

Regional Government Services Authority

Carmel Valley, California

Basic Financial Statements and Independent Auditors' Report

For the Years Ended June 30, 2022 and 2021

Regional Government Services Authority
Basic Financial Statements
For the Years Ended June 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT



Board of Directors
Regional Government Services Authority
Carmel Valley, California

Opinion

We have audited the accompanying financial statements of the of Regional Government Services Authority (the "Authority"), which comprise of the statements of net position as of June 30, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority'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 Authority, as of June 30, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 the Authority'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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted auditing standards, 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 Authority'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 Authority'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 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.

The PwC Group, LLP

Santa Ana, California
November 1, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Regional Government Services Authority (the "Authority" or "RGS") financial performance provides an overview of the Authority's financial activities for the fiscal year (FY) ended June 30, 2022. Please read it in conjunction with the Authority's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2022, the Authority's net gain of \$880,610 compares favorably to the Authority's gain of \$577,621 in the prior fiscal year and exceeds the budgeted gain of \$109,000.
- Charges for services increased 24.2% in FY22 vs FY21. Correspondingly, operating expenses increased 23.5% to provide those services.
- For the twelve months ended June 30, 2022, revenues were \$1,713,981 (9%) over budget, reflecting strong demand for advisory services in addition to the growth of RGS services to the California Statewide Automated Welfare System (CalSAWS), the Authority's largest client.
- Unlike FY21 when approximately half the net income came from year end accounting adjustments, this year's profitability stems from both the increase in revenue above projected levels, but also from spending less in several budgeted areas.

OPERATIONAL HIGHLIGHTS

- The Authority's expanding services now number fourteen: Communications & Engagement, Classification and Compensation, Disability and Leave Management, Economic Development, Emergency Management Services, Finance, Groundwater Sustainability Agency Management, Human Resources, Land Use Planning, Payroll, Pooled Programs, Recruitment, Training and Development, and Transition Management.
- RGS provides all accounting and human resources functions for two Groundwater Sustainability Agencies; financial, IT and marketing functions for the STARS program (401a and 457b Plans); and financial and support functions for Municipal Shared Services (MSS), a non-profit, tax-exempt benefit corporation. The investments in JPA resources results in lower operating costs, improved reporting and controls, and increased capacity to take on additional client work and new client services.
- The Authority continues to review its remaining technology needs, including improving the cost model, enhancements to financial and time recording data gathering and reporting, and better utilization of social media platforms and customer relations management software. The JPA will be implementing Professional Services Automation software in FY23 which will combine its current timekeeping and accounting functions into an integrated project management-based system.
- The Authority has administrative personnel, technical infrastructure, internal processes, and outreach activities in place to control costs and grow RGS services revenue.

USE OF FINANCIAL STATEMENTS TO ANALYZE THE AUTHORITY'S CONDITION

Financial statements can be used to answer the question, "Is an agency better off or worse off as a result of this year's activities?" The financial statements report information about the Authority's activities in a way that helps answer this question. The statements are prepared on the accrual basis of accounting, which means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. An explanation of each of the statements and the information they report follows.

THE STATEMENT OF NET POSITION

The Statement of Net Position details the Authority's assets, liabilities and the difference between them, known as net position, at the end of the fiscal years, June 30, 2022, and June 30, 2021. The level of net position is one way to measure the Authority's financial health. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating.

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents information which shows how the Authority's net position changed during the fiscal year. The statement measures the success of the Authority's operations during the year and determines whether the Authority has recovered its costs through user fees, its only revenue source other than nominal interest earnings and client reimbursements.

THE STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information regarding the Authority's cash receipts and disbursements during the fiscal years. Cash activity is grouped in the following two categories: operations and investing. These statements differ from the Statements of Revenues, Expenses and Changes in Net Position, because they only account for transactions that result in cash receipts or disbursements. For example, the amount shown as receipts from customers on the first line of the statements represents cash received during the fiscal year, rather than revenue earned.

THE NOTES TO FINANCIAL STATEMENTS

The Notes to Financial Statements provide a description of accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles of the United States that are not otherwise present in the financial statements.

