

**SANTA CRUZ LOCAL AGENCY
FORMATION COMMISSION**

Basic Financial Statements

Year ended June 30, 2025

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

Year ended June 30, 2025

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Independent Auditor's Report

Board of Commissioners
Santa Cruz Local Agency Formation Commission
Santa Cruz, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the Santa Cruz Local Agency Formation Commission (the "Commission"), as of and for the year ended June 30, 2025, 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 the major fund of the Commission as of June 30, 2025, 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.

Emphasis of Matter

As described further in Notes 2 and 8 to the financial statements, during the year ended June 30, 2025, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences. As a result, the beginning net position has been restated. Our opinion is not modified with respect to this matter.

Basis for Opinions

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 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.

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

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 opinions. 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 the Schedule of Plan Contributions* 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 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 Commission’s internal control over financial reporting and compliance.

DavisFarrLLP

Irvine, California
February 24, 2026

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2025

This section of the Santa Cruz Local Agency Formation Commission's (the Commission) basic financial statements presents our analysis of the Commission's financial performance during the year ended June 30, 2025, and other significant conditions and events. This section should be read in conjunction with the financial statements which follow. The fiscal year ended June 30, 2025 is the first year of implementation of the Management's Discussion and Analysis and as such includes information only related to the year then ended. In future years, when prior-year information is available, a comparative analysis of data will be presented.

Using the Accompanying 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. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Commission's operations in more detail than the government-wide statements by providing information about the Commission's most significant revenues and expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of two parts - *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Commission.

The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Commission's overall financial status. The remaining statements are *fund financial statements* that focus on *individual parts* of the Commission, reporting the Commission's operations in *more detail* than the government-wide statements. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Reporting the Commission as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the Commission as a whole. One of the most important questions asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Commission's net position and changes in net position. You can think of the Commission's net position - the difference between assets and liabilities - as one way to measure the Commission's financial health, or *financial position*.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2025

Over time, *increases and decreases* in the Commission's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Commission's revenues, to assess the *overall health* of the Commission.

Reporting the Commission's Major Funds

The **fund financial statements** provide detailed information about the Commission's most significant funds - not the Commission as a whole. Some funds are required to be established by State law or by bond covenants. However, the Commission establishes other special funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain revenues.

Governmental fund - All of the Commission's basic services are reported in a governmental fund, which focuses on how money flows into and out of that fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Commission's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in a reconciliation following the fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide *Statement of Net Position* follows:

Table 1
Statement of Net Position
June 30, 2025

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Assets:			
Current assets	\$ 248,465	300,693	(52,228)
Total assets	<u>248,465</u>	<u>300,693</u>	<u>(52,228)</u>
Deferred outflows of resources	<u>236,919</u>	<u>305,963</u>	<u>(69,044)</u>
Liabilities:			
Current liabilities	60,354	33,237	27,117
Non-current liabilities	647,547	685,838	(38,291)
Total liabilities	<u>707,901</u>	<u>719,075</u>	<u>(11,174)</u>
Deferred inflows of resources	<u>41,764</u>	<u>29,175</u>	<u>12,589</u>
Net position:			
Unrestricted	(264,281)	(141,594)	(122,687)
Total net position	<u>\$ (264,281)</u>	<u>(141,594)</u>	<u>(122,687)</u>

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2025

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

A closer examination reveals that Net Position between the years decreased by \$122,687.

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

**Table 2
Statement of Activities
Year Ended June 30, 2025**

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Revenues:			
Apportionments	\$ 419,265	419,265	-
Charges for Services	7,668	13,911	(6,243)
Investment Income and Other Revenues	<u>23,294</u>	<u>19,386</u>	<u>3,908</u>
Total revenues	<u>450,227</u>	<u>452,562</u>	<u>(2,335)</u>
Expenses:			
General Government	<u>549,698</u>	<u>514,514</u>	<u>35,184</u>
Total expenditures	<u>549,698</u>	<u>514,514</u>	<u>35,184</u>
Changes in net position	<u>(99,471)</u>	<u>(61,952)</u>	<u>(37,519)</u>
Beginning net position, as previously reported	(141,594)	(79,642)	(61,952)
Restatement for implementation of GASB 101	<u>(23,216)</u>	<u>-</u>	<u>(23,216)</u>
Net position - beginning, as restated	<u>(164,810)</u>	<u>(79,642)</u>	<u>(85,168)</u>
Ending net position	<u>\$ (264,281)</u>	<u>(141,594)</u>	<u>(122,687)</u>

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. In fiscal year 2025, the Commission saw a decrease in financial position.

