

Regional Government Services Authority

Carmel Valley, California

Basic Financial Statements and Independent Auditors' Report

For the Years Ended June 30, 2024 and 2023

Regional Government Services Authority
Basic Financial Statements
For the Years Ended June 30, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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 Opinion

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.



Santa Ana, California
October 31, 2024

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

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 ended June 30, 2024. Please read it in conjunction with the Authority’s financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- In the fiscal year ended June 30, 2024, the Authority’s net gain of \$928,867 compares favorably to the Authority’s gain of \$909,888 in the prior fiscal year and exceeds the budgeted gain of \$28,010.
- Charges for services decreased 0.1% in fiscal year 2023-24 as compared to fiscal year 2022-23. Correspondingly, operating expenses decreased 0.4% to provide those services.
- Key operating expenses such as salaries and benefits did increase by 6.1% but were offset by decreasing pass-through costs.
- For the twelve months ending June 30, 2024, revenues were \$1,891,606 (8.5%) over budget, reflecting continued growth 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 FY22-23 when the majority of net income came from several year-end accounting adjustments, this year’s profitability comes from a focus on an increase in clients, service lines, and services offered. Client billings increased 12.6%. The increase in revenue above projected levels is due to an increase in new clients (50) or new projects, additional service line or project agreements for current or past clients including extended agreements or on-going work, and an increase in CalSAWS billing. Additionally, bill rates are revised each July based on economic indicators that increase the basis of all agreements/projects and Training Academies exceeded expectations.

OPERATIONAL HIGHLIGHTS

- The Authority currently provides sixteen service lines: Communications & Engagement, Classification and Compensation, Disability and Leave Management, Economic Development, Emergency Management Services, Finance, Groundwater Sustainability Agency Management, Human Resources, NeoGov Support Services, Land Use Planning, Payroll, Pooled Programs, Recruitment, Training and Development, Transition Management, and Transparent Government.
- RGS provides agency administration for unstaffed JPA’s including three Groundwater Sustainability agencies, two Interoperability agencies, and CalSAWS plus marketing functions for the STARS program (401a and 457b Plans); and financial and support functions for the Municipal Dental Pool and the Municipal Shared Services (MSS), a non-profit, tax-exempt benefit corporation.
- The investments in JPA resources resulted 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 (PSA) software 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, for fiscal years, June 30, 2020, thru June 30, 2024. 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 on the first line of the statements as cashed received for services, or receipts from customers 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, 2024, totaled \$3,440,339 compared with \$2,511,472 at June 30, 2023. 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 | 2023 | 2024 | Change | Percent Change |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-----------|----------------|
| Current Assets | \$3,224,023 | \$4,010,274 | \$5,011,972 | \$5,421,219 | \$5,518,769 | \$97,550 | 1.8% |
| Current Liabilities | 641,146 | 1,192,421 | 1,289,572 | 1,836,832 | 1,467,203 | -369,629 | -20.1 |
| Non-Current Liabilities | 2,439,524 | 2,096,879 | 2,120,816 | 1,072,915 | 611,227 | -461,688 | -43.0 |
| Total Liabilities | 3,080,670 | 3,289,300 | 3,410,388 | 2,909,747 | 2,078,430 | -831,317 | -28.6 |
| Net Position | | | | | | | |
| Unrestricted | \$143,353 | \$720,974 | \$1,601,584 | \$2,511,472 | \$3,440,339 | \$928,867 | 37.0% |

Within Current Assets, the cash and cash equivalents balance of \$2,447,902 increased \$561,340 from the balance at the end of the prior year. Accounts receivable decreased \$534,971 or 19.0%. The remainder is reflective of billing and client payment cycle fluctuations as well as an increased effort to collect receivables efficiently which is indicative of the increase in cash flow. The Authority underwent a banking transition from Community Bank of the Bay to Five Star Bank in September 2023. The Authority also opened a Prime Fund account with California CLASS in June 2024 for long-term investments. Cash can be invested in a Money Market account at Five Star Bank, California CLASS, 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 decreased by \$369,629 due mainly to the paying down of the CJPIA claims liability and reduction in CalSAWS subcontractors related accounts payable. Non-current liabilities decreased by \$461,688. The majority of the decrease is due to the reduction in retrospective contributions payable associated with the CJPIA claims liability.

