Attachment 2

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11/4/2026

To be used only for management discussion purposes; engagement is incomplete; this draft is subject to final review and possible revision. **Report/Letter date is TENTATIVE-TBD**

ALAMEDA LOCAL AGENCY FORMATION COMMISSION

BOARD OF COMMISSIONERS & MANAGEMENT REPORT

For the Year Ended JUNE 30, 2026

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Commissioners
Alameda Local Agency Formation Commission
Hayward, California

In planning and performing our audit of the basic financial statements of Alameda Local Agency Formation Commission (LAFCo) for the fiscal year ended June 30, 2026, in accordance with auditing standards generally accepted in the United States of America, we considered Alameda Local Agency Formation Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of Alameda Local Agency Formation 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 were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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

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

We thank Alameda Local Agency Formation Commission's staff for its cooperation during our audit.

O'Connor & Company

Novato, California

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Commissioners
Alameda Local Agency Formation Commission
Hayward, California

We have audited the basic financial statements of the governmental activities and major fund of Alameda Local Agency Formation Commission (LAFCo) for the year ended June 30, 2026. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 8, 2026, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Alameda Local Agency Formation Commission are described in Note 2 to the basic financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year, except the following Government Accounting Standards Board (GASB) pronouncement became effective:

GASB 103 - *Financial Reporting Model Improvements* - The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

The following pronouncements became effective, but did not have a material effect on the financial statements:

GASB 104 – *Disclosure of Certain Capital Assets*

We noted no transactions entered by Alameda Local Agency Formation Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the basic financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The most sensitive estimates affecting the financial statements were:

- Compensated absences.

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

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Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements (Audit Adjustments)
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, no adjustments were detected because of audit procedures and were corrected by management.

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

Management Representations
We have requested certain representations from management that are included in the management representation letter dated [DATE].

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

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

Other Matters
We applied certain limited procedures to Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This report is intended solely for the information and use of management and the Board of Commissioners of Alameda Local Agency Formation Commission and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

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Current Year Observations

1) Written Lease IT Subscription Arrangements Policy Based on GASB 87 & 96 Guidance

Observation:

During our audit, we noted that Alameda Local Agency Formation Commission (LAFCo) does not have a formal policy for accounting for leases and IT subscription arrangements based on GASB 87 & 96 guidance. This policy would document LAFCo's internal controls and processes in determining whether GASB 87 & 96 guidance applies to potential lease and IT subscription arrangements and capitalization thresholds. This policy would also outline the procedures for estimating and recording lease and right to use asset entries.

Recommendation:

We recommend LAFCo consider formalizing a capitalization policy for lease and IT subscription liabilities and the right to use assets over $100,000. We also recommend keeping lease terms month to month or as annual leases whenever possible.

Prior Year Observations

There were no prior year observations.

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Attachment 1

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11/4/2026

To be used only for management discussion purposes; engagement is incomplete; this draft is subject to final review and possible revision. **Report/Letter date is TENTATIVE-TBD**

ALAMEDA LOCAL AGENCY FORMATION COMMISSION

HAYWARD, CALIFORNIA

ANNUAL FINANCIAL REPORT

JUNE 30, 2026

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INDEPENDENT AUDITORS' REPORT

Commissioners
Alameda Local Agency Formation Commission
Hayward, California

Report on the Financial Statements

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

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

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Basis for Opinions
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Alameda 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.

Responsibilities of Management for the Financial Statements
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 Alameda Local Agency Formation Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 auditing standards generally accepted in the Unites States of America 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 controls.

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 auditing standards generally accepted in the Unites States of America, 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 Alameda Local Agency Formation 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 Alameda Local Agency Formation 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3-6) and the required supplementary information (page 19), which follows this report letter, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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O'Connor & Company

Novato, California

This section of the Alameda Local Agency Formation Commission's (Alameda LAFCo) annual financial report presents management's narrative overview and analysis of the financial activities of Alameda LAFCo for the fiscal year (FY) ended June 30, 2026.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to Alameda LAFCo's basic financial statements. Alameda LAFCo's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

- The Statement of Net Position presents information on all of Alameda LAFCo's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Alameda LAFCo is improving or deteriorating.
- The Statement of Activities presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. For Alameda LAFCo, the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances do not structurally differ from the governmental activities' presentation in the statement of net position and statement of activities.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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FINANCIAL SUMMARY

The following table presents a summary of the Alameda LAFCo's Statement of Net Position by category as of June 30, 2026.

