,606	1,475,890
Interest receivable	13,198	-	13,198	12,715
Prepaid costs	268,872	-	268,872	320,077
Total assets	$ 2,393,676	-	2,393,676	1,808,682
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	$ 27,821	-	27,821	20,299
Accrued liabilities	37,456	-	37,456	26,540
Unearned revenue	-	-	-	7,123
Total liabilities	65,277	-	65,277	53,962
Fund balance:				
Nonspendable:				
Prepaid costs	268,872	-	268,872	320,077
Assigned for:				
Contingency	100,000	-	100,000	100,000
Litigation	75,000	-	75,000	75,000
Unfunded liabilities	30,000	-	30,000	30,000
Restricted for:				
Retirement benefits	127,226	-	127,226	112,861
Unassigned	1,727,301	-	1,727,301	1,116,782
Total fund balance	2,328,399	-	2,328,399	1,754,720
Total liabilities and fund balance	$ 2,393,676	-	2,393,676	1,808,682

See accompanying notes to the basic financial statements

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2026

Fund balances of governmental funds	$	2,328,399
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Related Items		
Capital assets and depreciation have not been included as financial resources in the government fund statements:		
Capital assets		1,083,094
Accumulated depreciation		(647,759)
Long-Term Liability Transactions		
Long-term liabilities are not due and payable in the current period and, accordingly, are not reported in the government fund statements:		
Net pension liability		(520,664)
Net OPEB liability		(46,000)
Lease liability		(482,756)
Compensated absences		(51,007)
Deferred Outflows and Inflows of Resources		
Certain deferred outflows and inflows of resources are not due and payable in the current period and are not current assets or financial resources, therefore these items are not reported in the governmental funds:		
Deferred outflows - pensions		204,580
Deferred outflows - OPEB		29,249
Deferred inflows - pensions		(807,660)
Deferred inflows - OPEB		(62,000)
Net position of governmental activities	$	1,027,476

See accompanying notes to the basic financial statements

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Year ended June 30, 2026
(with comparative information for the prior year)

	General Fund	Special Revenue Fund	Total Governmental Funds 2026	Total Governmental Funds 2025
Revenues:				
Apportionments	$ 1,692,010	-	1,692,010	1,581,320
Filing fees	-	12,521	12,521	85,137
Investment income	88,666	-	88,666	70,202
Other	363	-	363	497
Total revenues	1,781,039	12,521	1,793,560	1,737,156
Expenditures:				
General government:				
Salaries and benefits	701,949	5,382	707,331	848,256
Service and supplies	389,246	7,139	396,385	443,431
Debt service:				
Principal	100,158	-	100,158	94,015
Interest	16,007	-	16,007	18,882
Total expenditures	1,207,360	12,521	1,219,881	1,404,584
Net change in fund balances	573,679	-	573,679	332,572
Fund balances at beginning of year	1,754,720	-	1,754,720	1,422,148
Fund balances at end of year	$ 2,328,399	-	2,328,399	1,754,720

See accompanying notes to the basic financial statements.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year ended June 30, 2026

Net changes in fund balances - total governmental funds	$	573,679
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital Related Items		
When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Depreciation expense		(116,550)
Long-Term Liability Transactions		
Some expenses reported in the Statement of Activities do not require the use of current financial resources:		
Net change in compensated absences		(4,789)
Pension and OPEB expense reported in the governmental funds include the actual contributions made in the fiscal year. Pension and OPEB expense reported in the Statement of Activities includes the changes in the liabilities and related deferred outflows/inflows of resources.		
Net change in net pension liability		150,617
Net change in net OPEB liability		7,194
The proceeds of long-term debt are recorded as other financing sources in governmental funds and as a fund liability in the Statement of Activities. Amounts paid to reduce long-term indebtedness are reported as fund expenditures in governmental funds and as a reduction of the liability in the Statement of Activities.		
Lease principal payments		100,158
Change in net position of governmental activities	$	710,309

See accompanying notes to the basic financial statements.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2026

(1) Summary of Significant Accounting Policies

The financial statements of the Orange County Local Agency Formation Commission (Commission) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

(a) Description of the Reporting Entity

Following the end of World War II, California entered a new era of demographic growth, diversity, and economic development. With this growth came the need for housing, jobs and public services. To provide for these services, California experienced a wave of newly formed cities and special districts, but with little forethought as to how the new agencies should plan for services. The lack of coordination and adequate planning for future governance led to a multitude of overlapping, inefficient jurisdictional and service boundaries.

In 1963, the State Legislature created Local Agency Formation Commissions (LAFCO's) to help direct and coordinate California's growth in a logical, efficient, and orderly manner. Each county within California is required to have a LAFCO. The Commissions are charged with the responsibility of making difficult decisions on proposals for new cities and special districts, spheres of influence, consolidations, and annexations.