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. As with most agencies, salaries and benefits comprise the majority of operational expenses for RGS. Salaries and benefits have increased by 6.1% or \$1,062,368 when compared to FY22-23. Professional services expense include client pass-through expenses that reflect the CalSAWS subcontractor consultant costs which are billed to the client at a markup. These expenses were anticipated to decrease through FY23-24 as the program enters a maintenance phase. Comparing client pass-through expense totals at the end of each fiscal year, there has been a decrease of \$1.3M or 29.5%. When comparing FY23-24 to FY22-23 expenses overall, total expenses decreased by less than 1%. The increases in salaries and benefits were offset by the decrease in professional services.

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 | 2023 | 2024 | Change | Percent Change |
|---------------------------------|-------------------|-------------------|--------------------|--------------------|--------------------|------------------|----------------|
| Operating Revenues: | | | | | | | |
| Charges for services | \$13,195,143 | \$17,483,143 | \$21,716,087 | \$24,062,590 | \$24,030,827 | -\$31,763 | -0.1% |
| Insurance recovery | - | - | 65,894 | - | 126 | 126 | - |
| Total Operating Revenues | 13,195,143 | 17,483,143 | 21,781,981 | 24,062,590 | 24,030,953 | -31,637 | -0.1 |
| Operating Expenses: | | | | | | | |
| Salaries and benefits | 10,300,415 | 12,580,672 | 15,335,925 | 17,422,380 | 18,484,748 | 1,062,368 | 6.1 |
| Professional services | 2,329,567 | 4,275,453 | 5,048,833 | 4,663,185 | 3,645,859 | -1,017,326 | -21.8 |
| Administration | 674,817 | 54,051 | 500,418 | 1,105,374 | 974,645 | -130,729 | -11.8 |
| Total Operating Expenses | 13,304,799 | 16,910,176 | 20,885,176 | 23,190,939 | 23,105,252 | -85,687 | -0.4 |
| Operating Income (Loss) | -109,656 | 572,967 | 896,805 | 871,651 | 925,701 | 54,050 | 6.2 |
| Non-Operating Revenues | | | | | | | |
| Investment income | 26,276 | 4,654 | -16,195 | 38,237 | 53,440 | 15,203 | 39.8 |
| Interest expense | - | - | - | - | -50,274 | -50,274 | - |
| Change in net position | -83,380 | 577,621 | 880,610 | 909,888 | 928,867 | 18,979 | 2.1 |
| Beginning Net Position | 226,733 | 143,353 | 720,974 | 1,601,584 | 2,511,472 | 909,888 | 56.8 |
| Ending Net Position | \$143,353 | \$720,974 | \$1,601,584 | \$2,511,472 | \$3,440,339 | \$928,867 | 37.0% |

CAPITAL ASSETS

On June 30, 2024, the Authority had no capital assets, no depreciation expenses, and no 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 additional agencies considering using the platform. Investment in the RGS training program is expected to enable RGS to continue to offer a variety of 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. Since it was established in 2001, the Authority has served over 500 client agencies, including 158 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 2023-2024 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 ones 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 fiscal year 2024-25 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 adjustments to the amount charged for services. The fiscal year 2024-25 financial performance is expected to show a net income of \$33,996 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 fiscal year 2020-21 will guide the Authority as it strives to meet its strategic objectives and accomplish its mission.

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BASIC FINANCIAL STATEMENTS

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Regional Government Services Authority
Statements of Net Position
June 30, 2024 and 2023

| | 2024 | 2023 |
|--|--------------|--------------|
| ASSETS | | |
| Current assets: | | |
| Cash and investments | \$ 2,447,902 | \$ 1,886,562 |
| Accounts receivable | 2,813,797 | 3,348,768 |
| Due from other agencies | - | 158 |
| Prepaid expenses | 257,070 | 185,731 |
| Total current assets | 5,518,769 | 5,421,219 |
| Total assets | 5,518,769 | 5,421,219 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 328,661 | 491,743 |
| Accrued payroll and related liabilities | 732,992 | 723,573 |
| Unearned revenue | 69,323 | 73,600 |
| Compensated absences, due in one year | 86,227 | 47,916 |
| Retrospective contributions payable, due in one year | 250,000 | 500,000 |
| Total current liabilities | 1,467,203 | 1,836,832 |
| Noncurrent liabilities | | |
| Compensated absences, due in more than one year | 86,227 | 47,915 |
| Claims payable | 25,000 | 25,000 |
| Retrospective contributions payable, due in more than one year | 500,000 | 1,000,000 |
| Total noncurrent liabilities | 611,227 | 1,072,915 |
| Total liabilities | 2,078,430 | 2,909,747 |
| NET POSITION | | |
| Unrestricted | 3,440,339 | 2,511,472 |
| Total net position | \$ 3,440,339 | \$ 2,511,472 |