Table 1
Governmental Net Position

	2026 Governmental Activities	2025 Governmental Activities
Assets		
Current assets	$ 309,993	$ 420,419
Total assets	309,993	420,419
Liabilities		
Current liabilities	61,703	159,365
Noncurrent liabilities	64, 743	-
Total liabilities	126,446	159,365
Net Position		
Unrestricted	183,547	261,054
Total net position	$ 183,547	$ 261,054

A summary of total Alameda LAFCo Revenues, Expenses, and Changes in Net Position is presented in the table below.

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Table 2
Changes in Governmental Net Position

	2026 Governmental Activities	2025 Governmental Activities
Revenues		
Program revenues:		
Charges for service	$ 4,575	$ -
Total program revenues	4,575	-
General revenues:		
Apportionment revenues	579,514	484,429
Interest	15,176	25,420
Total general revenues	599,265	509,849
Total revenues		
Expenses		
Program expenses	676,772	657,911
Total expenses	676,772	657,911
Change in net position	$ (77,507)	$ (148,062)

DETAILED ANALYSES

Governmental-Wide Financial Analysis

Governmental Activities Financial Analysis

- **Total Assets** decreased by **$110,426** in fiscal year 2026 This variance is primarily driven by a reduction in cash and cash equivalents associated with operational outlays needed to execute the agency's structural transition toward independence from the County of Alameda.
- **Total Liabilities** decreased by **$32,919** in fiscal year 2026. This change is primarily due to a decrease in outstanding accounts payable based on timing of vendor cash disbursements

The main source of revenue for the program comes from charges to the member agencies. The cost sharing is based on the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CA Gov. Code section 56000 et. seq.), which provides that the County, cities and independent special districts share jointly and equally in the net operating expenses of Alameda LAFCo.

Based on the cash balance remaining at the end of each quarter in fund number 83419, the program received a proportionate share of interest income calculated by the Controller's office quarterly based on the countywide pool of trust funds balances for the audited period.

For the fiscal year ending June 30, 2026, total governmental revenues reached $599,265, representing an increase of $89,416. The core driver of this revenue variation includes:

- Apportionment Revenues expanded by $95,085 due to a deliberate operating budget increase approved by the Commission to comprehensively fund the agency's complete operational, technological, and payroll separation from the baseline infrastructure of Alameda County.

For the fiscal year ended June 30, 2026, governmental expenses totaled $676,772, which is an increase from the prior year of $18,861. The most significant changes in governmental activities expenses include:

- Payroll and Personnel Benefit Expenses increased due to hiring its own staff
- Professional Fees higher due to the procurement of standalone legal counsel, and specialized operational consultants required to maintain regulatory compliance post-independence.

Fund balance in the general fund decreased $10,873 for the year ending June 30, 2026 to a total fund balance of $250,181. The 2026 budget anticipated a decrease in fund balance of $295,000.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Transition to Independent Employer Status (ACERA): Effective January 1, 2026, Alameda LAFCO officially transitioned from utilizing Alameda County staff support contracts to becoming an independent participating employer within the Alameda County Employees' Retirement Association (ACERA). This organizational shift transforms how personnel benefits and long-term pension/OPEB obligations are structured and reported on the Commission's financial statements going forward.

Special Studies and Regional Feasibility Analyses: The Commission recently completed several major research efforts, including the Framework for a Countywide Regional Water Committee, the Countywide Community Services Municipal Service Review (MSR), and the Feasibility Analysis for Castro Valley. Future budgets will fluctuate depending on Commission actions, stakeholder responses, or structural cityhood/incorporation changes emerging from these multi-year studies.