Prior to July 1, 2001, the Commission was a department of the County of Orange (County). The Commission has separated from the County and is now independent. The Commission's governing board consists of seven appointed board members, and four alternates. Two members are selected by the Orange County Board of Supervisors from their own membership, two are elected by the city Selection Committee represented by the mayors of the 34 cities, two are elected by the Special District Selection Committee, and one member is elected to represent the general public, who is appointed by the other members of the Commission.

Funding for the Commission operations is equally shared by the County, the 34 Orange County cities and the 27 independent special districts. Although the County of Orange contributes one-third of the Commission funding, the Commission is an independent agency and its budget is not subject to County approval. The Commission is staffed by 4 full-time staff.

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the Commission are composed of the following:

(a) Government-wide financial statements
(b) Fund financial statements
(c) Notes to the basic financial statements

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2026

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Commission.

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 function or segment. Program revenues include charges for services that are restricted to meeting the operational or capital requirements of a particular function or segment. Use of money and other items not properly included among program revenues are reported instead as general revenues.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the *accrual basis of accounting*, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures.

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Commission uses an availability period of 60 days for all revenues.

Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period.

(1) Summary of Significant Accounting Policies (Continued)

Other revenue items are considered to be measurable and available when cash is received from the government.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current position, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Net Position Flow Assumption – When an expenditure is incurred for purposes for which both restricted and unrestricted net position is available, the Commission's policy is to apply restricted net position first.

Fund Balance Flow Assumption – When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Commission's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

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

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2026

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(c) Fund Classifications

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance – This includes amounts that cannot be spent because they are either not spendable in form (such as prepaid expenses) or legally or contractually required to be maintained intact.

Restricted Fund Balance – This includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Commission action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance – this includes amounts that can be used only for the specific purposes determined by a formal action of the Commission. It includes legislation (Commission action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Commission action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The Commission considers a resolution, to constitute a formal action of the Board of Commissioners for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Commission but does not require a formal action like a resolution or ordinance. The Commission may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has not yet been granted.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

The Commission reports the following major governmental funds:

The General Fund is used to account for resources traditionally associated with the organization, which are not required legally or by sound financial management to be accounted for in another fund.

The Special Revenue Fund is used to account for resources derived from the specific revenue sources which are usually required by law or administrative regulation to be accounted for in separate funds. The Commission utilizes this fund to account for the different special projects.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2026

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(d) Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. Investments are reported in the accompanying balance sheet at fair value.

(e) Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the Commission's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Commission's own data.

(f) Capital Assets

Capital assets are reported in the governmental activities column of the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial cost of more than $5,000 and a useful life of greater than one year. Such assets are recorded at historical cost or

(1)Summary of Significant Accounting Policies (Continued)

estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets of the Commission are depreciated using the straight-line method over the following estimated useful lives:

Furniture and fixtures	7 to 10 years
Equipment	3 to 5 years
Leasehold improvements	Life of lease
Software	3 years

Right to use capital assets are depreciated over the estimated useful life of the leased asset or the contract term, whichever is shorter.

(g) Compensated Absences

All regular full-time and regular part-time Commission employees earn 15 to 25 vacation days a year, based on their length of employment, and 9 to 12 sick days a year. Employees may carry forward up to 240 hours in earned but unused vacation days. Upon termination or retirement, employees are entitled to receive compensation at their current base salary for all unused vacation leave. Under GASB Statement No. 101 - Compensated Absences, the Commission revised its accounting policy for sick leave. Previously, unused sick leave was not accrued at year-end as it was not paid out upon termination. However, under the new standard, a liability is now recognized for the portion of sick leave that is more likely than not to be used. The estimate is based on historical usage trends over the past two years. Vacation leave continues to be accrued as earned. The compensated absences liability includes applicable payroll-related taxes.

(h) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's Orange County Employees' Retirement System (OCERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by OCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the Plans' terms. Investments are reported at fair value.

OCERS audited financial statements are publicly available reports that can be obtained at OCERS' website under Forms and Publications.

(1) Summary of Significant Accounting Policies (Continued)

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)December 31, 2024
Measurement Date (MD)December 31, 2025
Measurement Period (MP)January 1, 2025 to December 31, 2025

(i) Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Commission's plan (Plan) additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and fiduciary net position information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)June 30, 2025
Measurement Date (MD)December 31, 2025
Measurement Period (MP)January 1, 2025 to December 31, 2025

(j) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission reports deferred outflows related to pensions and OPEB resulting from actuarial calculations.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission reports deferred inflows related to pensions and OPEB resulting from actuarial calculations.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2026

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(k) Leases

The Commission is a lessee for right to use assets as detailed in Note 5. The Commission recorded a lease payable in the financial statements.

At the commencement of the lease, the Commission initially measures the lease payable at the present value of payments expected to be paid during the lease term. Subsequently, the lease payable is reduced by the principal portion of lease payments made.