GENERAL FUND BUDGET

Major deviations between the budget of the General Fund and its actual operating results were as follows:

- Total general fund revenues were higher due to increases in planning study service revenue and investment income.
- Several pension and retiree, health year-end calculations, are not budgeted for as they are prepared at the governmental-wide level and not the fund level.
- Total expenditure was lower than budgeted by approximately \$69,804, mainly due to cost savings on contracted services, training, and travel.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Management's Discussion and Analysis

Year ended June 30, 2025

LONG-TERM LIABILITIES

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Net Pension Liability	\$ 627,013	676,972	(49,959)
Compensated Absences *	<u>68,448</u>	<u>52,770</u>	<u>15,678</u>
Total Liabilities	<u>\$ 695,461</u>	<u>729,742</u>	<u>(34,281)</u>

* Compensated absences have been restated for FY24 as a result of the implementation of GASB 101.

The compensated absences liability represents the value of unused vacation pay that employees have accrued as of the end of the fiscal year. Additional information on long-term liabilities may be found in Note 4 and 8 of the notes to financial statements.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the County and local agencies with a general overview of the Commission's finances and show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joe Serrano, Executive Director, at (831) 454-2055.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Statement of Net Position

June 30, 2025

	<u>Governmental Activities</u>
Assets:	
Cash and investments (note 3)	\$ 246,304
Accounts receivable	7
Prepaid expenses	<u>2,154</u>
Total assets	<u>248,465</u>
Deferred outflows of resources:	
Deferred amounts from pension (note 5)	<u>236,919</u>
Total deferred outflows of resources	<u>236,919</u>
Liabilities:	
Current Liabilities	
Accounts payable	4,812
Accrued liabilities	7,628
Compensated absences (note 4)	<u>47,914</u>
Total current liabilities	<u>60,354</u>
Non-current liabilities	
Compensated absences (note 4)	20,534
Net pension liability (note 5)	<u>627,013</u>
Total non-current liabilities	<u>647,547</u>
Total liabilities	<u>707,901</u>
Deferred inflows of resources:	
Deferred amounts from pension (note 5)	<u>41,764</u>
Total deferred inflows of resources	<u>41,764</u>
Net position:	
Unrestricted	<u>(264,281)</u>
Total net position	<u>\$ (264,281)</u>

See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Statement of Activities

Year ended June 30, 2025

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	\$ <u>549,698</u>	<u>7,668</u>	<u>-</u>	<u>-</u>	\$ <u>(542,030)</u>
Total governmental activities	\$ <u>549,698</u>	<u>7,668</u>	<u>-</u>	<u>-</u>	<u>(542,030)</u>
		General revenues:			
		Apportionments			419,265
		Investment income			17,333
		Other revenues			<u>5,961</u>
		Total general revenues			<u>442,559</u>
		Change in net position			<u>(99,471)</u>
		Net position - beginning, as previously reported			(141,594)
		Restatement for implementation of GASB 101 (note 8)			<u>(23,216)</u>
		Net position - beginning, as restated			<u>(164,810)</u>
		Net position, end of year			\$ <u>(264,281)</u>

See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Balance Sheet - Governmental Fund

June 30, 2025

	<u>Assets</u>	<u>General Fund</u>
Cash		\$ 246,304
Accounts receivable		7
Prepaid expenses		<u>2,154</u>
Total assets		<u>\$ 248,465</u>
 <u>Liabilities and Fund Balance</u> 		
Liabilities:		
Accounts payable		\$ 4,812
Accrued liabilities		<u>7,628</u>
Total liabilities		<u>12,440</u>
Fund balance:		
Nonspendable		2,154
Unassigned		<u>233,871</u>
Total fund balance		<u>236,025</u>
Total liabilities and fund balance		<u>\$ 248,465</u>

See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION
Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Position

June 30, 2025

Fund balances of governmental funds	\$	236,025
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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		(627,013)
Compensated absences		(68,448)

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		236,919
Deferred inflows - pensions		<u>(41,764)</u>

Net position of governmental activities	\$	<u>(264,281)</u>
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See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