CALAFCO Dues Restructuring: Operational costs continue to adapt to a revised statewide dues framework enacted by the California Association of Local Agency Formation Commissions (CALAFCO). This base-charge and population-proportional per-capita formula is designed to stabilize the statewide organization's structural budget deficit, resulting in recurring baseline increases for Alameda LAFCO's administrative allocations.

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CONTACTING ALAMEDA LAFCO MANAGEMENT

This financial report is designed to provide LAFCo Commission, management, member agencies, awarding agencies, and pass-through entities, with a general overview of the Alameda LAFCo's finances and to show the Alameda LAFCo's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact Rachel Jones, LAFCo Executive Officer at (510) 272 3894 or Theresa Rude, LAFCo Staff Analyst at (510) 272 3879.

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Alameda Local Agency Formation Commission
STATEMENT OF NET POSITION
June 30, 2026

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments	$ 309,993
Total assets	309,993
LIABILITIES AND NET POSITION	
Liabilities:	
Accounts payable and other accrued expenses	59,812
Compensated absences (current)	1,891
Compensated absences (non-current)	64,743
Total liabilities	126,446
Net position:	
Unrestricted net position	183,547
Total net position	$ 183,547

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

Alameda Local Agency Formation Commission
STATEMENT OF ACTIVITIES
June 30, 2026

	Expenses	Program Revenues: Charges for Services	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities			
Services and supplies	$ 676,772	$ 4,575	$ (672,197)
Total governmental activities	$ 676,772	$ 4,575	(672,197)
General revenues:			
Interest earnings			15,176
Apportionment revenues			579,514
Total general revenues			594,690
Change in net position			(77,507)
Net assets - beginning			261,054
Net assets - ending			$ 183,547

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

Alameda Local Agency Formation Commission
GOVERNMENTAL FUND - BALANCE SHEET
June 30, 2026

	General Fund
ASSETS	
Cash and cash investments	$ 309,993
Total assets	309,993
LIABILITIES	
Accounts payable and other accrued expenses	59,812
Total liabilities	59,812
FUND BALANCES	
Assigned fund balances	250,181
Total fund balances	250,181
Total liabilities and fund balances	$ 309,993

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

Alameda Local Agency Formation Commission
Reconciliation of the
GOVERNMENTAL FUND - BALANCE SHEET
with the
STATEMENT OF NET POSITION
For the Year Ended June 30, 2026

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	$	250,181
Amount reported for governmental activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:		
LONG-TERM ASSETS AND LIABILITIES		
The assets and liabilities below are not due and payable in the current perio and therefore are not reported in the funds		
Compensensated absences		(66,634)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$	183,547

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

Alameda Local Agency Formation Commission
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
June 30, 2026

Revenues	General Fund
Agency apportionments	$ 579,514
Application fees	4,575
Interest	15,176
Total revenues	599,265
Expenditures	
Salaries and benefits	276,090
Services and supplies	334,048
Total expenditures	610,138
Excess (deficiency) of revenues over (under) expenditures	(10,873)
Fund balances, beginning of the period	261,054
Fund balances, end of the period	$ 250,181

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

Alameda Local Agency Formation Commission
Reconciliation of the
STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES
to the
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2026

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUND	$ (10,873)

The changes in Net Position reported for governmental activities in the Statement of Activities are different because:

ACCRUAL OF NON-CURRENT ITEMS

The amount below included in the Statement of Activities do not provide (or require) the use of the current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change):

Compensated absences	(66,634)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ (77,507)

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

NOTE 1 - GENERAL INFORMATION

Background and Organization of Alameda LAFCo

Alameda Local Agency Formation Commission's (Alameda LAFCo's or the Commission's) mission is to provide oversight over local governments to make Alameda County a great place to live and work by balancing the preservation of agricultural and open space with the provision of sustainable municipal services.