Key estimates and judgments include how the Commission determines the discount rate it uses to discount the expected lease receipts and payments to present value, lease term and lease receipts.

- The Commission used the estimated borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.

(l) Estimates

The presentation of basic financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenditures during the reporting period. Actual results could differ from those estimates.

(m) Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

(2) Cash and Investments

Cash and investments held at June 30, 2026 consisted of the following:

Demand deposits	$ 446,480
County Payroll Deposit	303,225
Local Agency Investment Fund	1,234,675
Mutual Fund – PARS Trust	127,226
Total cash and investments	$ 2,111,606

Investments Authorized by the Commission's Investment Policy

The Commission's investment policy is reviewed by the Commission each year. Regarding allowable investment types, the investment policy is more conservative and restrictive than the investment vehicles authorized by Section 53600.5 of the California Government Code. Investment vehicles not specifically identified in the Commission's investment policy are not authorized unless the policy is amended by the Board of Commissioners. Investments are limited to:

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Investment in One Issuer
United States Government Sponsored Agency Securities	5 years	None	None
Negotiable Certificates of Deposit*	5 years	30%	None
Section 115 Public Agencies Post-Employment Benefits Trust	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

N/A - Not Applicable

* - Issued by a nationally or state-chartered bank, a state or federal savings and loan association, or savings bank with ratings equivalent by Fitch to be F1 or better.

(2) Cash and Investments (Continued)

Disclosures Relating to 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 to changes in market interest rates. One of the ways that the Commission manages its exposure to interest rate risk is by investing in the portfolio of the State Local Agency Investment Fund (LAIF) and PARS, which purchase a combination of shorter term and longer term investments.

Investment Type	Total	Remaining Maturity (in Months) 12 Months or Less
State investment pool	$ 1,234,675	1,234,675
Mutual Fund – PARS Trust	127,226	127,226
Total	$ 1,361,901	1,361,901

Disclosure 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.

Investment Type	Total	Minimum Legal Rating	Not Rated
State investment pool	$ 1,234,675	N/A	1,234,675
Mutual Fund – PARS Trust	127,226	N/A	127,226
Total	$ 1,361,901		1,361,901

(2) Cash and Investments (Continued)

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 (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Deposits may be covered by federal deposit insurance. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). 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. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Any deposits in excess of depository insurance limits at the end of the year are collateralized by securities held at the depository financial institution's trust department. $303,225 of deposits is held by the County as uncollateralized.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial 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 LAIF).

Fair Value Measurement

The fair value of the Commission's investment in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California is reported at amounts based upon the Commission's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The Commission has a mutual fund investment in a trust with the Public Agency Retirement Service (PARS). Mutual Fund investments are not subject to fair value measurements.

(3) Capital Assets

A summary of changes in capital assets is as follows:

	Balance at July 1, 2025	Additions	Deletions	Balance at June 30, 2026
Capital assets, being depreciated:				
Furniture and fixtures	$ 16,314	-	-	16,314
Equipment	21,085	-	-	21,085
Software/Website	30,000	-	-	30,000
Leasehold improvements	103,169	-	-	103,169
Right to use asset - property	885,405	-	-	885,405
Right to use asset - equipment	27,121	-	-	27,121
Total capital assets, being depreciated	1,083,094	-	-	1,083,094
Less accumulated depreciation for:				
Furniture and fixtures	(16,314)	-	-	(16,314)
Equipment	(14,092)	(3,390)	-	(17,482)
Software/Website	(12,500)	(10,000)	-	(22,500)
Leasehold improvements	(95,918)	(1,404)	-	(97,322)
Right to use asset - property	(386,358)	(96,590)	-	(482,948)
Right to use asset - equipment	(6,027)	(5,166)	-	(11,193)
Total accumulated depreciation	(531,209)	(116,550)	-	(647,759)
Capital assets, net	$ 551,885	(116,550)	-	435,335

Depreciation expense of $116,550 was included in general government expense on the statement of activities.

(4) Insurance

Worker's Compensation Insurance is provided on behalf of the Commission by the County of Orange's insurance policy. The Commission pays its pro-rata share of insurance costs to the County. For coverage limits see the County of Orange Annual Comprehensive Financial Report. This report can be obtained at the Auditor-Controller County of Orange office located at Hall of Finance and Records, 1770 N. Broadway, Santa Ana, CA 92706.

The Commission has an insurance policy with the California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (JPRIMA) for excess liability insurance and property insurance. For general liability, the Commission maintains excess insurance coverage of $10,000,000 with a self-insured retention of $1,000,000 per occurrence.

(5) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2026:

	Balance July 1, 2025	Additions	Deletions	Balance June 30, 2026	Due Within One Year
Compensated absences	46,218	4,789	-	51,007	34,005
Lease – property	561,526	-	(95,114)	466,412	101,123
Lease – copier	21,388	-	(5,044)	16,344	5,168
Total	$ 629,132	4,789	(100,158)	533,763	140,296

Compensated absences is presented net in the schedule above.