**Statement of Revenues, Expenditures, and Changes in
Fund Balance - Governmental Fund**

Year ended June 30, 2025

Revenues:	
Apportionments	\$ 419,265
Charges for services	7,668
Investment income	17,333
Other revenue	<u>5,961</u>
Total revenues	<u>450,227</u>
Expenditures:	
General government:	
Salaries and benefits	426,077
Service and supplies	69,564
Travel and training	5,876
Rent	<u>829</u>
Total expenditures	<u>502,346</u>
Excess (deficiency) of revenues over/(under) expenditures	<u>(52,119)</u>
Net change in fund balance	(52,119)
Fund balance at beginning of year	<u>288,144</u>
Fund balance at end of year	<u>\$ 236,025</u>

See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

**Reconciliation of the Statement of Revenues, Expenditures, and
Change in Fund Balance of Governmental Fund to the Statement of Activities**

Year ended June 30, 2025

Net changes in fund balances - total governmental funds \$ (52,119)

Amounts reported for governmental activities in the Statement of Activities
are different because:

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 (15,678)

Pension expense reported in the governmental funds include the actual
contributions made in the fiscal year. Pension 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 and related deferred outflow/inflow (31,674)

Change in net position of governmental activities \$ (99,471)

See accompanying notes to the basic financial statements

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(1) Nature of Organization

The Santa Cruz Local Agency Formation Commission (the Commission) is an independent agency created in 1963, by the state legislature. The Commission works closely with citizens, the county, cities and special districts on a variety of issues concerning the organization of local governments, jurisdiction changes, and public services. The Commission's statutory purpose includes discouraging urban sprawl, preserving agricultural land, and encouraging orderly boundaries based upon local circumstances and conditions, and promoting adequate public services. From its creation in 1963 to June 30, 2001, the County of Santa Cruz funded the Commission. Beginning July 1, 2001, the Cortese/Knox/Hertzberg Local Reorganization Act redefined the Commission's responsibilities and established a new funding method and process. The Commission, after accounting for charges and services, is now funded in equal thirds by (1) the County of Santa Cruz (2) the cities and (3) the independent special districts in Santa Cruz. The Commission adopts its annual budget by June 15 of each year and transmits it to each of the member organizations.

(2) Summary of Significant Accounting Policies

The financial statements of the Santa Cruz Local Agency Formation Commission (the 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) 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

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.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

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.

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.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

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 fund balance 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.

(b) Fund Classifications

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

Nonspendable Fund Balance – This includes amounts that are prepaid and do not constitute “available spendable resources”, even though they are a component of net current assets.

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.

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 fund:

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.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(c) Cash and Cash equivalents

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.

(d) 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.

(e) Member Allocations of Cost

All member organizations are required to pay an allocation of costs of the annual Commission's budget.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(f) Compensated Absences

The Commission implemented GASB Implementation Statement No. 101 for accounting and reporting of compensated absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. It is the Commission's policy to permit employees to accumulate earned but unused vacation and sick time (compensated absences). The balance of unpaid vacation time on June 30, 2025, is recorded as a noncurrent liability.

The Commission offers employees paid time off benefits for vacation and sick leave.

Vacation Accrual

Regular full-time employees will accrue vacation according to continuous years of service in accordance with the schedule below.

<u>Years of Service Completed</u>	<u>Vacation Days Accrual per Year</u>
1 to 5 years	16
5 to 10 years	21
10 to 15 years	26
15+ years	31

Sick Leave Payout

All employees are entitled to six (6) days of sick leave per year and will accrue up to a maximum of one hundred eighty (180) days. Upon separation from the Commission, accrued unused sick leave up to a maximum of 450 hours shall be paid to employees with one or more years of service in accordance with the following schedule:

<u>Years of Service Completed</u>	<u>Sick Leave Payout</u>
1 to 5 years	10%
5 to 10 years	50%
10+ years	75%

Sick leave pay will be calculated based on the employee's last hourly rate of pay.

(g) Net Position

Net position represents the difference between assets and liabilities and is classified into three components as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Restricted – This component of net position consists of assets which are legally restricted by outside parties for use for a specific purpose.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”. Designated net position represents unrestricted assets which are segregated by the Commission for specific future uses.

(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 California Public Employees’ Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as it is reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Valuation Date (VD)	June 30, 2023
Measurement Date (MD)	June 30, 2024
Measurement Period (MP)	July 1, 2023 to June 30, 2024

(i) 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.

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.