Alameda LAFCo was formed in 1963 and became an independent state entity in 2000 with the passage of the Cortese-Knox-Hertzberg Local Government Act of 2000 (CA Gov. Code § 56000 et. seq.). Alameda LAFCo is responsible for coordinating logical and timely changes in local government boundaries, conducting special studies that review ways to reorganize, simplify, and streamline governmental structure, and preparing a sphere of influence for each city and special district within its county. Alameda LAFCo's efforts are directed toward seeing that services are provided efficiently and economically while agricultural and open-space lands are protected. Alameda LAFCo also conducts service reviews to evaluate the provision of municipal services within its county.

The Alameda LAFCo Commission consists of seven voting members and four alternates. Commissioners are appointed as follows: two and one alternate appointed by and from the County Board of Supervisors; two and one alternate appointed by and from the County's Mayor Conference; two and one alternate appointed by and from the Alameda County Special District Selection Committee; and one public member and an alternate appointed by the LAFCo Commission. All are appointed to staggered four-year terms.

Alameda LAFCo is not part of the County structure, but is an independent, quasi-legislative agency that serves as a direct agent of the State. Each Commissioner is required to represent the public when considering or rendering decisions. However, they bring the views, perspectives and experience of various local agencies and the public into the decision-making process.

Most Alameda LAFCo expenses are funded by equal contributions from Alameda County, its cities and its special districts. However, a portion of actual proposal processing costs are recovered by charging fees for certain services.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Alameda LAFCo is a legally separate public agency established under the laws of the State of California. The Commission consists of seven regular members, including two county members, two city members, two independent special district members, and one public member, with an alternate member appointed for each category.

Pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, Government Code Section 56380 requires Alameda LAFCo to make its own provisions for necessary facilities, equipment, supplies, and personnel, and authorizes the Commission to contract with public agencies or private parties for these services. Government Code Section 56384 further requires the Commission to appoint an executive officer and legal counsel.

During the first half of fiscal year 2025–2026, Alameda LAFCo continued to receive personnel, administrative, and other support services from Alameda County pursuant to existing contractual arrangements. Effective January 1, 2026, Alameda LAFCo transitioned to an independent employer and assumed direct responsibility for its personnel, payroll, employee benefits, financial administration, and other operational functions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (concluded)

Following this transition, Alameda LAFCo continued to utilize County-owned office space pursuant to a separate license agreement and retained certain statutory and administrative services provided by Alameda County, including services of the Assessor, Auditor-Controller, Clerk-Recorder, and County Surveyor. Other administrative, financial, technological, and professional services are provided directly by Alameda LAFCo or through agreements with outside service providers.

Alameda LAFCo is not a component unit of Alameda County. Its basic financial statements include only the financial activities of Alameda LAFCo. Alameda LAFCo has no financial accountability or oversight responsibility for other governmental entities.

B. Basis of Presentation

Government-wide Financial Statements:
The government-wide financial statements (i.e. statement of net position and statement of activities) report information on all the non-fiduciary activities of Alameda LAFCo. The government-wide statements are prepared using the economic resources measurement focus.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of Alameda LAFCo's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Alameda LAFCo does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of Alameda LAFCo, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of Alameda LAFCo.

Fund Financial Statements:
The accounts of Alameda LAFCO are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions, or limitations. Separate financial statements are provided for each governmental fund. Major individual governmental funds are reported as separate columns in the fund financial statements.

The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and how spending activities are controlled.

Fund financial statements report detailed information about Alameda LAFCo. The focus of governmental fund financial statements is on major funds rather than reporting funds by type.

Alameda LAFCo has only one fund, the general fund, which is a major fund. The general fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

C. Basis of Accounting

The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting.* Governmental fund financial statements use the modified accrual basis of accounting. On an accrual basis, revenues are recorded when earned and expenses are recorded when a liability is incurred.

On a modified accrual basis, revenue is recognized in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon thereafter to be used to pay liabilities of the current fiscal year. For Alameda LAFCo, "available" means collectible within the current period or within 60 days after year-end. Expenditures generally are recorded when liability is incurred, as under accrual accounting.