FINANCIAL ANALYSIS

NET POSITION

The Authority's net position as of June 30, 2022, totaled \$1,601,584 compared with \$720,974 at June 30, 2021 and \$143,353 at June 30, 2020. A summary of the Authority's asset, liability and net position balances at the end of the current and prior fiscal years appears on the following chart.

	2020	2021	2022	Change	Percent Change
Current Assets	\$3,224,023	\$4,010,274	\$5,011,972	\$1,001,698	25%
Current Liabilities	641,146	1,192,421	1,289,572	97,151	8%
Non-Current Liabilities	2,439,524	2,096,879	2,120,816	23,937	1%
Total Liabilities	3,080,670	3,289,300	3,410,388	121,088	4%
Net Position					
Unrestricted	143,353	720,974	1,601,584	880,610	122%

Digging further into the current assets as of June 30, 2022, cash and investment balance of \$2,075,334 was up \$208,159 from the balance at the end of the prior year. Accounts receivable grew \$797,565 and reflects typical billing and client payment cycle fluctuations. The Authority invests surplus cash in a Money Market account at the Community Bank of the Bay, the Local Agency Investment Fund, a governmental investment pool managed and directed by the California State Treasurer, and in the Investment Trust of California (CalTRUST), a public joint powers authority formed to pool and invest the funds of public agencies.

Current liabilities increased \$97,151. The increase reflects the increase in accrued payable and related liabilities and vacation liability.

Non-Current liabilities increased \$23,937. The increase reflects the increase in vacation liability being slightly offset by the reduction in claims and insurance liabilities.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

Operating revenue and expenses continued their year over year growth. Operating expenses include all costs related to payroll and employee benefits, as well as general and administrative expenses. Professional services expense growth reflects a client's use of independent contractors, for which the Authority is reimbursed. The FY 22 Administrative costs were suppressed by long term liability adjustments at year end. Operating revenue and expense growth are directly linked, as it has been the with the JPA's historic experience. Investment losses reflect the annual mark-to-market entry, not actual losses.

The following table summarizes the Authority's Statement of Revenues, Expenses and Changes in Net Position for the current and prior fiscal years:

	2020	2021	2022	Change	Percent Change
Operating Revenues:					
Charges for services	\$ 13,195,143	\$ 17,483,143	\$ 21,716,087	\$ 4,232,944	24%
Operating Expenses:					
Salaries and benefits	10,300,415	12,580,672	15,335,925	2,755,253	22%
Professional services	2,329,567	4,275,453	5,048,833	773,380	18%
Administration	674,817	54,051	500,418	446,367	826%
Total Operating Expenses	13,304,799	16,910,176	20,885,176	3,975,000	24%
Operating Income (Loss)	-109,656	572,967	830,911	257,944	-45%
Non-Operating Revenues					
Investment income (loss)	26,276	4,654	-16,195	-20,849	-448%
Insurance recovery	0	0	65,894	65,894	100%
Change in net position	-83,380	577,621	880,610	302,989	-52%
Beginning Net Position	226,733	143,353	720,974	577,621	
Ending Net Position	\$ 143,353	\$ 720,974	\$ 1,601,584	\$ 880,610	122%

CAPITAL ASSETS

On June 30, 2022, the Authority had no capital assets, no depreciation expenses, and no immediate plans to acquire capital assets in the future.

ECONOMIC FACTORS AND BUDGET

The Authority is a unique government agency in that it is 100% fee-for-service driven and that it provides general and administrative services to public agencies and their non-profit partners. How RGS can be of value to local governments varies from agency to agency, and it has been a market needs-based approach that has led to the Authority's expanding service offerings. Agencies use the Authority's services when they determine it is in their best interest to do so. Because financial pressures on local governments are cyclical but ever increasing, the demand for RGS services is expected to vary, but generally to increase over time as long as those services are relevant to and cost effective for local governments. Prior investment in shared financial software is enabling RGS to provide full financial services to several government agencies, with several additional agencies considering using the platform. Investment in the RGS training program is expected to enable RGS to offer additional academies this fiscal year. Other investments in staffing are expected to contribute to the JPA's long-term fiscal health.