(j) Use of Estimates

The preparation of 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 amounts reported in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(3) Cash and investments

The Commission maintains all of its cash in the Santa Cruz County Treasury. The County Treasurer pools and invests the Commission's cash with other funds under its control. Interest earned on pooled investments is apportioned quarterly into participating funds based upon each fund's average daily balance.

Cash and investments held at June 30, 2025 consisted of the following:

County Treasurer Pooled Investments	\$	246,264
Petty Cash		<u>40</u>
Total Cash and Investments	\$	<u>246,304</u>

Investment Authorized by the California Government Code and the Entity's Investment Policy

The Commission's investment policy only authorizes investment in the local government investment pool administered by the County of Santa Cruz.

The Commission's investment policy does not contain any specific provisions intended to limit the Commission's exposure to interest rate risk, credit risk, and concentration of credit risk.

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.

Custodial Credit Risk

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 investment or collateral securities that are in the possession of another party. 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 investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Santa Cruz County Investment Pool).

Credit Risk

Generally, credit risk is the risk that the 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. Presented below is the minimum rating required by (where applicable) the California Government Code and the Commission's investment policy, and the actual rating as of the year end for each investment type.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(3) Cash and investments (Continued)

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Not Rated</u>
Santa Cruz County Investment Pool	\$ 246,264	N/A	\$ 246,264
Total	<u>\$ 246,264</u>		<u>\$ 246,264</u>

Concentration of Credit Risk

The investment policy of the Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. All of the Commission’s cash is held in the Santa Cruz County Investment Pool.

Investment in Santa Cruz County Investment Pool

The Commission is a participant in the Santa Cruz County Investment Pool that is regulated by the California Government Code. The fair value of the Commission’s investment in this pool is reported in the accompanying financial statements at the amounts based upon the Commission’s pro-rata share of the fair value provided by the Santa Cruz County Investment Pool for the entire Santa Cruz County Investment Pool portfolio. The balance available for withdrawal is based on the accounting records maintained by the Santa Cruz Investment Pool.

(4) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2025:

	<u>Balance July 1, 2024</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2025</u>	<u>Due Within One Year</u>
Compensated Absences *	<u>\$ 52,770</u>	<u>15,678</u>	<u>-</u>	<u>68,448</u>	<u>47,914</u>

*Beginning balances of compensated absences have been restated and current year changes are reported as a net addition or deletion, as a result of the implementation of GASB 101.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(5) Retirement Plan

Plan Description

All qualified employees are eligible to participate in the Commission’s 2.0% at 55 (Miscellaneous Plan) Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Commission resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Classic members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after ten years of service.

The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for the plan are applied as specified by the Public Employees’ Retirement Law.

The Plan’s provisions and benefits in effect at the measurement date June 30, 2024, are summarized as follows:

Benefit Formula	2% at 55
Benefit Vesting Schedule	5 years of service
Required Employee Contribution Rates	6.93%
Required Employer Contribution Rates	12.52%

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 July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. 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. Commission contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions. For the fiscal year ended June 30, 2025, the Commission’s contribution to the Plan was \$92,406.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(5) Retirement Plan (Continued)

The Commission reported a net pension liability for its proportionate share of the net pension liability of \$627,013 as of June 30, 2025. The Commission's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the Plan at June 30, 2025 was measured as of June 30, 2024. The total pension liability at June 30, 2024 for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan 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:

	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability/(Asset)
Balance at June 30, 2023	\$ 2,373,720	1,696,749	676,971
Balance at June 30, 2024	<u>2,412,604</u>	<u>1,785,591</u>	<u>627,013</u>
Net changes during 2023-2024	<u>\$ 38,884</u>	<u>88,842</u>	<u>(49,958)</u>

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

Proportion - June 30, 2024	0.01354%
Proportion - June 30, 2025	<u>0.01296%</u>
Change - Increase (Decrease)	-0.00058%

For the year ended June 30, 2025, the Commission recognized a pension expense of \$124,081.

At June 30, 2025, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 92,406	-
Changes of Assumptions	16,116	-
Differences Between Actual and Expected Experience	54,211	(2,115)
Difference between employer's contribution and proportionate share of contribution	38,090	(1,575)
Net difference between projected and actual earnings on pension plan investments	36,096	-
Adjustments due to difference in proportions	<u>-</u>	<u>(38,074)</u>
Total	<u>\$ 236,919</u>	<u>(41,764)</u>

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(5) Retirement Plan (Continued)

The \$92,406 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as noted below:

Fiscal Year Ending June 30,	Deferred Outflows (Inflows) of Resources
2026	\$ 32,301
2027	80,507
2028	2,311
2029	(12,370)
2030	-
Thereafter	-

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net pension 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 outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expenses.