Alameda LAFCO may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. Alameda LAFCO's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

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

D. Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Actual results could differ from these estimates, and the differences may be material.

E. Insurance and Risk Management

Insurance is provided on behalf of Alameda LAFCo by the County of Alameda Insurance Policy. Alameda LAFCo pays its pro-rata share of insurance costs to the County. For coverage limits see the County of Alameda's Comprehensive Annual Financial Report. Alameda LAFCO also carries commercial insurance coverage for general liability and professional errors and omissions risks of loss.

F. Implementation of New Pronouncement

For the year ended June 30, 2026, the financial statements include the adoption of GASB Statement No. 103 – *Financial Reporting Model Improvements.* The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

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NOTE 3 - CASH AND INVESTMENTS

The Commission's cash is held by the Alameda County Treasurer in the Alameda County (the County) investment pool and by Fremont Bank. The Treasurer invests the cash under policy guidelines established by the County.

Interest earned on pooled cash and investments is allocated to Alameda LAFCo at the end of each quarter based upon the average daily cash balance during the quarter in relation to the average daily balance of total pooled cash. Funds from the County Treasurer are invested pursuant to investment policy guidelines approved by the County Board of Supervisors. The types of investment instruments and the percentage of the portfolio which may be invested in certain instruments are governed by Section 53600 et seq. of the Government Code of the State of California. Authorized instruments in which the Treasurer can invest include debt issued by the County, US Treasury securities, bankers' acceptances, federal, state and local government securities, commercial paper, medium-term notes, negotiable certificates of deposit, shares of beneficial interest and mortgage-backed securities. Credit risk information regarding the cash and investments held by the Treasurer is included in the Comprehensive Annual Financial Report of Alameda County.

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

	Fair Value
Cash in County Treasury	$ 173,861
Cash in Fremont Bank	136,132
Total cash and investments	$ 309,993

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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 deposits and 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 requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to $250,000 by the FDIC. The collateral for deposits in federal and state-chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors.

Fair Value Measurement

GASB Statement No. 72, *Fair Value Measurements and Application*, establishes a fair value hierarchy consisting of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs consist of inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly, that can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs, and Level 3 inputs have the lowest priority and consist of unobservable inputs for an asset or liability. The valuation method used for rental properties is the Leased Fee Market method, which is dependent on the income generated from the rental properties.

Alameda LAFCo did not have any investments subject to the recurring fair value measurements as of June 30, 2026.

NOTE 4 - PAYABLE TO PARTICIPANTS

As per Government Code §56381(c), if, at the end of the fiscal year, Alameda LAFCo has more funds than it needs, the Commission may retain those funds and calculate them into the following fiscal year's budget. Any excess funds are divided between reduced contributions and reserves.

NOTE 5 - LONG TERM DEBT

Compensated Absences

Alameda LAFCo adopted a new accounting pronouncement, GASB Statement No. 101, *Compensated Absences*, for the year ended June 30, 2026. The implementation of this new accounting standard did not have a material impact on the Commission's financial statements but resulted in an updated presentation of the financial statements and related disclosures in the notes to the financial statements.

Alameda LAFCo employees earn vacation, compensatory time, floating holidays, and management leave in accordance with Commission policies. These balances are recorded when earned and are fully payable upon termination of employment. Employees also earn sick leave benefits in accordance with Commission policies. A liability is recognized for the portion of accumulated sick leave that is more likely than not to be used or paid. Management evaluates sick leave for employees to determine the amount that is probable to be used or paid, considering historical usage, forfeitures, payments, and Commission policies related to compensated absences. Compensated absences are measured at the estimated amount payable.

	Beginning Balances	Additions	Adjustments/ Retirements	Ending Balances	Due Within One Year
Compensated absences*	$ -	$ 66,634	$ -	$ 66,634	$ 1,891
Totals	$ -	$ 66,634	$ -	$ 66,634	$ 1,891

* Compensated absences activity shown in the table above is presented on a net increase (decrease) basis as permitted by GASB Statement 101.