The Authority's governing bodies – its Board of Directors and committees – guide and ensure that the Authority stays current with its mission to serve local agencies in a fiscally sustainable manner. The Authority's growth over the last 20 years has seen over 340 client agencies served since inception, including 131 over the course of the last fiscal year. This growth and client loyalty is confirmation of the value of the Authority's mission. There have been and will continue to be challenges which will require adjustments and investments in the Authority's capacity. Fiscal year 2022 was a year of continued growth in the number of partner agencies served, as well as the range of service offerings. RGS continued to invest in its capacity to improve existing services as well as develop new one by hiring committed and professional staff who have an interest in the Authority's mission. The Authority has also continued to invest in RGS sponsorship of local agency trade groups and professional organizations as well as outreach so that more cities, special districts and joint powers authorities know of RGS' services and value. RGS continues to increase training and professional development of RGS Advisors and core administrative staff so that the Authority's workforce remains highly skilled and relevant.

The FY2023 budget reflects a stable base of large partner agencies, some growth in advisory and consulting services, continued investments in conference and sponsorship activities, and the careful monitoring and adjustment of charges for services. Fiscal year 2023 financial performance is expected to show a net income of \$138,000 as the JPA continues to absorb legal and administrative costs associated with CalPERS' increased involvement in local government operations.

The Regional Government Services Authority is constantly striving to be a valuable partner to the local government community through innovation and excellent customer service. With the continued contributions from staff, Board of Directors/Executive Committee Members, and client agencies, it will remain a valuable public asset long into the future. The Strategic Plan adopted by the governing body in FY2020 will guide the Authority as it strives to meet its strategic objectives and accomplish its mission.

RGS is a public agency serving the consulting, administrative and project management needs of local governments.

BASIC FINANCIAL STATEMENTS

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Regional Government Services Authority
Statements of Net Position
June 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets:		
Cash and investments	\$ 2,075,334	\$ 1,867,175
Accounts receivable	2,848,324	2,050,759
Due from other agencies	8,282	7,605
Prepaid expenses	80,032	84,735
Total current assets	5,011,972	4,010,274
Total assets	5,011,972	4,010,274
LIABILITIES		
Current liabilities:		
Accounts payable	441,212	440,676
Accrued payroll and related liabilities	561,102	519,389
Unearned revenue	22,894	25,651
Compensated absences, due in one year	264,364	206,705
Total current liabilities	1,289,572	1,192,421
Noncurrent liabilities		
Compensated absences, due in more than one year	264,364	206,705
Claims payable	25,000	75,000
Retrospective contributions payable	1,831,452	1,815,174
Total noncurrent liabilities	2,120,816	2,096,879
Total liabilities	3,410,388	3,289,300
NET POSITION		
Unrestricted	1,601,584	720,974
Total net position	\$ 1,601,584	\$ 720,974

Regional Government Services Authority
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2022 and 2021

	2022	2021
OPERATING REVENUES:		
Charges for services	\$ 21,716,087	\$ 17,483,143
Insurance Recovery	65,894	-
Total operating revenues	21,781,981	17,483,143
OPERATING EXPENSES:		
Salaries and benefits	15,335,925	12,580,672
Professional services	5,048,833	4,275,453
Administration	500,418	54,051
Total operating expenses	20,885,176	16,910,176
OPERATING INCOME	896,805	572,967
NONOPERATING REVENUES (LOSS):		
Investment income (loss)	(16,195)	4,654
Total nonoperating revenues (loss)	(16,195)	4,654
NET INCOME	880,610	577,621
NET POSITION:		
Beginning of year	720,974	143,353
End of year	\$ 1,601,584	\$ 720,974