Leases

In October 2019, the Commission entered into a Second Amendment to Office Lease (property lease). Pursuant to the lease, the Commission is leasing approximately 2,700 square feet of office space located in Santa Ana, California. The lease term is extended through August 31, 2030. Monthly lease payments per the agreement range from $7,997 to $10,682. An annual discount rate of 3% was used in calculating the lease liability.

In February 2019, the Commission entered into an Agreement with Toshiba Financial Services to lease certain copier equipment. The lease had a term of 63 months with minimum monthly payments of $470. An annual discount rate of 3% was used in calculating the lease liability. In March 2024, the Commission entered into a new Agreement with Toshiba Financial Services to replace the lease that would end in June 2024. The lease had a term of 63 months with minimum monthly payments of $460. An annual discount rate of 2.42% was used in calculating the lease liability.

Annual debt service requirements are as follows:

Fiscal	Property			Copier		
Year	Principal	Interest	Total	Principal	Interest	Total
2027	$ 101,123	12,692	113,815	5,168	338	5,506
2028	107,652	9,486	117,138	5,294	212	5,506
2029	114,714	6,160	120,874	5,424	82	5,506
2030	121,664	2,624	124,288	458	1	459
2031	21,259	80	21,339	-	-	-
Totals	$ 466,412	31,042	497,454	16,344	633	16,977

(6) Retirement Plan

Plan Description

All qualified full-time employees are eligible to participate in the Commission's General Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the Orange County Employees Retirement System (OCERS). Benefit provisions under the Plans are established by State statute and Commission resolution. OCERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the OCERS website.

Benefits Provided

OCERS provides service retirement, disability, death, and survivor benefits to eligible employees. All regular full-time employees of the Commission who work a minimum of 20 hours per week become members of OCERS effective on the first day of employment in an eligible position. New members employed after January 1, 2013 are designated as PEPRA subject to the provisions of California Government Code 7522 et seq. and AB 197. Members hired prior to January 1, 2013 are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. Members who are hired on or after January 1, 2013 are eligible to retire once they have attained the age of 52, and have acquired 5 years of retirement service credit. All members can also retire at the age of 70 regardless of service. The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit, and retirement plan and tier.

OCERS provides an annual cost-of-living benefit to all retirees that is based upon the Consumer Price Index for All Urban Consumers for the Orange County-Riverside-Orange County Area and is capped at 3.0%.

(6) Retirement Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2026 are summarized as follows:

Hire date	Prior to December 12, 2012	After December 12, 2012 (Legacy OCERS Members) Plan P	On or After January 1, 2013 (New OCERS Members) Plan T PEPRA Compliant
Benefit formula	2.7%@55	1.62%@65	1.62%@65
Benefit vesting schedule	10 years of service	10 years of service	10 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 65	52-65
Monthly benefits, as a % of eligible	2.0% to 2.7%	0.79% to 1.62%	0.79% to 1.62%
Required employee contribution rates	10-17%	6-12%	5-9%
Required employer contribution rates	42.07%	33.32%	34.12%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate.

Funding contributions for all Plans are determined annually on an actuarial basis as of December 31 by OCERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Commission is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Actuarial Methods and Assumptions used to determine Total Pension Liability

The Net Pension Liability was measured as of December 31, 2025. The plan's Fiduciary Net Position (plan assets) was valued as of the measurement date while the Total Pension Liability was determined based on rolling forward the actuarial valuation as of December 31, 2024.

(6) Retirement Plan (Continued)

The following actuarial assumptions were applied to the December 31, 2025 measurement date:

Actuarial Cost Method	Entry-Age in accordance with the requirements of GASB Statement No. 68
Inflation	2.50%
Salary increases	General: 3.90% to 10.25%, vary by service, including inflation
Investment rate of return	7.00% net of pension plan investment expenses, including inflation

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.00% as of December 31, 2025. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability as of December 31, 2025.

The long-term expected rate of return on pension plan investments, was determined using a building-block method in which expected future real rates of return (expected returns, inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin.