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NOTE 6 - NET POSITION AND FUND BALANCES

GASB Statement No. 34 added the concept of Net Position, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Position

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

Net investment in Capital Assets describes the portion of net position that is represented by the current net book value of Alameda LAFCo's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that Alameda LAFCo cannot unilaterally alter. These include amounts for debt service requirements.

Unrestricted describes the portion of net position that is not restricted to use.

NOTE 6 - NET POSITION AND FUND BALANCES (concluded)

A. Net Position (concluded)

Net Position Flow Assumption
Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

B. Fund Balances

In the fund financial statements, fund balance is reported in classifications that comprise a hierarchy based on the extent to which Alameda LAFCo is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications of fund balance are Non-spendable, Restricted, Committed, Assigned, and Unassigned. Non-spendable and Restricted fund balances represent the restricted classifications, and Committed, Assigned, and Unassigned represent the unrestricted classifications:

Non-spendable fund balance includes amounts that are not in a spendable form, such as prepaid items or supplies inventories, or that are legally or contractually required to remain intact, such as principal endowments.

Restricted fund balance includes amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e., creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level of decision-making authority. The Board of Commissioners serves as Alameda LAFCo's highest level of decision-making authority and has the authority to establish, modify or rescind a fund balance commitment via minutes action.

Assigned fund balance includes amounts intended to be used by Alameda LAFCo for specific purposes, subject to change, as established either directly by the Board of Commissioners or by management officials to whom assignment authority has been delegated by the Board of Commissioners.

Unassigned fund balance is the residual classification that includes spendable amounts in the General Fund that are available for any purpose.

Fund Balance Flow Assumption
When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, Alameda LAFCo specifies that restricted revenues will be applied first. When expenditures are incurred for purposes for which committed, assigned or unassigned fund balances are available, Alameda LAFCO's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

NOTE 7 - SUBSEQUENT EVENTS

In preparing these financial statements, Alameda LAFCo has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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Alameda Local Agency Formation Commission
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Budget and Actual
For the Year Ended June 30, 2026

	Budgeted Amounts		Variance between Original and		Variance with
	Original	Final	Final Budget	Actual	Final Budget
Revenues:					
Agency apportionments	$ 572,855	$ 572,855	$ -	$ 579,514	$ 6,659
Application fee	30,000	30,000	-	4,575	(25,425)
Interest	13,000	13,000	-	15,176	2,176
Total revenues	615,855	615,855	-	599,265	(16,590)
Expenditures					
Salaries and benefits	547,819	549,694	1,875	276,090	273,604
Services and supplies	363,036	361,161	(1,875)	334,048	27,113
Total expenditures	910,855	910,855	-	610,138	300,717
Excess (deficiency) of revenues over (under) expenditures	$ (295,000)	$ (295,000)	$ -	(10,873)	$ 284,127
Fund balances, beginning of the period				261,054	
Fund balance, end of period				$ 250,181	

NOTE 1 - REQUIRED INFORMATION

The budgetary comparison schedule presents comparisons of the original and final adopted budgets and the final budget to actual results for the Commission's General Fund. The budgetary comparison schedule is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 34 and is intended to demonstrate compliance with the Commission 's legally adopted budget.

The Commission adopts an annual budget for the General Fund, which is approved by the Board of Commissioners. Budget amendments are made as necessary during the fiscal year and are subject to Commissioners' approval.

The budgetary basis is the modified accrual basis of accounting. Some reclassifications have been made to the actual amounts to conform to classifications included in the budget approved by the Commissioners. The budgeted net decrease in fund balance of $295,000 differed from the actual decrease of $10,873, primarily due to expenditures being lower than anticipated during Alameda LAFCo's transition to independent operations. Actual expenditures were $300,717 below budgeted appropriations for the fiscal year ended June 30, 2026.

NOTE 2 - SIGNIFICANT BUDGETARY CHANGES

There were no significant changes between the original and final adopted budgets for fiscal year 2025–26.

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