Regional Government Services Authority
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2024 and 2023

| | 2024 | 2023 |
|---|---------------------|---------------------|
| OPERATING REVENUES: | | |
| Charges for services | \$ 24,030,827 | \$ 24,062,590 |
| Insurance recovery | 126 | - |
| Total operating revenues | <u>24,030,953</u> | <u>24,062,590</u> |
| OPERATING EXPENSES: | | |
| Salaries and benefits | 18,484,748 | 17,422,380 |
| Professional services | 3,645,859 | 4,663,185 |
| Administration | 974,645 | 1,105,374 |
| Total operating expenses | <u>23,105,252</u> | <u>23,190,939</u> |
| OPERATING INCOME | 925,701 | 871,651 |
| NONOPERATING REVENUES (LOSS): | | |
| Investment income | 53,440 | 38,237 |
| Interest expense | (50,274) | - |
| Total nonoperating revenues (loss) | <u>3,166</u> | <u>38,237</u> |
| NET INCOME | 928,867 | 909,888 |
| NET POSITION: | | |
| Beginning of year | 2,511,472 | 1,601,584 |
| End of year | <u>\$ 3,440,339</u> | <u>\$ 2,511,472</u> |

Regional Government Services Authority
Statements of Cash Flows
For the Years Ended June 30, 2024 and 2023

| | 2024 | 2023 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers for services performed | \$ 24,561,679 | \$ 23,620,976 |
| Cash paid to supplier for goods and services | (5,604,799) | (6,155,179) |
| Cash paid to employees for services | (18,398,706) | (17,692,806) |
| Net cash provided by (used in) operating activities | 558,174 | (227,009) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment earnings | 53,440 | 38,237 |
| Interest expense | (50,274) | - |
| Net cash provided by (used in) investing activities | 3,166 | 38,237 |
| Net change in cash and cash equivalents | 561,340 | (188,772) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of year | 1,886,562 | 2,075,334 |
| End of year | \$ 2,447,902 | \$ 1,886,562 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | |
| Operating income | \$ 925,701 | \$ 871,651 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities | | |
| Changes in assets and liabilities: | | |
| Accounts receivable | 534,971 | (500,444) |
| Due from other agencies | 158 | 8,124 |
| Prepaid expenses | (71,339) | (105,699) |
| Accounts payable | (163,082) | 50,531 |
| Accrued payroll and related liabilities | 9,419 | 162,471 |
| Unearned revenue | (4,277) | 50,706 |
| Claims payable | - | - |
| Retrospective contributions payable | (750,000) | (331,452) |
| Compensated absences | 76,623 | (432,897) |
| Total adjustments | (367,527) | (1,098,660) |
| Net cash provided by (used in) operating activities | \$ 558,174 | \$ (227,009) |

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Regional Government Services Authority
Notes to the Basic Financial Statements
For the Years Ended June 30, 2024 and 2023

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 (“GAAP”). 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 the Basic Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

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. All receivables are shown net of an allowance for uncollectible.

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 the Basic Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

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.

Note 2 – Cash and Investments

Cash and investments at June 30, 2024 and 2023 are classified in the accompanying financial statements as follows:

| | 2024 | 2023 |
|------------------------------|--------------|--------------|
| Demand Deposits | \$ 471,599 | \$ 870,612 |
| Investments: | | |
| Money Market Account | 1,474,897 | 153,001 |
| CalClass/CalTrust | 500,738 | 760,692 |
| Local Agency Investment Fund | 668 | 102,257 |
| Total cash and investments | \$ 2,447,902 | \$ 1,886,562 |

A. Demand Deposits

As of June 30, 2024, the carrying amount of demand deposits was \$471,559 and the bank balance was \$491,074 compared to \$870,612 and \$189,782 at June 30, 2023, 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*.

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
- California Cooperative Liquid Assets Securities System (California CLASS)
- Local Agency Investment Fund

Regional Government Services Authority
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

Note 2 – Cash and Investments (Continued)

C. CalTrust and California CLASS Investment Pool

The Authority was 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 in the year ended June 30, 2023; and transferred the investment from CalTrust to California Cooperative Liquid Assets Securities System (California CLASS), a joint powers authority investment pool that provides public agencies the opportunity to invest funds on a cooperative basis in rated pools that are managed in accordance with state law, in the year ended June 30, 2024.