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized as:

(6) Retirement Plan (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	45.00%	7.05%
Investment Grade Bonds	9.00%	1.97%
High Yield Bond	0.50%	4.63%
TIPS	2.00%	1.77%
Emerging Market Debt	0.50%	4.72%
Long-Term Government Bonds	3.30%	2.82%
Real Estate	3.00%	3.86%
Private Equity	15.00%	9.84%
Private Credit	3.50%	6.47%
Value Added Real Estate	3.00%	7.38%
Opportunistic Real Estate	1.00%	9.74%
Energy	2.00%	10.89%
Infrastructure (Core Private)	1.00%	5.98%
Infrastructure (Non-Core Private)	3.00%	8.88%
Global Macro	1.70%	3.17%
CTA (Trend Following)	3.30%	3.15%
Alternative Risk Premia	1.70%	3.24%
Special Situations Lending	1.50%	8.96%
Total	100%	

Allocation of Net Pension Liability

The proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The following table shows the Commission's proportionate share of the net pension liability over the measurement period:

	Net Pension Liability
Balance at: December 31, 2024	$ 1,274,187
Balance at: December 31, 2025	520,664
Net change during 2025	$ (753,523)

(6) Retirement Plan (Continued)

The Commission's proportionate share of the net pension liability for the Plan was as follows:

Proportion – December 31, 2024	0.032%
Proportion – December 31, 2025	0.029%
Change – Increase (Decrease)	(0.003)%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00 percent) or 1 percentage-point higher (8.00 percent) than the current rate:

	Discount Rate – 1% (6.00%)	Current Discount Rate (7.00%)	Discount Rate + 1% (8.00%)
Actuarially-Determined Net Pension Liability	$ 1,154,645	520,664	2,277

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, deferred inflows and deferred outflows of resources related to pensions are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired as of the beginning of the measurement period).

(6) Retirement Plan (Continued)

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the measurement period ending December 31, 2025 (the measurement date), the Commission recognized pension expense of $(15,817) for the Plan.

As of the December 31, 2025 measurement date, the Commission reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Actual Contributions and Proportionate Share of Contributions	$ 103,533	499,625
Differences between Expected and Actual Experience	82,625	366
Change of Assumptions	18,422	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	307,669
Total	$ 204,580	807,660

Amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

Fiscal Year ended June 30	Deferred Outflows (Inflows) of Resources
2027	$ (73,754)
2028	(187,349)
2029	(176,964)
2030	(145,627)
2031	(19,186)

(7) Other Post-Employment Benefits

Plan Description

The Commission's employees with at least one year of credit service as of June 1, 2023 may participate in a Retiree Medical Plan (Plan), a cost-sharing multiple-employer defined benefit post-employment healthcare plan. The Plan is offered and administered by the County of Orange. The County identifies this plan as a single-employer plan, as it is considered the primary plan participant and the other participating entities are considered immaterial to the Plan as a whole. The Plan assists retirees with the cost of retiree health insurance premiums and/or Medicare premiums.

On December 20, 2022, the County established the County-sponsored health reimbursement arrangement (HRA), and the Commission subsequently approved its participation in the HRA on April 12, 2023. The HRA is offered and administered by the County of Orange, and the Commission makes contributions through the HRA on behalf of its employees to assist with eligible medical expenses. There is no service requirement for the HRA benefit.

The Commission has the authority to amend benefit provisions to the HRA. The County issues a publicly available financial report that includes financial statements and required supplementary information for the Retiree Medical Plan. That report may be obtained by writing Auditor-Controller's Office; County of Orange, 1770 N. Broadway, Santa Ana, California 92706 or accessed at its website: http://www.ac.ocgov.com.

Benefits Provided

Employees with at least one year of credit service as of June 1, 2023 and who are actively retired from the Commission and receiving a monthly retirement allowance from the Orange County Employees Retirement System (OCERS) may be eligible to receive a monthly grant through the Retiree Medical Plan to be used to offset the cost of OPEB.

Beginning July 1, 2023, the Commission began contributing $60 each pay period for each full-time employee through the HRA offered and administered by the County. Part-time employees are eligible to receive $30 each pay period. Beginning July 1, 2024, contributions made by the Commission on behalf of employees will experience an annual increase of 2.5% unless otherwise amended by the Commission. Funds within the HRA are only available to employees upon separation from the Commission and to assist with eligible medical expenses.

(7) Other Post-Employment Benefits (Continued)

Employees Covered

As of the December 31, 2025 measurement date, the following current and former employees were covered by the benefit terms under the Retiree Healthcare Plan:

Active employees	4
Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to, but not yet receiving benefits	-
Total	4

Contributions

Contribution requirements of the Commission are established by the County of Orange. The Commission's contractually required contribution rate for the year-ended June 30, 2026 was 1.65 percent of covered payroll, actuarially determined as an amount that is expected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

Contributions to the OPEB plan from the Commission were $3,943 for the fiscal year ended June 30, 2026. Currently, contributions are not required from plan members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2026, the Commission reported a liability of $46,000 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of December 31, 2025, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of June 30, 2025. The Commission's proportion of the collective net OPEB liability was based on a projection of the Commission's share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2025 and 2024, the Commission's proportion was 0.025% percent and 0.020%, respectively.