Regional Government Services Authority
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers for services performed	\$ 20,915,088	\$ 16,994,578
Cash received from insurance recovery		-
Cash paid to supplier for goods and services	(5,511,840)	(4,420,818)
Cash paid to employees for services	(15,178,894)	(12,295,871)
Net cash provided by (used in) operating activities	224,354	277,889
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment earnings (losses)	(16,195)	4,654
Net cash provided (used) by investing activities	(16,195)	4,654
Net change in cash and cash equivalents	208,159	282,543
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,867,175	1,584,632
End of year	\$ 2,075,334	\$ 1,867,175
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income	\$ 896,805	\$ 572,967
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Changes in assets and liabilities:		
Accounts receivable	(797,565)	(502,785)
Due from other agencies	(677)	15,635
Prepaid expenses	4,703	(16,558)
Accounts payable	536	233,063
Accrued payroll and related liabilities	41,713	112,922
Unearned revenue	(2,757)	(1,415)
Claims payable	(50,000)	(85,500)
Retrospective contributions payable	16,278	(222,319)
Compensated absences	115,318	171,879
Total adjustments	(672,451)	(295,078)
Net cash provided by operating activities	\$ 224,354	\$ 277,889

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Regional Government Services Authority
Notes to Basic Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Regional Government Services Authority (the “Authority”) is an independent administrative and fiscal government agency whose purpose is to provide services for public agencies and other non-profit entities at reduced net costs. The Authority was established by a Joint Powers Agreement on March 2001, under the provisions of the Joint Exercise of Powers Act of the Government Code of the State of California.

Members of the Authority include the City of Soledad, the City of Larkspur, the City of Napa, the Town of Yountville, the City of Walnut Creek, the Citrus Heights Water District, and the City of Dublin. A Seven-member board consisting of one representative from each member controls the Authority. None of the member entities exercise specific control over budgeting and financing of the Authority’s activities beyond their representation on the board.

B. Basis of Presentation

The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America. The Authority is accounted for as an enterprise fund and its financial statements are prepared using the economic measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Operating revenues and expenses generally result from providing services in connection with the Authority’s principal ongoing operations. The principal operating revenue of the Authority are fee for services. Operating expenses of the Authority include the cost of personnel providing the services, administrative expenses, and other professional services. All revenues and expenses not meeting this definition are reporting as nonoperating revenue and expense.

C. Financial Statements

The financial statements (i.e., the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows) report information on all the activities of the Authority. The statement of revenues, expenses, and changes in net position demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

D. Measurement Focus and Basis of Accounting

The financial statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority’s principal ongoing operations. The principal operating revenues of the Authority are fee for services. Operating expenses of the Authority include the cost of personnel providing the services, administrative expenses, and other professional services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Use of Restricted/Unrestricted Assets

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

Regional Government Services Authority
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

F. Cash, Cash Equivalents, and Investments

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Risk Disclosures – Certain disclosures requirements, if applicable for deposit and investment risk, are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk

Investment Valuation – GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the statement of net position, are categorized based upon the level of judgement associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

G. Accounts Receivable

The Authority extends credit to customers in the normal course of operations. The Authority has not experienced any significant bad debt losses, accordingly, no provision has been made for doubtful accounts.

H. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid expenses in the statement of net position.

I. Compensated Absences

Vested or accumulate vacation leave are recorded as expenses and liabilities as benefits accrued to employees.

J. Unearned Revenue

When the Authority collect fees in advance for services provided to others, these amounts are recorded as unearned revenue on the statement of net position until the respective services have been provided.

Regional Government Services Authority
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (Continued)

K. Net Position

Net position of the Authority includes the following component.

Unrestricted net position – This component of net position consists of net position that does not meet the definition of “net investment in capital assets”, or “restricted net position”.

L. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Reclassification

The Authority reclassified 50% of the compensated absence in the amount of \$206,705 from the noncurrent liabilities to the current liabilities for the year ended June 30, 2021.

Note 2 – Cash and Investments

Cash and investments at June 30, 2022 and 2021 are classified in the accompanying financial statements as follows:

	2022	2021
Demand Deposits	\$ 74,817	\$ 317,464
Investments:		
Money Market Account	647,297	703,649
CalTrust Funds	1,151,550	694,647
Local Agency Investment Fund	201,670	151,415
Total cash and investments	\$ 2,075,334	\$ 1,867,175

A. Demand Deposits

As of June 30, 2022, the carrying amount of demand deposits was \$74,817 and the bank balance was \$84,476 compared to \$317,464 and \$322,407 at June 30, 2021, of which the total amount was collateralized or insured with securities held by the pledging financial institutions in the Authority’s name as discussed below under *Disclosures Relating Custodial Credit Risk*.