California CLASS is a joint exercise of powers entity authorized under Section 6509.7, California Government Code. 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 and California CLASS for the entire CalTrust and California CLASS portfolio (in relation to the amortized cost of that portfolio). As of June 30, 2024 and 2023, the Authority had \$500,738 and \$760,692, respectively, invested in CalCLASS and 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, 2024 and 2023, 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, 2024, the Authority had \$668 invested in LAIF, which had invested 3.00% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 2.78% in the previous year. The LAIF fair value factor of 0.996316042 was used to calculate the fair value of the investments in LAIF.

As of June 30, 2023, the Authority had \$102,257 invested in LAIF, which had invested 2.78% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 1.88% in the previous year. The LAIF fair value factor of 0.984828499 was used to calculate the fair value of the investments in LAIF.

Regional Government Services Authority
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

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, 2024 and 2023:

| | 2024 | 2023 |
|--|--------------|--------------|
| Investment not subject to fair value hierarchy: | | |
| Money Market Account | \$ 1,474,897 | \$ 153,001 |
| CalClass/CalTrust Funds | 500,738 | 760,692 |
| Local Agency Investment Fund | 668 | 102,257 |
| Total investments | \$ 1,976,303 | \$ 1,015,950 |

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 | 2024 | Maturities |
|------------------------------|--------------|-------------------|
| | Fair Value | 1 year or Less |
| Money Market Account | \$ 1,474,897 | \$ 1,474,897 |
| CalClass | 500,738 | 500,738 |
| Local Agency Investment Fund | 668 | 668 |
| Total investments | \$ 1,976,303 | \$ 1,976,303 |

| Investment Type | 2023 | Maturities |
|------------------------------|--------------|-------------------|
| | Fair Value | 1 year or Less |
| Money Market Account | \$ 153,001 | \$ 153,001 |
| CalTrust Funds | 760,692 | 760,692 |
| Local Agency Investment Fund | 102,257 | 102,257 |
| Total investments | \$ 1,015,950 | \$ 1,015,950 |

Regional Government Services Authority
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

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, California CLASS 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 Custodial 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 years ended June 30, 2024 and 2023.

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, 2024 and 2023, none 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, 2024 and 2023, were as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance | Due within One Year | Due in More Than One Year |
|---------------|----------------------|------------|--------------|-------------------|------------------------|------------------------------|
| June 30, 2024 | \$ 95,831 | \$ 218,601 | \$ (141,978) | \$ 172,454 | \$ 86,227 | \$ 86,227 |
| June 30, 2023 | 528,550 | 481,001 | (913,720) | 95,831 | 47,916 | 47,915 |

Regional Government Services Authority
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

Note 4 – Risk Management

For the year ended June 30, 2024 and 2023, 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, 2024 and 2023 was based on actuarial valuation. The ending balance of the claims liabilities are due in more than one year. The schedule below represents changes in claims liabilities for the Authority for the years ended June 30, 2024, 2023, and 2022:

| | Beginning Balance | New Claims and Changes in Estimates | Claims Payments | Ending Balance |
|---------------|----------------------|---|--------------------|-------------------|
| June 30, 2024 | \$ 25,000 | \$ - | \$ - | \$ 25,000 |
| June 30, 2023 | 25,000 | - | - | 25,000 |
| June 30, 2022 | 75,000 | 32,720 | (82,720) | 25,000 |

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 Authority entered an payment agreement with CJPIA on May 24, 2023 to reduce the amount of retrospective contribution liability to \$1,500,000. The interest rate that is being charged is 5%. The outstanding balance on June 30, 2024 and 2023 was is \$750,000 and \$1,500,000, respectively. The future payment schedule is as follows:

| Date | Principal | Interest Rate | Interest Amount | Total Payment | Outstanding Balance |
|----------|------------|---------------|--------------------|---------------|------------------------|
| 6/1/2025 | \$ 250,000 | 5.00% | \$ 37,500 | \$ 287,500 | \$ 500,000 |
| 6/1/2026 | 500,000 | 5.00% | 25,000 | 525,000 | - |

Regional Government Services Authority
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

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 years ended June 30, 2024 and 2023. Employee contributions to the plan for the years ended June 30, 2024 and 2023 were \$1,013,187 and \$1,365,428, 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 years ended June 30, 2024 and 2023 totaled \$1,437,838 and \$1,383,037 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 the Basic Financial Statements (Continued)
For the Years Ended June 30, 2024 and 2023

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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