(7) Other Post-Employment Benefits (Continued)

For the fiscal year ended June 30, 2026, the Commission recognized an expense of less than $1,000 for the OPEB plan. As of fiscal year ended June 30, 2026, the Commission reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 2,249	-
Changes of assumptions	5,000	1,000
Change in proportion	22,000	40,000
Difference between expected and actual experience	-	13,000
Net difference between projected and actual earnings on OPEB plan investments	-	8,000
Total	$ 29,249	62,000

The $2,249 reported as deferred outflows of resources related to contributions subsequent to the December 31, 2025 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2027. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/ (Inflows) of Resources
2027	$ (4,000)
2028	(5,000)
2029	(12,000)
2030	(11,000)
2031	(4,000)
Thereafter	1,000

(7) Other Post-Employment Benefits (Continued)

Actuarial Assumptions
The Commission's total OPEB liability was determined by an actuarial valuation as of June 30, 2025 using the following actuarial methods and assumptions:

Discount Rate	7.00%
Long-Term Expected Rate of Return on Investments	7.00%, net of investment expenses
Inflation	2.50% annually
Salary Increases	3.00%, annually
Grant Increase Rate	AFSCME – lesser of 5% and Medical Trend Non-AFSCME – 0% or lesser of 3% and Medical Trend
Medical Trend	Non-Medicare – 7.35% for 2027, decreasing to an ultimate rate of 3.45% in 2076 Medicare (Non-Kaiser) – 6.50% for 2027, decreasing to an ultimate rate 3.45% in 2076 Medicare (Kaiser) – 5.45% for 2027, decreasing to an ultimate rate 3.45% in 2076

Mortality rates were based on the OCERS 2020-2022 Experience Study, as appropriate, with adjustments for mortality improvements based on Scale MP-2021.

(7) Other Post-Employment Benefits (Continued)

The target asset allocation and expected long term rate of return were based on Segal Consulting's 2020-2022 Experience Study for OCERS. The long term expected real rate of return assumptions are presented as arithmetic means as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	45.00%	7.05%
Investment Grade Bonds	9.00%	1.97%
High Yield Bond	0.50%	4.63%
TIPS	2.00%	1.77%
Emerging Market Debt	0.50%	4.72%
Long-Term Government Bonds	3.30%	2.82%
Real Estate	3.00%	3.86%
Private Equity	15.00%	9.84%
Private Credit	3.50%	6.47%
Value Added Real Estate	3.00%	7.38%
Opportunistic Real Estate	1.00%	9.74%
Energy	2.00%	10.89%
Infrastructure (Core Private)	1.00%	5.98%
Infrastructure (Non-Core Private)	3.00%	8.88%
Global Macro	1.70%	3.17%
CTA (Trend Following)	3.30%	3.15%
Alternative Risk Premia	1.70%	3.24%
Special Situations Lending	1.50%	8.96%
Total	100%	

Assumed Long-Term Rate of Inflation	2.50%
Expected Long-Term Rate of Return	7.00%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

(7) Other Post-Employment Benefits (Continued)

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued OCERS financial report.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.00 percent, as well as what the Net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00 percent) or 1 percentage-point higher (8.00 percent) than the current rate:

	Discount Rate – 1% (6.00%)	Current Discount Rate (7.00%)	Discount Rate + 1% (8.00%)
Commission's proportionate share of the Net OPEB Liability	$61,000	46,000	33,000

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Commission if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended December 31, 2025:

	1% decrease 6.5%/5.5% decreasing to 3%	Current Healthcare Cost Trend Rate 7.5%/6.5% decreasing to 4%	1% increase 8.5%/7.5% decreasing to 5%
Commission's proportionate share of the Net OPEB Liability	$41,000	46,000	51,000

(8) Related Party Transactions

The Commission and the County entered into a County Services Agreement to provide workers' compensation insurance, employee benefits administration, payroll, information technology support, and billing and collection services. The total amount paid by the Commission to the County for the year ended June 30, 2026 was $12,644.

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date

Last Ten Fiscal Years

Measurement Date

	December 31, 2025	December 31, 2024	December 31, 2023	December 31, 2022	December 31, 2021
Proportion of the Collective Net Pension Liability	0.029%	0.032%	0.035%	0.029%	0.044%
Proportionate Share of the Collective Net Pension Liability	$520,664	1,274,187	1,704,989	1,587,646	912,794
Covered Payroll	$411,144	575,199	599,088	488,433	511,264
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	126.64%	221.52%	284.60%	325.05%	178.54%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.83%	80.93%	77.09%	73.88%	85.88%

Notes to Schedule:

Benefit Changes – There were no changes in benefits

Changes in Assumptions – The discount rate was reduced from 7.25% as of December 31, 2016 to 7.00% as of December 31, 2017. The inflation rate was reduced from 3.00% as of December 31, 2016 to 2.75% as of December 31, 2017. Salary increases were decreased from 4.50% to 13.50% as of December 31, 2016 to 4.25% to 12.25% as of December 31, 2017. Salary increases were decreased from 4.00% to 11.00% to 3.90% to 10.25% as of December 31, 2023. There were no changes in assumptions for the December 31, 2025 measurement date.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date