Regional Government Services Authority
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

Note 2 – Cash and Investments (Continued)

B. Investments

Under provisions of the Authority’s investment policy, and in accordance with Section 53601 of the California Government Code, the Authority may deposit and invest in the following:

- Local Agency Bonds
- U.S. Treasury Obligation
- U.S. Agency Securities
- Negotiable Certificates of Deposit
- CalTrust Investment Pool
- Local Agency Investment Fund

C. CalTrust Investment Pool

The Authority is a voluntary participant in the Investment Trust of California (CalTrust), a public joint powers authority formed to pool and invest the funds of public agencies. CalTrust invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601 and 53635. Investment guidelines adopted by the board of Trustees may further restrict the types of investments that are held by the Trust. Leveraging within the Trust’s portfolios is prohibited. The fair value of the Authority’s investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority’s pro-rata share of the fair value provided by CalTrust for the entire CalTrust portfolio (in relation to the amortized cost of that portfolio). As of June 30, 2022 and 2021, the Authority had \$1,151,550 and \$694,647, respectively, invested in CalTrust.

D. Local Agency Investment Fund

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority’s investments with LAIF at June 30, 2022 and 2021, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes – are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities – the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2022, the Authority had \$201,670 invested in LAIF, which had invested 1.88% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 2.31% in the previous year. The LAIF fair value factor of 0.987125414 was used to calculate the fair value of the investments in LAIF.

As of June 30, 2021, the Authority had \$151,415 invested in LAIF, which had invested 2.31% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 3.37% in the previous year. The LAIF fair value factor of 1.00008297 was used to calculate the fair value of the investments in LAIF.

Regional Government Services Authority
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

Note 2 – Cash and Investments (Continued)

E. Fair Value Measurement

The following is a summary of the fair value hierarchy of investments held by the Authority as of June 30, 2022 and 2021:

	2022	2021
Investment not subject to fair value hierarchy:		
Money Market Account	\$ 647,297	\$ 703,649
CalTrust Funds	1,151,550	694,647
Local Agency Investment Fund	201,670	151,415
Total investments	\$ 2,000,517	\$ 1,549,711

F. Risk Disclosures

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. One of the ways that an agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Investment Type	2022	Maturities 1 year or Less
	Fair Value	Less
Money Market Account	\$ 647,297	\$ 647,297
CalTrust Funds	1,151,550	1,151,550
Local Agency Investment Fund	201,670	201,670
Total investments	\$ 2,000,517	\$ 2,000,517

Investment Type	2021	Maturities 1 year or Less
	Fair Value	Less
Money Market Account	\$ 703,649	\$ 703,649
CalTrust Funds	694,647	694,647
Local Agency Investment Fund	151,415	151,415
Total investments	\$ 1,549,711	\$ 1,549,711

Regional Government Services Authority
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

Note 2 – Cash and Investments (Continued)

F. Risk Disclosures (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The monies held in the CalTrust and LAIF investment pools are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

Disclosures Relating to Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments for the year ended June 30, 2022 and 2021.

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code and the Authority’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2022 and 2021, \$0 and \$70,027 of the Authority’s deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.

Note 3 – Compensated Absences

Summary of changes in compensated absences for the years ended June 30, 2022 and 2021, were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year	Due in More Than One Year
June 30, 2022	\$ 413,410	\$ 421,625	\$ (306,307)	528,728	\$ 264,364	264,364
June 30, 2021	241,531	370,524	(198,645)	413,410	206,705	206,705

Regional Government Services Authority
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

Note 4 – Risk Management

For the year ended June 30, 2022 and 2021, liability and workers’ compensation coverages are purchased from commercial insurance companies.

Personal Injury and Property Coverage

Limit: \$5 million in aggregate, \$50,000 per occurrence self-insured retention.

Non-Owned and Hired Automotive Liability Coverage

Limit: \$5 million in aggregate, \$50,000 per occurrence self-insured retention.

Public Officials Errors and Omissions Coverage

Limit: \$5 million in aggregate, \$50,000 per occurrence self-insured retention.

Employment Practice Liability Coverage

Limit: \$5 million in aggregate, \$50,000 per occurrence self-insured retention.