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

Net Difference between projected and actual earnings on pension plan investments

5 year straight-line amortization

All other amounts

Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(5) Retirement Plan (Continued)

Actuarial Assumptions

The collective total pension liability for the June 30, 2024 measurement period was determined by an actuarial valuation as of June 30, 2023, with update procedures used to roll forward the total pension liability to June 30, 2024. The collective total pension liability was based on the following assumptions:

Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions	
Discount Rate	6.90%
Inflation	2.30%
Projected Salary Increase	Varies by entry age and service
Mortality ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

¹The mortality table was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The table below presents the Commission's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	1% Decrease (5.90%)	Discount Rate (6.90%)	1% Increase (7.90%)
Net Pension Liability	\$ 952,571	627,013	359,031

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(5) Retirement Plan (Continued)

Long-Term Expected Rate of Return

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return.

The expected real rates of return by asset class are as follows:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return (a), (b)</u>
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-cap weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	<u>100.00%</u>	

(a) An expected inflation of 2.30% used for this period.

(b) Figures are based on the 2021 Asset Liability Management study.

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

(6) Risk Management

The Commission is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Commission has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. In addition, the Commission has an agreement with the County of Santa Cruz (the County) in which the Commission shall be included in the County's risk pool, and the County shall provide liability insurance, defense, and indemnification to the Commission and its officers. There have been no claims in the last two fiscal years, and there were no reductions in the Commission's insurance coverage during the year ending June 30, 2025.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year ended June 30, 2025

(Continued)

(7) 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, 2025 was \$55,500.

(8) Restatement of Beginning Balance

The Commission implemented GASB Statement No. 101: Compensated Absences during the fiscal year ended June 30, 2025. This adjustment recognized vacation, administrative and sick leave and includes salary-related payments, such as applicable payroll taxes, that are more likely than not to be used or settled in the future.

	<u>Governmental Activities</u>
Net position - beginning, as previously stated	\$ (141,594)
Restatement for implementation of GASB 101	<u>(23,216)</u>
Net position - beginning, as restated	<u>\$ (164,810)</u>

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan's Proportionate Share of Net Pension Liability

Last Ten Years*

Measurement Date	<u>06/30/24</u>	<u>06/30/23</u>
Proportion of the Collective Net Pension Liability	0.01296%	0.01354%
Proportionate Share of the Collective Net Pension Liability	\$ 627,013	676,972
Covered Payroll	\$ 242,238	171,912
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	258.84%	393.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	0.00928%	0.00959%

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes in Assumptions: The discount rate was reduced from 7.15% to 6.90% as of June 30, 2021.

*Fiscal year 2024 was the first year of implementation. Therefore, only two years are shown.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

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

Year ended June 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Apportionments	\$419,265	419,265	419,265	-
Planning studies services	-	-	7,668	7,668
Investment income	1,500	1,500	17,333	15,833
Other revenue	-	-	5,961	5,961
Total revenues	<u>420,765</u>	<u>420,765</u>	<u>450,227</u>	<u>29,462</u>
Expenditures:				
General government:				
Salaries and benefits	448,400	448,400	426,077	22,323
Service and supplies	105,600	105,600	69,564	36,036
Travel and training	8,150	8,150	5,876	2,274
Utilities	10,000	10,000	829	9,171
Total expenditures	<u>572,150</u>	<u>572,150</u>	<u>502,346</u>	<u>69,804</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(151,385)</u>	<u>(151,385)</u>	<u>(52,119)</u>	<u>99,266</u>
Net change in fund balances	(151,385)	(151,385)	(52,119)	99,266
Fund balances at beginning of year	<u>288,144</u>	<u>288,144</u>	<u>288,144</u>	-
Fund balances at end of year	<u>\$136,759</u>	<u>136,759</u>	<u>236,025</u>	<u>99,266</u>

See accompanying notes to required supplementary information.

SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION

Notes to Required Supplementary Information

Year ended June 30, 2025

(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 the 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.

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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
Santa Cruz Local Agency Formation Commission
Santa Cruz, 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 Santa Cruz Local Agency Formation Commission (the "Commission"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated February 24, 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. 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.

DavisFarrLLP

Irvine, California
February 24, 2026.