Last Ten Fiscal Years

(Continued)

	Measurement Date				
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Proportion of the Collective Net Pension Liability	0.030%	0.029%	0.026%	0.026%	0.026%
Proportionate Share of the Collective Net Pension Liability	1,248,133	1,489,642	1,582,703	1,267,133	1,340,888
Covered Payroll	463,507	475,099	$419,538	394,760	374,792
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	269.28%	313.54%	377.25%	320.99%	357.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.95%	73.18%	67.06%	71.95%	68.69%

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of Plan Contributions – Defined Benefit Pension Plan

Last Ten Fiscal Years

	Fiscal Year 2025-26	Fiscal Year 2024-25	Fiscal Year 2023-24	Fiscal Year 2022-23	Fiscal Year 2021-22
Actuarially Determined Contribution	$145,000	$205,000	221,000	182,000	184,000
Contributions in Relation to the Actuarially Determined Contribution	$145,000	205,000	221,000	182,000	184,000
Contribution Deficiency (Excess)	$ -	-	-	-	-
Covered Payroll	$432,749	500,019	535,842	556,543	512,901
Contributions as a Percentage of Covered Payroll	33.51%	41.00%	41.24%	32.70%	35.87%

Notes to Schedule:

Fiscal Year End:	June 30, 2026
Valuation Date:	December 31, 2023

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	5-year smooth market
Discount Rate	7.00%
Projected Salary Increase	3.90% to 10.25% depending on age, service, and type of employment
Inflation	2.50%
Payroll Growth	3.00%

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of Plan Contributions – Defined Benefit Pension Plan

Last Ten Fiscal Years

(Continued)

	Fiscal Year 2020-21	Fiscal Year 2019-20	Fiscal Year 2018-19	Fiscal Year 2017-18	Fiscal Year 2016-17
Actuarially Determined Contribution	145,000	139,000	$120,000	116,000	115,921
Contributions in Relation to the Actuarially Determined Contribution	$ 145,000	139,000	120,000	116,000	115,921
Contribution Deficiency (Excess)	$ -	-	-	-	-
Covered Payroll	$445,095	488,943	411,308	405,196	389,422
Contributions as a Percentage of Covered Payroll	32.58%	28.43%	29.17%	28.63%	29.77%

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of the Proportionate Share of the Net OPEB Liability and Related Ratios as of the Measurement Date

Last Ten Fiscal Years*

	Measurement Date				
	December 31, 2025	December 31, 2024	December 31, 2023	December 31, 2022	December 31, 2021
Proportion of the Collective Net OPEB Liability	0.0250%	0.0200%	0.0370%	0.0400%	0.0400%
Proportionate Share of the Collective Net OPEB Liability	$46,000	45,000	85,000	119,000	103,000
Covered-Employee Payroll	$407,000	556,000	505,000	474,000	433,000
Proportionate Share of the Collective Net OPEB Liability as a Percentage of Covered-Employee Payroll	11.30%	8.09%	16.83%	25.11%	23.79%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	73.53%	65.74%	68.68%	56.74%	65.43%

Notes to Schedule:

Benefit Changes – There were no changes in benefits.

Changes in Assumptions – OCERS demographic assumptions were updated for the December 31, 2025 measurement date.

***Fiscal year 2018 was the first year of implementation, therefore only nine years are shown.*

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of the Proportionate Share of the Net OPEB Liability and Related Ratios as of the Measurement Date

Last Ten Fiscal Years*

(Continued)

	Measurement Date			
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Proportion of the Collective Net OPEB Liability	0.0328%	0.0311%	0.0305%	0.0324%
Proportionate Share of the Collective Net OPEB Liability	$109,593	110,526	126,448	130,408
Covered-Employee Payroll	$440,000	435,000	407,000	387,000
Proportionate Share of the Collective Net OPEB Liability as a Percentage of Covered-Employee Payroll	24.91%	25.41%	31.07%	33.70%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.93%	51.87%	42.55%	42.30%

***Fiscal year 2018 was the first year of implementation, therefore only nine years are shown.*

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of Contributions – OPEB Plan

Last Ten Fiscal Years*

	Fiscal Year 2025-26	Fiscal Year 2024-25	Fiscal Year 2023-24	Fiscal Year 2022-23	Fiscal Year 2021-22
Actuarially Determined Contribution	$7,000	8,000	15,000	17,000	16,000
Contributions in Relation to the Actuarially Determined Contribution	$7,000	8,000	15,000	17,000	16,000
Contribution Deficiency (Excess)	$ -	-	-	-	-
Covered-Employee Payroll	$425,000	499,000	521,000	509,000	501,000
Contributions as a Percentage of Covered-Employee Payroll	1.65%	1.60%	2.87%	3.34%	3.19%