The claims liability for the years ended June 30, 2022 and 2021 was based on actuarial valuation. The schedule below represents changes in claims liabilities for the Authority for the years ended June 30, 2022 and 2021:

	Beginning Balance	New Claims and Changes in Estimates	Claims Payments	Ending Balance
June 30, 2022	\$ 75,000	\$ 32,720	\$ (82,720)	\$ 25,000
June 30, 2021	160,500	(61,032)	(24,468)	75,000
June 30, 2020	120,682	95,255	(55,437)	160,500

Note 5 – Retrospective Contribution

The Authority was a member of Municipal Services Authority (MSA), which provided coverage for workers’ compensation, general liability, and errors and omissions. MSA dissolved during fiscal year 2019, and risk for workers’ compensation, general liability, and errors and omissions was assumed by the Authority.

The financial statements reflect the assumption of the retrospective contribution liabilities related to prior participation in California Joint Powers Insurance Authority (CJPIA), a risk sharing pool. These liabilities were previously assumed and reported by MSA, however, were transferred to the Authority after MSA’s dissolution during fiscal year 2019.

The amounts assumed by Authority for the workers’ compensation and liability programs for the years ended June 30, 2022 and 2021 were as follows:

	2022	2021
Workers' compensation	148,786	149,542
General liability	1,682,666	1,665,632
Total	\$ 1,831,452	\$ 1,815,174

The estimate noted above for liability programs includes a correction of an error that resulted in a \$1.4 million increase to the related retrospective contribution liability. The error was discovered by CJPIA during fiscal year 2019. The correction is being reviewed by the Authority, and may be subject to change; however, such amount (if any) cannot be reasonably estimated.

Regional Government Services Authority
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

Note 6 – Employee Retirement Plans

A. *Deferred Compensation Plan*

The Authority had established a deferred compensation plan in accordance with Internal Revenue Code Section 457(b), whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation. However, there is no deferred compensation plan provided by the Authority for the year ended June 30, 2022. Employee contributions to the plan for the years ended June 30, 2022 and 2021 were \$1,043,013 and \$662,952, respectively.

The Authority believes it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Authority has formally established a trust in accordance with Internal Revenue Code Section 457(g) for its deferred compensation plan to provide protection from the claims of the employer's general creditors. Accordingly, deferred compensation assets placed in the trust are not reflected in these financial statements.

B. *Other Defined Contribution Plans*

The Authority has also established a defined contribution plan in accordance with Internal Revenue Code Section 401(a). The employer contributes 10% of regular salary on behalf of the employee and may contribute an additional amount up to 5% subject to individual employee's employment agreement. Plan assets are invested in each individual's name with the defined contribution plan provider.

Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. Contributions to the plan for the year ended June 30, 2022 and 2021 totaled \$1,188,172 and \$986,026, respectively, and were contributed by the Authority.

The Authority believes it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Authority has formally established a trust in accordance with Internal Revenue Code Section 401(f) for its defined contribution plan to provide protection from the claims of the employer's general creditors. Accordingly defined contribution assets placed in the trust are not reflected in the accompanying financial statements.

Note 7 – Other Postemployment Benefits

A. *Health Reimbursement Account (HRA) Plan*

Effective January 1, 2014, the Authority implemented a Health Reimbursement Account (HRA) plan. Those employees participating in the medical plan are now enrolled in the HRA plan. Employees are separated by tiers and these tiers dictate the amount of annual contributions made by the Authority into the HRA for each individual employee. Contributions are made for all employees at \$250 per quarter. Additionally, select employees are divided into two tiers, the first tier receives a contribution of \$2,500 per year that vests after five years of service and the second tier receives a contribution of \$10,000 per year that vests after ten years of service.

The Authority contracts with MidAmerica Administrative and Retirement Solutions to administer its HRA plan. The Authority funds the Plan fully each year, as vesting and subsequent years of service requirements are met.

Regional Government Services Authority
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

Note 8 – Commitments and Contingencies

A. Litigation

In the ordinary course of operations, the Authority is subject to other claims and litigation from outside parties. After consultation with legal counsel, the Authority believes the ultimate outcome of such matters, will not materially affect its financial condition.

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