Notes to Schedule:

Fiscal Year End:	June 30, 2026
Valuation Date:	June 30, 2023

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	5-year smooth market
Discount Rate	7.00%
Inflation	2.50%
Mortality	OCERS 2017-2019 experience study
Medical Trend	Non-Medicare – 8.5% for 2025, decreasing to an ultimate rate 3.45% in 2076 Medicare (Non-Kaiser) – 7.5% for 2025, decreasing to an ultimate rate 3.45% in 2076 Medicare (Kaiser) – 6.25% for 2025, decreasing to an ultimate rate 3.45% in 2076

*****Fiscal year 2018 was the first year of implementation, therefore only nine years are shown.*

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of Contributions – OPEB Plan

Last Ten Fiscal Years*

(Continued)

	Fiscal Year 2020-21	Fiscal Year 2019-20	Fiscal Year 2018-19	Fiscal Year 2017-18
Actuarially Determined Contribution	$14,000	18,000	17,440	16,354
Contributions in Relation to the Actuarially Determined Contribution	$14,000	18,000	17,440	16,354
Contribution Deficiency (Excess)	-	-	-	-
Covered-Employee Payroll	$433,000	483,000	440,000	396,000
Contributions as a Percentage of Covered-Employee Payroll	3.23%	3.73%	3.96%	4.13%

Notes to Schedule:

Fiscal Year End:	June 30, 2025
Valuation Date:	June 30, 2023

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	5-year smooth market
Discount Rate	7.00%
Inflation	2.50%
Mortality	OCERS 2017-2019 experience study
Medical Trend	Non-Medicare – 8.5% for 2025, decreasing to an ultimate rate 3.45% in 2076 Medicare (Non-Kaiser) – 7.5% for 2025, decreasing to an ultimate rate 3.45% in 2076 Medicare (Kaiser) – 6.25% for 2025, decreasing to an ultimate rate 3.45% in 2076

***Fiscal year 2018 was the first year of implementation, therefore only nine years are shown.*

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund

Year ended June 30, 2026

	Original Budget	Final Budget	Variance with Original budget - over (under) Final Budget	Actual	Variance with Final Budget over (under) Actual Amounts
Revenues:					
Apportionments	$ 1,692,010	1,692,010	-	1,692,010	-
Investment income	35,640	35,640	-	88,666	53,026
Other	-	-	-	363	363
Total revenues	1,727,650	1,727,650	-	1,781,039	53,389
Expenditures:					
General government:					
Salaries and benefits	1,123,230	1,123,230	-	701,949	(421,281)
Service and supplies	714,760	714,760	-	389,246	(325,514)
Debt service:					
Principal	-	-	-	100,158	100,158
Interest	-	-	-	16,007	16,007
Total expenditures	1,837,990	1,837,990	-	1,207,360	(630,630)
Net change in fund balances	(110,340)	(110,340)	-	573,679	684,019
Fund balances at beginning of year	1,754,720	1,754,720	-	1,754,720	-
Fund balances at end of year	$ 1,644,380	1,644,380	-	2,328,399	684,019

See accompanying notes to the required supplementary information

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Required Supplementary Information
Note to the Budgetary Comparison Schedule
Year ended June 30, 2026

Note A - Actual Budget Results

	General Fund over (under)
BUDGETARY REVENUES	
Differences - final budget to actual:	
Investment income exceeded budgeted amounts due to higher than anticipated earnings on the Commission's deposits and Local Agency Investment Fund balances as well as investment gains on the PARS trust, which are not budgeted.	$ 53,026
BUDGETARY EXPENDITURES	
Differences - final budget to actual:	
Salaries and benefits were less than budgeted amounts primarily due to staff vacancies during the fiscal year, including the Assistant Executive Officer position, which remained unfilled.	$ (421,281)
Services and supplies were less than budgeted amounts because payments on the Commission's office and copier leases are budgeted within services and supplies but are reported as debt service principal and interest. Other professional services and legal costs were also less than anticipated.	(325,514)
Debt service principal and interest were not budgeted as debt service. These lease payments were budgeted in services and supplies, as described above.	116,165

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to Required Supplementary Information

Year ended June 30, 2026

(1) Budgetary Reporting

The Commission established accounting control through formal adoption of an annual budget for the General Fund. The budget is prepared on a basis consistent with generally accepted accounting principles. The adopted budget can be amended by the Commission to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations and transfers between funds require Commission's approval. However, the Executive Officer may authorize changes within funds. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the Commission's management to review the budget monthly and provide quarterly updates to the Commission. A budget is not prepared for the Special Revenue Fund.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Commissioners
Orange County Local Agency Formation Commission
Santa Ana, California

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Orange County Local Agency Formation Commission (the "Commission"), as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 6, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 entity'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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis Farr LLP

Irvine, California
November 6, 2026